CASE STUDY 06

Regional Transit Bonds

Problem description

In Southern Africa, transporters involved in transit operations (where goods are brought into a country for the sole purpose of being transported to another country) have to buy a customs bond at least equal to the duty payable on the cargo, for each border crossed. Typically, customs clearing and forwarding agents or insurance companies sell these bonds, which act as a guarantee or insurance should the cargo be diverted illegally to domestic use or any other customs transgressions be committed. However, having to buy a bond at each border adds to the cost and complexity of cross-border trade in the regional context.

The Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) are both trying to set up regional transit management systems (TMSs), which would help with tackling barriers to trade.[1] The two regional economic communities (RECs) will likely need to collaborate on these, especially in light of the proposed Tripartite Free Trade Area (TFTA). Neither system, however, has been fully implemented despite the implementation of test models. Strikingly, a large number of stakeholders, including border staff, seem unaware of the systems.

This case study examines the TMSs in both RECs and compares them to Transports Internationaux Routiers (International Road Transport, or TIR), an international harmonised system of customs control that facilitates trade and transport. Using insights from other, similar regional initiatives, changes to the design and management structure of the two RECs' TMS systems are proposed. This proposed structure is expected to address the most pressing issues currently hampering the successful implementation of a TMS in the TFTA.

Both SADC and COMESA comprise a large number of landlocked countries, so externally traded goods often have to cross several borders to reach their final destination. Imports to Zambia, for example, arriving at the Port of Durban in South Africa have to pass from South Africa through Zimbabwe or sometimes Botswana to reach their destination. Passing through three or four countries thus requires acquiring three or four customs bonds.

SADC and COMESA member states face high transport costs (up to 55% of export costs) in cross-border trade transactions. Since a bond is needed for each customs territory that is crossed, the collective cost of acquiring bonds is substantial and releasing bonds to the intended national authority takes time (from a day to a week or more),[2] resulting in monies being tied up in the various national bonds. The money and time taken to issue the national bonds add to the high cost of cross-border freight transport. While all studies consulted for this project refer to the high cost of bonds, no actual costs are provided.

In theory, regional transit bonds (RTBs) are single guarantee bonds (for freight) aimed at reducing border delays and costly procedures, including revenue leakage when different bonds are required at each border crossing.

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1 SADC (Southern African Development Community) consists of Angola, Botswana, the Democratic Republic of the Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. COMESA (Common Market for Eastern and Southern Africa) consists of Burundi, Comoros, the DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Seychelles, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, South Sudan, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

2 According to Willie Shumba, senior programme officer responsible for customs at the SADC Secretariat.

Box 1: Differences in transit times

Interviews undertaken by TradeMark Southern Africa's consultants indicated the differences in the transit time of goods from the Democratic Republic of the Congo (DRC) to South Africa using the national bond system, and under the trial SADC TMS.[3]

National bond system	
Local controls in the DRC	2 days
National export controls at Kasumbalesa	4 days
Removal of Goods in Transit (RIT) Zambia	3 days
RIT Zimbabwe	2 days
Entry to South Africa	1 day
Total	**14 days**
SADC Transit Management System	
SADC Export Desk at Lubumbashi, DRC	30 minutes
SADC Export Desk at Kasumbalesa, Zambia	10 minutes
Total from DRC border to South Africa	**4–5 days**

Recent discussions with various stakeholders[4] and an evaluation[5] of the SADC TMS and the COMESA TMS have shown that there is a general lack of awareness of the regional transit bonds among stakeholders – most notably among border staff.

The COMESA TMS is completely based on the TIR. In SADC, there is a slight difference in terms of the issued bonds. In TIR and the COMESA TMS the carnet – a customs permit allowing a motor vehicle to be taken across a frontier for a limited period – represents the regional single bond, claimable from a local institution in any country as long as it is part of a regional financial pool. On the other hand, the bond in the SADC TMS is claimable only from the local institution where the bondholder buys the bond, where the bond holder resides, or from a designated representative of the bond holder. This potentially increases the time involved in a regional transit operation, since customs authorities will have to wait for the local institution in another country to pay the demanded duties, instead of being able to contact an institution in the same country.

3 Mpata S & P Mwakalombe, *Evaluation of the Comesa/ SADC Transit Management Systems*, TradeMark Southern Africa, Final Report, September 2011, http://www.trademarksa.org/sites/default/files/publications/Final%20Report%20%7C%20Evaluation%20of%20the%20COMESA:SADC%20Transit%20Management%20System.pdf.

4 Meeting of SADC Business Associations, hosted by SAIIA and GIZ PROSpect at Breakwater Lodge, Cape Town, 16 May 2014.

5 Mpata S & P Mwakalombe, *op. cit.*, p. 16.

Box 2: Transport International Routiers

Transport International Routiers (TIR) is a universal transit system that allows goods to transit several countries in a sealed container bearing a single carnet as transit bond for all borders. It originated in Europe in 1949, was elaborated on in the TIR Convention under the UN Economic Commission for Europe in 1954 and is currently operational in 58 countries in Europe, Northern Africa, the Middle East and Central Asia.[6] The main reason for TIR's success is the fact that all involved parties – most notably customs officials, transport operators and international traders – recognise the savings in both time and money. Moreover, the system is constantly updated to take into account the latest developments, especially in terms of fraud and smuggling.[7]

Source: Arvis JF, 'Transit regimes', in McLinden G *et al.* (eds), *Border Management Modernization*. Washington, DC: World Bank, 2011, p. 287

The structure and design of a TMS can have a significant influence on the success of its implementation. Setting up the TMS in a participatory fashion is particularly beneficial. For example, in south-east Europe TMS projects are endorsed and owned by various stakeholders, including government, freight forwarders, customs, transporters and traders.[8] A system that is set up this way generally sees higher commitment and the involvement of all stakeholders. It also ensures that all of the involved parties are better informed about the system. Elsewhere in the world, the absence of a participatory approach can often be a reason for failure, as in the customs transit systems in the Greater Mekong Subregion (GMS), SADC and COMESA.[9]

In the GMS, the private sector was not sufficiently consulted in the design phase of the system, resulting in a system that was set up with routes and regulations that did not meet or suit the demands of the transport operators.[10] In addition, national associations stated that they did not feel their role in the system was necessary, or that it was to their benefit.[11] In the SADC and COMESA TMSs, private sector actors say that they were not informed by

6 IRU (International Road Transport Union), 'About the TIR System', http://www.iru.org/en_iru_about_tir.

7 Arvis JF, 'Transit regimes', in McLinden G *et al.* (eds), *Border Management Modernization*. Washington, DC: World Bank, 2011, pp. 286–287.

8 Dumitrescu A & PW Moeller, 'Southeast Europe: Improving the Climate for Trade and Transport', in OECD (Organisation for Economic Co-operation and Development), *Emerging Good Practice in Managing for Development Results*. Paris: OECD, March 2006.

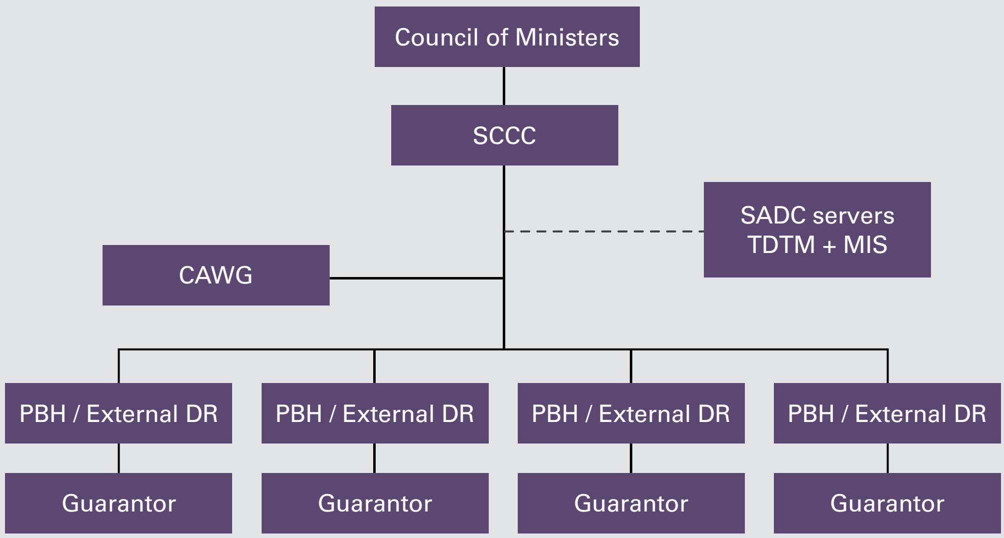
9 The Greater Mekong Subregion is the area around the Mekong River, and the location of a development project formed by the Asian Development Bank. The countries included in this project are Cambodia, China, Laos, Myanmar, Thailand and Vietnam.

10 Tarnovskaya A, 'Implementation of a Customs Transit System in the Greater Mekong Subregion: The Role of the Private Sector', master thesis. Lund: Lund University, Faculty of Law, Autumn 2010 – Spring 2011.

11 *Ibid.*

the respective secretariats about the systems' implementation.[12] In addition, they appeared not to understand the benefits of the system, and financial institutions were not consulted about setting up the guarantee chain.[13]

Figure 1: SADC TMS management structure



Source: Mpata S & P Mwakalombe, *Evaluation of the COMESA/SADC Transit Management Systems*, TradeMark Southern Africa, Final Report, September 2011, p. 19, http://www.trademarksa.org/sites/default/files/publications/Final%20Report%20%7C%20Evaluation%20of%20the%20COMESA:SADC%20Transit%20Management%20System.pdf

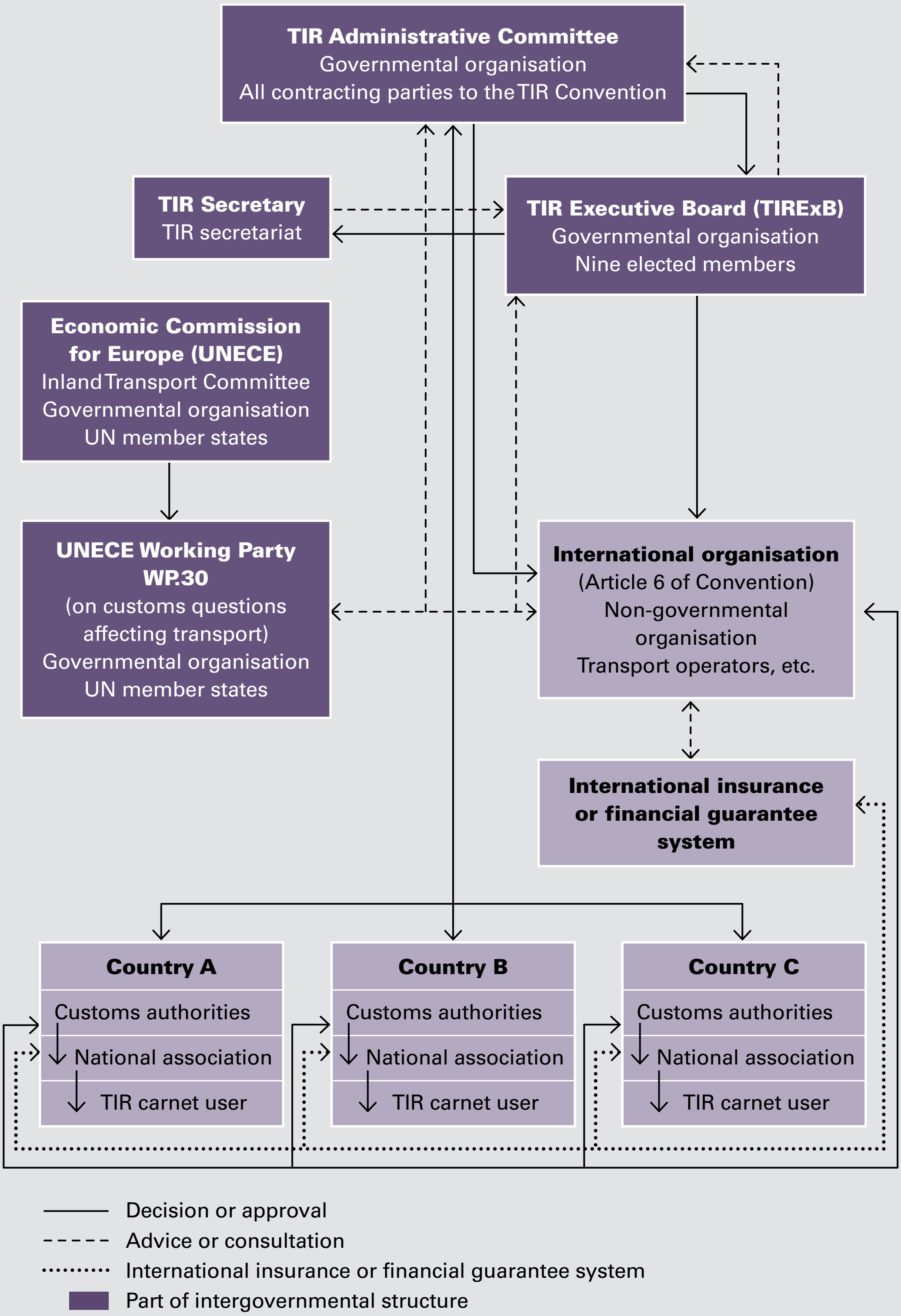
Figures 1 and 2 show the management structures of the TMSs in TIR and SADC. A major difference is the inclusion of the UN Economic Commission for Europe's (UNECE) Working Party in the management of TIR. Participation in this working party is open to all member states and interested international organisations. It regularly meets to discuss the implementation of the system and it develops comments which, although they lack authoritative power, are important in informing the TIR Administrative Committee.

The working party in turn consults the International Road Transport Union (IRU), which represents all transport operators in TIR. The IRU represents the private sector's involvement in TIR, and through regular consultation with both the working party and the IRU, the TIR Administrative Committee is assured of continual input from all relevant stakeholders.

12 Mpata S & P Mwakalombe, *op. cit.*, p. 6.

13 *Ibid.*, pp. 28, 32. This refers to the difference in bond liability that SADC has, as opposed to COMESA and SADC.

Figure 2: TIR management structure



Source: UNECE (UN Economic Commission for Europe), *TIR Handbook*, ECE/TRANS/TIR/6/Rev.10. Geneva: UNECE, 2013, p. 15

In the case of SADC, the Customs Advisory Working Group (CAWG) on Transit is responsible for advising the Sub-Committee on Customs Operation (which provides overall direction and management to the system) and implementing its decisions. This working group is made up of officials from member states' customs authorities, thus representing public stakeholders in the system. On the other hand, in COMESA, the Trade, Customs and Monetary Affairs Committee is responsible for negotiating issues of trade, customs and monetary affairs and preparing recommendations for the Council of Ministers. This committee consists of senior officials of COMESA member states – the input that the highest body in the COMESA TMS receives originates thus from the public sector, and private stakeholders are left out of the process.

Many of the problems with stakeholder involvement highlighted in SADC and COMESA can be overcome with a participatory management structure. The proposed changes to the management structures could ideally be applied to both the SADC and COMESA TMSs, and then easily be integrated into a TFTA system when the time comes.

The proposed management structure for a TMS arrangement should incorporate the following aspects:

- All stakeholders should be consulted and involved in evaluating the system throughout the process. A consultative committee should be open for all stakeholders to join when they see fit. Because they will all work together on providing the main body with input, the expectation is that trust among the different stakeholders (across countries) will increase, which should benefit the cross-border insurance system.
- There should be a group of permanent staff overseeing the system's implementation. This will increase continuity and focus on the project.
- Management of the TMSs in SADC and COMESA should meet with each other, which will benefit the integration of the two at a later stage.
- The bond guarantee structure should be modelled after that of TIR and COMESA. The SADC system will thus have to adapt, but it is generally accepted that the TIR system works better and is less risky.[14]
- Regular 'roadshows' that involve permanent staff traveling through the region, visiting borders and providing stakeholders with workshops and information about the system, will increase awareness among border staff.
- In addition to participating in the Consultative Committee's meetings, financial institutions should be able to give input into how regional bonds are handled and issued, to assist in mitigating financial risks of these bonds.

14 Mpata S & P Mwakalombe, *op. cit.*, p 32.

The way forward

Both SADC and COMESA should revise the management structure of their TMS. If they take on the same (or a similar) structure, this will facilitate the smooth integration of both systems down the line under the TFTA.

It is of vital importance that all stakeholders are included. Consultations should be held and information and evaluation should be provided throughout the process. In this way, the system will be more efficient, as the opinions and demands of all stakeholders will have been taken into account in its design. Moreover, the stakeholders will be better informed, which will facilitate the smooth implementation of the system and help to foster the will and commitment needed to make it work.

Resistance to the regional transit bond may be explained in part by the potential of lost revenues for clearing and forwarding or insurance agents working at a national level (ie, selling national bonds). Although experts question the viability and practicality of a revenue-sharing model, there are some models that could provide helpful lessons. For instance, in the case of East Africa the 'destination model'[15] proposal suggests that the regional transit bond should be paid at the first port of entry into the participating region and then shared among the through- or destination countries. This could facilitate a transparent and robust information-sharing infrastructure.

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15 Agritrade, 'Revenue-sharing problems hits East Africa', 4 January 2013, http://agritrade.cta.int/en/layout/set/print/Agriculture/Topics/ACP-FTAs/Revenue-sharing-problems-hit-East-Africa.

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