



USAID | DELIVER PROJECT

FROM THE AMERICAN PEOPLE

Customs Clearance Issues Related to the Import of Goods for Public Health Programs



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Customs Clearance Issues Related to the Import of Goods for Public Health Programs

USAID | DELIVER PROJECT, Task Order 1

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Abstract

Planning for effective drug supply depends on a thorough understanding of the operative supply policies and practices, from acquisition through delivery to distribution centers, intermediate warehouses, and service delivery points.

Customs clearance procedures, regulated by recipient country governments, may change over time and can be quite complex. Failure by importers to master local customs clearance procedures, or customs procedures that are themselves prone to breakdowns, may cause long delivery delays, stock shortages, and even stockouts.

Cover photo: Cargo ship at a port.

USAID | DELIVER PROJECT

John Snow, Inc.

1616 Fort Myer Drive, 11th Floor

Arlington, VA 22209 USA

Phone: 703-528-7474

Fax: 703-528-7480

E-mail: askdeliver@jsi.com

Internet: deliver.jsi.com

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ACRONYMS

ACV	Agreement on Customs Valuation
AWB	Airway Bill
AWB/B/L	Airway Bill/Bill of Lading
BAFICAA	Business Action for Improving Customs Administration in Africa
CRMS	Computerized Risk Management System
DFA	Director of Finance and Administration
DVCR	Declared Valuation and Classification Report
FCVR	Final Classification and Valuation Report
IT	information technology
ITI	International Trachoma Initiative
LPI	Logistics Performance Index
MMIS	Making Medical Injections Safer (project)
MSD	Medical Supplies Department (Tanzania)
OECD	Organization for Economic Cooperation and Development
PMAESA	Port Management Association of Eastern and Southern Africa
PRO6	A form used in the U.S. Embassy in Tanzania for processing tax exempt shipments
SBE	Single Bill Entry
SCMS	Supply Chain Management System (project)
SICA	<i>Sistema de Integración Centroamericana</i> (Central American Integration System)
TFDA	Tanzania Food and Drugs Authority
TRA	Tanzania Revenue Authority
USAID	U.S. Agency for International Development
UNFPA	United Nations Population Fund
VAT	value-added tax
WCO	World Customs Organization

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Thank you all for shedding light on port and customs processes—and for your interest not just in how things are, but in how things can be made to work better.

—John Durgavich (May 2009)

INTRODUCTION

Planning for effective drug supply depends on a thorough understanding of the operative supply policies and practices—from acquisition through delivery to distribution centers, intermediate warehouses, and service delivery points.

Supply management must incorporate policies, tools, and practices that facilitate many processes, including customs clearance, and yet reports from developing countries often cite complex customs clearance processes as creating serious bottlenecks that impede the availability of drugs and medical supplies. One hears complaints such as this one from Yemen: “The process of customs clearance is currently not efficient, and is the subject of complaints by both the population sector and donors who reported problems including customs staff not being able to process documents written in English and the large number of signatures required. Clearance delays have been up to six months, which raises the problem of exorbitant demurrage fees” (Patykewich 2007).

Customs clearance procedures, regulated by recipient country governments, change over time and can be quite complex. Failure by importers to master local customs clearance procedures or customs procedures that are themselves prone to breakdowns, may cause long delivery delays, stock shortages, and even stockouts.

BACKGROUND

DEFINING CUSTOMS CLEARANCE

All countries have in place some customs controls for revenue generation, domestic economic interests, and national security purposes. While there are similarities between countries (like the universal need for shipment documentation, including commercial invoices and Bills of Landing) there are local, specific requirements that have to be addressed. Broadly, customs clearance will be defined as the set of functions undertaken by a national customs authority, which include, but are not limited to—

- processing of import, export, and transit declarations
- assessment of origin, value, and classification of goods
- collection and processing of duties and fees
- physical inspection, examination, and release of cargo
- conduct of post-clearance audits
- processing of urgent consignments
- administration of waivers and exemption schemes and drawback (re-exportation) schemes (McLinden 2005).

This last bullet is particularly important for international donors like USAID and UNFPA because in all countries considered in this paper, in addition to the other processes, there is also a parallel approval procedure for obtaining a duty waiver for importing goods associated with humanitarian aid. In some cases, the duties are simply waived, but in others, a third party such as the Ministry of Health, may pay the duties for donated goods to the customs authority from its own budget. These functions are the responsibility of the importer and the consignee. In the case of donated goods, the donor acts as the importer and a local agency like the local U.S. Embassy or a government ministry, acts as the consignee. A third-party logistics provider can facilitate one or more of these processes but, ultimately, the competence of the consignee has an important impact on the ease of importation. Staff of the USAID | DELIVER PROJECT and its predecessors have observed that U.S. Embassies and recipient government ministries can be very different consignees. U.S. Embassies tend to process many more consignments per year than government ministries and to assign dedicated officers to ensure that all import requirements are met. Recipient government ministries generally have fewer resources dedicated to customs clearance.

It is also important to draw a distinction between customs clearance and port clearance. The customs office in a country deals principally with issues related to processing of customs declarations and collecting taxes or administering tax policy. The national customs authority also may be responsible for issuing import licenses, warehouse approvals, and other trade status approvals for importers and exporters. By contrast, the port authority is responsible for the physical custody and handling of goods as they make their transition from a vessel or aircraft to temporary

storage until they are finally delivered to the consignee. Port management is often the responsibility of third-party private contractors. These contractors are required to enforce import/export policy, but the fees charged by the port authority are in general related to handling charges and the administration of goods while in port. Fees charged by the port authority are not taxes, per se, but part of the cost of transporting the goods into or out of a country.

While the customs authority is responsible for the application of national import/export policy, these functions are a joint responsibility of the customs authority in collaboration with others such as—

- the importer or exporter
- national quality control and security authorities
- the port authority
- third-party clearing agents
- government ministries, such as finance and foreign affairs
- donors (in the case of humanitarian aid).

Customs clearance in the developing world is in rapid evolution. In “Rolling Back the Frontiers: The Customs Clearance Revolution,” Ton Appels and Henry Struye de Swielande describe three stages of development in customs. In the first, the customs authority concentrates on physical inspection and paperwork, in the second, the customs authority works to reduce fraud and maximize revenues, and in the third, the customs authority works to facilitate trade through internal checks, process management and the development of electronic data exchange (Appels 1998). All the countries considered here are somewhere between stages two and three of this evolution, and most have installed electronic systems for lodging customs declarations, some more functional than others.

PURPOSE

The purpose of this paper is to examine where delays are caused and/or perceived in the clearance and receiving process; to document where improvements may be made in contracting and receiving processes to reduce the risk of customs clearance delays and stock shortages due to such delays; and to propose recommendations for future shipment planning.

METHODOLOGY

Research strategies included—

- 1. literature search
- 2. short survey for USAID, UNFPA, contractor and other personnel in developing countries involved in procurement and customs clearance (see appendix A)
- 3. canvas of USAID | DELIVER PROJECT, Supply Chain Management System (SCMS), and Making Medical Injections Safer (MMIS) staff and subcontractors for existing process maps
- 4. key informant interviews with survey respondents.

LITERATURE SEARCH RESULTS

Many different agencies have been assessing and writing about “trade logistics” and “customs modernization.” The World Bank has been leading this international effort on a number of fronts with the overall objective of strengthening economic performance and the competitiveness of developing countries in global trade networks. “Connecting to Compete: Trade Logistics in the Global Economy” by the World Bank looks at indicators such as “Respondents able to use IT to submit customs declaration” and quantitative indicators such as “Average time to import” or “Cost to import a 40-foot container” (Arvis 2007).

This analysis depends on survey responses from expert respondents and does not provide specific clearance process breakdowns or detailed time/cost analyses. For countries included in the Logistics Performance Index (LPI)¹ included in the World Bank study, survey results provide a useful point of departure for any discussion or comparison of trade logistics performance and, in this case, a point of comparison for customs clearance times for the shipment of donated goods.

Reducing border-crossing times has been identified as a key element in achieving development goals. The World Bank’s Sub-Saharan Africa Transport Policy Program has developed indicators related to Millennium Development Goal 8 (Global partnership for development), which would be affected directly by customs performance: “Proportion of countries that have reduced their border crossing time to Organization for Economic Cooperation and Development (OECD) average” and “Proportion of countries that have reduced their port clearing time to OECD average.”

Business Action for Improving Customs Administration in Africa (BAFICAA), a consortium of private corporations, conducted its own survey of private corporations in 2006 and identified a number of customs-specific issues.

Angola	5.8
El Salvador	1.0
Haiti	3.9
Nigeria	8.1
Tanzania	7.8
Uganda	4.5

From the Logistics Performance Index, table A3

¹ www.worldbank.org/lpi

“Businesses in Africa perceive the impact of customs as mostly unfavorable, a mixture of obvious and subtle impediments. This impact is felt primarily in three interconnected ways:

- cost, which can be direct (for example, via fees) or indirect (for example, via extra staff costs), to perform all the procedures needed for customs or via storage costs for goods awaiting processing
- time, due to elongated processing times clearing goods for import or export
- flexibility, as goods tied up in customs processing are not available for further conversion or sale” (McTiernan 2006).

In 2008, the Port Management Association of Eastern and Southern Africa (PMAESA) took a much more comprehensive approach to the question of port congestion that affects import and export times and costs in their region. They identified 16 major problems, including—

- resistance to change in management styles
- lack of communication between stakeholders
- cumbersome regulatory systems and decentralized documentation processes coupled with bureaucratic clearance procedures
- general poor planning by the various cargo interveners (PMAESA Secretariat 2008).

However, in the case of PMAESA, the port agencies of the region also identified significant problems with cargo-handling infrastructure, transportation infrastructure, and information technology (IT) that contribute to the long port delays for both import and export. This underscores the fact that customs and customs procedures represent only a part, and perhaps not even the largest part, of the delays that keep life-saving medicines in port and out of the clinics and hospitals that urgently require them.

A FEW COUNTRY EXAMPLES

One of the most critical tasks any importer or concerned government can undertake is to measure the time and costs associated with cross-border trade. For example, USAID, through its Southern Africa Trade Hub, has been working with the World Customs Organization (WCO) since 2005 to help identify bottlenecks and delays in the customs process that impeded the flow of goods in countries like Malawi and Mozambique.

One country program in the USAID | DELIVER PROJECT made an independent effort to document the clearance process in detail: Tanzania. This was well timed, because the Tanzania Revenue Authority (TRA) was conducting its own analysis at the same time. “The Tanzanian [Revenue] Authority started an annual exercise of random checks across border points. In August 2005 [the TRA reported that] the average time to process documents for imports, from arrival to entry into the country, was eight days, 23 hours across seaports; six days, 15 hours across airports; and three days, nine hours across land crossings. In August 2006 the exercise was repeated to monitor the pace of improvements” (The International Bank for Reconstruction and Development 2006).

In 2006, the USAID | DELIVER PROJECT and the Tanzania Medical Stores Department undertook their own analysis for imported donations. Import of donations from the time goods arrived in seaport to the time that they were delivered to the Medical Stores Department was roughly 27 days, but this was only part of the overall process. Preshipment inspection took 18 days. Concurrent processes like determining the dutiable value and tax exemption processing took 11 and six days, respectively. In 2006, the overall process, from preshipment inspection to delivery to the Medical Stores Department, required 10 steps, 15 agencies, and 18 documents and took 67 days.

Table 1. Activities Involved in Clearing Donations through Customs, Tanzania 2006

ACTIVITIES	Agencies	Documents	Time	Cumulative
PREPARATION				
<i>Inspection prior to shipment</i>	5 Agencies: Exporter, Importer, Director of Finance and Administration (DFA), Tiscan, Cotecna ²	7 Documents: Pro-forma Invoice, Import Declaration Form, Donation Certificate (or Tax Exemption), Request for Information, Bill of Lading (or AWB), Commercial Invoice, Packing list	18 days	18 days
SHIPMENT OF GOODS				
<i>Exporter sends shipping documents</i>	1 Agency: Exporter	3 Documents: Bill of Lading (or AWB), Commercial Invoice, Packing list	5 days	23 days
<i>Determine dutiable value using ACV</i>	3 Agencies: Cotecna, Tiscan, DFA	4 Documents: Provisional Classification and Valuation Report, Application for Single Bill of Entry Form and Tax Exemption (if applicable), Final Classification and Valuation Report (or Declared Valuation and Classification Report for value under \$5,000), and a Single Bill of Entry	6 days	29 days
<i>Prepayment of Duties and Taxes (Taxes are paid; OTHERWISE an exemption is processed)</i>	1 Agency: DFA		5 days	34 days

² Cotecna, headquartered in Geneva, Switzerland, is a trade inspection, trade security and trade certification company, operating in close to 100 countries, including Tanzania.

ACTIVITIES	Agencies	Documents	Time	Cumu- lative
<i>TFDA approval / registration (Concurrent)</i>	2 Agencies: Importer, Tanzania Food and Drugs Authority (TFDA)	1 Document: Pro-forma Invoice	2 days	
<i>Processing tax exemption (Concurrent)</i>	4 Agencies: Donor, Ministry of Health, Implementing Partner, Clearing Agent	2 Documents: US Embassy – PRO6, CA VAT 220A	6 days	40 days
ARRIVAL IN PORT				
<i>Customs Documentation</i>	3 Agencies: Clearing Agent, Tanzania Revenue Authority (TRA), Customs Department	4 Documents: Declaration & Disposal Order (attached with SBE, AWB/B/L and invoices)	12 days	52 days
<i>Customs warehouse rental payment (paid to customs department) (Concurrent)</i>	2 Agencies: DFA, Customs Department		5 days	
<i>Demurrage cost payment (paid to the shipping line which releases original Bill of Lading) (Concurrent)</i>	2 Agencies: DFA, Shipping Line		5 days	57 days
<i>Shipment handling & delivery to MSD</i>	4 Agencies: Tanzania International Container Services, DFA, Customs Department, MSD	4 Documents: Delivery Order (attached with Commercial Invoice), Tax Invoice, Interchange Receipt, Booking for Loading	10 days	67 days

Note: Abstracted from “Customs Clearance & Forwarding Processes Table,” prepared by Daniel Mmari for the Government of Tanzania Medical Stores Department and the USAID | DELIVER PROJECT, unpublished, 2006.

The actual delay of 27 days at the port experienced by USAID imports of donated medicines is higher than the 21.2 days median best case lead time for import in the Logistics Performance Index and differs substantially from a nine day “average” import lead time in a 2007 analysis by the Tanzania Revenue Authority. With only five days “grace period” at port before warehouse rental and demurrage charges are applied, the situation would be burdensome for both donated goods coming through the seaport and for commercial goods since no products clear within the five-day “grace period” that should represent the typical delay. If these numbers are correct, almost all shipments to Tanzania will have some additional port costs, including from four to 22 days of storage fees because of processing time in port.

All shipments into Tanzania are subject to the Tiscan Computerized Risk Management System (CRMS), which automatically computes a level of physical inspection to be performed by the

customs department. This recommended level of intervention is indicated on all Final Classification and Valuation Report (FCVR), Single Bill of Entry (SBE), and Declared Valuation and Classification Report (DVCR) documents. This may range from “Fast Track Release” (documentary check only with no inspection), x-ray scanning, or physical examination, the latter being the most time consuming. According to the LPI, 22 percent of shipments to Tanzania are at risk of physical inspection.

The Tanzania analysis provides a useful example of both the potential complexity of the clearance process and its documentation, and it also demonstrates that customs clearance is not the only problem donated goods face in clearing the port of entry. The customs paperwork delay upon arrival in port was 12 days, but the shipping, handling, and delivery to MSD after the documents were released added 10 days to the overall delivery process. In addition, receipt-to-put-away time at MSD took an additional six days in 2006. From this analysis, it is clear that over half of the delay in making the goods available had nothing to do with customs formalities, per se, but with the physical handling of the goods and processing of payments so that goods could be released.

Tanzania is the only country where the USAID | DELIVER PROJECT works that staff have undertaken a detailed quantitative analysis of the clearance process. However, whenever the project is required to conduct lead time analysis, there is an opportunity to examine and document both port and customs clearance issues.

Clearance issues are universal. In Bangladesh, for example, the USAID | DELIVER PROJECT provided this description of the customs clearance process and requirements: “At the seaport in Chittagong, goods are unloaded from the ship, inspected for any damage or irregularity, and stored under the control of customs authorities in a secure area. The consignee has four days to produce the documents required for customs clearance, pay import fees and any taxes, and take the goods away. After that, demurrage (storage) fees begin to accumulate...” The burden is on the consignee to provide documentation, and the four days are a limit set by the customs authority. There was no explicit mention of whether the program could routinely complete the clearance process in the four days allowed, although they do mention that there have been spectacular (and expensive) failures. The authors further note that “All contraceptives, vaccines, and tuberculosis and cancer drugs are exempt from tax. For other health commodities like antibiotics, non-antibiotics, kits, and syringes, value-added tax (VAT) up to 15 percent has to be paid.” So in the case of Bangladesh, the clearing agents must have a good understanding of which products are subject to tax and which are not, even when the goods fall under the same import classification (Woodle 2008).

The issue of drug classification for verifying contents of a shipment and for the purpose of assessing applicable duties is likely to remain an operational challenge. For the Central American region, a working group was established for the harmonization of technical standards, sanitary and phytosanitary measures, and registries for medicines and related products in 2004 under the *Secretaría de Integración Económica Centroamericana* as an initial step (Rueda-Junquera 2005).

In 2006, the Central American region evaluated the feasibility of having a customs union to standardize registration requirements for all medicines and medical supplies for the purpose of streamlining the procurement process (Sarley 2006) and on December 12, 2007, the presidents of the five Central American republics that make up the Central American Integration System (SICA) signed the Guatemala City Agreement on the establishment of a customs union to create a free-trade zone in the region that subsequently was submitted to the parliaments of those countries for ratification. The eventual operational impact on medical importation is yet to be assessed, but ultimately a larger common market is intended to result in a stronger regional trading partnership

and reduced costs through streamlined processes and economies of scale (Beith 2007), although this is a long process.

A recent assessment exercise carried out by the USAID | DELIVER PROJECT on financing and procurement barriers in Madagascar (Durgavich 2008) also raised the issue of the customs clearance delay, but the assessment team was assured by the donors that they seldom pay demurrage and by the customs authority that clearance did not exceed the three days allowed. Without auditing the documentation, these assertions must be accepted, but there seems to be little emphasis on tracking customs performance per se, and there were no specific indicators beyond “not exceeding three days.” Unlike Tanzania, donors importing goods into Madagascar are exempt from filing through the government’s computerized trade network system and follow a manual process, raising additional challenges for aggregating and reporting data. The median clearance time for the countries that responded to the general survey discussed later in this document was seven days, but none of the respondents tracked specific indicators for customs performance, so it was not possible to assess whether this delay posed a particular problem either for inventories or budgets.

Campaign logistics evaluations for the International Trachoma Initiative (ITI) have required some review of the clearance process through key informant interviews, and a tool was developed by the John Snow, Inc. Logistics Services (JSI LS) for that purpose (Nersessian 2007). In 2007, an assessment of the clearance time for donated antibiotics in Niger indicated that a three-day delay in port was typical. However, the donor is dealing with one annual shipment composed of two products. In addition, the donor went to a good deal of effort weeks in advance of the shipment to assure that all paperwork was complete in advance (Durgavich 2007). In 2008, ITI reports that requirement estimates and shipment plans were finalized in October, about five months in advance of the March/April 2009 campaign. The longest anticipated delays in port in Niger are attributed to the time it takes to load and transport the goods from the port: delays that are due to vehicle and handling capacity issues, not customs.

Importation of donated goods requires the coordination of many partners and agencies that can impact how quickly goods clear. In a 2006 assessment in Haiti (Antilla 2007), an interview with the Ministry of Finance revealed a wide range of delays for approving duty-free importation. These delays were largely due to lack of information about the timing and contents of incoming shipments, preventing the Ministry from delegating internal approval authority. Approval authority was delegated within the Ministry of Finance on a shipment-by-shipment basis. If a shipment arrives when key personnel are traveling or on vacation, and specific authority has not been delegated, no one in the Ministry of Finance has the authority to sign the duty waiver on that particular shipment. This is another example of how clearance of donated goods can be delayed and demurrage incurred without that delay being attributable to the customs authority.

RAPID SURVEY RESULTS

To obtain additional first-hand information, the USAID | DELIVER PROJECT sent a survey to the field. Sixty-five potential respondents dealing with the import of donated medicine were identified by USAID and USAID | DELIVER PROJECT personnel. The principal researcher contacted 35 of these potential respondents by email and/or telephone and invited them to complete a 10-question online survey. Of the 35, only 10 responded to the questionnaire. Two respondents had to be sent survey forms as document files because of poor Internet access, and two respondents needed the questions translated into Spanish before they could respond.

Respondents reported from the following countries:

- Rwanda – 2
- Haiti – 2
- El Salvador – 2
- Nigeria – 2
- Angola – 1
- Uganda – 1

Two respondents represented USAID Missions, five represented USAID contractors, one represented a host country health ministry and two represented third-party logistics service providers; but all respondents were individuals involved in the customs clearance process in their respective countries. Of the problems identified, four mentioned delays in port exceeding four days. Four mentioned unexpected port costs, and two mentioned loss due to damage or theft at port.

In general, survey responses supported much of the information gathered during the literature review. The median “typical” customs clearance time was seven days and the median delay in port was four additional days when problems occurred. The maximum delay cited was 46 days, but this seemed to be an outlier. Excluding this one observation, the average delay was seven days. In terms of the sources of delay, four respondents identified lodging of the customs declaration, three identified payment of duties and discrepancies, three identified document control, and three identified licensing issues. In addition, five of the respondents went on to describe additional problems related to documentation, and three respondents described events in which shipments were either misplaced (temporarily lost) in port or delivered into the wrong custody.

In the case of donated medicines, the impact of the tax-exemption paperwork process on the clearance lead time is unclear. Tax-exemption processing should be concurrent with other clearance processes (Mmari 2006). One respondent even suggested that donated products should clear more quickly because there is generally no discussion of the tax assessment on tax-exempt goods destined for humanitarian aid. However, in Haiti and Nigeria, respondents described chaotic, ad hoc processes for obtaining and certifying tax exempt status involving obtaining signed original documentation from the donor, the Ministry of Health, the Ministry of Foreign Affairs, and the

Ministry of Finance that had to be submitted to the customs office before shipments could be cleared.

In terms of resources, five of the 10 respondents use printed documentation/guidelines from the national customs agency as a principal resource. Only one respondent mentioned web-based resources, reflecting the challenges governments face in installing, operating, and maintaining new data systems and that the technical reality on the ground for importers has yet to connect to this latest technology and its promise.

ISSUES AND RECOMMENDATIONS

Although the customs-related import problems can be somewhat generalized, the causes of these problems are likely to be specific to a particular port of entry. To track, discuss, and identify problems with customs clearance, implementing partners with importation responsibilities need to begin describing and tracking the time and other factors related to the complexity of the process, such as numbers of documents required, numbers of agencies involved, and the costs associated with clearing customs. If port clearance is perceived to be “*a problem*” the only way to address it moving forward is to—

- Set clear expectations
- Monitor some number of reasonable, measurable indicators
- Share findings with concerned stakeholders, including customs and port authorities in specific countries.

Rather than thinking of customs delays as a simple constraint, donor agencies and government stakeholders need to engage customs authorities and their own third-party contractors in their ongoing performance improvement programs to identify problems that can be rightly attributed to the clearance process and to address these problems in a transparent and effective manner. To that end, stakeholders can work to (1) solve known problems and (2) conduct further study to pinpoint areas for further intervention.

ISSUE 1: DOCUMENTATION

Where customs clearance breaks down, it seems most often to be due to **incomplete or incorrect documentation**. In addition, **communications issues** and **bureaucratic delays** that are not directly related to the processes in port may impact the outcome. Once in port, processes break down for a variety of reasons. While the reason most frequently cited by importers is incomplete or incorrect documentation, inability to track shipment custody was the second most frequent problem identified. These problems apply both to the import of tax-exempt humanitarian aid and to the import of commercial merchandise. This corresponds to the comments and observations of the respondents to the survey that suggest that there may be an opportunity to strengthen and speed up the customs clearance process through (1) clear, accessible guidelines, (2) tools for controlling the customs documentation, and (3) tools for tracking shipment custody.

Recommendation 1: Fix known internal problems related to documentation.

Keeping track of documentation requirements and assuring compliance is an ongoing responsibility because policies change over time. In addition, known problems, like the case of the Ministry of Finance exemption approval delay in Haiti, could be addressed without further study. Of all the problems, this is the one most under control of third-party agents—and the easiest to address.

ISSUE 2: CORRUPT MANAGEMENT PRACTICES

In a perfect world, customs authorities would work closely with international donors and their clearing agents to expedite the flow of humanitarian aid into a country. In some countries like Madagascar, these donation shipments are managed as a parallel process so it is possible that humanitarian aid may be less vulnerable to some of the corrupt practices that affect the commercial sector, but there are no data for comparison. Where illicit payments are being extracted from donors or their beneficiaries, there is no documentation that payments are attributable to action or inaction of customs authorities.

Humanitarian shipments receive a high level of scrutiny, and they are largely exempt from taxes. Nevertheless, the issue of corruption among port officials is often cited in the literature. Although there are many different opportunities for customs officials to extract illicit payments from importers (McLinden 2005), the most common mechanism is in the tax-valuation negotiation (Yang 2005). By undervaluing goods for import duty purposes, corrupt customs officials are able to negotiate a kickback on the illegal “savings” from the importer. They can equally punish compliant importers by holding up the clearance process, causing them to incur time and cost penalties. The best preventative measure is to have the tax valuation approved before the goods ever leave the port of origin, and this is possible wherever the destination countries have a preshipment inspection process in place.

Recommendation 2: Take advantage of preshipment inspection processes where they exist

The Central Commodities Management Team on the USAID | DELIVER PROJECT has noted that where preshipment inspection processes exist and when they are followed scrupulously, goods can move quickly through customs in countries like Ukraine. Failure to respect preshipment inspection processes where they exist leads inevitably to delays.³

ISSUE 3: THE CAPACITY OF THE RECIPIENT OR CONSIGNEE

The capacity of the recipient or consignee in receiving imported goods is critical to smooth clearance. In the case of USAID-funded contraceptives, U.S. Embassies are perceived to more easily navigate through the customs process, have personnel who are often more experienced in these processes, and embassy budgets are affected measurably by the efficiency of the clearance of their goods through the port. Further, embassies always have carefully documented bilateral agreements and policies in place related to their right to import goods duty free into the host country. Ministries of Health seldom have all of these supports in place.

Recommendation 3A: If you are USAID, make the U.S. Embassy your consignee.

If the main objective is a rapid clearance of the imported donation, the local embassy makes the best consignee.

Recommendation 3B: If Recommendation 3A is not possible, build capacity within the consignee.

If Recommendation 2 is not possible—or if sustainable supply chain management capacity is a goal of the program—develop a technical assistance plan that includes analyzing strengths and

³ Discussion with Tim Davis, USAID | DELIVER PROJECT, Arlington, VA, February 12, 2009

weaknesses of customs and port clearance and provides tools and training for recipient staff at the central medical store or Ministry of Health to help them better manage these processes.

Recommendation 3C: Consolidate shipments where possible.

Where storage space, inventory policy, and shelf-life requirements permit, consolidating shipments reduces the frequency of shipments and the corresponding effort required of the consignee to process and clear them. Trade-offs of this strategy should be clearly stated and include increased storage space requirements, increased opportunity costs of capital for the additional inventory (cash tied up in inventory), and increased risk of loss and expiry.

ISSUE 4: THE CAPACITY OF THE CUSTOMS CLEARANCE AGENT

Processing of customs and port clearance paperwork often falls to a third-party clearance agent or freight forwarder on the receiving end. The experience of the USAID | DELIVER PROJECT is that there are four main indicators of future performance for an in-country clearance agent:

1. Ability to break down and explain the in-country steps of the importation process
2. Volume of shipments handled
3. A staff size of five persons or more
4. Agency representation in more than one country

Recommendation 4: Choose a clearing agent based on reliability criteria.

Lowest cost should never be the sole criteria for selecting an in-country clearing agent. Presence in more than one country, volume of shipments processed, and size of staff, as well as recommendations from other customers, must also be considered.

ISSUE 5: PORT CAPACITY

Customs is not necessarily the only source of import clearance delays, or even the most important one. In reviewing documentation and discussing the issue with informants in several countries, delays in port often occur because of handling and transportation issues that are **outside the customs clearance process**. The amount of time a container spends in port is affected by lack of port organization and equipment and poor inland transportation (trucks and sometimes rail). Indeed, it was the number and capacity of trucks and the ability to load and off-load them that caused the most significant port delays for the antibiotic donation to Niger in 2007 and a significant source of delay identified in the Tanzania process mapping exercise and by the PMAESA in 2008.

For the purpose of planning future shipments of donated goods, third-party logistics providers such as the USAID | DELIVER PROJECT need to have a good understanding not only of the paperwork required for clearing customs and importing goods into recipient countries, but also of the functionality of the receiving ports, impact of clearance time on in-country inventory, and options for transport through alternate ports and neighboring countries. Some indicators for port performance that might be available from the ports themselves or from existing research might include—

- dwell time of cargo in the port (for local cargo as well as transit cargo)
- rates of physical inspection

- ability to track container locations
- daily flows out of the gates of the port
- monthly traffic flows to neighboring, landlocked countries (inbound and outbound)
- road distances and conditions for shipments to in-country consignees or to neighboring countries
- traffic flows (daily crossings at the border)
- transit times (through transit and between entry point and destination)
- transport tariffs (to and from neighboring countries for both containerized and non-containerized cargo)
- weighbridge crossing times
- border crossing times (inbound and outbound).

The bottom line is that the only way for an importer to understand the variables that affect port clearance performance is to know their receiving ports.

Recommendation 5A: Map the customs and port clearance processes.

Problems may or may not be correctly ascribed to customs clearance, but without understanding the steps in the process it is not possible to document and address where breakdowns are occurring. Use the mapping exercise to identify data sources for meaningful, feasible metrics. Determine if there is a pre-clearance process that can be followed—if there is, take advantage of it.

Recommendation 5B: Identify country-specific policy, procedure, or implementation issues and document successes and failures.

Unless problems are documented and discussed, it is not possible to pinpoint issues and generate consensus on how to address them. In the event of a failure, prepare a case study to illuminate issues and to help avoid problems in the future.

Recommendation 5C: Establish time and cost metrics for the customs and port clearance process.

Donors, as importers, can control their own contract specifications with third-party logistics providers. Recognizing that many aspects of customs clearance performance are outside the control of most third-party providers, include the reporting of applicable metrics from mapping exercises in the contracts with third-party customs clearance agents handling the clearance process so that the program can begin to identify bottlenecks and areas for future supply chain collaboration.⁴

Recommendation 5D: Develop a database or spreadsheet to help record and analyze time and cost data.

As a corollary to Recommendation 5C, simply reporting time and cost data is useless without analyzing it, interpreting its meaning, and translating that into performance-improvement actions.

⁴ The Logistics Performance Index’s median lead time for clearing imports could be used to provide an initial benchmark for comparing performance of importer shipments in a given country.

Minimally, track import lead time and compare project median lead time to the median import lead time from the LPI as a point of reference. A realistic understanding of lead time should be used to inform inventory policy for the in-country portion of the pipeline.

Recommendation 5E: Prepare a periodic analysis to share with stakeholders in the context of a periodic SWOT analysis.

Many donor agencies working in health, agriculture, and education may be experiencing similar problems. Sharing information about customs-related issues across sectors or between countries in the same region, as was done in Central America, could help to identify common problems and help stakeholders to identify broadly applicable solutions.

Recommendation 5F: Share findings in international forum and identify innovative solutions and best practices.

Identify best practices and areas for advocacy. Share findings and solutions with international associations like the WCO and PMAESA that can bring them to the attention of their members.

Recommendation 5G: Find another port.

While not always possible or practical, alternative ports in-country and trans-shipment through third countries may be effective and efficient options for shipping to countries that have poorly functioning ports. Take advantage of available research and discuss these issues with clearance agents and identify alternative routes for shipments. Document your assumptions and have a back up plan.

CONCLUSION

Customs clearance procedures, regulated by recipient country governments, change over time and can be quite complex. Failure by importers to master local customs clearance procedures or customs procedures that are themselves prone to breakdowns may cause long delivery delays, stock shortages, and even stock outs. Although the customs-related import problems can be somewhat generalized, the causes of these problems are likely to be specific to a particular port of entry. Such problems include poor planning and poor communication by actors in the clearance process, cumbersome, bureaucratic processes and weak infrastructure (e.g., in cargo handling). These problems can increase costs, increase lead times and reduce product availability.

Rather than thinking of customs delays as a constraint, donor agencies and government stakeholders need to engage customs authorities and their own third-party contractors in ongoing performance improvement programs to identify problems that can be rightly attributed to the clearance process. The way forward for donors and their partners engaged in importing humanitarian aid includes working together with port authorities to set clear, achievable expectations for customs and port clearance, defining which delays and costs are fixed and which are variable. Sharing experiences and concerns with stakeholders and engaging customs and port authorities in specific countries has the potential not only to facilitate specific shipments, but also to contribute to specific process improvements.

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APPENDIX A

SURVEY FOR USAID, UNFPA, CONTRACTOR, AND OTHER PERSONNEL INVOLVED IN PROCUREMENT AND CUSTOMS CLEARANCE

IMPORT OF GOODS FOR PUBLIC HEALTH PROGRAMS, CUSTOMS CLEARANCE QUESTIONNAIRE

To be completed by contract officers or program officers involved in the customs clearance process on behalf of USAID, JSI, partner agencies and their suppliers as well as by representatives of third-party customs clearance agencies working on behalf of these organizations, working to import pharmaceuticals for public health programs.

BACKGROUND:

Many different organizations, including but not limited to international donors, nongovernmental organizations, government agencies, and pharmaceutical companies are engaged in providing medicines for developing countries to support shared public health objectives such as improved maternal and child health. Discussion with some aid organizations has indicated that customs clearance process may be associated with program inefficiencies, unexpected costs and delays at port, costs associated with missed opportunity to serve the beneficiaries, and product wastage or loss.

PURPOSE:

The purpose of this survey is to determine whether agencies have experienced any of the abovementioned problems due to processing issues at port of entry and, if so, which aspects of customs clearance process are the most likely to be associated with process delays. Ultimately, results of this study will serve as background for guidance to aid partners on how to more effectively navigate medical supplies through the port clearance process in the countries where they work. Your time in responding to these ten questions is therefore much appreciated.

(I)

All sources will be kept confidential, but specific anecdotes are often useful to illustrate key points. If you would permit the USAID | DELIVER project to reference your answers confidentially, please indicate so:

- Yes, you may reference my answers
- No, please hold all of my responses confidential

(2)

Please provide contact information, including the country where you work, for any clarification of your responses (this information will not be shared with others, and you will only be contacted if the researchers need additional explanation of your response):

(3)

How long does it typically take your program to clear pharmaceuticals from the port of entry?

_____ days

(4)

In the last 24 months, has a pharmaceutical shipment to your program or to your partners' program experienced any of the following **due to a customs clearance delay** in port of entry (check any that apply)?

- Delay in port exceeding 4 business days _____
- Unexpected port costs such as demurrage charges _____
- Product wastage due to improper storage at port _____
- Loss due to damage or theft at port _____
- Loss due to expiry in port _____
- Stockout at the program level while goods delayed in port _____

(5)

What is the longest clearance delay in port your program has experienced in the last 24 months related to the import of pharmaceutical products?

_____ days

(6)

Clearance and receipt of goods can be complex. With which step in receiving process has your program had unreasonable delays? (check any that apply):

- Unloading of the goods from vessel _____
- Delivery to a customs area for temporary storage _____
- Lodgment of the customs declaration _____
- Payment of duties and discrepancies _____

- Acceptance of the declaration _____
- Document control _____
- Physical inspection _____
- Control by other agencies such as phytosanitary inspection _____
- Release of goods by customs agents _____
- Transport from port to consignee’s warehouse or quarantine _____
- Payment for goods _____
- Licensing issues (e.g., importer licensing) _____
- Tax/VAT/Duty exemption documentation preparation _____
- Tax/VAT/Duty exemption approval _____
- Quarantine period/quality control testing upon arrival _____
- Other: _____

(7)

If “Other” Please describe

(8)

If you experience delay(s) in any of the steps described in question 6, what, in your opinion, is the cause of the delay(s)?

(9)

What resources do you currently find useful to navigate the customs clearance process (check any that applies)?

- Printed guidelines from national customs agency _____
- Web-based guidelines from customs agency _____
- Printed guidelines from recipient government Ministry of Health _____
- Web-based guidelines from recipient government Ministry of Health _____
- Assistance from third-party customs clearance agent/expeditor _____
- Other _____

(10)

ADDITIONAL COMMENTS / REMARKS

Please provide any additional comments that you think will be useful.

THANK YOU FOR YOUR PARTICIPATION!

For more information, please visit deliver.jsi.com.

USAID | DELIVER PROJECT

John Snow, Inc.

1616 Fort Myer Drive, 11th Floor

Arlington, VA 22209 USA

Phone: 703-528-7474

Fax: 703-528-7480

Email: askdeliver@jsi.com

Internet: deliver.jsi.com