



Technical Report:

Study on Sustainable Funding of Corridor Management Institutions: The Case of the Dar Corridor Committee Secretariat

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LIST OF ACRONYMS USED

DC	Dar es Salaam Corridor
DCC	Dar Corridor Committee
EC	Executive Committee
DOT	South African Department of Transport
C&FA	Clearing and Forwarding Agencies
CFM	Mozambique Railways and Ports
CMI	Corridor Management Institution
COMESA	Common Market for East and Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
Hub	Southern Africa Global Competitiveness Hub
KPA	Kenyan Port Authority
MCLI	Maputo Corridor Logistics Initiative
MOU	Memorandum of Understanding
MZ	Mozambique
NCTTCA	Northern Corridor Transit Transport Coordinating Authority
NCTA	Northern Corridor Transit Agreement
PPP	Public-Private Partnership
SSATP	Sub-Saharan Africa Transport Policy Program
SW	Swaziland
TFR	Transnet Freight Rail
TRAC	Trans African Concessions
SA	South Africa

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EXECUTIVE SUMMARY

1. The Maputo Corridor Logistics Initiative (MCLI) requested the Southern Africa Global Competitiveness Hub (Trade Hub), to fund or produce a study on a sustainable funding model for the MCLI based on the user-pay principle.
2. Cognizant of the challenges of sustainable funding of corridor management institutions and the fact that the Northern Corridor Transit Transport Coordinating Authority (NCTTCA) had overcome this challenge, the Trade Hub embarked on this study to identify the characteristics and key factors for a sustainable corridor management funding regime.
3. The objectives of the study were to design a generic model or mechanism for sustainable funding of corridor management institutions such as the MCLI. The design was based on a literature review on corridor management and the mechanism used by the NCTTCA. The goal was to come up with a model that could be applied not only to MCLI but to other corridors that the Trade Hub is working on such as the Dar es Salaam and Trans Kalahari Corridors (TKC). The study entailed both interviews and literature review.
4. It has been realized that corridors with corridor management institutions (CMI) are better equipped to monitor corridor performance and address non-tariff barriers along the corridor in a proactive manner, through strategies for continued improvements of corridor performance. The coordination that the corridor management institutions has to undertake in the corridor requires a public-private partnership to address a wide range of issues including investment in infrastructure, regulation of transport and trade, and facilitate private sector participation and professionalism in the logistics industry.
5. The overarching goal of a CMI is to reduce the cost of doing business along the corridor in such a way that the cost of sustaining the institution is less than the cost-savings or benefits it provides to the corridor users. The CMI achieves these benefits through implementation of strategies and making interventions that: reduce transit times and cost of shipment through the corridor; improve the quality of service and infrastructure in the corridor.
6. However, at the inception of a CMI it is unlikely that the cost-benefit analysis for the CMI would be positive and this may be one of the reasons why donor funding is usually required at this stage. In the absence of donor funding at this stage a CMI is usually funded by governments or volunteers who are corridor champions such as ports authorities or major users of the corridor. Unfortunately, these mechanisms for funding are not sustainable as donors and governments have other priorities and voluntary contribution is simply not reliable.
7. The shipper is the lifeline of the corridor who feeds it with the tonnage which enables all stakeholders along the corridor chain to be in business, by handling the shipper's tonnage. The shipper needs his/her consignment to be transported to its destination in the safest manner, shortest possible time and at least possible cost. The demand for services from all the players along the corridor chain are derived from this need and their performance (efficiency) is measured by the degree to which they meet these expectations of the shipper.
8. For effectiveness and efficiency corridor institutions need a sustainable and reliable source of income to enable them to plan and implement measures to improve corridor

operations. From NCTTCA experience and from literature it seems the only way for reliable and sustainable funding of corridor management institutions is through the “user-pay principle”, that is those who benefit from the activities and interventions of the CMI should pay for its sustainability. The tonnage levy used on the Northern Corridor (NCTTCA), although not a perfect mechanism has provided sustainable funding for the CMI i.e. NCTTCA.

9. A tonnage linked usage levy would ensure sustainability of the CMI while maintaining pressure on the CMI to continue delivering benefits if those who pay have influence on what the CMI does. Ideally, a levy based on the tonnage and distance can be introduced based on a rate per ton-km. Such a levy could be collected at the port by Port Authorities or by Customs at international borders and transferred to the CMI.
10. Ultimately though, it is the shipper who will pay for the sustainability of the CMI as any contributions by other key stakeholders are likely to be passed on as charges to the shipper. It is therefore important to come up with a simple and practical method of calculating the tonnage levy that takes distance of the corridor used into account. It is also important to come up with a simple and practical mechanism for collecting the levy, preferably automated to avoid leakage, to minimize the cost of collection and cover as many users of the corridor as practically as possible.
11. To apply the user-pay principle there are a number of conditions necessary to create the enabling environment. Hereunder are some of them:
 - a) There must be an understanding and acceptance among all key stakeholders of the corridor of the need to use the user-pay principle.
 - b) Application of the user-pay principle should be authorized by the governments concerned.
 - c) The timing of its introduction is crucial for its acceptance by the governments and other key stakeholders.
 - d) The resultant charges should be perceived to be lower than the benefits the shippers and other service providers obtain.
 - e) In order for shippers and corridor management institutions to assess costs and benefits, it is important to have an effective corridor performance monitoring system.
 - f) CMI funders must have a say on what the CMI does and how it spends the money.
12. The levy system of funding the Northern Corridor has been extremely successful in resolving the funding problems it faced in the 1990s and currently its budget of approximately US\$1.2m is met without much difficulty. This system has proven to be a sustainable and reliable way of funding this corridor management institution. However, there is need to improve this system so that those who fund the CMI have greater say in what it does; free-riders are eliminated; and that benefits are passed onto shippers as the ultimate financiers of the CMI.
13. For other corridors to apply the user-pay principle for sustainable funding of their CMI such as the DC, they must first create the enabling environment for the use of this principle. Thereafter prepare a strategic plan approved by the key stakeholders from whom the annual work plan and budget are based to determine the usage fee/levy and decide on the collection mechanism and framework to implement the mechanism.
14. The Dar Corridor Committee (DCC) Secretariat is currently funded from voluntary contributions from its members. However, in terms of the Constitution it should be financed from the membership dues payable annually by members and from any other

method the committee deems fit. The Secretariat is still to prepare a scale of membership dues or any other sources of funding for approval by the Committee. Where the Committee considers and approves membership dues payable by each member, the Committee will ensure that the dues are equitable based on such considerations as the Committee may think relevant.

15. The findings and recommendations of the study on Sustainable Funding of Corridor Management Institutions were presented by the USAID Southern Africa (SA) Trade Hub to the DCC in November 2008 in Malawi. The DCC agreed to the user-pay principle for sustainable funding of its Secretariat.
16. It is recommended that the DCC should design an Action Plan for implementation of the user-pay principle in the next twelve months for the sustainable funding of the DCC Secretariat. The plan must clearly spell out:
 - a. Measures to be taken to create the enabling environment for the application of the user-pay principle with a timeframe.
 - b. Measures to be taken to implement the user-pay principle with a timeframe.

1. INTRODUCTION

1.1 Background

The Maputo Corridor Logistics Initiative (MCLI) requested the Southern Africa Global Competitiveness Hub, hereafter referred to as the Trade Hub, to fund or produce a study on a sustainable funding model for the MCLI based on the user-pay principle. The Trade Hub agreed to undertake the study culminating in this study on Sustainable Funding of Corridor Management Institutions (CMI).

In 2004 the Trade Hub undertook the Dar es Salaam Corridor Institutional Sustainability Study as well as the Trans Kalahari Corridor (TKC) Institutional Sustainability Study. A review of these studies revealed that membership contributions whether by the private or public sector were generally not viable in the long term for sustainable funding of corridor management institutions. Of all the CMI, the studies had reviewed only the Northern Corridor Transit Transport Coordinating Authority (NCTTCA) had a sustainable funding mechanism through tonnage levy for traffic passing through the Mombasa Port. However, neither study described in detail how the funding mechanism used by the NCTTCA worked and how it could be applied to other corridors.

The Sub-Saharan Africa Transport Policy Program (SSATP) in a Working Paper entitled "*Institutional Arrangements for Transport Corridor management in Sub-Saharan Africa*"¹ also noted: "Funding arrangements for existing corridor groups include membership fees, contributions by governments, traffic-based fees or donor support. The sustainability of most corridor institutions is a challenge, though the traffic-based usage fee arrangement seems to be the most appropriate as it also places demands to deliver benefits to shippers who ultimately meet the costs." The only corridor institution using the traffic-based usage fee or tonnage levy is the NCTTCA. Yet again, the details of how this is applied in the Northern Corridor and how it could be applied to other corridors were not spelt out in this paper.

In this context, and cognizant of the challenge of finding a sustainable mechanism of funding corridor institutions and the fact that the NCTTCA had overcome this challenge, the Trade Hub embarked on this study to identify the characteristics and key factors for a sustainable corridor management funding regime.

1.2 Study Objective

The objectives of the study were to design a generic model or mechanism for sustainable funding of corridor management institutions such as the MCLI. The design was based on a literature review on corridor management and the mechanism used by the Northern Corridor (NCTTCA); and to adapt and apply this mechanism to the Maputo Corridor for the sustainable funding of the MCLI. The goal was to come up with a model that could be applied not only to MCLI but to other corridors that the Trade Hub is working on, such as the Dar es Salaam and TKC. However, the recommended mechanism/model would have to take into account the different backgrounds, legal and institutional arrangements in the various corridors as well as improve on any weaknesses observed in the mechanism used on the NCTTCA. In other words, the NCTTCA model will be modified and adapted to circumstances pertaining in each corridor.

¹ SSATP Working Paper No. 86: Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa.

1.3 Study Approach and Methodology

Understanding the background to the NCTTCA and its funding mechanism, how the mechanism works and how it could be adapted to other corridor institutions was critical for this study. Consequently, the study approach has been to consult extensively with the NCTCCA Executive Secretary and his staff, key stakeholders of the Northern Corridor such as the Kenya Transporters Association, Kenya Port Authority and Kenya International Freight & Warehousing Association. After understanding how the mechanism works and the legal and policy environment necessary for it to work, literature review on funding of corridor management institutions was undertaken. Based on this information, initial views on how the MCLI could be funded on a sustainable basis was formulated and discussed with key stakeholders of the Maputo Corridor. These views were discussed with MCLI stakeholders and presented to a meeting of MCLI members at the meeting on July 30, 2008 in Nelspruit, South Africa. Based on all these inputs this report was drafted. The study approach entailed both interviews and literature review.

Visit to the NCTTCA in Mombasa and to other key stakeholders was undertaken from June 12 to 17. Consultations with the Maputo Corridor stakeholders were held July 28 to August 1, 2008. The SSATP also contributed to the study by reviewing the proposals against the Program's experiences from other corridors in Sub-Saharan Africa.

1.4 Structure of Report

The remainder of the report is in five sections. The next section discusses corridor institutions and funding mechanisms. The third section discusses the Northern Corridor (NCTTCA) and its funding mechanism background; and how the mechanism works. The fourth section deals with how to apply the user-pay principle for sustainable funding of corridor institutions. The fifth section discusses the Dar Corridor Committee (DCC) Secretariat case, both institutional and financial and concludes with some specific recommendations to the DCC.

2. CORRIDOR INSTITUTIONS AND FUNDING MECHANISMS

From the literature review and Northern Corridor experience one can attempt to define what transport corridors are, what the role and overarching goal of corridor management institutions should be; principles that should guide the sustainable funding of these institutions; and the enabling environment for sustainable funding. This section of the report attempts to do just that.

2.1 Corridor Function

From an economic perspective the function of a corridor is to promote both internal and external trade by providing more efficient transport and logistic services. Corridor focus is not only in improving routes that comprises it but also quality of transport and other logistics services aimed at the reduction of transit times and cost of shipment of goods and persons along the corridor. It has been realized that corridors with corridor management institutions are better equipped to monitor corridor performance and address non-tariff barriers along the corridor in a proactive manner, through strategies for continued improvements of corridor performance. The coordination that the corridor management institutions has to undertake in the corridor requires a public-private partnership to address a wide range of issues including investment in infrastructure, regulation of

transport and trade, and facilitate private sector participation and professionalism in the logistics industry.²

2.2 Corridor Management Institution Function

The overarching goal of a CMI is to reduce the cost of doing business along the corridor in such a way that the cost of sustaining the institution is less than the cost-savings or benefits it provides to the corridor users. Ultimately, the cost-benefit analysis of sustaining a CMI should have net benefits, although it is not always easy to quantify the benefits. The CMI achieves these benefits through implementation of strategies and making interventions that: reduce transit times and cost of shipment through the corridor; and improve the quality of service and infrastructure in the corridor.

However, at the inception of a CMI it is unlikely that the cost-benefit analysis for the CMI would be positive and this may be one of the reasons why donor funding is usually required at this stage. In the absence of donor funding at this stage a CMI is usually funded by governments or volunteers who are corridor champions such as ports authorities or major users of the corridor. Unfortunately, these mechanisms for funding are not sustainable as donors and governments have other priorities and voluntary contribution is simply not reliable. In addition, there are usually free-riders who benefit from the corridor operations improvements without contributing to the sustenance of the CMI whose interventions are responsible for the improvements. Moreover, it is difficult to quantify and allocate these benefits to the different corridor stakeholders whose contribution for the sustenance of the CMI may be different.

2.3 Beneficiaries of Corridor Institutions Interventions

Primary beneficiaries of corridor institutions interventions are the Shippers, Transporters, Clearing and Forwarding Agencies (C&FA), Customs Authorities, Port Authorities, Consumers and the Economy. The shipper is the lifeline of the corridor who feeds it with the tonnage which enables all stakeholders along the corridor chain to be in business, by handling the shipper's tonnage. The shipper needs his/her consignment to be transported to its destination in the safest manner, shortest possible time and at least possible cost. The demand for services from all the players along the corridor chain are derived from this need and their performance (efficiency) is measured by the degree to which they meet these expectations of the shipper.³ Transporters benefit from reduced truck turn round time and other operating costs on the route; C&FA benefit from reduction in operating costs and increased throughput; while Ports Authority benefit from increased competitiveness, throughput and utilization. Customs and economy benefit from increased trade and duty collection; and Consumers from reduced cost of goods.

Benefit-based contributions have been suggested as a way for sustainable funding of CMI. This approach involves contributions from different stakeholders based on the benefits they derive from improved corridor performance. The main challenge with this approach is to demonstrate quantitatively to each stakeholder, the aspects of corridor improvement that can be attributed to the CMI interventions. As a corridor is in reality a system with various players, which can affect the performance of the others, it would also

² SSATP Working Paper No. 86: Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa.

³ SA Trade Hub Trans Kalahari Corridor Institutional Sustainability Study 2004

be difficult to allocate benefits such that different stakeholders would contribute different levels of support.⁴

2.4 Sustainable Funding of Corridor Institutions

For effectiveness and efficiency, corridor institutions need a sustainable and reliable source of income to enable them to plan and implement measures to improve corridor operations. A number of corridor institutions have been established with donor funding but this has not proved sustainable. Some have started with membership contributions or government contributions and this was generally viable for four to five years after which the corridor institutions start experiencing financial problems e.g. NCTTCA, MCLI.

From NCTTCA experience and from literature, it seems the only way for sustainable funding of corridor management institutions is through the “user-pay principle”, that is those who benefit from the activities and interventions of the CMI should pay for its sustainability. The tonnage levy used on the Northern Corridor (NCTTCA), although not a perfect mechanism has provided sustainable funding for the CMI i.e. NCTTCA.

A tonnage linked usage levy would ensure sustainability of the CMI while maintaining pressure on the CMI to continue delivering benefits if those who pay have influence on what the CMI does. Ideally a levy, based on the tonnage and distance can be introduced based on a rate per ton-km. Such a levy could be collected at the port by Port Authorities or by Customs at international borders and transferred to the CMI. User levies, when directly related to the benefits derived from enhanced corridor management are the most recommended mode of meeting management costs. However, for sustainability, the user contributions have to be less than the derived benefits. The mode of collection of any levy must be simple to administer so as not to impact negatively on the corridor transport operations.⁵

Ultimately though, it is the shipper who will pay for the sustainability of the CMI as any contributions by other key stakeholders are likely to be passed onto to the charges to the shipper. It is therefore important to come up with a simple and practical method of calculating the tonnage or usage levy for all those using the corridor. It is also important to come up with a simple and practical mechanism for collecting the levy, preferably automated to avoid leakage and cover as many users of the corridor as practically as possible, to minimize the cost of collection.

2.5 Enabling Environment for the Application of the User-Pay Funding Mechanism

Except in the case of Kenya that pays direct from its treasury for the sustenance of the NCTTCA, Burundi, Democratic Republic of Congo (DRC), Rwanda and Uganda are using the user-pay principle for funding the Northern Corridor institution (NCTTCA). Thus the funding mechanism for this corridor institution is based on the user-pay principle. The basic aspect of this principle is that those who benefit from the improvements in the corridor operations as a result of the interventions of the corridor institutions should pay for the sustenance of that institution. While a number of institutions benefit but do not pay for the sustenance of the NCTTCA, such as the Kenya Port Authority (KPA), Truckers,

⁴ SSATP Working Paper No. 86: Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa.

⁵ SSATP Working Paper No. 86: Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa.

Customs, even if they paid, it would still be ultimately the shippers that would pay as these costs would be passed onto them. Thus the shippers are ultimately the users of the corridor and should, and do pay for the improvements in the corridor facilitated by the corridor institution.

To apply this user-pay principle there are a number of conditions necessary to create the enabling environment. Hereunder are some of them:

- a) There must be an understanding among all key stakeholders of the corridor, including the governments concerned, of the need to use the user-pay principle such as tonnage levy for the sustainable funding of the corridor management institution.
- b) The user-pay principle such as tonnage levy should be included in an Agreement among the governments concerned for example a Treaty, Memorandum of Understanding (MoU) or Constitution of the CMI that authorizes the collection of the levy on all users as per agreed formula for the sustenance of the corridor institution.
- c) Even if (b) is fulfilled, it is necessary that there is acceptance of when the user-pay principle can be applied by all key stakeholders, especially the governments concerned. Thus it is not enough to have it in the Agreement/MoU for example, the timing of its introduction is crucial for its acceptance by the governments and other key stakeholders.
- d) The charges or tonnage levy should be seen to be lower than the benefits the shippers and other service providers obtain from the interventions of the corridor management institution aimed at improving corridor operations. In essence, the cost-benefit analysis, although not always easy to quantify, should be perceived to be positive i.e. with net benefits.
- e) In order for shippers and CMI to assess costs and benefits, it is important to have an effective corridor performance monitoring system. Such a system should have indicators agreed to by all stakeholders to monitor the impact of CMI interventions.
- f) Those who fund the CMI most or their representatives should have the most influence on what the CMI does and how it spends the money contributed if the charges or levy is not to be seen as just another government tax.

The user-pay principle or usage levy per tone is a funding mechanism that can be applied to any corridor for sustainable funding of the CMI provided the above conditions can be met. However, how to apply this principle is discussed in the next section.

3. NORTHERN CORRIDOR (NCTTCA)

3.1 Northern Corridor Institutional Background and Structure

The Northern Corridor comprises the transport facilities and infrastructure linking land-locked countries of East and Central Africa, namely: Burundi, DRC, Rwanda and Uganda to the seaport of Mombasa in Kenya. The corridor also serves Northern Tanzania, Southern Sudan and Ethiopia.

It is very important to understand the background and institutional arrangements of the NCTTCA before understanding its funding mechanism. Prior to the breakup of the East African Community (EAC that comprised Kenya, Uganda and Tanzania) in 1977, other countries were trading with the EAC as it was a single country. Burundi, for example, did not have to come all the way to Mombasa to collect its imports and exports. There were inland ports or facilities at the borders with the EAC to and from which other countries took their exports and imports.

With the breakup of the EAC land-locked countries such as Burundi, Rwanda, Uganda and DRC had to negotiate bilateral agreements with all other countries transited by their traffic to reach the Mombasa port. In some cases this entailed several bilateral agreements with different charges and allowances resulting in a complicated and costly trading system for the landlocked countries. Consequently, a decision was made to negotiate a multi-lateral agreement, the Northern Corridor Transit Agreement (NCTA) that was signed by Burundi, Kenya, Rwanda and Uganda in 1985 and DRC acceded to the Agreement in 1987.

The purpose of the NCTA is to:

- Promote the use of the Northern Corridor as the most effective route for the surface transportation of goods between the respective member countries and the sea; and
- Grant Member States the right of transit in order to facilitate movement of goods through respective territories and to provide all possible facilities for transit traffic between them, in accordance with the agreement.

Through the NCTA Member States are enjoined to pursue the following objectives:

- Expeditious movement of traffic, and avoidance of unnecessary delays in the movement of goods in transit through their territories;
- Minimal incidences of customs fraud and tax avoidance;
- Simplification and harmonization of documentation and procedures relating to the movement of goods in transit; and
- Cooperation in the development and improvement of transport and communication infrastructure and facilities.

The NCTA led to the establishment of the NCTTCA, which together with its various organs, are responsible for implementing the treaty/NCTA. The role of the NCTTCA is to:

- Ascertain smooth and safe passage of cargo along the corridor;
- Reduce transportation costs along the corridor;
- Simplify cargo clearance procedures;
- Simplify customs documentation;
- Harmonize transport policies;
- Enhance cooperation among member states;
- Facilitate trade among member states and between the member states and the rest of the world;
- Contribute towards sustainable development of the member states and poverty reduction;
- Promote the improvement of surface transport infrastructure; and
- Encourage the major transport service providers (including ports, railways, truckers etc) to provide cost-effective services.

The NCTTCA functions through three main organs which work closely in realizing the objectives of the NCTA and these are:

The Authority: This comprises of the Ministers from the Member States responsible for transportation. It is the highest organ that is responsible for overall policy direction and meets once a year.

The Executive Board: This is an Inter-Governmental Committee comprising Chief Executives of Ministries responsible for transport in Member States. The Board assists the Authority in formulating strategies for transport and trade facilitation, infrastructure development and harmonization of national and regional policies. The Chairmanship of

the Authority and the executive Board rotates among Member States. The Executive Board meets twice a year.

The NCTTCA Permanent Secretariat: The Secretariat is responsible for coordinating the implementation of the NCTA and any decisions and resolutions made by the Authority and the Executive Board. The Secretariat is currently located in Mombasa, Kenya, and is headed by an Executive Secretary, supported by three Technical Experts and other non-technical staff.

The Technical experts are currently as follows:

- Customs Expert: Focuses of Customs and Trade Facilitation.
- Highway Engineer: Focuses on Infrastructure Development and Management.
- Transport Economist: Focuses on Transport Policy Development.

So far two specialized Committees have been established: one for Infrastructure Development and Management; and the other for Customs and Trade Facilitation. As a result of growing importance of the private sector to NCTTCA and the recognition that public-private sector partnership need to be integrated into the Authority's transit and trade policies if regional economic development is to be attained, a Public-Private Partnership (PPP) Committee (the Northern Corridor Stakeholders' Consultative Forum) that brings together Chief Executives of public and private sector agencies has been established. In addition, National Trade and Transport facilitation Committees are in the process of being established.⁶

3.2 Achievements of NCTTCA and Benefits to Stakeholders

Through the activities undertaken by the NCTTCA the following are some of the achievements to date:

- a) Simplification of Port Clearance Procedures including creation of one-stop centre for processing documents at the container terminal; joint verification of cargo; harmonization of working hours of all agencies at the port; and reduction in copies of documents and agencies required to stamp the Mombasa Port Release order.
- b) Simplification of Transit documentation by introducing a Single Administrative Document (SAD) that replaced thirteen other documents.
- c) Considerable reduction in time, by on average 50%, and customs processing procedures. For example the Mombasa to Bujumbura road trip before NCTA took 25 to 30 days but after NCTA, it now takes 12 to 15 days. The impact of this, it is reported, was an annual savings of about US\$13.6m
- d) Elimination of transit and other taxes and reduction in payment for motor vehicle insurance and increase in the use of railways resulted in annual savings estimated at about US\$17.4m
- e) Better relationships and understanding among institutions and persons dealing with transit traffic such as Revenue Authorities, Railway Corporations, Trucking Organizations, Freight Forwarding and clearing companies.⁷

The NCTTCA has contributed to the reduction of the cost of doing business in the Northern Corridor bringing benefits to shippers and other key stakeholders of the corridor.

⁶ NCTTCA Strategic Plan 2007-2011

⁷ Trans Kalahari Institutional Sustainability Study 2004 by the Southern Africa Trade Hub

3.3 Funding Mechanism Background and Status

3.3.1 Background

At the establishment of the NCTTCA in the mid- 1980s as an inter-governmental body, its funding was wholly borne by the five governments who were signatories to the Treaty, each government paying 20% of the budget for the NCTTCA per year. However, the governments were not paying their contributions on time and NCTTCA was unable to pay its creditors or even salaries to its staff. Staff could go for six months without pay due to the failure of the governments to pay regularly and on time for the NCTTCA's sustainability. Typical of institutions funded through such mechanism in Africa, the NCTTCA started running into financial problems in the early 1990s.

Fortunately, right at the onset, the Agreement/Treaty specified three sources of funding the NCTTCA:

- a) Member States contribution;
- b) Donor support for project funding; and
- c) Contribution through tonnage levy/usage fees.

Attempts to institute a tonnage levy for all cargo passing through the port of Mombasa to improve the financial situation were however rejected in the 1992. This was despite that the principles of transport coordination fees were recommended in the original European Union (EU) funded study that recommended the establishment of the NCTTCA that were incorporated in the Treaty. The proposed tonnage levy was rejected because it was seen as just another form of government tax that would add to the cost of transport. Consequently, the NCTTCA's financial problems continued until the early 2000s. The tonnage levy was eventually introduced in April 2007 but still with equal contribution by Member States. It was only in 2003 that a more equitable formula for country contributions was introduced, and this coupled with the tonnage levy, plus increased traffic volumes, that led to better funding of the NCTTCA budget. Since then the tonnage levy has proven a sustainable mechanism for funding the Northern CMI (NCTTCA) with approximately US\$1.2m annual budget.

3.3.2 How the Financial Mechanism Works

The underlining principle that permeates and guides the funding mechanism is that the NCTTCA is an intergovernmental institution whose funding is essentially from the Member States which are signatories to the Treaty. The NCTTCA is answerable to the five governments. Instead of equal contributions by the member states as was the case at the inception of the NCTTCA, it was decided in 2003 to have more equitable criteria for determining contributions that took into account: (a) traffic volume for each country using the corridor; (b) each country's GDP; (c) COMESA contributions formula; and (d) the extent to which each country benefits from intra-regional trade, inter alia.

The revised contribution formula is Burundi 10%, Rwanda 15%, DRC 20%, Uganda 25% and Kenya 30%. Based on the budget allotted to a particular state, using the contribution formula above, each country's levy rate per tone is then determined, taking into account the projected traffic. The determination of levy rate is supposed to be done every year once the NCTTCA budget has been determined, approved and allotted to the five countries. However, in the last five years these levy rates have not been reviewed and consequently there has not been a change in the levy or contributions.

Here are some of the key features of the funding mechanism:

- a) Every year the Secretariat is supposed to establish the NCTTCA budget to which Member States must contribute.
- b) Based on the criteria discussed above each of the five Member States contribute the following percentages of the budget: Kenya 30%; Uganda 25%; DRC 20%; Rwanda 15%; and Burundi 10%.
- c) There are three modes of payment of contribution: (i) direct from treasury; (ii) tonnage levy only; and (iii) combination of the two. Only Kenya chose to continue to contribute direct from the treasury.
- d) Burundi, Rwanda, DRC and Uganda opted for the levy method. However, the levy agreement provides for topping up through direct contribution, in case the amount collected is less than the budgetary allocation. This need arises due to small cargo volumes, especially for Burundi. Of late, the cargo volumes for Rwanda and DRC are adequate to cover their annual budget allocations. Uganda's cargo volumes have always been more than adequate. Rwanda was paying both through levy and direct contribution, in order to clear arrears, which accumulated during the years of civil strife.
- e) The current rates of levies are as follows in U.S. cents per tone: Uganda 12; Rwanda 60; DRC 91; Burundi 135; and Kenya 0.
- f) The levy amount charged per tone is based on the understanding between the government concerned and its business community.
- g) Through a MoU between the KPA and the NCTTCA, the KPA collects the levy on behalf and as an agent of the NCTTCA.
- h) KPA collects the levy at a fee of 2.5% of funds collected to cover its administrative costs and remits the levy collected to the NCTTCA account every month. The fact that the levies per tone are different for each country does not add any additional burden to KPA as the collection system is automated.
- i) The current agreement limits tonnage levy to exports and imports in and out of the region not within the region like exports from Kenya to other Member States and vice versa. The new agreement (October 2007) that has been signed but will come into effect when ratified by at least three countries will levy all traffic using the corridor. Thus other collection agents would have to be identified other than KPA such as Customs at borders. A system will have to be put in place to ensure no double payment of levy at the port and border.
- j) Once levy has been reduced it is difficult to increase it so the strategy has been to leave the levy at high levels and any surplus is put in the next NCTTCA budget. As a result of this strategy and the fact that the levy has not been reviewed for the last five years, Uganda which used to have large arrears was fully paid on its contributions for the next three years.
- k) At the moment, the levy contributions go towards funding NCTTCA Secretariat. There is, however, no reason why levy funds could not be used for other activities, such infrastructure development projects.
- l) As a result of this funding mechanism the NCTTCA financial problems were resolved and in fact, the Secretariat managed to move to better offices and were planning to move to even better offices to accommodate additional staff under recruitment at the time of the visit to the NCTTCA.

3.4 Success and Challenges of the NCTTCA Funding Mechanism

The tonnage levy system of funding the NCTTCA has been extremely successful in resolving the funding problems that the NCTTCA faced in the 1990s and currently it does not have any funding problems. This system has proven to be a sustainable and reliable way of funding this corridor management institution. With Uganda contributing three years

in advance through this mechanism the improvement in the NCTTCA financial position is not surprising.

However, there are a number of challenges with this system as discussed below.

- a) NCTTCA is an inter-governmental organization directed in its activities and its budget approved by an-intergovernmental Executive Board while its funding is largely through the tonnage levy paid by the shippers or cargo owners. This means that the main financiers of the NCTTCA have no direct control on how the money is spent to make sure they get value for the money. There is a real possibility that the NCTTCA might focus on activities that might not be high priority to the shippers, but the governments. Indeed, the shippers have been demanding for more influence on what the NCTTCA Secretariat does and for the Secretariat to be more involved in day-to-day operational issues on the corridor but the Secretariat has resisted this as this is not its mandate from the contracting governments. However, there is some effort to take on board the shippers and other key stakeholders' concerns through the Stakeholders Forum inputs into the Secretariat's activities.
- b) There are some free riders on the corridor who are not contributing to the financing of the corridor institution. For example, Southern Sudan, Ethiopia and Northern Tanzania use the Northern Corridor but because their countries are not signatories to the Treaty, these countries do not contribute anything to the NCTTCA budget. However, it is reported that Sudan might soon accede to the Treaty and thereafter contribute to the financial support to the NCTTCA. The NCTA and in particular the levy agreement gives the NCTTCA authority to levy traffic from all countries using the corridor but the strategy has been to encourage the countries to join the NCTTCA rather than levy charges, as there is no uniform levy per ton, it is difficult to determine the levy to be charged per tone.
- c) Currently intra-regional trade among the five countries that uses the corridor does not contribute to the NCTTCA budget as the traffic does not pass through the Mombasa port. However, the new revised Treaty that was signed in October 2007 but is still to be ratified to come into effect, allows collection of tonnage levy anyway along the corridor. Customs may be the vehicle through which the levy on this traffic may be collected once the revised Treaty comes into effect. Thus the revised Treaty implementation may eliminate this group of free riders on the corridor.
- d) Other than shippers or cargo owners, a number of other key stakeholders such as the Mombasa Port, Transporters, Clearing and Forwarding Agents, Customs Authorities and other Service Providers benefit from NCTTCA interventions but they do not contribute financially for the sustenance of the NCTTCA through this financing mechanism. However, it could be argued that whatever they could contribute would be eventually passed onto the shippers and therefore the shippers ultimately pay anyway.
- e) While costs could be automatically passed onto shippers by the various service providers in the corridor there is no evidence to suggest that also cost savings due to the NCTTCA interventions are also automatically passed onto shippers as direct reductions in transport costs. Rather, the reductions in transit time and improvements inconvenience are some of the more visible indicators of impact. The NCTTCA is now undertaking a study to establish why it appears their interventions have apparently not resulted in lower transport costs to the shippers.

4. HOW TO APPLY THE USER-PAY PRINCIPLE FOR SUSTAINABILITY

All corridors that have corridor management institutions that are not yet using the user-pay principle for sustainable funding of these institutions are encouraged to consider the

following approach for implementation of this principle. The approach involves two phases. The first phase entails creating the enabling environment while the second phase entails the actual implementation steps.

4.1 Phase I: Creating the Enabling Environment

In this phase the CMI has to:

- a) Build an understanding among all key stakeholders of the corridor, including the governments concerned, of the need to use the user-pay principle such as tonnage levy for the sustainable funding of the corridor management institution.
- b) If not already in place, secure the necessary consensus to incorporate the user-pay principle such as tonnage levy in an agreement among the governments concerned such as a Treaty, MoU or Constitution of the CMI that authorizes the collection of the levy on all corridor users for the sustenance of the corridor institution.
- c) Identify the appropriate timing when the user-pay principle can be applied by all key stakeholders, especially the governments concerned. Thus it is not enough to have it in the agreement/MoU for example, the timing of its introduction is crucial for its acceptance by the governments and other key stakeholders.
- d) Ensure the charges or tonnage levy should be seen to be lower than the benefits the shippers and other service providers obtain from the interventions of the CMI aimed at improving corridor operations. In essence, the cost-benefit analysis, although not always easy to quantify, should be perceived to be positive i.e. with net benefits, by all key stakeholders.
- e) Establish an effective corridor performance monitoring system in order for shippers and CMI to assess costs and benefits of the CMI. Such a system should have indicators agreed to by all stakeholders to monitor the impact of CMI interventions.
- f) Ensure those who will fund the CMI most or their representatives should have the most influence on what the CMI does and how it spends the money contributed.

4.2 Phase II: Implementation of the User-Pay Principle

This phase is to be undertaken once Phase One is completed and in this phase the CMI:

- a) Must prepare a five-year strategic plan from which results-oriented Annual Action Plans are derived that have to be approved by all key stakeholders especially those expected to contribute to the funding of the CMI.
- b) Annually prepare Action Plans with result-based budgeting with clear targets for deliverables that has to be approved by an Executive Board with good representation of the main contributors.
- c) Based on the annual budget and expected tonnage to be moved in the corridor, determine the usage levy per tone for all traffic moving in the corridor. The total usage levy to be collected should be enough to cover the approved budget.
- d) Determine a mechanism for collecting the levy at the port, international borders and/or other points that minimizes the cost of collection. As far as possible the mechanism should be automated to minimize leakage.
- e) Enter into contractual arrangements for collecting the levy with the relevant institutions such as Port Authorities and/or Customs Authorities. There maybe need to enter into an MoU with these institutions to collect and transfer the funds to the CMI on a monthly basis, at an agreed collection fee probably.
- f) Monthly reconcile between what is collected and what is transferred to the CMI with the relevant collecting institution.

- g) Secure an agreement among stakeholders on how excess funds collected may be used, especially in cases where, for whatever reason, the usage levy is not reviewed annually.
- h) Ensure actions (b) and (c) are done annually.

The more traffic moved the smaller the usage levy and the smaller the levy the better, since overall objective is to reduce the cost of transport in the corridor in addition to improving the quality of transport.

5. THE DCC SECRETARIAT CASE

5.1 Introduction

The generic study on sustainable funding for corridor management institutions covered in the above sections was undertaken in 2008 with the view that its findings and recommendations could be applied not only to the Maputo Corridor but other corridors as well. However, each corridor has its own peculiarities that have to be taken into account. This section now looks at the Dar es Salaam Corridor (DC) and its CMI, the DCC Secretariat.

5.2 Background

The DC comprises all the road, rail and ports systems in southern DRC, Zambia, Malawi and Tanzania linked to the port of Dar es Salaam as defined in the First Schedule of the Constitution. An Interim DCC was established with assistance from the Trade Hub through a Constitution of the DCC that was signed by Malawian and Tanzanian private and public stakeholders in 2003. Zambian private and public stakeholders signed the constitution in 2008 thereby formally establishing the DCC in terms of the constitution. DRC is still to sign the constitution.

The objectives of the Committee are, inter alia:

- (a) To encourage the establishment of business and spatial development along the corridor and actively market the corridor in order to attract investment, improve international and domestic traffic levels and promote national and regional economic growth;
- (b) To support operational planning by members through proactive collection, processing and dissemination of traffic data, analysis of competitive corridors and business information;
- (c) To encourage the upgrading of port, rail, lake, road and border post infrastructure; promote the sustained maintenance of infrastructure; and encourage a reduction in cost associated with moving freight along the corridor;
- (d) To encourage the implementation of improved customs transit procedures and the implementation of joint customs controls and juxtaposed customs offices at land borders and seaports; and
- (e) To lobby for improved services and facilities along the corridor to encourage commercial and tourist activity as well as increased transport efficiency and traffic.

5.3. Institutional Structure

DCC has chairperson from the public sector and a vice chairperson from the private sector as mandated by the Constitution. The DCC appointed an executive committee to oversee its affairs between the meetings in April 2009 and an Executive Director who heads the

DCC Secretariat was appointed with effect from May 2009. National Corridor Committees were established to implement DCC programs at national level. Two Working Groups one on Transport Operations and the other on Customs have been established to address issues impeding efficient operations along the corridor.

The Secretariat is based in Dar es Salaam and its functions are, inter alia:

- (a) To provide Secretariat, organizational and logistical services to the Committee, the executive committee and working groups; and provide the Committee, the executive committee and working groups with technical advice;
- (b) To prepare a draft annual work programme for approval by the Committee; and coordinate the implementation of improved communications systems among members, customers, relevant government agencies and others concerned with the operation of the corridor;
- (c) To develop an operational database tracking the corridor's performance and utilization; maintain comparative pricing, delivery time and reliability data on the competitive corridors;
- (d) To market the corridor through the dissemination of information, the publication of a newsletter and a website, participation in exhibitions and trade fairs and by undertaking marketing visits;
- (e) To prepare recommendations of annual membership dues and any other sources of funding; prepare an annual budget for approval by the committee; and collect and account for the funds of the committee.

5.4 Funding Mechanism

The DCC Secretariat is currently funded from voluntary contributions from its members. However, in terms of the constitution it should be financed from the membership dues payable annually by members and from any other method the committee deems fit. The Secretariat is still to prepare a scale of membership dues or any other sources of funding for approval by the committee. Where the committee considers and approves membership dues payable by each member, the committee will ensure that the dues are equitable based on such considerations as the committee may think relevant.

According to the Constitution:

- (a) The secretariat must, in preparing annual budget of the committee, calculate the membership dues payable annually by each member. The secretariat must submit the annual budget, including the recommended membership dues, to the committee for approval.
- (b) Each member must remit its dues to the secretariat in the manner approved by the committee.
- (c) The committee may receive grants, donations and bequests in cash or kind. The secretariat must ensure that cash amounts so received are separately accounted for. The committee or secretariat may develop activities and provide services for which a separate fee is charged so as to increase the operating budget.
- (d) The expenses of attending meetings, other than those of staff members of the secretariat, are borne individually by members.

5.5 Consultations with Key DC Stakeholders on Funding of DCC Secretariat

The findings and recommendations of the study on Sustainable Funding of CMI were presented by the Trade Hub to the DCC in November 2008 in Malawi. In the case of DCC, the presentation noted that DCC constitution says the DCC should be funded from

membership contributions based on an annual budget. The Constitution also says the DCC could be financed “from other method the Committee deems” and this could be the “user-pay principle” recommended by the study. It also noted that because of lack of sufficient voluntary contributions the secretariat or CMI that was essential to make the DCC effective was not in place. It further noted that it was urgent to appoint an executive director to head the DCC Secretariat to make the DCC effective. It recommended, inter alia:

- The establishment of an innovative strategy based on voluntary stakeholders’ contribution to raise sufficient funds to engage an executive director for the DCC immediately.
- Urging of all members to make voluntary contributions for the funding of the executive director position immediately.
- Agreement by members on a minimum contribution by each member and more membership contribution based on an agreed criteria e.g. size of an organization or degree of use of the corridor.
- Members accept that voluntary membership contribution is not a reliable and sustainable way of funding the DCC Secretariat.
- Members agree to prepare for the “user-pay principle” by creating an enabling environment as recommended by the study as it was the only sustainable funding model available.
- Members agree to apply the “user-pay principle” as soon as possible.

After the presentation, the meeting agreed:

- a) In the short-term, the DCC should be registered, and a DCC bank account opened to which pledges of voluntary contributions by the DCC stakeholders would be deposited by the end of December 2008. The DCC Interim Secretariat was to undertake these tasks. These funds would be used for the recruitment of an executive director for DCC in the next two months. Urged all DCC members to make voluntary contributions for the funding of the DCC Secretariat.
- b) In the medium term, DCC had to come up with a formula on how all members of the DCC would contribute to the sustenance of the secretariat and implement it. Once the executive director is in place s/he would recommend a formula to the DCC. However, membership contributions were not a reliable source of funding a secretariat in the long-term but the user-pay principle was.
- c) In the next year or two the DCC would work on creating the necessary environment for the implementation of the user-pay principle as mechanism for sustainable funding of the Secretariat and apply this principle as soon as possible. DCC has already accepted the user-pay principle. However, the benefits to stakeholders along the corridor and end-users must be greater than the cost of sustaining the secretariat.

As alluded to above, the executive secretary has since been engaged through funding from voluntary contributions through an innovative strategy and the executive committee has since met in June 2009. However, there is still need to move quickly to create the enabling environment for the application of the user-pay principle and apply as soon as possible if the secretariat is to be adequately funded and staffed.

5.6 Recommended Way Forward

The DCC should design an Action Plan for implementation of the user-pay principle in the next twelve months for the sustainable funding of the DCC Secretariat. The plan must clearly spell out:

- a. Measures to be taken to create the enabling environment for the application of the user-pay principle with a timeframe.
- b. Measures to be taken to implement the user-pay principle with a timeframe.

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ANNEX 1: NORTHERN AND MAPUTO CORRIDOR COMPARISON

Factor	Northern Corridor	Issues for Maputo Corridor
Legal framework	Treaty – 5 signatories Revised 2007 not yet in force	Section 21 company: MZ, SA, SW MDC established by MZ and SA
Policy organs	Authority – ministers Executive board – permanent secretaries Weak link between policy decision making and financiers	Board of Directors - predominantly private sector Executive Committee - financial management of the company Opportunity for the ideal link between financing and decision making
Stakeholder involvement	Stakeholders consultative forum in place	MCLI is by definition a PPP, driven by private sector. Involvement of stakeholders is key to adoption and success of usage levy.
Location of CMI	Kenya, also place of collection of levy	South Africa, levy will have to be collected in SA, SW and MZ; by rail, road and port?
Collection agents	Ports Authority plus Customs under revised agreement. MoUs signed, with provision of collection fee.	DP World, TRAC, CFM, and TFR. Will have to sign MoUs. Do concession agreements or framework allow for this?
Equity	Traffic to Treaty non-signatory states not covered presently.	Port is in major point of demand in MZ, will traffic be excluded? Design system to capture traffic even to non-MCLI member countries such as Zimbabwe?
Funding	Mixture of contribution and levy	Have contributions by state departments and levy for traffic?
Review of levy	Provides for annual review but not being done	Design system to allow for annual review, with commitment to reduce levy levels as traffic rises. Leave infrastructure development to dedicated entities (concessionaires).
Indicators of performance	System under development, presently unquantified link between interventions and impacts	Establish robust performance measurement system to monitor impact of interventions