



Technical Report:

Action Plan for Financing Operations of the Dar es Salaam Corridor Committee (DCC) Secretariat using the User-Pay Principle

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1. Introduction

The Dar es Salaam Corridor Committee (DCC) is a Public-Private Partnership (PPP) involving government and private sector institutions from Tanzania, Zambia and Malawi, whose function is to reduce transport costs and transit times through the corridor, from the port of Dar es Salaam and to the connecting markets in Tanzania, Zambia, Malawi, the Democratic Republic of Congo (DRC) and elsewhere in Central and Southern Africa. The DCC was formally established in November 2008 through a Constitution signed by both the public and private DCC stakeholders in Malawi, Tanzania and Zambia. Efforts are underway for DRC stakeholders to be full members of the DCC.

The PPP framework was decided upon to enhance private sector involvement in the development and configuration of DCC programs. The DCC is governed by a Constitution, which stipulated that day to day running of the DCC affairs would be undertaken by a Permanent Secretariat, which would be based in Dar es Salaam, Tanzania.

In addition to the day-to-day running and follow-up on DCC activities, the Secretariat is charged with the function of developing Corridor development programs in consultation with DCC Members, and facilitating engagement with donor agencies to sponsor identified projects. Such efforts are intended to complement national and SADC-led programs related to transport and trade facilitation for the region. The DCC Constitution provides that operations of the Committee would be financed from membership fees payable annually and from any other method the Committee deems fit. In this regard, and to ensure that the Committee is sustainably funded, DCC Members agreed at the November 2008 meeting in Blantyre, Malawi to adopt a user-pay principle (UPP) for sustainable funding of the DCC Secretariat.

A study carried out by the USAID Southern Africa Trade Hub in 2008 recommended the need to create an enabling environment for the implementation of the UPP and implementation of the UPP as soon as possible, and the recommendation was adopted by the Committee at its November 2008 meeting in Blantyre. Given the inevitably long time required to create an enabling environment for implementing a UPP, DCC Members agreed to establish the DCC Secretariat in May 2009 funded through voluntary contributions. Members pledged voluntary contributions while awaiting the formula for determining membership contributions that was adopted at the DCC meeting held in November 2009 at Mangochi, Malawi.

In this context, the goal of the DCC is to have a UPP agreed by all relevant stakeholders and ready for implementation by May 2011. This system will be designed based on the Study on Sustainable Funding of Corridor Management Institutions: The Dar es Salaam Corridor Committee Secretariat Case, especially the Chapter on "How to Apply the User-Pay Principle for Sustainability. The period from May 2009 to April 2011 would therefore be financed by membership contributions.

This Action Plan therefore addresses the creation of the enabling environment for implementing the UPP, and setting up the mechanisms for its implementation. The parameters for membership contributions whilst the UPP is being developed were presented by the Secretariat in a separate paper to the DCC meeting.

2. Road Map for Implementing the UPP

Having adopted the report from the USAID Southern Africa Trade Hub on implementing the UPP, the following road map was proposed and adopted by the DCC.

The first step is to set up a **Task Team** to create the enabling environment for the UPP implementation, develop and implement a user-pay system for the Dar Corridor. The Task Team should comprise representation from the three Ministries of Transport, the three Revenue Authorities, Tanzania Ports Authority (TPA), SUMATRA, the Trade Hub and DCC Secretariat. **Action by November 19.** The Task Team will be guided in its activities by the USAID Trade Hub Study especially Annex 1 attached below.

The Task Team should develop the UPP in three phases as follows:

Phase 1: Create the Enabling Environment for the Application of the UPP

- 1.1 Promote understanding among key stakeholders, including governments of the need to use the UPP for the sustainable funding of the DCC Secretariat.
- 1.2 Secure authorization of key stakeholders such as the three/four governments for the implementation of the UPP and collection of the user-pay fees.
- 1.3 Confirm the acceptability of the timing of the introduction of the user-pay fees from May 2011 from the governments and institutions that will be collecting the fees.
- 1.4 Promote common understanding among key stakeholders that the cost of sustaining the Secretariat is less than the benefits derived from the Secretariat's activities.
- 1.5 Establish what the preliminary charges would be (that will be refined in Phase 2) and use these illustratively in the promotion of the concept of the UPP.

Phase 2: Develop a Process for Determining the Level of the User-pay fees

- 2.1. Adopt the approved budget for the DCC Secretariat as the basis for determining the target annual amount to be collected as user-pay fees for the five year period from May 2011 to April 2016.
- 2.2. Adopt TPA projected volumes of cargoes to be handled through the port for the same period as the target volumes to be levied to collect the target amount.

- 2.3. Assign user-pay fees per ton per kilometer based on projected traffic and average distance the traffic is to be conveyed.
- 2.4. Design a mechanism for annual review of user-pay fees before they are effected.

Phase 3: Develop a Fees Collection and Transfer Mechanism

- 3.1. Adopt border posts as the fees collection points for intraregional traffic and Dar es Salaam Port as the fees collection point for international traffic.
- 3.2. Adopt methods of fees collection that minimize the cost of collection e.g. use existing other fees collecting points and agents as well as automation.
- 3.3. To keep the levy as low as possible, all traffic will be levied, except for internal traffic that does not cross borders.
- 3.4. Draft Collection and Transfer agreements with the Revenue Authorities and the TPA. Such agreements to contain an audit clause for verification of transactions.
- 3.5. Adopt frequency of transfer of fees collected to the Secretariat by collection agents to be fortnightly/monthly.
- 3.6. Arrange for monthly reconciliation of money collected and transferred to the Secretariat between the collection agents and the Secretariat.

ANNEX 1: EXTRACT FROM THE USAID SA TRADE HUB STUDY

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 Corridor Management Institution 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 Corridor Management Institution 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 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, by all key stakeholders.
- e) Establish an effective corridor performance monitoring system in order for shippers and corridor management institutions 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 corridor management institution most or their representatives should have the most influence on what the corridor management institution 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 I 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 ton 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 may be 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 maybe 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.