



## AFREXIMBANK-AFRICAN COLLABORATIVE TRANSIT GUARANTEE SCHEME

### 1. Introduction

Studies show that on average, the costs of transportation in Africa countries are 63% higher compared to the average in developed economies. Overall, transport costs in Africa are 135% higher than in Europe. The average cost of freight as a percentage of total value of imports is around 11.4% for Africa compared to 6.8% for developed countries.

Transportation costs, including transit costs, add to the cost of importing and exporting goods and this means that consumers will have to pay a higher price for their goods and manufacturers are placed at a disadvantage as it becomes very difficult for them to compete with other countries and participate in regional and global value chains.

Transit costs affect efforts by a number of African countries to beneficiate and add value to their natural resources as the cost and delay in importation of intermediate goods adds to the production costs and undermines the competitiveness of African producers.

Africa has many land-locked countries which requires that goods imported through countries with sea ports have to transit that country and perhaps others before they reach their final destination. The transit countries are concerned that dutiable goods purportedly in transit may end up in their markets, so they require that transit guarantees be provided to safeguard

import duties. Also, in the context of intra-African trade, goods move by road across many countries to their final destinations.

The main challenge in Africa is that very few regional economic communities are fully implementing their regional transit guarantee schemes. In many instances, traders are required to post national bonds at each and every border and this causes further delays.

As part of the overall objective of promoting intra-African trade, the Bank has introduced the Afreximbank-African Collaborative Transit Guarantee Scheme, which seeks to reduce the bottlenecks and attendant costs associated with movement of goods across borders within Africa. Under the Scheme, Afreximbank will provide a transit guarantee directly or indirectly to eligible beneficiaries, which will assure customs authorities that they will recover their import duties in the event that the transit procedures are not completed properly (e.g. no evidence of goods leaving the transit country can be produced or goods being released illegally into the transit market).

In implementing the Scheme, Afreximbank will collaborate with the African Union, Regional Economic Communities (RECs), customs authorities, financial institutions, freight forwarders and clearing agents, transporters, traders and other relevant stakeholders to identify areas where there are gaps in terms of transit guarantees and provide a solution that closes the gaps and complements existing systems.

The ultimate objective of the Bank's Collaborative Transit Guarantee Scheme is to allow goods to move within RECs under a single transit guarantee (e.g. within ECOWAS), to allow goods from one REC to move to another REC (e.g. ECOWAS to EAC) under a single transit guarantee and promote inter-REC trade and eventually for goods to move throughout the continent under a **single continental bond** to promote intra-African trade under the African Continental Free Trade Agreement (AfCFTA).

The Afreximbank-African Collaborative Transit Guarantee Scheme will facilitate movement of goods across borders and contribute towards the overall efforts to reduce transit delays and transportation costs and facilitate intra-African trade in line with the objectives of the AfCFTA.

## 2. Product Definition

A Customs Transit is a procedure which allows goods to move under Customs control from the Customs office of departure to the Customs office of final destination. In order for the transit country to allow goods to **pass through its territory** without paying duties, the principal or the carrier of goods is required to provide a transit guarantee/bond. A transit guarantee system ensures that the Customs duties and taxes, which are at risk during a transit operation, are covered at all times until the goods are presented to the Customs office of destination.

**As a Pan-African financial institution with good financial standing, the Afreximbank will be able to issue regional or continental transit guarantees directly to eligible beneficiaries or indirectly by offering a counterparty transit guarantee/ reinsurance to primary sureties or other local financial institutions to boost their capacity to issue bonds. In addition to transit guarantees, the Bank will also provide transit insurance for those goods that are covered by the transit guarantee.**

## 3. Purpose

The purpose of the Afreximbank-African Collaborative Transit Guarantee Scheme is to:

- **Support** importers and exporters to move goods in transit without paying customs duties or being subjected to unnecessary delays, on presentation of the transit guarantee to the customs authorities.
- **Where possible, remove** the requirement to post national bonds, which are expensive and cause unnecessary delays at the borders. This **reduces** costs to consumers and **increases** the competitiveness of African producers and manufacturers.
- **Facilitate ease of** movement of goods throughout the African continent and contribute towards the achievement of the objectives of the AfCFTA.

## **4. Intervention Instruments:**

### **4.1 The Transit Guarantee**

The Afreximbank African Collaborative Transit Scheme covers the following:

- Direct Issuance of guarantees (high value/comprehensive guarantee). The Bank will offer direct transit guarantee services to Intra-African Trade Champions, Export Trading Companies, Freight Forwarders and Clearing Agents, Transporters, Authorised Economic Operators and other eligible beneficiaries,
- Counterparty Guarantee/Reassurance to national operators (indirect). The Bank will work with financial intermediaries/national guarantors/primary sureties that are already issuing or can issue transit bonds and offer a counterparty guarantee and boost their capacity to issue bonds at the local level. The counterparty guarantee will enable customs to have confidence in the bonds that are issued by local parties and do away with requirements for cash-backed bonds.

### **4.2 Other Interventions**

- Advocacy, Capacity Building and Advisory Services including partnering with relevant partners to sensitise all the relevant stakeholders and advocate for adoption of best international practices on transit and trade facilitation.
- Financing of relevant trade facilitation projects to facilitate transit (e.g. automation of transit procedures, single windows, cargo tracking, interconnectivity of customs systems etc.)

## **5. Benefits**

The Afreximbank-African Collaborative Transit Guarantee Scheme has the following benefits:

- It ensures that Customs in a transit country will receive proper payment for duties for any goods in transit improperly discharged.
- It covers the risks of non-transit of imported goods and non-payment of import duties and taxes. This has an effect of enhancing tax collection. The Transit Guarantee is based on actual duties and taxes that are supposed to be paid based on the customs value of goods and level of risk;
- Release of working capital for businesses which may be tied up as collateral in commercial banks and insurance companies against transit bonds. This will result in reduced cost of bond/guarantees and collaterals charged by sureties and agents;

- Reduction of congestion and delays at borders and shorter transit times and therefore reduction in turn-around times of vehicles;
- Increased competitiveness and business opportunities - it facilitates the expeditious movement of raw materials, manufacturing equipment and intermediate inputs that may be required for export manufacturing thereby facilitating participation in regional and global value chains;
- Overall reduction of the costs of inputs (e.g. raw materials) for industries. This is expected to result in the reduction of prices for consumers; and
- The reinsurance/counterparty guarantee offered by Afreximbank will strengthen the capacity of national financial institutions to be able to issue transit bonds and reduce the cost of bonds.

## **6. Eligible transactions**

The Afreximbank-African Collaborative Transit Guarantee Scheme will be applicable to the goods in transit in any African country in line with the Bank's Risk Management Policies and Procedures eligibility requirements.

## **7. Eligible beneficiaries**

Beneficiaries under this programme will include:

- Export Trading Companies and other trading entities operating across borders within Africa;
- Authorized Economic Operators identified by customs authorities;
- Intra-African Trade Champions that have been identified by the Bank;
- Manufacturing companies importing intermediate/ raw materials as well as exporting processed goods through other African borders;
- African engineering, construction and other industrial companies that often regularly import significant volumes of large components used in the normal course of their business;
- Freight forwarders and Clearing agencies, haulage service, and other long-distance transport activities acceptable to the Bank;
- Reputable Financial Institutions seeking to reinsure their transit guarantee exposure; and
- Other traders with track records acceptable to Afreximbank.

**8. How to Apply**

Send a description of the proposed Transit Guarantee transaction stating its purpose, amount, currency, tenor as well as rationale for AFREXIMBANK support. All inquiries and applications may be addressed to the Managing Director, Intra-African Trade Initiative, AFREXIMBANK.

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