

The Role of Clearing and Forwarding Agents in Reforming the EAC Logistics Sector

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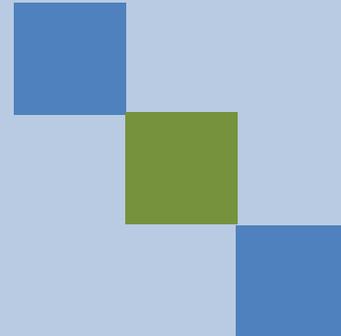
Introduction

The efficient flow of international trade relies on a range of skilled service providers working together effectively, including shipping lines, port terminal operators, customs officials, operators of off-dock container yards, land transport agents, and clearing and forwarding (C&F) agents. The relatively low quality of international trade logistics in the East African Community (EAC) as it exists today, however, limits the potential for growth in trade, which in turn limits the potential for economic growth and development to take place throughout the region. For this reason, the reform of international trade logistics, and in particular the quality of services offered by the various market actors, can yield important economic gains throughout the region.

This policy note examines the current role of clearing and forwarding agents within the international trade logistics chain in the EAC, an aspect of the logistics industry that has been relatively under-examined. Inefficient and low quality services offered by some C&F agents, who are supposed to



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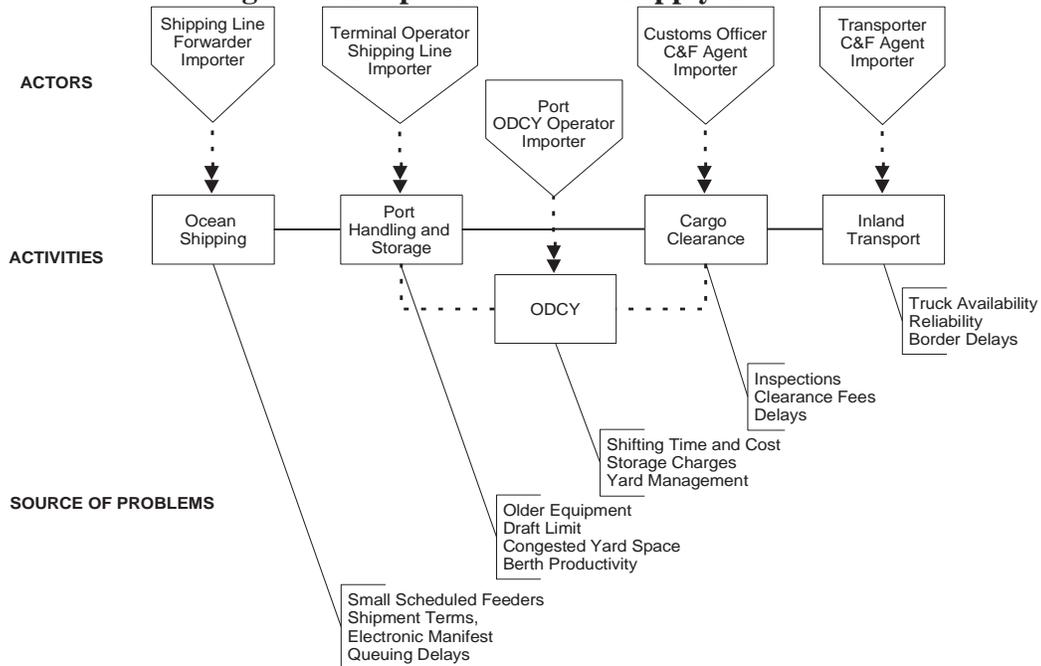


act as representatives of the importer, as well as occasional rent seeking behavior, can have a negative effect throughout the logistics chain, hindering the flow of international trade. In addition, this policy note considers the wider problem of the fragmented and fractured nature of the logistics chain itself, a structure that can lead to fundamental inefficiencies throughout the system. After examining the role and characteristics of C&F agents in the EAC and the effects of their performance on international trade, this note discusses policies, particularly with regards to training and education, that can be enacted in order to strengthen the participation of C&F agents in the international trade logistics chain, and can help to facilitate greater flows of international trade throughout the EAC.

The Role of Clearing and Forwarding Agents in the EAC

Clearing and forwarding agents act as intermediaries in transactions between shippers and suppliers of logistics services,

Figure 1: Simplified Inbound Supply Chain



and are required by customs to represent the owner in the procedures for clearing cargo over international borders. In the EAC, the common practice is for C&F agents to perform not only customs clearance but also conduct freight forwarding work, and where appropriate, provide specialized logistics services. However, the license required for C&F agents, which is required for an agent to act as a customs broker, is usually granted to a firm, rather than to an individual. Currently, a logistics firm must employ at least one person who is licensed as a C&F agent in order to perform customs brokerage services.¹ In the past, the function of the license-holder would sometimes be to provide access to individual customs officers and to facilitate informal payments. This is no longer the case, although these bad practices persist to a certain extent among small firms and individual agents.

¹ Although customs authorities record the number of licensed C&F agents (estimated to be 1000 agents in Kenya and 650 in Tanzania), governments do not recognize freight forwarding as an industry, so additional data on C&F agents' activities is limited and incomplete.

The international trade logistics industry in East Africa is characterized by vertical segmentation, in which large firms that supply logistics services take the largest clients, and the small logistics firms are limited to dealing with small clients. Due to this segmentation, different sized logistics firms offer different sets of services to their clients. Small logistics firms oftentimes limit their participation to arranging transport, and individual agents, called “suitcase” forwarders, sometimes only handle a few shipments per year on an informal basis. On the other hand, larger logistics firms offer a variety of logistics services which can include warehousing, consolidation, packaging, goods inspection, and import/export advisory services. They can also offer multimodal services in which they consolidate loans and act as the shipper of record with a house bill of lading, in the process forming partnerships with overseas service providers. Figure 1 illustrates the complex linkages between the various components of the international trade logistics chain, and also shows the fragmented nature of the industry.

Most countries in the region have several large firms in operation, including several multinational firms, a modest number of firms owned jointly by locals and foreigners, and a large number of smaller domestic firms. The larger firms, such as SDV and Kuehne & Nagel, have a substantial level of foreign equity. In Kenya, six of the sixteen largest firms have a significant level of foreign equity while in Tanzania five of the fifteen largest firms are foreign-owned, and two others have a significant level of foreign equity. Clearing and forwarding companies in Rwanda and Burundi tend to follow a similar pattern. Throughout the region, small and medium-sized companies are usually owned and operated by families.

Figures 2 and 3 show the number of C&F professionals and the number of C&F firms operating in the EAC in 2008, respectively. Logistics firms in the EAC can be divided into three general types based on size, and each category tends to have its own set of services offers, clients, and requirements for C&F agents. The three types of logistics firms are explained in more detail below.

- *Large foreign and domestic firms:* These firms offer clearing and forwarding services to larger importers and exporters, and can handle more than 5,000 containers per year. Large firms account for a relatively small percentage of C&F agents, but process a volume of cargo that accounts for 60 percent to 80 percent of duties collected. Most large firms operating in the EAC are well-known multinational freight forwarders that offer efficient document processing and relatively transparent procedures. They provide complete international forwarding services to their clients including warehousing and transport. Many large firms have been granted Authorized Economic Operator status with customs.

**Figure 2:
Professionals Registered with Freight Forwarding Associations**

	Total	Foreign
Burundi	45	9
Kenya	433	0
Rwanda	1137	7
Tanzania	1440	72
Uganda	55	0

Source: Freight Forwarding Associations

- *Small domestic firms:* These firms offer services to medium-sized importers and exporters, and can handle several hundred containers per year. Small firms provide clearing and forwarding services for domestic and international cargoes in conjunction with overseas partners, and can also provide warehousing and trucking services through subcontractors. The market for small C&F firms is limited, though, since their clients are usually mid-sized

**Figure 3:
C&F Firms 2008**

Burundi	43
Kenya	1200
Rwanda	124
Tanzania	480
Uganda	339
Totals	2186

Source: Freight Forwarding Associations

domestic companies, which oftentimes have in-house shipping departments and retain C&F agents on their staff.

- *Individual agents:* Individuals can provide clearance services to small shippers, and typically handle one shipment per week or less. Still, individuals comprise the majority of C&F agents in the EAC, and although the shipments are small, they process a significant portion of customs declarations. Many individual C&F agents

are former customs officers and others who previously worked in the logistics industry. Beyond clearing services, individual agents that engage in forwarding are usually limited to arranging for trucking services. Many individual C&F agents lack substantial professional skills but can offer influence and other benefits to customs officials in order for duties and taxes to be reduced.

The dichotomy between the objectives of the large formal enterprises and the small firms and individual agents parallels a dichotomy in the types of clients that they serve. The larger formal enterprises take on larger clients with complex shipments and are most concerned with efficient logistics as a means to increase market share over the longer term. The smaller traders take on small clients with simple shipments and are most interested in limiting their cash flow and maximizing the profits from individual shipments.

Challenges Facing the East African Logistics Industry

There are several ramifications that arise from the fragmentation observed in the East African logistics system. First, fragmentation means that the various actors within the logistics chain have little interaction with one another, leading to longer waiting times for freight in the shipyard as well as inefficient customs processes that can result in costly errors and delays. In addition to the problems stemming from the myriad of actors taking part in the logistics chain, poor infrastructure, physical constraints in ports, and inefficient customs processing systems can cause delays and confusion, creating an environment where errors can easily occur. These problems increase the cost of conducting international trade in East Africa, and in this way they act as a

constraint on trade and limit the economic gains from trade.

Second, the vertical segmentation of the sector affects the types of services that are distributed through the logistics chain, and has led to differing levels of quality among C&F agents and logistics firms. In general, the larger firms are the most reputable and the most professional; they deal with large clients that demand a high level of service, and their C&F agents tend to be the best trained and most skilled. Small firms and individual agents, on the other hand, are more likely to be untrained, and sometimes engage in unprofessional or even corrupt behavior. Up until about five years ago, a significant portion of the C&F agents were involved in unethical practices related to avoiding duties and taxes and diverting transit cargo into the local economy. They sometimes also acted as intermediaries for informal payments paid to customs officials by importers. Although this problem is now less severe, there is a continuing problem in the EAC of inexperienced C&F agents filing documents that misrepresent the characteristics and value of the cargo.

Recently, in many EAC countries C&F agents have been required to receive and maintain a certain level of training, but in the past many C&F agents were able to enter the profession during lapses in many countries' regulatory procedures. For example, in the mid-1980s in Tanzania the responsibility for clearing cargo was transferred from the public sector to the private sector without sufficient oversight, and there were no standards in place for the certification of new C&F agents. For this reason, the quality of many smaller C&F firms and individual agents in the region is still suspect. Unprofessional and bad practices in the logistics sector have generally involved individual agents

(sometimes former customs inspectors) and small logistics firms. There are two primary ways in which these actors introduce inefficiencies into the logistics sector. First, these actors oftentimes lack the technical capacity or skill level for expediting and processing their shipment efficiently. Second, individual agents and small firms are more likely to demand bribes from their clients in order to “facilitate” processing, or to help their clients evade tariffs.

Due to the vertically segmented structure of the EAC logistics sector, small trading firms often have no recourse to the larger and more expensive logistics firms and so are resigned to dealing with the inefficient smaller actors. Although these small firms and agents handle a small percentage of cargo relative to the large firms, such low skill levels and unprofessional behavior raise costs for the small trading firms and help to perpetuate a culture of corruption that is detrimental to economic growth and development.

Policies for Overcoming the Challenges Facing the Logistics Industry

The structure of the international trade logistics system, the lack of training for many of the C&F agents, and the culture of corruption that is practiced by some agents and firms, are the main problems currently facing the logistics industry in East Africa. This section examines some solutions and policies that can be enacted that could mitigate some of the negative outcomes coming from these inefficiencies.

Overcoming the Fragmented Nature of the Logistics Industry

The East African international logistics chain is characterized by a sprawling and fragmented collection of actors and

bureaucracies. While it will be difficult to overcome this fundamental lack of infrastructure quickly or easily, the efficient use of modern technology can be an important part of reform by linking different parts of the logistics chain in order to reduce or eliminate delays and errors during customs processing. In the longer run, technological upgrades can improve overall supply chain performance as well as the accountability of individual participants in the logistics chain.

For this reason, the customs authorities in Kenya and Tanzania are midway through a much-needed process of technological reform. They have simplified the customs declaration form and introduced information and communication technology (ICT) systems for processing documentation, upgraded their processes for valuation, developed simple risk profiles, introduced channeling, and set up preferred trader programs. Importantly, customs authorities have also upgraded procedures for the clearance and movement of transit cargo and improved communication throughout the logistics chain. The result has been a reduction in clearance times for a significant portion of trade as well as opportunities for expediting the remaining cargo. In addition, the introduction of electronic systems for processing customs declarations has improved the accuracy of the documents submitted. This has reduced the level of effort required by logistics firms and in many instances has led to downward pressure on fees.

Kenya introduced its IT system, called SIMBA, in 2005. It allows internet-based submissions of customs declarations, and has modules for performing most modern customs processes, although not all have been implemented. Statistics from the system indicate that the average clearance

time is three days, with a significant percentage of goods cleared in two days or less. This is offset by a smaller portion of the cargo that continues to be physically inspected and therefore requires a longer clearance time. Additional reductions in clearance time are expected once the modules for electronic submission of supporting documents from other government agencies and for electronic payments of duties are introduced.

While the SIMBA system is capable of tracking a container's progress through the customs clearance procedures, Kenya's customs authority has yet to use this information substantially to improve its procedures, leaving significant scope for further improvement. For example, although data is collected on average clearance times, it is not used to evaluate the effect on clearance times of different levels of inspection. Similarly, information on detection rates has been used to develop risk profiles but not to determine the effectiveness of different levels of inspection. This information has also not been used to evaluate the effectiveness of individual customs officers or to control questionable behavior. Equally important, information on the status of cargo awaiting clearance has not been made available to the consignees on a real-time basis other than through phone queries. As a result, consignees are not able to anticipate the requirements for clearing and removing the cargo from the port and are not able to assess the effectiveness of their C&F agents.

Customs agencies in East Africa have made progress in introducing ICT systems that have reduced inefficiencies in moving and processing freight. However, other agencies within the international trade logistics chain have been slower to upgrade their systems, and it is here where there is significant room

for improvement. Efforts to coordinate their activities have focused on the development of a single window for submitting the required documents for customs. Kenya has introduced this within the port of Mombasa, which has greatly simplified the processing of cargo, and Tanzania is proposing to introduce a similar system in Dar es Salaam.

Overcoming the lack of training for some C&F agents

The level of competence of C&F agents in the EAC varies dramatically. In general, large firms with foreign ownership and international scope employ the majority of the trained C&F agents. Although this is partly due to the fact that large firms are better able to compensate highly trained agents, it also is due to the roles that different firms play as well as the requirements of their clients; large firms tend to handle complex transactions for international companies. Most agents working for small C&F firms have only on-the-job experience, and while this is sufficient for simple transactions, they lack knowledge of modern trade practices such as incoterms, rules of origin, documentary requirements for bilateral trade agreements, procedures for temporary admission, warehousing and inventory management, intermodal transport, bonded operations, technical and SPS standards, and supply chain software.

A recent trend is that a greater number of customs authorities are enforcing the requirement that C&F agents must be certified and licensed, and are suspending licenses where a pattern of illegal behavior is observed. The standards for certification at the national level have been improving and now include an examination and training in modern customs procedures in several countries. For example, in Kenya, a

C&F firm must be approved by an official oversight agency and retain individuals that have fulfilled a number of criteria, including passing a written exam, becoming proficient in the electronic systems for the submission of customs declarations, and undergoing training provided by the government. However, despite these small steps towards greater official oversight, freight forwarding remains largely unregulated in the EAC and compliance with regulations among the small logistics firms is uneven.

Due to the many unskilled C&F agents in the East African logistics system, officials have recognized that rigorous training and certification for C&F agents is essential, and demand for higher levels of training from freight forwarding associations is growing. Training and education will help to mitigate many of the errors and inefficiencies that currently exist in the system, and knowledge of best practices can also help to reduce the level of the corruption in the system. An additional benefit of increased training is that small C&F firms that employ trained and skilled agents will be better able to expand the types of services they can offer into more complex and higher value added services for larger international firms. For these reasons, training programs are currently being implemented on the national and regional levels to improve the quality and skill level of C&F agents, with the possibility of further programs to follow.

At the regional level, the customs administrations in East Africa have partnered with national freight forwarding associations to create an organization called the Federation of East African Freight Forwarders Associations (FEAFFA). This organization's goal is to put together a comprehensive regional training program in order to enhance the skills of C&F agents. Since the program's inception, over 1,000

individuals have been trained and qualified as C&F agents, and the program aims eventually to train two agents per C&F firm. As there are approximately 2,500 companies in operation, there remains significant scope for training and employing skilled C&F agents. Customs officials and service providers have been impressed with the quality of C&F agents that the program has created, and demand for the program is high throughout the region. Most of the training effort has been in Kenya, with the other countries in the region are expected to increase their participation in the coming years.

Another training program that has not yet been implemented in the EAC but will also help to train C&F agents is the International Federation of Freight Forwarders Association (FIATA) Diploma in Freight Logistics. Although there is sufficient demand for the training program, the key challenge in starting the program has been a lack of funding and technical resources such as appropriate syllabi, modules, materials, and trainers. Once begun, however, the program is expected to be self-sustaining. The diploma will focus specifically on the areas of terrorism, security and piracy, corporate governance, and the transport of dangerous goods. In addition, the diploma will include seminars on the EAC Common Market, the operation of one-stop border posts, regional customs transit guarantees, and the similar trade facilitation topics. Also under consideration is the development of an accreditation system for the diploma that would increase the legitimacy and transparency of the diploma but would also require significant financial and technical support to create.

In order to expand these programs and make them even more effective, several tasks must be accomplished at the national level. These

include training and retraining more program teachers, who are vitally needed in order for the program to keep pace with demand, and reviewing the syllabus and training materials with a view to updating them and keeping them current. The program will also require the development of the institutional capacity of national associations' secretariats in order to facilitate high quality professional management of the training program. Finally, the program will need a more complete set of dedicated training facilities. Most countries are currently conducting training in Revenue Authorities' training institutes, and the C&F training program has had to be suspended at times to make room for Revenue Authorities' training activities. Forming dedicated facilities for C&F training will allow both programs to expand and flourish, and will help the C&F program to become self-sustaining.

Concluding remarks

Although substantial progress has been made over the past several years in simplifying procedures and regulations and upgrading the customs authorities' technological infrastructure, the greatest necessity and challenge for the logistics industry is to improve the skills and behavior of the participants. Policies of education reform and technological modernization must balance the requirement for efficient and effective collection of tax revenues with the promotion of economic growth through international trade.

Efforts to improve the skills of C&F agents must be complemented by efforts to familiarize exporters with the commercial advantage to be gained from the use of these services offered by small firms. The effort should be conducted at both the national and regional levels, taking into consideration the

likely future cross-border consolidation in the provision of C&F services. Such reforms would further assist in the development of a modern and efficient international trade and customs processing system in East Africa.

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