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**Twenty Second Meeting of the Sub-Committee on**

**Audit and Budgetary Matters**

**Lusaka, Zambia**

**28 October – 1 November, 2019**

**CVTFS Report on Council decision**

**(Agenda Item 10)**

Contents

[**PART I:** **OUTSTANDING COUNCIL DECISIONS ON CVTFS** 3](#_Toc23022886)

[**PART II:** **CONTEXT** 4](#_Toc23022887)

[**1.**  **Introduction** 4](#_Toc23022888)

[**2.** **CVTFS Objectives** 4](#_Toc23022889)

[**PART II:** **CVTFS IMPLEMENTATION STATUS UPDATE** 5](#_Toc23022890)

[**3.**  **Commercialization** 5](#_Toc23022891)

[**4.**  **Operations** 5](#_Toc23022892)

[**PART IV:** **FINANCING** 6](#_Toc23022893)

[**5.**  **Outstanding Loans** 6](#_Toc23022894)

[**6** **Expected Receivables** 6](#_Toc23022895)

[**7** **Repayments of Loans** 7](#_Toc23022896)

[**8** **Cash flow projections** 8](#_Toc23022897)

[**PART V:** **RECOMMENDATIONS** 9](#_Toc23022898)

[**1.** **Commercialization** 9](#_Toc23022899)

[**2.** **Repayment of loans to related parties** 9](#_Toc23022900)

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# **PART I: STATUS OF IMPLEMENTATIO OF COUNCIL DECISIONS ON CVTFS**

|  |  |  |
| --- | --- | --- |
| Para | Decision (July-2019) | Action taken |
| 150 | (i) Approved the 2016 CVTFS Audited Financial Statements | No further action |
| (v) Directed that the CVTFS and the Secretariat should provide guarantee that CVTFS loans and the LC will be discharged; | Note 1: Progress Report |
| (vi) Directed that the Secretariat should adhere to rules and regulations regarding loans and debt as sources of funding COMESA activities, as required under the Treaty (Article 166 (4)); | Implemented |
| (vii) Directed that in future, Member States requiring CVTFS assets should make a part payment at the time of placing an order. | Implemented |

|  |  |  |
| --- | --- | --- |
| Para | Decision (November 2018) | Action taken |
| 265 | (i) COMESA Secretariat expedite repayment of loans acquired for CVTFS, as directed by the Council; | Note 1: Progress report |
| (ii) CVTFS be audited by COBEA | To be part of 2018 plan, once instruments of audit by Auditors General are finalised |
| (iii) The outcome of CVTFS Steering Committee be reported to the Council in November 2018, as part of updating the Council on implementation of its decisions relating to CVTFS. | Date for CVTFS Steering Committee yet to be agreed |
| 266 | Council referred the request for the appointment of an audit firm to undertake the audit of CVTFS 2017 Financial Statements to the CVTFS Steering Committee. | To be addressed by CVTFS Steering Committee. |

**Note 1: Progress report (repayment of CVTFS loans)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Name** | **Balance** | **Actual** | **Balance: October 2019** | **Interest (US$)** | **Planned** | **Balance** |
| **Repayment** |  |  | **Repayment** |
|  | **July-2018** |  |  |  | **Dec-2019** | **Jan-2020** |
| Stanbic Bank | 3,026,000 | (2,814,000) | 212,000 | 89,000 | (301,000) | - |
| CCC | 2,672,202 |  | 2,672,202 | - | (500,000) | 2,172,202 |
| ZEP RE | 1,000,000 |  | 1,000,000 | 75,000 | (575,000) | 500,000 |
| **Total** | **6,698,202** | **(2,814,000)** | **3,884,202** | **164,000** | **(1,376,000)** | **2,672,202** |

# **PART II: CONTEXT**

## **1. Introduction**

This Report provides an update on the status of implementation of COMESA Virtual Trade Facilitation System (CVTFS) with regards to operations, commercialization, financing and repayments of loans.

## **2. CVTFS Objectives**

CVTFS was developed by the COMESA Secretariat in line with the provision of the **COMESA Treaty, in particular Annex 1 of the COMESA Protocol on Transit Trade and Transit Facilities** and it was presented to the Council of Ministers for approval. In the Fourth Extra –Ordinary Meeting of the Council of Ministers that was held in Lusaka, Zambia from 4-5 October 2012,[[1]](#footnote-1) Council approved the implementation of CVTS and urged the Secretariat to speedily implement the system. The decision of the Extra-Ordinary Council of Ministers was endorsed by the Thirty First Meeting of the Council of Ministers which was held in Kampala, Uganda from 19 to 20 November 2012.[[2]](#footnote-2)

The primary objective of CVTFS is to facilitate regional trade through addressing challenges in the movements of goods such as cargo dumping, pilferage, long transit and release time, delays in clearance at the borders as well as diversion of goods in transit.

CVTFS is a very critical programme in terms of boosting regional cooperation and trade facilitation among COMESA Member States. Once fully implemented and commercialised, CVTFS is expected to play a crucial role in regional trade facilitation through introduction of transparency and the simplification of procedures and controls governing the movement of goods across national borders.

Revenue Authorities in participating Member States, namely Democratic Republic of Congo (DRC), Malawi and Zambia, have reported that the implementation of CVTFS has enabled them to monitor **100%** of the transit cargo trucks that have been sealed with Electronic Cargo Tracking devices, thereby curbing smuggling and other associated vices. This has resulted in an increase in the revenue collection base and hence a substantial rise in the amount of revenue collected by Revenue Authorities. In addition, through curbing the scourge of smuggling, CVTFS promotes economic growth and development.

For COMESA to realize the full potential of CVTFS, it should operate under commercial principles.

# **PART II:** **CVTFS IMPLEMENTATION STATUS UPDATE**

## **3. Commercialization**

The CVTFS commercialization process has commenced, albeit at different stages, in the respective participating Member States. The commercialization of CVTFS entails that COMESA will no longer continue to bear the financing burdens of supporting CVTFS as the project will be self-sustaining and operating along commercial lines as a business. However, COMESA will still derive maximum benefits from virtual trade and facilitation system.

A Special Purpose Vehicle (CVTFS Investments Limited), which is a wholly owned subsidiary of COMESA, is the vehicle through which the commercialization process is being implemented. The governance and operations of the Special Purpose Vehicle are overseen by the participating Member States through a Steering Committee.

The commercialization status in the participating Member States is summarized in Fig 1 below:

**Fig 1: CVTFS Commercialization status**

|  |  |  |  |
| --- | --- | --- | --- |
| **Item** | **DRC** | **Malawi** | **Zambia** |
| **Status of operations** | Southern and Western Corridors commercialized on 1st October 2019 with 13,000 seals, charging US$30 per trip per seal. | Partial commercialization in Malawi commenced on 1st October 2016 with 500 devices and it was stepped in September 2019 with and additional 3,500 seals at a rate of US$55 per trip per seal. | The preparations for commercialization commenced in September 2019 with an allocation of 2,500 seals. |
| **Type of cargo being sealed** | 1. Containerized, 2. Fuel Tankers, 3. Motor Vehicles, 4. Open Bulky 5. Train Wagons | 1. Containerized and 2. Open Bulky. | 1. Containerized 2. Open Bulky |
| **Next Steps** | 1. Start monthly Revenue Sharing with COMESA generated from fees per trips per seal on 31 October 2019. 2. Extend operations across country borders by 31 March 2020. | 1. Extend operations across borders by 31 March 2020. 2. Start sealing fuel tankers, motor vehicles and train wagon in January 2020. | 1. Commercialize by January 2020 and start charging fees per trip per seal and Revenue Sharing with COMESA, (ii) Extend operations across borders by 31 March 2020, 2. Start sealing other types of cargo in January 2020 |

## **4. Operations**

The participating Member States signed Memorandum of Understanding (MOU) with COMESA Secretariat, to facilitate the implementation of CVTFS, through their respective Revenue Authorities. As per signed MOUs, the Member States are responsible for the safe custody of the devices, distribution of the devices to the transporters of cargo, arming and disarming of the devices on cargo, communication of the fees charged per device to the business community and collection of the fees on behalf of CVTFS.

In addition the participating Member States have established a Steering Committee to over-see the governance, operations, implementation and commercialization of CVTFS.

The next meeting of the Steering Committee is being scheduled for November 2019.

# **PART IV:** **FINANCING**

## **5. Outstanding Loans**

The aggregated outstanding principal loan amount currently stands at **US$3,884,202** down by **US$2,814,000 (42%)** from **US$6,698,202 in January 2019**.

The institutions that are owed money by CVTFS are Stanbic Bank, COMESA Competition Commission (CCC) and ZEP RE and the breakdown of the outstanding loans is shown on Fig 2 below.

**Fig 2: Breakdown of Outstanding Loans**

|  |  |  |  |
| --- | --- | --- | --- |
| **Name** | **Balance as at 1 January 2019 (US$)** | **Amount Paid (US$)** | **Balance as at 22 October 2019 (US$)** |
|  |  |  |  |
| Stanbic Bank | 3,026,000 | 2,814,000 | 212,000 |
| CCC | 2,672,202 | - | 2,672,202 |
| ZEP RE | 1,000,000 | - | 1,000,000 |
| **Totals** | **6,698,202** | **2,814,000** | **3,884,202** |

The total accrued interest on the Stanbic Bank loan is **US$89,000** and for ZEP Re it is **US$75,000.** With accrued interest the total outstanding amount currently stands at **US$4,048,202** against expected receivables of **US$9,680,200** over **24 months** as outlined in item 6 below.

## **6 Expected Receivables**

CVTFS expects to receive a total of **US$9,680,200** within the next 24 months from **November 2019 to October 2021** as illustrated on Fig 3 below.

**Fig 3:** **Expected Receivables from November 2019 to October 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Description** | **Amount (US$)** | **Comment** | **Timing** |
| DRC | Balance on sale of seals | 1,549,000 | Based on signed commitment to make payment. | Nov 2019 |
| DRC | Revenue Share | 3,931,200 | Based on signed Revenue Sharing ratio and projections on device utilization | Nov 2019 - Oct 2021 |
| Malawi | Revenue Share | 3,696,000 | Based on signed Revenue Sharing ratio and projections on device utilization | Nov 2019 - Oct 2021 |
| Zambia | Revenue Share | 504,000 | Based on negotiations on Revenue Sharing ratio yet to be signed and projections on device utilization | Jan 2020 - Oct 2021 |
| **Total** |  | **9,680,200** |  |  |

The expected receivables are adequate to repay the outstanding loan balance owed by CVTFS.

## **7 Repayments of Loans**

The Council of Ministers, which oversees all Organs of COMESA, in its Thirty Sixth Meeting on Administrative and Budgetary Matters, in Antananarivo, Madagascar on 14-15 October 2016,[[3]](#footnote-3) decided as follows: -

“**Council decided that participating Member States, namely Democratic Republic of Congo (DRC), Malawi and Zambia, should liquidate the funds owed to COMESA Competition Commission and ZEP RE in accordance with the reported income stream to be collected by the Revenue Authorities on the basis of the MOUs signed”.**

In the Thirty Ninth Meeting of the Council of Ministers (Administrative and Budgetary Matters) held in Lusaka, Zambia on 25 November 2018[[4]](#footnote-4), the Council reviewed progress on the repayment of loans by CVTFS and decided as follows: -

**“COMESA Secretariat expedite repayment of loans acquired for CVTFS, as directed by the Council”**

Pursuant to the decision of the Council of Ministers, the participating Member States were engaged by the Secretariat to expedite the commercialization of CVTFS and the transfers of funds generated from CVTFS operations to COMESA for repayment of loans.

Between December 2018 and October 2019, CVTFS has received a total of **US$3,154,000** out of which **US$2,950,000 (94%)** was utilized to repay loans and to pay for interest charges and commissions to financial institutions (Stanbic Bank, BMCE Bank International and African Trade Insurance Agency) that arranged the Trade Finance Facility of **US$3,026,000** to CVTFS for purchases on seals based on orders from participating Member States. The balance of **US$204,000 (6%)** was utilized to meet the operational expenses of CVTFS during the same period.

The proposed repayment schedule of the current outstanding loans plus accrued interest (**US$4,048,202)** is tabulated in Fig 4 below.

**Fig 4 : Proposed loan repayment schedule**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name** | **Amount (US$)** | **Interest (US$)** | **Payment (US$)** | **Balance (US$)** |
|  |  |  | **Dec-19** | **Jan-20** |
| Stanbic Bank | 212,000 | 89,000 | (301,000) | - |
| CCC | 2,672,202 | - | (500,000) | 2,172,202 |
| ZEP RE | 1,000,000 | 75,000 | (575,000) | 500,000 |
|  |  |  |  |  |
| **Total** | **3,884,202** | **164,000** | **(1,376,000)** | **2,672,202** |

Upon receipt of **US$1,549,000** from DRC in November 2019, **US$301,000** will be utilized to clear the remaining balance on the Stanbic Bank loan, **US$500,000** will be used to repay part of the CCC loan, **US$575,000** will be paid to ZEP RE, with the balance of **US$173,000** being reserved to meet operational expenses of CVTFS.

The remaining loan balances on the CCC **(US$2,172,202)** and on the ZEP RE **(US$500,000)** will be repaid during the **year 2020**, in quarterly instalments based on income stream to be remitted by the Revenue Authorities of the participating Member States in line with signed MOUs and based on the cash flow projections in item 8 below.

## **8 Cash flow projections**

The cash flow projections have been prepared for 24 months using the moderate (most likely) scenario as illustrated in Fig 5 below.

This scenario is based on the following fundamental assumptions:

1. Full-scale commercialization on all types of cargo by all participating Member States in January 2020, using current charges per trip.
2. Total number of devices deployed for commercialization is 19,500 split as follows:- DRC (13,000), Malawi (4,000) and Zambia (2,500).
3. Device utilization per month is assumed as follows:- Year 1 (60%), and Year 2 (65%)
4. Each device will complete two trips per month. (Note that the current trend is that a device completes 3 trips per month).
5. The loans for Comesa Competition Commission and ZEP Re to be repaid within 12 months.

**Fig 6: Moderate CVTFS Cash flow projections: 24 Months**

|  |  |  |  |
| --- | --- | --- | --- |
| **Annual Cash flow projections** |  |  |  |
| **Moderate case** | **Year 1** | **Year 2** | **Totals** |
|  | **US$** | **US$** | **US$** |
| **Inflows (projection and negotiation)** |  |  |  |
| Fees from Operations | 3,633,840 | 4,497,360 | 8,131,200 |
| Other income- DRC Sales | 1,549,000 | - |  |
| **Totals** | **5,182,840** | **4,497,360** | **9,680,200** |
|  |  |  |  |
| **Outflows** |  |  |  |
| Operational costs | 325,000 | 484,400 | 809,400 |
| Stanbic repayment | 301,000 | - | 301,000 |
| Comesa Competition Commission | 2,672,200 | - | 2,672,200 |
| Zep-Re | 1,075,000 | - | 1,075,000 |
| **Total** | **4,373,200** | **484,400** | **4,857,600** |
|  |  |  |  |
| **Cash flow surplus/(deficit)** | **809,640** | **4,012,960** | **4,827,600** |
| **Opening Balance** | **5,000** | **814,640** |  |
|  |  |  |  |
| **Closing Balance** | **814,640** | **4,827,600** |  |
|  |  |  |  |

# **PART V:** **RECOMMENDATIONS**

## **Commercialization**

The full-scale commercialization and regionalization of CVTFS by all participating Member States by March 2020 in order to generate cash flow, which will be used to liquidate CVTFS loans. This is in line with the decision that the Council of Ministers took in the Thirty Sixth Meeting on Administration and Budgetary Matters, in Antananarivo, Madagascar on 14-15 October 2016.

## **Repayment of loans to related parties**

The repayment of loans will commence in December 2019 over a period of 12 months.

1. **COMESA Competition Commission**

The Secretariat to engage COMESA Competition Commission with a repayment plan to repay the loan in 12 months in line with the cash flows to be generated from the participating Member States as per decision of the Council of Ministers during their Thirty Sixth Meeting on Administration and Budgetary Matters, in Antananarivo, Madagascar on 14-15 October 2016.

1. **ZEP Re**

The recommendation is similar to item 2 (i) above.

1. Document CS/EXT/CM/IV/5 para 85a, Fourth Extra-Ordinary Meeting of Council of Ministers, Lusaka, Zambia 4-5 October 2012. [↑](#footnote-ref-1)
2. Document CS/CM/XXXI/4 para 93, Thirty First Meeting of Council of Ministers, Kampala, Uganda, 19-20 November 2012. [↑](#footnote-ref-2)
3. Thirty Sixth Meeting of Council of Ministers, Antananarivo, Madagascar, 14-15 October 2016 [↑](#footnote-ref-3)
4. Document, CS/CM/ADM/XXXIX/6 , Thirty Ninth Meeting of Council of Ministers, Lusaka, Zambia 25 November 2018. [↑](#footnote-ref-4)