

# INSURANCE CONFERENCE 2023

INSURANCE AS A CATALYST FOR ECONOMIC  
RESILIENCE AND POSITIVE SOCIAL TRANSFORMATION

**Topic:** Regional Customs Transit Guarantees-Challenges & Opportunities

**Speaker:** Lottie Mulenga

**Organisation:** Klaption Reinsurance Limited



## **ECONOMIC OVERVIEW-ZAMBIA**

- **Zambian's economy has been projected to grow by 2.7% as compared to 5.2% in 2022.**
- **The slowdown is mainly attributed to reduced production in the mining sector on account of operational challenges.**
- **Customs and excise duties** will be accounting for about **ZMW 16bn** which is 2.6% share of the GDP and 9% share of the 2024 budget
- **To achieve economic resilience (capacity to recover quickly from difficulties) with Insurance as a catalyst, customs and excise bonds are key to ensure import taxes and duty are paid appropriately.**

# REGIONAL CUSTOMS AND TRANSIT BONDS – CHALLENGES AND OPPORTUNITIES - MR. LOTTIE MULENGA



Lottie Mulenga joined Klaption Re in August 2022, at inception of the company, bringing with him wide technical experience in bonds and guarantees. Lottie Mulenga is a seasoned Surety underwriter. His professional experience includes working for Klaption Insurance Company (KIC) as Surety specialist underwriters, and his various previous roles such as Reinsurance Manager at African Grey Insurance and Reinsurance Officer at SWAN Insurance respectively. Lottie underwrites bonds and guarantees across Africa, Middle East and Asia to include Credit Guarantees, Construction Bonds, Custom and Excise Bonds. Lottie is also qualified Engineer from the Copperbelt University.

## **OVERVIEW-TYPES OF BONDS**

- **Advance Payment Bond**
- **Performance bond**
- **Bid bond**
- **Retention bond**
- **Maintenance bond**
- **Trade credit bond**
- **Credit default bond**
- **Removal in bond**
- **Warehouse bond**
- **Removal in transit bond**
- **The 3 bonds are executed as/on the customs and Excise Bond –Form CE121**



## CUSTOMS & EXCISE BONDS IN ZAMBIA

- Customs & Excise Bond Is a guarantee which provides the relevant security to **protect** a government department, i.e. Zambia Revenue Authority, **against the failure** of an enterprise to pay taxes and customs duties.
- It is also known as the **Form CE121**.
- The main purpose of this bond is to guarantee the payment of applicable **import taxes and duty**

# CUSTOMS & EXCISE BONDS IN ZAMBIA

## Removal in Transit

- Also known as **International Transit**. It is cover for goods in transit to **another destination**.
- A removal in transit bond is put in place to ensure that goods get to the **final customer** without duty being paid whilst in transit

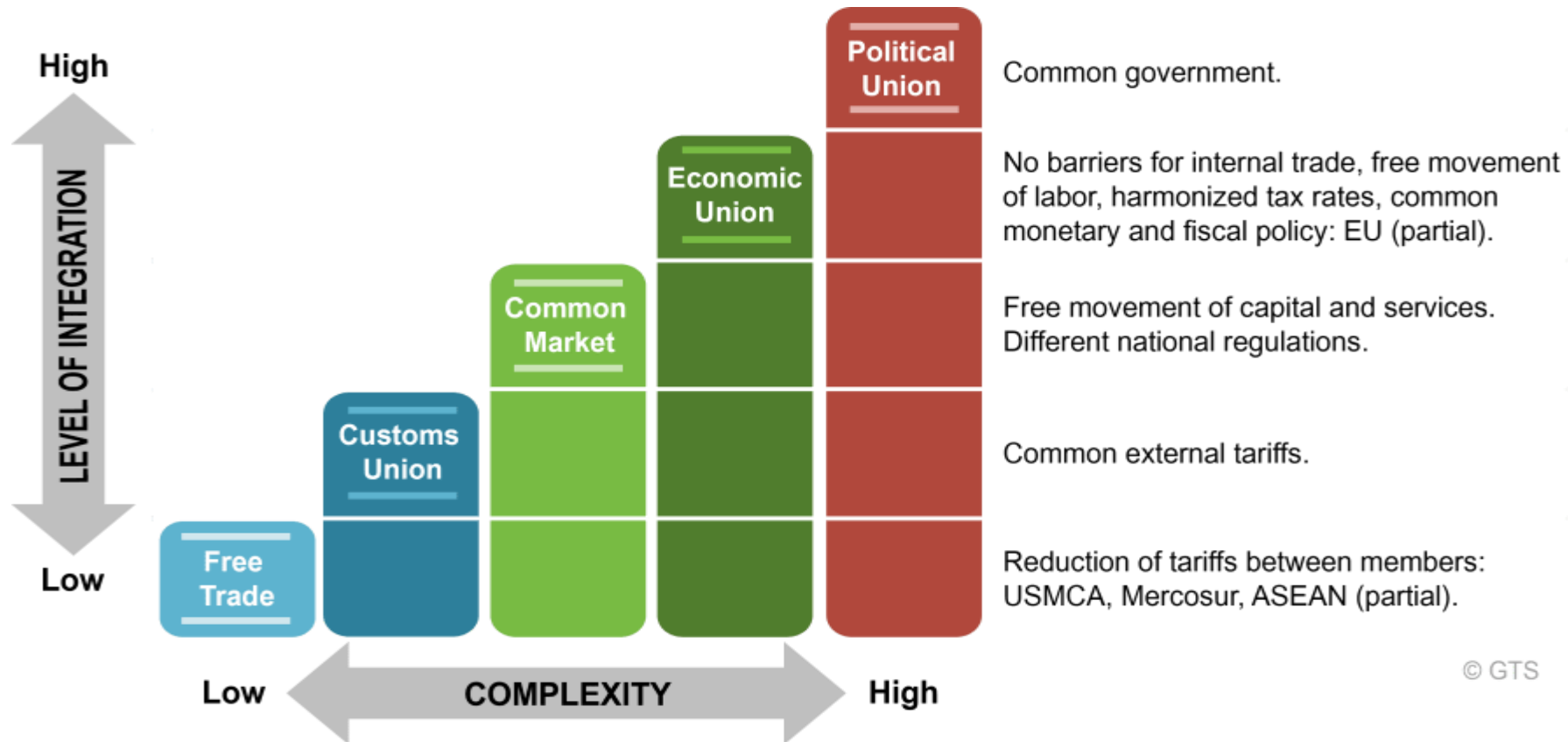
## Removal in Bond

- Also known as a **National Bond** . This is cover for goods moving from one Customs area to another Customs area within the Republic.

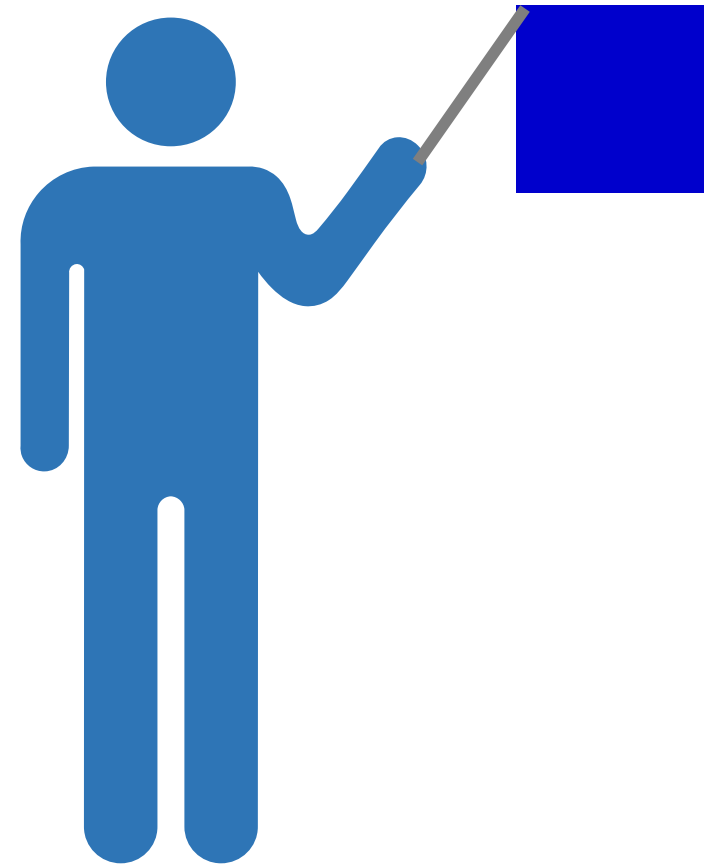
## Warehouse Bond

- This type of bond is where the guarantor is giving an undertaking to cover the amount of customs duty payable on imported goods kept in a bonded warehouse.

# LEVELS OF ECONOMIC INTEGRATION-RCTGs FORMULATION



## The Regional Customs Transit Guarantee



means a document, which the **Designated Representatives** of the Principal Bond Holder shall submit to **Customs Authorities** in a Member State, guaranteed by a **Surety** to pay customs duties and taxes that may become due should goods in transit go into home consumption or not accounted for to the satisfaction of the Customs Authorities.

The COMESA Customs Transit Guarantee Scheme, popularly known as the **RCTG-CARNET** is a Customs transit regime designed to Facilitate the movement of transit goods under Customs seals in the COMESA region.



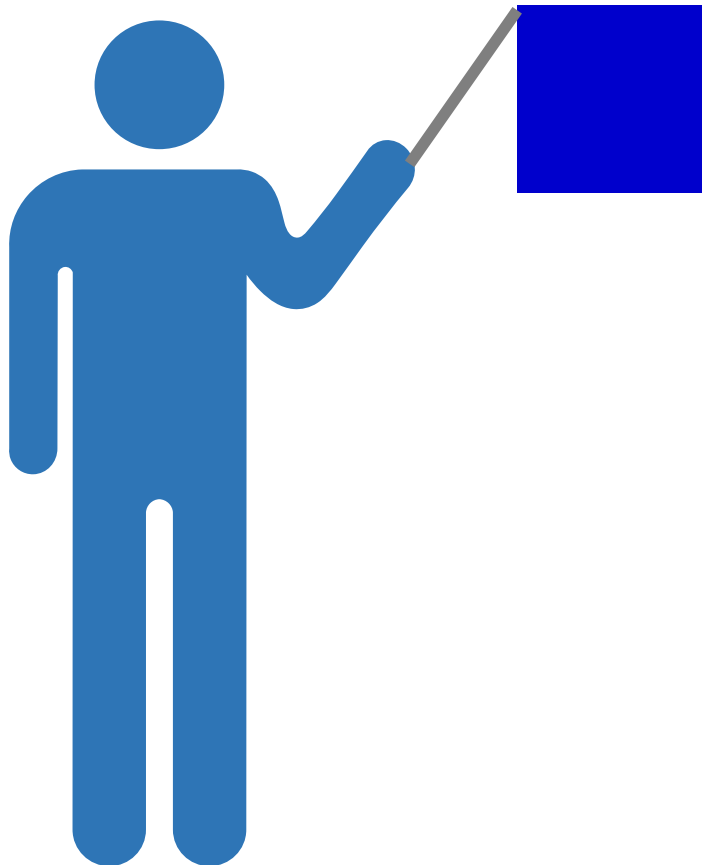
## Regional Customs Transit Guarantee



are legally binding agreements between three parties:

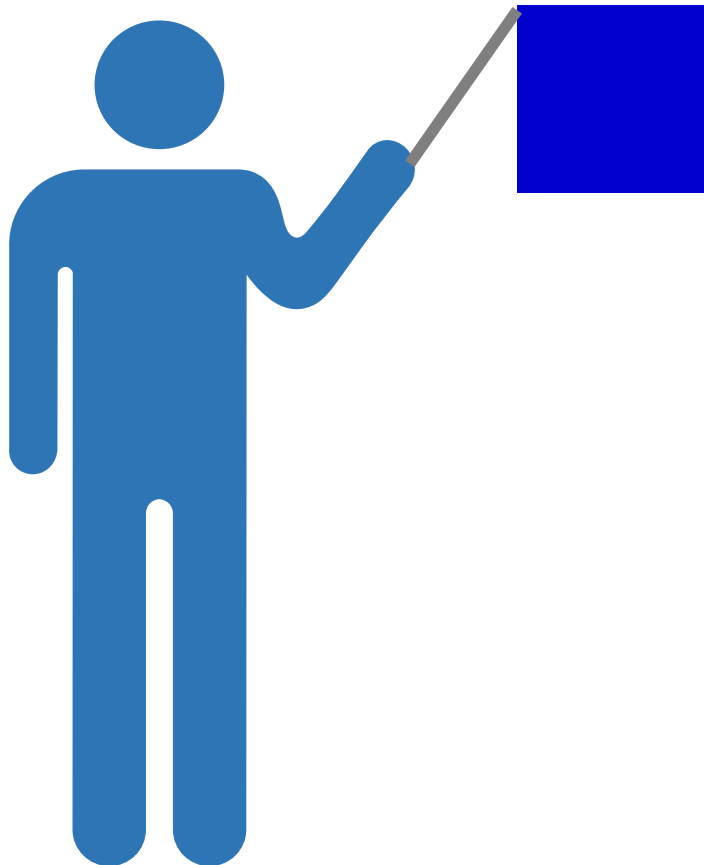
- 1) Administrative authorities responsible of administering custom laws, also known as **Customs Authorities**;
- 2) Any person approved to carry out business of customs and clearance of goods, also known as **Designated Representatives**; and
- 3) The bank or Insurance company approved by the regulatory authorities, also known as **the Surety** which issues and backs the bond .

## Commencement of RCTGs



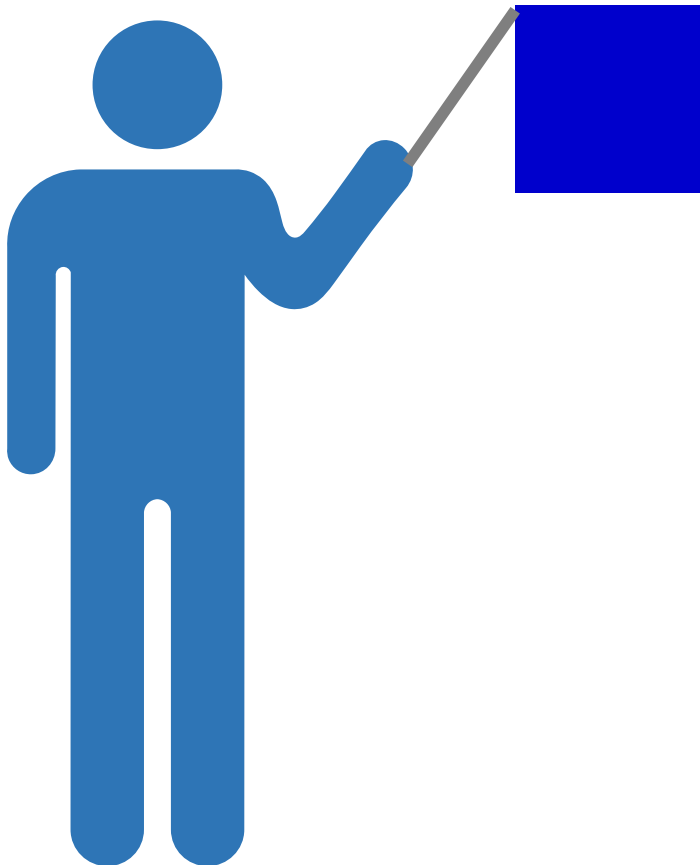
- The RCTG Agreement was signed and ratified **by twelve COMESA Member and non-Member States**, namely: Burundi, Djibouti, DR Congo, Ethiopia, Madagascar, Malawi, Kenya, Rwanda, Sudan, Tanzania, Uganda and Zimbabwe.
- the modalities of operations and institutional arrangements was started in 2002 and the implementation of the scheme commenced in 2012.

## The Objective of RCTGs



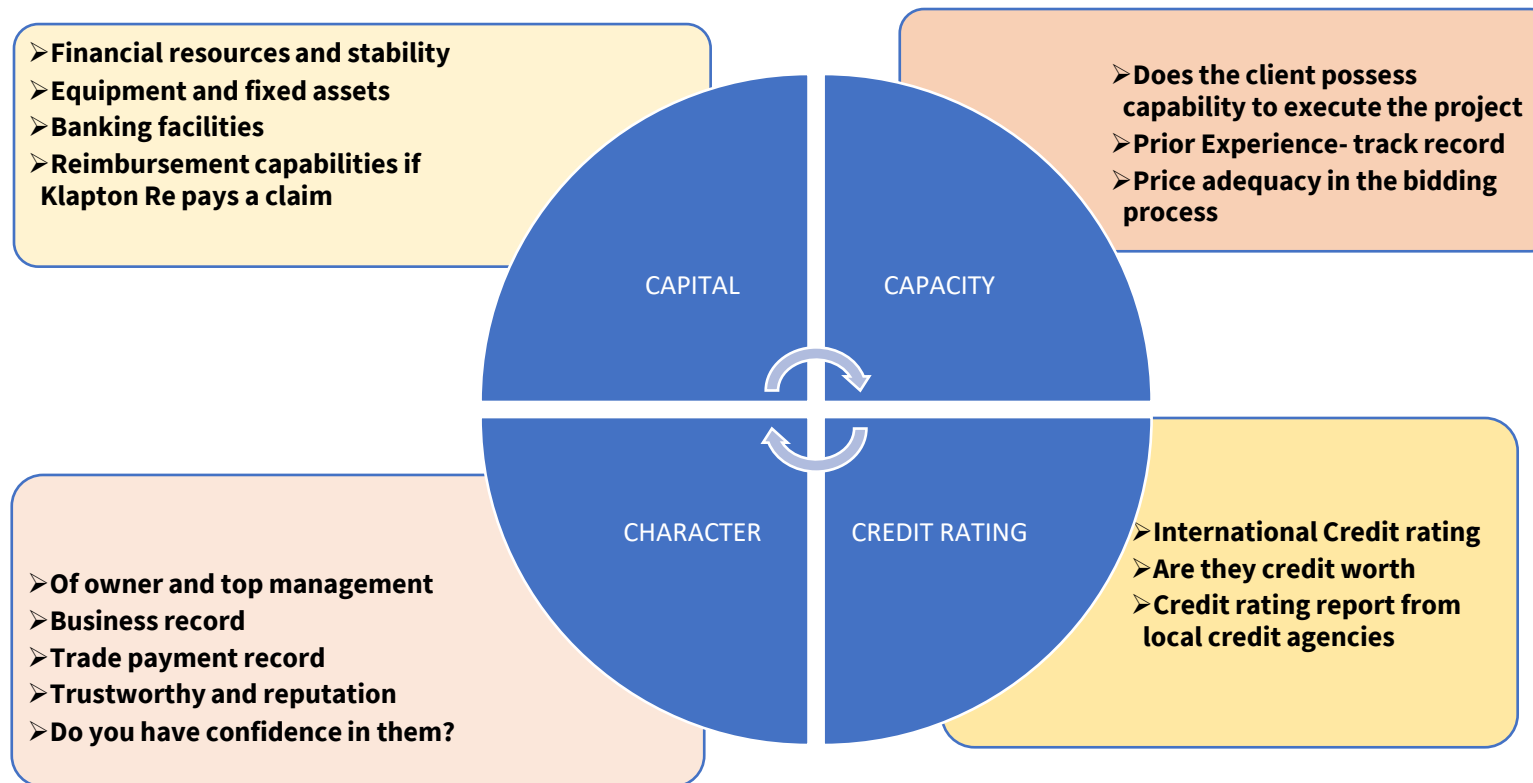
- To ensure that **respective governments** can **recover duties and taxes** from the guarantors should the goods in transit be illegally disposed of for home consumption in the country of transit.

## Common Terms- RCTGs



- **Customs office of commencement** means any port, inland or frontier customs office of a Member State where the provisions of this Protocol begin to apply;
- **Customs office of destination** means any port, inland or frontier customs office of a Member State where the provisions of this Protocol cease to apply;
- **Import or export duties and taxes** means customs duties and other charges of equivalent effect levied by reason of importation or exportation of goods;

# The 4Cs to Pre Qualify Clients





## Requirements for Underwriting RCTGs

- **Past 3 years audited financials**
- **Company profile**
- **Certificate of incorporation**
- **Tax clearance**
- **Contract**
- **Past successful projects undertaken**
- **Personal guarantees for directors/shareholders**
- **Corporate counter indemnity-Contractor undertakes to pay the surety company in case of a claim. Contractor must sign this and this entitles surety to reimbursement once they pay a claim. This special obligation on the part of the debtor is not of high value if he gets insolvent**
- **20% cash collateral (This is subjective) or Immoveable property-equal to or more of the Bond Value**
- **Bond wording (Conditional or Unconditional)**
- **Rate -about 0.4% per annum-Some countries are complaining this is too HIGH!!**



**Opportunities**

- **Larger connected market.**
- **Duplication of user fees (duty) will be cut off, this is good for the consumers.**
- **Free Movement of people (labour) will attract: facilitate the movement of expertise.**
- **Attract Investment opportunities- bigger and better considering the coverage of the countries in that particular Regional Economic Community (REC).**
- **Will encourage the development of well synergized technology that will enable proper tracking of goods.**
- **Reduces on time in transit therefore increase productivity**
- **A great tool for exchange programs**



**Challenges**

- **Lack of infrastructure and technology.**
- **Corruption and Possible smuggling of goods is likely to be experienced considering the Overlapping membership, because one country could belong to **more than one regional group**, implies that implementation of certain policies will be tricky and most tend to **pledge allegiance** to what seems to serve and benefit the country better. This means certain policies that will not favour a particular country will not be enforced by the disadvantaged country.**



Challenges

- **Lack of political will to enforce policy.**
- **Poor road network that makes vehicles highly susceptible to accidents.**
- **Revenue loss** on member countries that ratified the treaty. This will negate implementation, looking at how much revenue will be lost especially for transit countries; **Land-linked countries.**
- **Loss of business** for the **designated representatives** in the transit countries
- **The standard rate might be too high or low for certain member states**



**Conclusion**

- **The RCTGs come with opportunities and challenges as stated.**
- **It is about the BIGGER picture and what we would like to achieve as a country, this would determine our participation.**



**Thank you for your attention &  
God bless you!!!**