



# AID-FOR-TRADE: CASE STORY

## INTER-AMERICAN DEVELOPMENT BANK (IDB)

### International Transit of Goods (TIM)

**Date of submission:** February 2011

**Region:** Mesoamerica

**Beneficiaries:** Border control agencies in Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama, all trade operators in general, and exporters/importers doing business in the region.

**Type:** Project/Trade Facilitation

**Author:** Integration and Trade Sector (INT), Inter-American Development Bank (IDB) Group

**Contact Details:** Manuel Marquez

[manuel@iadb.org](mailto:manuel@iadb.org)

Tel: 202-623-2053

## International Transit of Goods (TIM)

### Executive Summary

Repetitive and paper-based customs procedures impede the efficient flow of goods, unnecessarily raising logistics and transaction costs. Improvements in these processes can expedite cross-border trade, increase the competitiveness of trade operators, and promote regional integration. In order to address these obstacles and increase regional competitiveness, the Inter-American Development Bank (IDB) in 2008 designed and implemented the International Transit of Goods (or TIM, its Spanish acronym) project in *El Amatillo*, the border crossing between El Salvador and Honduras with the highest volume of trade-related transactions in Central America.

TIM is an electronic system for managing the flow of goods in transit. It has considerably improved the border clearance for these goods by harmonizing procedures, and consolidating information and certification into a single electronic document. The project's reputation for success has led to rapidly increasing interest from neighbouring countries seeking to maximize the efficiency of their customs systems. As a result, the presidents of Mesoamerica Project (MP)<sup>1</sup> member countries agreed to expand TIM to customs processes in Mexico, Guatemala, Nicaragua, Costa Rica, and Panama. TIM will thus contribute to meeting the objectives of the MP, an initiative aimed to promote regional integration and to facilitate the design, financing, and execution of regional integration projects in Central America.

### 1. Issues Addressed

The project addressed the following three main issues:

- 1) **Poor Interoperability:** The lack of coordination between government agencies at the border represents one of the most disruptive obstacles to efficient and profitable trade flow. Poor interoperability leads to substandard data sharing, duplicative procedures and inefficiencies that cause time delays, product deterioration, and reduced profitability. Streamlining processes and technologies and improving interoperability enables different government agencies to effectively work together on related border issues. TIM helped address this issue by engaging public and private sector transit stakeholders in the project's objectives.
- 2) **Slow and cumbersome customs and administrative procedures:** Customs requirements that are redundant, unnecessarily complex, or cause delays are often ignored in the face of tariffs, and continue to pose barriers even after tariffs have been eliminated. Differing customs requirements from country to country also impede trade opportunities, as exporters are forced to comply with multiple import regimes. TIM supported the implementation of a system that harmonizes customs procedures in the region.
- 3) **Limited use of IT:** Lack of and/or inefficient use of IT can hinder organizational and operational efficiency and effectiveness. Therefore, TIM supported the development of the management and communications software required to improve electronic data exchange and transit control procedures among participating agencies.

### 2. Objectives Pursued

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<sup>1</sup> For further information, please see separate IDB case story on the MP, also submitted in preparation for the Third Global Review for Aid-for-Trade.

TIM aims to reduce trade transaction costs, measured by border crossing wait times and the complexity of customs procedures. Simplification and/or harmonization of customs procedures, in addition to reducing costs for traders and increasing the predictability and traceability of their products, has numerous knock-on effects such as greater productivity, transparency, and competitiveness of the country/region, and increased trade leading to higher levels of social and economic development.

### **3. Design and Implementation**

The IDB supported the TIM project through a USD 2 million non-reimbursable technical cooperation scheme that financed the design and implementation of a pilot project at a major border crossing between Honduras and El Salvador. In addition, the IDB provided USD 950,000 to extend the project to other border crossings in Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama.

The project is based on three main pillars:

- (1) **Process Reengineering:** TIM harmonizes multiple paper-based declarations into a single electronic “document” that includes all data needed by customs, migration, and phytosanitary agencies.
- (2) **Information Technology (IT):** The TIM incorporates a sophisticated IT infrastructure providing the participating agencies with advanced management and communications capabilities and enabling them to exchange data on transit control procedures through a common Intranet. The system also includes risk analysis and cargo control tools.
- (3) **Cooperation:** TIM improves cooperation both within a given country and between the customs agencies operating at border crossings in the region.

### **4. Problems Encountered**

The large number of public and private sector agencies that are involved in the design and implementation of TIM can pose significant communication and coordination challenges. More importantly, some government agencies and other critical actors were reluctant to adopt the necessary organizational and infrastructure changes needed to effectively implement TIM. Without the full commitment of all participating agencies in every country it is difficult to establish a collegial environment based on mutual trust.

### **5. Factors for Success**

- **Political support:** The TIM project received high-level political support, thus facilitating its implementation. In fact, the region’s governments included the project as one of the priorities in the Joint Declaration of Heads of State at the Presidential Summit of Tuxtla in 2008.
- **Broad consensus:** The project was able to take advantage of strong support from the public and private sectors for tackling cumbersome customs procedures, facilitating trade, and enhancing the competitiveness of the region.

- **Close coordination on the ground and technical expertise:** IDB specialists coordinated both with top government officials and local trade facilitation specialists and provided technical expertise over a protracted implementation process.

## 6. Results Achieved

The TIM project has reduced the border crossing time for goods at *El Amatillo* from an average of 62 minutes to an average of 8 minutes, hence cutting time up to 87 percent, as well as decreasing the volume of paperwork. Specifically, TIM has:

- Improved the predictability and quality of the risk analysis of goods in transit
- Drastically reduced wait times
- Enhanced traceability and predictability of the flow of goods, thereby improving private-sector competitiveness and optimizing tax revenue collection
- Reduced the environmental footprint of transportation services

The coordinated and streamlined border control procedures resulting from the project have in several ways contributed to an improved business environment. In particular, small- and medium-sized enterprises (SMEs) have greatly benefited from decreased financial and capacity requirements associated with border procedures that previously hampered their activities. In sum, TIM has resulted in the expansion of international trade, increased government revenue, improved quality of governance, and reduced environmental impacts.

## 7. Lessons Learned

- Strong political support for harmonizing regulations and close cooperation between the executing agency and respective governments are keys to successful implementation and execution of this and other programs.
- Selecting experienced project managers who maintain positive relations with government officials, spend significant time on the ground, and coordinate with technical counterparts is essential for developing trust with customs authorities.
- Having a clear legal framework for implementing the project that does not impinge on national legislation is crucial. Instead of creating a regional legal framework from scratch, the IDB proposed a mechanism that did not involve changes in national legislation. This made each country more amenable to considering and implementing the TIM project.
- The Technical Committee should represent all participating actors to ensure buy-in and the effective implementation of the project. Decisions should be reached by consensus so that stronger regional players do not assume control of the project.
- A top-notch IT platform is needed to cope with the rapidly changing logistics industry (e.g. radio frequency devices, the Global Positioning System (GPS), and electronic locks).
- In addition, the specific technological needs, capabilities, and challenges of the target region must be taken into account when designing the project's IT programs. For example, the EU transit system could not simply have been replicated in Central America as it was originally designed. In the EU, transport companies choose the route that best fits their cargo needs, whereas in Central

America, transited goods must, by law, follow a certain route with specific checkpoints. The IDB understood and acknowledged this specificity in designing and implementing TIM in the region.

## **8. Conclusion (applicability to other programs)**

The TIM's success has demonstrated the value that consensus-building has on key Aid-for-Trade (AfT) intervention areas. Likewise, it has shown how interregional coordination on issues of mutual interest can reap significant trade-enhancing benefits for all parties involved. Furthermore, it highlighted the need to adapt AfT approaches according to the specific needs of the beneficiaries and not based simply on the success of past initiatives in other regions. Going forward, it will be necessary to take all these factors into consideration for the continuing implementation of this and other projects within the framework of the MP.