

May 24, 1984

Merchant Bank of Central Africa
Limited
P.O. Box 3200
Harare

Bill
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Subject: Grant No: 940-0001.05-G-00-4016

Dear Sirs:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or the "Grantor") hereby grants to the Merchant Bank of Central Africa Limited (hereinafter referred to as Merchant Bank or "Grantee"), the sum of \$46,000 United States Dollars to provide foreign exchange support for a feasibility study on the creation of the Zimbabwe Export Cooperative (ZEPCO) as described in the Schedule of this grant and the Attachment 2, entitled program description

This grant is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of program objectives during the period beginning April 1, 1984 through August 31, 1984, unless otherwise agreed to by AID.

This grant is made to the Merchant Bank on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, entitled the Schedule, Attachment 2, entitled "Program Description", and Attachment 3 entitled "Standard Provisions", which have been agreed to by your organization.

Please sign the original and seven(7) copies of this letter to acknowledge your receipt of the grant, and return the original and six(6) copies to the Grant Officer.

Sincerely yours,

Roy A. Stacy

Roy A. Stacy
Grant Officer

Attachments:

1. Schedule
2. Program Description
3. Standard Provisions

ACKNOWLEDGED

FOR AND ON BEHALF OF THE
Merchant Bank of Central Africa Limited

By: [Signature]
Title:
Date: GENERAL MANAGER
24/5/84

FISCAL DATA

Appropriation: 72-1141021.6

Budget Plan Code: PDAA-84-29613-DG-61

Total Estimated Amount: US\$46,000

Total Obligated Amount: US\$46,000

Funding Source: AID/W

Funds Available [Signature] Date 5/23/84

ATTACHMENT 1

SCHEDULE

A. Purpose of Grant

The purpose of this Grant is to provide foreign exchange support for a feasibility study on the creation of the Zimbabwe Export Cooperative (ZEPCO), as more specifically described in Attachment 2 to this Grant entitled "Program Description".

B. Period of Grant

The effective date of this Grant is May 24, 1984. The expiration date of the Grant is August 31, 1984, unless otherwise agreed to in writing by AID. Pre-award costs will be financed under the Grant in accordance with paragraph F.1. below

C. Amount of Grant and Payment

1. AID hereby obligates the amount of \$46,000 for purposes of this Grant.
2. Payment shall be made to the Grantee in accordance with procedures set forth in Attachment 3-additional Standard Provision B.1. Payment -- Periodic Advance. An initial advance of \$17,000 is hereby authorized. Replenishments of the advance shall be accomplished in accordance with Attachment 3-additional Standard Provision B.1. - Payment -- Periodic Advance.

D. Financial Plan

The following is the Financial Plan for this Grant. Revisions to this Plan shall be made in accordance with the Standard Provision of this Grant entitled "Revision of Financial Plans."

CONTRACTOR/CONSULTANT BUDGET	FOREIGN CURRENCY (AID EXPENSE-US\$)	Z\$ EXPENSE (NON-AID)
PRICE WATERHOUSE		
Professional services	-	Z\$24,000
Co-ordination fee	-	Z\$ 5,000
Out-of-pocket expenses	-	Z\$ 1,000
CONSULTANTS KEN LOCKLIN/P.J. KAMANI		
Professional services including all airfares	US\$22,500	
Other charges incurred in Zimbabwe	-	Z\$ 2,000

CONSULTANT DR. DUNCAN CLARKE

Professional Services excluding incidental expenses (hotel, local transport, etc.	US\$16,500	
International Airfare	US\$ 3,500	
Out-of-pocket expenses	-	Z\$ 2,000

CONTINGENCIES

Foreign exchange costs	US\$ 3,500	-
Local Currency Costs	-	Z\$ 4,300

E. Reporting and Evaluation

Reporting and evaluation requirements of AID under this Grant shall be set forth in an Implementation Letter to be issued by AID.

F. Special Provisions

1. Pre-Award Costs

Costs incurred by the Grantee in support of the Grant as of April 1, 1984, are allowable under the Grant as if incurred as of the effective date of the Grant.

2. Contract under the Grant

AID hereby approves the Grantee contracting with Price Waterhouse-Associates to implement the feasibility study, and through Price Waterhouse securing the services of Dr. Duncan Clarke, Mr. Ken Locklin, and Mr. P.J. Kamani to assist in the international economic, banking and marketing aspects of the feasibility study.

G. Authorized Geographic Code

The authorized geographic code for procurement of services, and incidental goods, under this grant is as set forth in paragraph (c), Geographic Source and Order of Preference, of additional Standard Provision B.2. Procurement of Goods and Services Under \$250,000.

F. Grantee's Procurement System

For purposes of additional Standard Provision B.2., paragraph (e) it is agreed that Grantee's procurement policies and procedures conform to the standards set forth in paragraph IU of

AID Handbook 13, "Grants".

G. Ocean Shipping

No ocean shipping of goods purchased with AID funds is authorized.

H. Agreement on Standard Provision

It is agreed that paragraph (b) of Standard Provision A.1. is not applicable to this Grant.

ATTACHMENT 2

PROGRAM DESCRIPTION

A. Background

The US Agency for International Development recently completed a reconnaissance of private sector development possibilities in Zimbabwe.

Their study suggests that one potential strategy to provide support for the export manufacturing sector would be the establishment of an export promotion and support company. This firm, which has been given the working title of the Zimbabwe Export Promotion Cooperative (ZEPCO), would attempt to bridge the gap between the requirements of Zimbabwean exports - for the principal services, and the available support from domestic sources and international agencies.

It is proposed that ZEPCO would be owned by its clients, namely, Zimbabwean exporting companies. The Cooperative would assist in the sales and marketing of the export products to markets in Africa and the rest of the world. ZEPCO would provide financing, where it is required, for the importation of necessary raw materials and would also have the capacity, either directly or through affiliated financial institutions, to lease specialised equipment required for export production. In addition, ZEPCO would support Zimbabwean manufacturers by providing market advice, demand analysis and production information, as well as technical assistance, and documentation and export cost accounting services. ZEPCO would also be capable of financing export credit on competitive terms, up to a limit to be determined but for at least 180 days for sales of manufactured goods.

The Cooperative would be a self-sufficient profit-making venture providing support for its members, and channelling earnings both from membership fees and from commissions charged on its sales support capabilities. The suggestion has been made that ZEPCO might be capitalised at \$5 million with \$2,5 million local equity stock ownership and a subordinated debenture from AID's Private Enterprise Bureau of \$2.5 million, with the debentures to be retired over a twelve-year term. Additional financial support should be available from borrowings in the international market-place and from local sources.

In order to maximise both the generation of export income for the country and the generation of fee income for ZEPCO, it is anticipated that the Cooperative would serve members and non-members alike. In order to promote membership it might prove appropriate to provide non-member firms with only sales

and market research support on a commission basis, reserving raw materials/debtor financing and capital equipment leasing for members. ZEPACO, as currently conceived, would represent an additional source of funds support for raw material purchases and the carrying of debtors. This financial support, made possible through utilisation of ZEPACO's own resources, and any external financing arranged through it, would represent an additional source and flow of funds through the existing Exchange Control channels, rather than a parallel currency allocation network. Thus the foreign exchange allocation system would be given additional resources specifically earmarked to meet the requirements of the members.

The services which it is anticipated that ZEPACO will provide to the manufacturing sector will almost certainly be of assistance to those companies who expect to benefit under the World Bank Export Promotion programme.

The result of the CZI survey and the potential to address and overcome some of the major problems encountered by exporting companies through an agency such as ZEPACO, argue for a fuller investigation. As a first step, it would appear appropriate to execute a full-scale feasibility study.

The proposed scope of investigation of the feasibility study is set out in "Suggested Terms of Reference" and "Form of Report" attached hereto.

B. Terms of Reference

Having regard to the need for Zimbabwe to maintain and expand its export markets and the range of products available to those markets, to investigate and make recommendations in relation to the formation of an export agency which would support the development of export markets and products through the provision of marketing, financial, technical and training services to the manufacturing sector in Zimbabwe, with particular reference to:

- (a) the identification of products and new markets in which Zimbabwean exports could be competitively and effectively marketed;
- (b) the identification of areas of excess productive capacity among Zimbabwean exporters, or productive sectors whose capacity could be readily increased to serve (a) above;
- (c) the current constraints which face Zimbabwe's export sector and the means of resolving those constraints;
- (d) the services which an export agency could provide which would promote the development of exports;

- (e) the funding, ownership, management and modus operandi of an export agency; and
- (f) liaison with Government and international agencies who could provide relevant information and services.

Form of Report

The following proposed topics to be covered by the feasibility study should not be viewed as exhaustive or inflexible but rather as suggested guidelines.

1. Project Description

- (a) Brief introduction outlining background to the project
- (b) Proposed financial structure including source and type of funds
- (c) Critical factors affecting investment in ZEPCO

2. Modus Operandi

- (a) Ownership of ZEPCO
- (b) Management and staffing
- (c) Services to be provided by ZEPCO
- (d) Source of income of ZEPCO

3. Technical Plan

- (a) Source of raw materials, equipment and labour
- (b) Location in relation to markets and suppliers
- (c) Relationship between level of activity and production capacity

4. Marketing Plan

- (a) Potential markets and customer profile
- (b) Potential need for export credit insurance
- (c) Pricing
- (d) Competition
- (e) Transportation and distribution

5. Financial Plan

- (a) Cash flow forecast (five years)
- (b) Projected pro forma income statement and balance sheet (five years)

6. Legal Requirements

- (a) Legal governmental and exchange control impediments and requirements
- (b) Import/export duties and incentives
- (c) Taxation status