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SOUTHERN AFRICA INTRA-REGIONAL TRADE FINANCING FACILITY: FEASIBILITY ANALYSIS

by

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submitted by

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ABBREVIATIONS

ADB	African Development Bank
BDC	Botswana Development Corporation
BLADEX	Banco Latinamericano de Exportaciones S.A.
BLS	Botswana, Lesotho and Swaziland
BTN	Brussels Trade Nomenclature
CGICA	Credit Guarantee Insurance Corporation of Africa Ltd.
COFINEX	Corporation for Finance of Exports Ltd.
IBRD	International Bank for Reconstruction and Development
IDC (Z)	Industrial Development Corporation (Zimbabwe)
IDC (SA)	Industrial Development Corporation (South Africa)
IFC	International Finance Corporation
LIBOR	London Inter-Bank Offered Rate
MEPC	Malawi Export Promotion Council
NCI	No Currency Involved
OECD	Organization for Economic Cooperation and Development
OGIL	Open General Import Licence
PTA	Preferential Trade Area (Eastern and Southern Africa)
RMA	Rand Monetary Area
SACU	Southern Africa Customs Union
SADCC	Southern African Development Coordination Conference
SIDA	Swedish International Development Agency
STD	Standard Trunk Dialing
USAID	United States Agency for International Development
ZCIC	Zimbabwe Credit Insurance Corporation

CURRENCY EQUIVALENTS

Country	Local Currency	National Unit Per SDR */	National Unit Per US $ */	National Unit Per US $ +/
Botswana	Pula (P)	1.1704	1.1755	1.1093
Lesotho	Maloti 1/ (M)	1.1844	1.1447	1.1191
Malawi	Kwacha (MK)	1.2122	1.1337	1.1491
Swaziland	Lilangeni 2/ (E)	1.1844	1.1447	1.1191
Zambia	Kwacha (K)	1.0243	0.9619	1.2134
Zimbabwe	Dollar (Z$)	0.8275	0.7716	1.0283

*/ Beginning December, 1982 (Note the rate is pre-devaluation for Zimbabwe).

+/ August, 1983 rates.

1/ Not freely convertible. Part of Rand Monetary Area while the South African Rand remains legal tender.

2/ Not freely convertible. Part of Rand Monetary Area while the South African Rand remains legal tender (Plural Emalengeni).

Note: All references to dollars in this Report relate to US Dollars unless otherwise so specified.

INTRA-REGIONAL
EXPORT CREDIT FINANCE IN SOUTHERN AFRICA

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I. INTRODUCTION

1. This report recommends that the United States Agercy for International Development (USAID) take an initiative, with the International Finance Corporation (IFC) as executive agency, to establish an export credit finance facility for Southern Africa. The Facility would take the form of a Corporation for the Finance of Exports (named COFINEX), registered as a private financial company based in London. Shareholders would initially include, additional to USAID and IFC, the Bank of Botswana, the Central Bank of Swaziland and the Reserve Bank of Zimbabwe.

2. The objectives of COFINEX, and its respective domestic facility counterparts, would be to promote, finance and re-finance regional non-traditional exports from member countries in Southern Africa both within the region and to neighboring African markets.

3. COFINEX would be constituted as a private company, representing the joint interests of member central banks and international financial institutions. Local counterpart facililities would be established on a country-specific basis determined by requirement and the business environment. COFINEX would have a paid-in initial capital of $5.0 million held between four classes of shareholders. The facility would take

on a long-term loan provided through the USAID, amounting in all to $30 million, drawn over 3 years, repayable in 40 years with 10 years grace, and rated at 4% interest per annum.

4. COFINEX will provide an innovative solution to the provision of additional medium term export credits in Southern Africa. It will emphasize both medium and longer term facilities, to a large extent not available, and do so on competitive terms. Most of its business will consist of the purchasing of commercial export paper, sanctioned by its domestic facilities, related to its shareholders, and then financing the outstanding balances until maturity. At a later stage, it might discount with recourse to its own paper in the international market.

5. COFINEX will be managed strictly on commercial lines and will follow conservative financial and debt policies. Gearing will be increased only modestly. Its obligations will be met from provisions made out of loans, transactions fees and investment income. A reputable Board of Directors is foreseen and the Chief Executive and senior staff will be experienced bankers.

6. COFINEX will lengthen its portfolio only after its operational experience has been established and the institution's credit rating and reputation acknowledged. It will accept solid transactions for its portfolio and apply country limits to credit exposure. Cover and re-insurance will be secured

where required. Balance in COFINEX's portfolio and access to funds available will be established between members.

7. COFINEX's structure will provide for phased development and the potential eventual incorporation of new members and shareholders, including private and multi-lateral institutions.

Background

8. USAID and IFC have for some time been concerned to assist Southern African countries[1/] in their efforts to develop intra-regional trade. A similar stress has been evident in recent IBRD disbursements, e.g. the 1983 Export Promotion Project loan for Zimbabwe. Discussions within the IBRD/IFC and with USAID have focussed on constraints to the development of regional trade, especially the absence of sufficient or adequate instruments for the provision of suitable trade credits for "non-traditional" exports (identified as in Annex 1).

9. As a preliminary step, it was decided to examine the feasibility of such a Facility being established for the region and the operating context which might be applicable.

1/ For evaluation purposes Southern Africa has been taken to include the following countries: Botswana, Lesotho, Malawi, Swaziland, Zambia and Zimbabwe. At the time of project assessment, neither Angola nor Mozambique were members of the World Bank Group, a factor which currently precludes IFC participation in activities designed to include these countries.

The merits of creating and supporting a regional export finance facility involve multi-dimensional issues requiring both technical and country-by-country appraisal. IFC acted as Technical Advisers to the project and Consultants were engaged to undertake the appraisal. Close coordination was effected with the USAID Southern Africa Regional Program (based in Harare) and through it with USAID offices in the countries concerned while meetings were held with financial and economic institutions in Washington, London and Southern Africa (see Annex 2 for Mission Contacts).

10. While part of the inspiration for an export credit facility derived from knowledge and experience of similar institutions, notably Banco Latinamericano de Exportaciones S.A. (BLADEX), there has been no attempt simply to duplicate this structure within Southern Africa. Indeed, BLADEX (see Annex 3) arose in quite different circumstances to conditions currently prevailing in Southern Africa. The latter's problems of trade and finance have therefore been addressed by the Report in unique rather than replicable terms.

11. It has been envisaged that a Facility capable of providing suitable (and, if possible favorable) export credits would solicit or require support from a variety of sources - e.g. USAID, IFC, IBRD, African Development Bank,, Central Banks, Commercial Banks and Financial Institutions. Consequently, the soundness of concept, strength of operational capacity and financial viability of any scheme have been considered fundamental to its realization and continuation. Commercial

justification and business criteria have accordingly guided judgements applicable to the design for, and steps required to create, a workable Facility.

12. Given the need for pragmatic solutions as well as viability requirements, the modus operandi adopted for the Facility has focussed on a multi-bilateral concept. The scheme does not exclude any country's eventual participation, although a selective grouping and phased approach is recommended at the outset. Critical bilateral interests are explicitly accounted for in the structure of business relationships incorporated into the overall framework.

Aims and Evaluation Objectives

13. Terms of Reference for the study (given both by the USAID Statement of Work, Washington, June, 1983 and discussions with USAID in Washington and Harare) embodied a number of key considerations which bear reiteration.

14. While the principal aim of the Facility is to promote non-traditional export trade within the region, this need not be wholly exclusive by product type or area within which transactions occur. In selected cases, notably to enhance viability, traditional products might fall within the scheme and, more importantly, African markets outside the region could be included as export destinations. Indeed, even trade with markets outside Africa would not be precluded from consideration although the balance struck over time would seek to favor intra-African

transactions.

15. One major aim of the study is to determine those countries for which the Facility might be currently appropriate. The project was not conceived at the level of the Southern Africa Development Coordination Conference (SADCC) or even the Eastern and Southern Africa Preferential Trade Area (PTA), though consideration has been given to complementary initiatives from these quarters. Each Southern African country was appraised separately within the applicable constraints and according to essential criteria requiring fulfillment in order to justify country participation at the present time. Instances in which the criteria have not been satisfied do not therefore imply country exclusion from the scheme, merely prospective participation at a suitable later date, designated as Phase II.

16. The evaluation aims equally at assessing the necessity for export credit facilities in relation to actual needs and existing financial arrangements. Stress has therefore been placed on additionality requirements and not on substitution for available mechanisms, especially those nationally provided by public and private sectors. The rationale for supplementary and/or new facilities has thus been given high priority.

17. Institutional aspects contained in the concept proposed have been examined from efficiency and necessity perspectives. It has been an objective to avoid complicated institutional formation or duplication while every consideration has been given to making maximum use of operating financial institutions and available expertise. Furthermore, since commercial banks

in Southern Africa already have established links with exporter companies and markets, as well as experience in judging commercial contract risks and transaction viability, it is critical that the export credit finance facility operates integrally with this private sector network.

Trade Data and Projection Limitations

18. Various data deficiencies need to be appreciated in consideration of the assessment. Many countries did not have 1983 data available on exports. In some cases even adequate trade information for 1982 was lacking at the time of project appraisal. Additionally, much export data are only found on a product or country/area of destination basis, seldom in a product-by-country format. The construction of a matrix of contemporary trade flows in relevant categories is therefore highly problematic. Moreoever, where product-by-country information have been found these have generally been specified at a relatively aggregated level, e.g. SITC single-digit level. Complications have also arisen where countries having disaggregated data provide such information only in terms of Brussels Trade Nomenclature (BTN) categories.

19. Comparisons between countries are made difficult because certain countries only generate adequate up-to-date statistics for selected products, often leaving the "other" category to cover all but a few (mainly agricultural and mineral) products. These latter products are not the main focus of the Report.

20. The Southern African historical record available - either given by IMF Direction of Trade Yearbook, national authorities or selected reports (e.g. IMF, Payments Arrangements and the Expansion of Trade in Eastern and Southern Africa, Washington, 13 October, 1981) - is also deficient and where better specified is usually out of date relating to, say, 1977-78. Moreover, IBRD Country Memoranda have little additional to offer by way of the requisite trade data. Indeed, for four of six countries, documents were compiled in or prior to 1981 with data for even earlier years.

21. The weaknesses of these data and their periodisation are, moreover, magnified by significant re-alignments in trade flows and policy coinciding with the aftermath of Zimbabwe's Independence in April, 1980. This event has importance both because of the impetus then given to regional trade as well as the fact that Zimbabwe's manufactured exports contribute most to traded products likely to be deemed eligible for finance under the proposed Facility.

22. In the case of Botswana, Lesotho and Swaziland (BLS) there are difficulties in obtaining standardised trade flow specifications because of the inclusion of these countries in the Southern Africa Customs Union (SACU).

23. For some countries information on trade is also distorted by a segment of transactions with No Currency Involved (NCI). The growth in countertrade transactions and bilateral

exchange arrangements also influence the accuracy of available information on traded commodities.

24. In order to provide an overview of the relevant trade situation, selected country data as available have been assembled in Annex 4 (Tables I - XXI). These are useful in the appraisal both as order-of-magnitude measures and an indication of areas for which information is still lacking.

25. The problems of establishing an unambiguous baseline of trade values for intra-regional transactions compound other difficulties related to the construction of a reliable set of projections about the future trade position in non-traditional goods for Southern Africa which might require additional export credit finance. A major problem in this regard relates to the presupposition (widely accepted within the region) that the availability of longer term and better-rated credits would enable the securement of substantially greater export contracts in regional markets. This type of scenario cannot be realistically projected from trend evaluation (see Annex 5).

II. EXISTING ENVIRONMENT AND THE NEED FOR EXPORT FINANCING FACILITIES

26. A number of general arguments exist in favor of a regional export financing facility for non-traditional goods in Southern Africa. In the long-term, the different countries aspire to diversify their trade and increase commercial exchanges with each other. Such statements of intent have regularly been made but seldom given direct impetus by the existing regulatory and trade finance framework. Nonetheless, both the SADCC group and the PTA have expressed desire to expand regional trade finance facilities.

27. The more competitive international trade and business climate of the 1980s has likewise alerted Southern African countries to their need to develop facilities which permit local manufacturers to secure increased contracts in export markets. Since many competitors are able to offer OECD Consensus Rates for export credits, exporters in other countries have had an advantage over Southern African exporters as related to the financial package associated with their contract offers. Few buyers and importers in the region under current circumstances have been able to make choices in favor of regional suppliers at the cost of the financial premiums involved.

28. Beyond the perceived need to establish at least pari passu competitive financial bidding, Southern African countries require to improve their export performance. One such avenue lies in

expanded exports to neighboring countries especially for non-traditional products for which some specialization may eventually result.

29. The stage has as well been reached in some Southern African countries in which new horizons for regional and total manufactured exports will not be realized without a much greater effort in all spheres of exporting - including attention to financing facilities. This does not suggest that other ancillary developments - e.g. improved payments systems, better transport infrastructure, enhanced export marketing techniques - will not still be required. But it entails increased financing flexibility and higher priority in monetary and foreign exchange allocation for the finance of exports. An increased portion of domestic savings and external availabilities must be dedicated to such purposes.

30. The commitment of Southern African countries to improve their trade links can be strengthened if an export credit facility can be created, and some part of the total requirement financed from the commercial use of a soft mix of funds. COFINEX (Corporation for the Finance of Exports Ltd.) is proposed as a mechanism capable of assisting such an evolution.

Trade Regime

31. The exchange and trade systems applicable in Southern Africa, defined according to IMF arrangements, are depicted in

Annex 4 Table 1. Swaziland and Lesotho as Members of the RMA are pegged to the South African Rand; other currencies are related to various composite baskets. Malawi and Zambia are SDR-related while Zimbabwe follows a trade-weighted basket. Botswana follows a separately specified basket of currencies including the SDR and Rand. Except in Lesotho and Swaziland, restrictions apply to current transactions and this is the case for all countries in respect of capital transactions. Surrender requirements for export proceeds are in force throughout the region.

32. All countries are Lome II signatories and participate in the SADCC which has no associated trade obligations applicable to members; and all are members of the PTA for which Multilateral Clearing House arrangements are still under discussion. The BLS group are long-standing members of the SACU. Consequently, there are generally no restrictions on trade between the four SACU members while imports into the Union are subject to a common tariff. A bilateral Preferential Trade Agreement exists between Zimbabwe and South Africa while Open General Import Licence (OGIL) conditions pertain to products entering Zimbabwe from Malawi and Botswana (see also Annexes 6 - 11).

33. Intra-regional trade conducted under bilateral (or multilateral) payments agreements is very small although a significant share of bilateral trade in certain instances (e.g. Swaziland's exports to Zambia) covered by a bilateral payments agreement.

34. Customs receipts are significant contributors to government revenue in the BLS countries, reaching about 40% in Botswana, 50% in Swaziland and 75% in Lesotho. The share in Zambia is only about 10% while in Zimbabwe and Malawi similarly lower shares apply.

35. Most countries practice protectionist approaches to manufacturing industries and a high degree of import substitution has been followed in the larger economies of the region. Countries have not as yet been able to devise significant measures for industrial specialization based on (regional) trade. Active industrial export promotion policies are of relatively recent vintage and still well below potential strength. However, the trend is now in the appropriate direction with change taking place to improve export incentives. Only Zimbabwe at present has an export credit insurance corporation and it is the only country with a Manufacturing Export Promotion loan from IBRD (value $70.6 million, 1983).

36. Export potential realization within Southern Africa will depend on an increasing openness of partner country markets and the ability to pay for imports. Growth inducing measures and import diversification, combined with stronger export strategies, will be needed. Measures to reduce non-financial trade barriers - e.g. transport costs, inadequate industrial cooperation, administrative obstacles and product cost competitiveness - will equally be required. Most importantly,

currency overvaluation must be avoided while recent re-alignments and market sensitivity should be further encouraged. Underlying all this must be found an improved business confidence with stronger policy commitment.

Export Profile and Performance in Southern African Trade

37. An overview of the contemporary export situation for Southern Africa in 1981 is shown by Table 1 with respect to key variables having an influence on regional exports in non-traditional commodities.

38. Total exports from the six countries amounted to $3.5 billion (1981), 70% coming from Zimbabwe and Zambia. Lesotho's exports were only 0.1% of the regional total. A high export/GDP ratio is found for Botswana, Swaziland and Zambia. In the Zambian case copper and cobalt account for the bulk of exports (over 97%) while manufactured exports are very small in absolute and relative terms. Total manufactured exports for Southern Africa in 1981 were worth $478 million (74% from Zimbabwe). Only Botswana, Swaziland and Zimbabwe appear significant exporters in this sphere and then, moreover, the non-traditional element is largely related to Zimbabwe.

39. In the 1980s Southern African export performance has been weaker than the 1970s and beset by increased regional difficulties. Growth rates have slowed down in the Southern

African economies and import capacities have been more strained. Transport route problems have added to C.I.F. costs and created delays in shipment, especially for Malawi. This has occurred while competition has increased. The general situation, however, requires specification. Differences exist between the countries and in their export potential for non- traditional goods as well as their capacities to supply regional markets.

40. Basic country data on export trade in Southern Africa, especially non-traditional goods, are given in Annex 4, Tables II - XXI. These data are the best that were available to the Mission. They appear most robust for Zimbabwe, the largest economy and exporter as well as the most important importer/ exporter of non-traditional products in Southern Africa. Indeed, that country's trade nexus is identifiable as the core of any matrix for non-traditional trade. Hence it may be used as a major reference point to depict the present regional situation (as based on the latest data, 1982).

41. Zimbabwe's external trade experienced a one-time sharp boost following Independence in April 1980 as sanctions were removed and the terms of trade improved (due to export price discounts and import cost premiums falling away). Domestic exports rose to Z$888 million in 1981. However, at this time a number of negative factors affected exports - a high exchange rate, transport route capacities and difficulties, port inefficiencies, discord with RSA over the Preferential Trade

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Table 1

EXPORT POSITION IN SOUTHERN AFRICA, 1981

(US$ millions)

Country	Total Exports	X/GDP (%)	Growth Rate 1/ 1970-80 (%)	Estimated Mfg. Exports	Mfg/Total Exports (%)
Botswana	355	42.8	26.7	45.0	12.6
Lesotho	46	15.0	18.9	2.0	5.0
Swaziland	341	53.0	7.8	55.0	16.1
Malawi	282	22.3	15.7	15.0	5.3
Zambia	1 055	44.0	1.2	11.0	1.0
Zimbabwe	1 385	23.4	14.1	359.4	25.6

Sources: IMF, International Financial Statistics, 1982; IBRD World Development Report. National Sources.

Notes: X = exports; Mfg = manufacturing

1/ = Annual average growth rate, % p.a. (current prices)

Agreement and recessionary conditions (notably for minerals). In 1982, exports were only worth z$807 million. Nonetheless, Zimbabwe's exports remained a major element in the Southern Africa profile and were relatively well diversified (with 25% in manufacturing categories).

42. Zimbabwe's exports to Africa in 1981 are shown in Annex 4, Table II while imports are given in Annex 4, Table III - both identified by SITC sections. Over 65% of exports to Africa (excluding RSA) were directed at Southern Africa with which a trade surplus has typically pertained. South Africa has been and remains the country's major trade partner.

43. Zimbabwe's non-traditional trade (SITC 5 - 9) with Southern Africa for 1982 is shown by country and Section in Annex 4, Table IV. Exports to the five other countries amounted to Z$67 million in 1982. Of this 56% was in non-traditional products. SITC 6 and 7 have been the main categories. About 43% of Zimbabwe's imports from Southern Africa were in non-traditional goods (value Z$31 million). However, a significant share related to nickel matte from Botswana. For this item financing arrangements are already in place.

44. Southern Africa constitutes the largest share of Zimbabwe's trade in the SADCC region (72% exports, 89% imports). Exports to the latter area only constituted 11.5% of total exports in 1982 while imports were 7.4%. In 1980 Zimbabwe's

share of total exports to PTA countries was 5.8% (imports 6.4%). Neither Lesotho nor Swaziland - both non-contiguous - have been significant trade partners with Zimbabwe in non-traditional goods. Even so, Zimbabwe has been the largest market and potential buyer of these products in Southern Africa.

45. The principal non-traditional items traded in the region have varied by country (see Annex 4, Table V). Intermediates and capital goods have been bought by Zambia while BLS demand has been for consumer products. On the import side, Zimbabwe demand has largely been for products which do not require long-term finance.

46. Zimbabwe's capacity to provide a much wider range of non-traditional products than actually traded is evident from its production capacity and current export spectrum (see Annex 4, Tables VI and VII respectively). Estimates made in 1982 indicate that around $92 million in manufacturing export sales might be realized provided foreign exchange inputs would be available. Spare capacity has been available for exports at these levels for some time. A considerable number of export industries produce goods which are currently imported by the Southern African countries and elsewhere in the SADCC and PTA regions. A number of products would be candidates for medium and long-term finance while many others could readily benefit from terms (notably maturities) more favorable than provided under existing Reserve Bank regulations (requiring export remittance in 90 days,

except for certain sales under the IBRD Export Promotion Project allowing 180 days).

47. Not only is the manufactured product range in Zimbabwe wide and export capacity available, but modest export incentives are provided and a scheme for foreign input acquisition exists. Restrictive export credit facilities applicable locally, however, hamper the full utilization of these advantages, notably for post-180 day credits.

48. The competitiveness of Zimbabwe's manufactured products influences potential regional export market contract realizations. This situation has been affected adversely over 1980-82 by the exchange rate level (partly corrected since December, 1982), rapid increases in labor costs (now abating), and decline in manufacturing sector productivity. A 1983 evaluation of the manufacturing sector, however, concluded that Zimbabwe is still an efficient producer of many manufacturing products.[1/] Even so, to secure additional contracts Zimbabwe manufactures must compete more vigorously and be made more efficient. One element lacking in the present potential competitive package is an appropriate export credit finance facility. Individual manufacturers are not in a position to alter this predicament.

1/ D.J. Jensen, Government Policy and the Manufacturing Sector Ministry of Industry and Energy Development, Harare, 1983.

49. Zimbabwe's competitiveness in supplying non-traditional products in the Southern Africa market must therefore be based on increased support for the export sector combined with continuous policy adjustment. Even then, there will be difficulties in breaking into selected markets because alternative suppliers operate with larger scaled production units (with lower unit costs), and have established reputations and clientele. Moreover, a growing share of trade in this export market segment, notably for capital projects, nowadays functions with concessional finance or multilateral co-financing, so causing some constraint on the non-tied element of import demand.

50. Notwithstanding these difficulties, informed observers in industry and trade finance (from merchant banking, commercial banks and export credit institutions) hold the view that Zimbabwe's potential exports to neighboring and other African territories could be much augmented by bridging finance and export credit facilities. While no simple trend projection is possible (see Annex 5), export values of Z$30.0 million and Z$15.0 million (1984 prices) might reasonably be placed on increased trade in Southern Africa and "other Africa" respectively. Growth in additional regional non-traditional trade thereafter could be anticipated at perhaps 10% p.a.

51. In Botswana, export receipts have fluctuated since 1977. They grew relatively slowly up to 1978 when international prices of copper and nickel were depressed, while domestic production

was hampered by technical difficulties. Diamond prices and output increased only modestly while foot and mouth disease adversely affected beef exports. Imports, on the other hand, continued to grow rapidly at almost 17% a year, thus leading to a widening trade deficit, which reached about 10% of GDP by the end of 1978. The situation reversed dramatically in 1979 when both domestic production and international prices of diamonds were high, the EEC markets reopened for Botswana beef exports, and copper/nickel prices recovered. In 1981 diamond exports fell by 40% (or P 92 million). This loss was not fully compensated by a more than doubling in beef exports. The current account deficit rose sharply from 9% of GDP in 1980 to an estimated 24% in 1981. Capital inflows did not fully cover the current account deficit and foreign exchange reserves fell by P 32 million to about 4.5 months of imports at the end of 1981. Recovery continued in 1982 with total exports for the year at P 440 million. Import cover has risen again to around 6 months.

52. Botswana's export profile has been strongly conditioned by trends in traditional products for which credit facilities have been established and are non-problematic (notably diamonds, nickel, meat). Estimated manufacturing exports (including textiles) probably amount for no more than P 50 million (1983). The total of Botswana's non-traditional export base is small, especially that in need of medium term finance over 180 days. But manufacturing is expanding at a high rate - strongly encouraged

by government policy, industrial incentives, the investment climate, open access to SACU combined with PTA membership and proximity to the larger Zimbabwe market.

53. Botswana's trade with Africa (Annex 4, Table VIII) has been strongly linked to RSA and Zimbabwe (R. 20.5 million, 1981). Zimbabwe took 59% of exports (excluding RSA) in that year. Imports are likewise heavily weighted from these two countries. Zimbabwe supplied 95% of Botswana's Africa-derived (non-SACU) imports in 1981.

54. The Botswana import profile shows strong reliance on SACU products (notably from RSA). To an uncertain extent, some categories might be competitively available from Zimbabwe if in future better credit terms prevail. Import demand is in fact considerable (R 695 million) and probably 50-60% is found in SITC categories 5 - 9 inclusive.

55. On the non-traditional goods export side, Botswana has a widening range of products on offer, in limited scale, concentrated in the light industry segment of manufacturing (see Annex 4, Table IX). Only a small element probably requires medium-term export finance per se while Botswana is, in any event, in a position to offer 180 days credit. More critical to exporters are the payments problems in importing neighboring countries which limit their willingness to take exposure and absorb increased payments risks over lengthy periods. This

has been the widespread experience vis-a-vis Zambia. Another major feature of exports is the large element of textile trade, a component normally financed on trade credit of under 180 days.

56. How far Botswana manufacturing exporters might compete in regional markets is an open question. Market research has been undertaken to identify selective lines since the country cannot expect to compete across the non-traditional goods spectrum. Already, there appear to be some reasonable market prospects in certain Southern African countries provided protectionist influences are held off, transport routes remain open, and payments arrangements can be secured. The policy of exchange rate flexibility adopted by the authorities should help as will incentives provided, but the scale of operations currently feasible still remains very small, making the overall sector rather vulnerable in export markets. About $7.5 million in additional exports, assuming improved credits to customers, has been estimated for Botswana vis-a-vis all markets in Africa. Most would be in Southern Africa.

57. Swaziland's economy has a strong export trade orientation (value $282 million, 1982), mainly in primary products (notably sugar, woodpulp, asbestos, coal, fruit, meat, electronics and chemicals). Most trade is covered by normal commodity finance arrangements or else it goes to RSA (part of the RMA). Export growth was strong up to 1981 but fell off sharply in

1982 (see Annex 4, Table X). Swaziland's imports are significant in non-traditional product categories but at present these are mostly supplied from South Africa. This facet does not imply any easily accessed market for Southern African exporters.

58. Swaziland's trade with Africa (excluding RSA) - see Annex 4, Table XI - is limited, espcially in non-traditional categories. A major item is asbestos (to Zambia), financed under a bilateral payments agreement. Swaziland's trade with Lesotho is minor. Swaziland's export profile is, however, partially competitive with Zimbabwe except for selected items and markets (e.g. the "Swazi" tractor and relative to Southern Mozambique - Maputo being under 100 km from Swaziland). Nonetheless, future export trade prospects are considered reasonable because of industrial efficiency and cost structures, the strength of reserves, and the country's flexible exchange rate. However, already 123 days credit is on offer and only a small portion of total transactions involve medium-term finance requirements.

59. On the basis of general assessment, soundings taken with financial institutions handling Swaziland's exports and discussions with the Central Bank, it appears reasonable to anticipate that Swaziland could build up an additional $14 million in exports if credit facilities were available to alleviate the position of regional clients.

60. Lesotho remains an enclave economy inside South Africa.

It is a member of the RMA, SACU, SADCC and PTA. Total exports are very small ($42 million, 1982) and even more so in regional terms with probably under $2 million in (light) industrial goods, largely destined for trade with South Africa (see Annex 4, Table XII).

61. Export growth for Lesotho has been dependent on the diamond, wool and mohair markets. No exceptional commodity finance difficulties are involved on these items nor in other non-traditional goods.

62. Lesotho's trade with Southern Africa is miniscule on the export side and minor on the import side. This position appears unlikely to alter significantly in future given import and manufacturing capacities (relative to domestic demand), transport costs and the scale of local enterprises.

63. Lesotho's industries are little match for larger buisnesses, even in Southern Africa. A generous measure of export potential in this area would be ± $0.5 million (1984 prices). There appears little realistic prospect of local industries requiring medium-term export finance, at least beyond that which would be possible to organize on a normal commercial basis.

64. Zambia has experienced increased economic difficulties in the 1980s which even improvement in copper prices will not quickly alleviate. Export values (K 864 million, 1982) have

declined since 1979, by about 23% in current price terms alone (see Annex 4, Table XIII). This situation has seriously strained import availabilities and created payments delays (variously 24-26 months). The latter has consequently emerged as a major blockage to Zambia's role as a potential market for (regional) non-traditional goods, especially where buyer credit facilities cannot be offered.

65. The product concentration in Zambia's exports is very high - with copper, cobalt, lead and zinc accounting for 96.3% of total. Exports in non-metal manufactures are extremely small (probably under 1% of Zambian exports). One major item has been electricity sales to Zimbabwe ($25.5 million, 1981). Other items include lime, cement, gravel, bitumen, petroleum products and insulated wire. Almost no items are candidates for long term finance.

66. Zambia is nonetheless a large potential market for Southern African non-traditional exports - provided credit and payments issues can be resolved. This is well evidenced by the country's import demand structure (see Annex 4, Table XV). Despite foreign exchange shortages, Zambian imports exceed K 1.4 billion (1980) and sizeable elements are in SITC 5 - 8 categories. Should Southern Africa producers of these goods be in a position to offer credit facilities - as other countries now do - then they would be able to substitute in the market for existing import contracts. This would amount to exports

secured via "trade diversion" rather than "trade creation". Positions would need to be monitored vis-a-vis commitments outstanding, maturities of credits and payments risks.

67. The preoccupation of the Zambian authorities with improvement in economic management, reduction in the arrears on trade obligations, debt service and the balance of payments make it unlikely that any major effort will be placed on the development of non-traditional exports. In the first place most industries are unlikely to offer products to external markets given unsatisfied domestic demand and industrial non-competitivity. Input scarcities, skills shortages and management problems compound these difficulties. Consequently, an estimate of additional export generation in this area could reasonably be set at $6.0 million.

68. Malawi's domestic exports reached $217 million in 1981 following solid growth since 1978. As with other countries, exports have slipped considerably in 1982 - largely due to port difficulties, shipment problems and delays, plus a decline in sugar exports (see Annex 4, Table XVI). Non-agricultural exports are typically about 12% of total and as much as 35% of this is for cotton fabrics.

69. Malawian exports to Africa, excluding RSA, (Annex 4, Table XVII) are worth about $40 million (1981). Zimbabwe takes more than half of this trade. Country diversification is reasonable but the volumes are very small, except for Zambia

and Mozambique, and in the main trade is confined to traditional or agro-allied products. Southern Africa accounts for nearly 50% of Malawi's Africa exports, mostly vis-a-vis Zimbabwe.

70. Malawi's major non-traditional trade links (Zimbabwe and Zambia) accounted for about MK 16 million in exports and MK 20 million in imports in 1980 (see Annex 4, Tables XVIII and XIX). The volume of transactions requiring medium term finance over 180 days (currently offered via the Reserve Bank of Malawi) remains small. Nor is significant growth foreseen except in so far as buyer credits (notably for Zambia) would promote higher levels of export demand. The ability of Malawian manufacturing to generate an adequate supply of goods in those categories needed (and requiring export credit finance) has become more constrained by domestic market needs and input supply problems.

71. Malawian manufacturing is still small-scale, and domestic market oriented (about 20% going for export), biased towards light products and with little requirement for specialized finance. The local market itself is limited, industrial efficiency is modest and there are shortages of skilled personnel for significant expansion into non-traditional export spheres. Lack of low-cost energy and high transport costs, coupled with transport vulnerabilities, makes the short-term outlook unfavorable. Few industrial projects in the pipeline at present have export capacity in non-traditional products, plus price and quality competitiveness combined with acceptable internal rates of return.

72. The Malawi Export Promotion Council (MEPC) has surveyed various external markets, including Zambia and Zimbabwe in 1981. While conditions have altered subsequently, there are still considered to be selective trade prospects in these areas. But these are largely for consumer goods in small quantities with shorter term financial requirements. On the basis of discussions with MEPC, commercial banks, the Reserve Bank of Malawi and business houses, it was concluded that around $4.5 million additional exports could be generated for Malawi if suitable finance facilities existed.

Associated Regional Trade Flows

73. The Southern African countries operate significant trade flows between themselves and neighboring countries. Precise data on all these flows are difficult to determine but in essence they relate to trade with PTA countries (and Zaire) or with South Africa. Some of these transactions have been specified in Annex 4, Tables II - XIX. The more significant trade, however, has been and remains with South Africa. Information on these items is often scant and either made difficult to identify in national statistics or because much RSA-Africa trade data are aggregated (and in many cases relate to the SACU not RSA per se). Nonetheless, a perspective on the dimensions involved provides information on maximal potential trade diversion prospects. Such possibilities, however, will only be realized in the long-run if Southern African competitiveness in non-traditional product

supply (e.g. price, quality, delivery, spares back-up, security of supply, etc.) can be fully assured. This position is a long way from being applicable.

74. Table XX (Annex 4) identifies trade relationships for exports and imports vis-a-vis South Africa. The latter is the major trade partner in the case of imports for BLS countries as well as Zimbabwe (and more recently Zambia). This trade amounted to about $1.8 billion in 1980. Even a small share shift would represent an important proportionate increase in intra-Southern Africa trade volumes.

75. On the export side, Southern Africa relies significantly on RSA markets - for an estimated $600 million in exports for 1980. A sizeable share of this trade has been in non-traditional goods, at least in the Zimbabwean case.

Export Credit Needs

76. If Southern African countries are to trade more efficiently in African markets and improve export performance, credit facilities now available will need to be modified, put on a competitive basis, and be expanded in amounts. Improvements are required in terms in both rates and maturities, especially for post-180 day paper. Currently, these facilities are not readily secured.

77. It is not possible to determine with accuracy future export credit finance needs for non-traditional goods in Southern

Africa, simply on the basis of export projections. Trade flows are imprecisely specified. Data are lagged. Disaggregation of product flows into traditional-non-traditional is not reliable. The sources and destination in the credit pattern are unknown. New markets secured by trade diversion can only be inexactly assessed. Despite these qualifications and based on the general points noted in Annex 5 plus discussions held with financial institutions in Southern Africa, London and Washington, potential non-traditional additional exports have been estimated for 1984 at around $85 million (on the assumption of export credits being available). About 60% of these exports would be within Southern Africa. In the case of the "major exporters" in the region (Zimbabwe, Swaziland and Botswana) additional exports could be an estimated at $74 million with $45 million related to Southern Africa. Assuming, furthermore, export growth at 10% per annum, additional exports could expand to an estimated $200 million by 1993 ($175 million from the "major exporters").

78. It might reasonably be expected, however, that only part of this trade expansion would require export credits. Two different scenarios (with requirements put at 60% and 80% of export growth), and taking only "major exporters" as representative of a baseline figure, show that between $45 - $60 million might be considered to represent export credit demand in 1984. Under growth assumptions, this sum would increase by 1993 to around $105 - 140 million.

79. The pattern of export trade to Southern Africa from RSA cannot easily be separately identified. But Annex 4, Table XXI shows the pattern vis-a-vis Africa taken as a whole. Of this Southern Africa is known to constitute an important share. Chemicals, paper and textiles, rubber products, consumer goods, metal products, machinery and transport equipment are major items - accounting for in excess of $600 million (1981). A number of these products are already produced in Southern Africa - but not necessarily in sizeable enough quantities at sufficiently competitive prices or with associated export credit facilities. Nonetheless, there is scope implied for new market penetration in the region if Southern Africa gears itself to this economic objective.

Export Credit Mechanisms

80. No regional export credit mechanism on BLADEX lines exists in Southern Africa. Export credit is provided on a national basis and only Zimbabwe has an export credit insurance corporation. Moreover, only this country amongst the six has a developed money and capital market with discounting facilities and a substantial financial structure.

81. Export finance in the region has typically been provided in a number of ways, e.g.manufacturers carrying customers out of own resources, by use of local banks and acceptance facilities, through paper re-discounted via central banks (e.g. in Zimbabwe), or through Third Party Letters of Credit (required

in the case of countries considered to portray too high a payments risk). In all circumstances the state of the economy plays a major part in the capacity to offer appropriate terms. The disposition of the Central Bank, the size of international reserves, currency convertibility, and the payments record of the debtor influence credit decisions. These circumstances are not uniform in Southern Africa.

Zimbabwe's Mechanisms

82. Regulations governing import payments and export proceeds for Zimbabwe (and other Southern African countries), as reported to IMF, are given in Annexes 6 - 11. These regulations relate to the beginning of 1982 and may have partly altered in the interim.

83. The operative export credit constraint in Zimbabwe is 90 days. Thereafter, permission to offer credit is only granted by exception on a case-by-case basis. However, the IBRD Manufacturing Export Promotion project loan provides for up to 180 days credit to be given although not necessarily in all cases. Reserve Bank's 90 day limit has been applied in the past because of the tight balance of payments situation. This appears unlikely to alter substantially during 1984-85. The policy has yielded expeditious receipt of export earnings but (according to IBRD, government and other institutions) it has adversely affected contracts in neighboring markets. The Reserve Bank has recently agreed under the IBRD loan to review the

(irrevocable) Letter of Credit requirement (i.e. confirmed by overseas banks) vis-a-vis importers in selective regional markets.

84. The Reserve Bank of Zimbabwe has declared its interest to enhance the country's export credit capacity and would like to install expanded facilities for manufacturing exporters. In the event of establishment of an offshore Facility, the Reserve Bank would at an appropriate time consider depositing a portion of its externally-held reserves with the Facility, provided competitive terms were on offer. The requirement of equity participation in a Facility is not viewed as a problem. Indeed, official attitude to a multi-bilateral Facility is generally positive, especially in the context of its potential for regional trade integration. Zimbabwe is, moreover, fully aware of the prospective benefits available through joining such a scheme. It would in principle be willing to do so in an early phase, for example, in conjunction with one or more potential partners in Southern Africa. Consequently, the Reserve Bank wishes to be kept informed of developments in this area. Additionally, the Ministry of Finance and Economic Development exhibited a positive outlook to the objectives of the Facility. The Government appreciates the necessity for commercial principles to apply in the design and operations of any export credit arrangement.

85. One export insurance corporation exists, Zimbabwe Credit Insurance Corporation Ltd. ZCIC's operations provide

an underpinning to existing bank-financed credits since export contract insurance serves as critical collateral for advances. ZCIC has recently acquired full membership in the Berne Union (see Annex 14). Its shareholders include the major banks plus RAL Merchant Bank Ltd. and five important insurers. Activities are closely coordinated with the government through the Export Credits Reinsurance Committee which provides reinsurance for political (not commercial) risk. Reserve Bank, Treasury and the Ministry of Trade and Commerce (Chairman) constitute the Committee with ZCIC participation. Meetings are held regularly and a close harmonious working relationship, established over some years, prevails. ZCIC ensures nearly $300 million in exports annually, even after allowance for the restrictive credit policies of Reserve Bank which negatively affects the business volume underwritten. Domestic credit insurance is offered for local transactions although ZCIC's portfolio is still small in this sphere. The company is still building-up its Africa-wide experience, e.g. in Kenya and Zambia. ZCIC has had discussions with government in the past in order to generate support for long term export credits.

86. There are reports that a number of capital-goods producers have been seriously prejudiced by current export credit policies. This has applied in particular to large-scale projects involving cross-border construction and lengthy gestation periods requiring indemnity against pre- and post-delivery risks (often split

20/80 in respect of payments). Prejudice arises equally if import costs exceed external expenses since here Reserve Bank requires that equivalent proceeds be covered locally, so placing Zimbabwe's exporters at disadvantage vis-a-vis those countries without stringent exchange control. Equally, the existing inability to finance post-delivery credits in the Consensus Range (7.25 - 8.5% for capital items) makes exporters uncompetitive since repayment terms (interest and maturities) nowadays dominate price, quality and service considerations. Contracts in Mozambique, Zaire and Tanzania have reportedly been forfeited on these grounds.

87. Export insurance cover applies to about 50% of total manufactures destined for Malawi where most imports are in the consumer goods range. Exports to Botswana are seldom in the capital goods range and trade with Lesotho is negligible while Swaziland has exhibited a textile ("rag" trade) demand pattern. Zimbabwe could increase its trade with Zambia, in intermediates and capital goods, provided eventual repayment was forthcoming.

88. Zimbabwe also makes use of New York acceptance facilities on competitive terms (50 basis points on prime). But this mechanism applies only for typical trade transactions (i.e. traditional flows to conventional markets) and the companies involved are usually highly rated. Extension of such facilities would not satisfy the rate and maturity aspects of credit requirements Zimbabwe now needs in order to competitively supply export contract finance.

89. The Zimbabwe financial institutional structure is particularly well positioned to adapt to an export credit finance facility. An initiative would be widely welcomed and it would represent a logical extension to the prevailing institutional pattern (see Annex 12).

90. A variety of observations have been noted by local financial institutions in Zimbabwe. These include the following points about a proposed Facility (and the operating environment):

a) Several local financial institutions would actively support a domestic export credit facility, properly structured and managed for the benefit of existing exporter clients (and ultimately others), provided also that the impact was well-received in government-quarters. Already with well diversified shareholders including government (via Zimbabwe and the Industrial Development Corporation, IDC) the ZCIC would be interested to add the local Facility to its functions and, with assistance, make the necessary changes to its operations, management and perhaps equity partners. An essential element for all institutions expressing interest in involvement would be the commercial orientation of credit decision-making, high-level management expertise in the Facility, and the need to avoid additional bureaucracy. Several institutions would consider managing a local Facility under contract even if the Facility was owned by third parties, say with 20% public sector participation via Reserve Bank.

b) Any local Facility established should be placed in the hands of an experienced group, whether existing or under consortia, having exporter clientele, a proven track record, capacity to take on additional specialized effort, and with undisputed confidence amongst financial institutions. The "external rating" of the managers in any local Facility would be vital to the operational success of the entity and the scheme as a whole.

c) Zimbabwe's interest rate structure - now variable and with commercial bank credits at 13% - does not practically permit fixed rate financing (a disadvantage in the provision of export credits), since the rate can only really be set for 2-4 months, and it is at too high a level for competition against typical OECD Consensus Rates set on fixed terms around 9-10%. Buyer countries (e.g. Malawi and Zambia) dislike the variable rate since at "rollover" the rate can rise. The present ability of banks to finance at (say) 10% would exist if a Third Party could provide the differential to make up the total rate, e.g. to Prime (or London Inter-Bank Offered Rate, LIBOR) plus a sufficient interest spread. Any prospect of present domestic interest rates falling is small given the real negative interest rate applicable of around 3 - 9%. A Facility to provide a "top-up" on rate differentials as well as ensure fixed rate stability for buyers would involve a major improvement in Zimbabwe's export competitiveness.

d) Proposals for the formation and support of a Zimbabwe Export Promotion Cooperative, with exporters as shareholders, should be welcomed as complementary to the development of a Facility.

e) Exporters themselves are generally reported to be willing to extend more than 90 days credit to buyers and would take greater risks than Reserve Bank regulations imply. In any Facility, contingent recourse to exporters would, and should, be applicable for medium and long-term credits.

f) Features related to the operating environment include:

- On establishment of a Facility, contemporary cash-in-front ("c.i.f.") terms now required of Zambia and other markets would be eased and would yield immediate improvement in export orders since a number of companies hold stocks which could be rapidly sold while undercapacity also prevails. Zimbabwe would, moreover, be better placed in open tenders for IBRD and EEC projects in African countries. (Zimbabwe already benefits from bidding access for USAID contracts for third countries in Africa).

- In the Zimbabwean case, the finance of the import content of exports (sometimes 30 - 40% for manufactures) is critical. While not specifically addressed by the Facility, this problem requires continuing efforts for it to be resolved.

- If countries in Southern Africa with "payments pipelines" provided preference in settlements to other neighboring countries, this could facilitate regional trade. However, non-privileged creditors would not readily approve of payments discrimination. Even so, more could be done for intra-regional trade by the proper application of existing trade agreements (e.g. with Malawi and Botswana) and avoidance of selective protectionism (viz. bans and quotas) on an ad hoc and unilateral basis.

- Concern exists in Zimbabwe about the import allocation mechanisms in certain neighboring countries (e.g. Zaire and Zambia), viz. that they are in apparent disarray, so posing a risk to the proper working of a system dependent on administrative order. Moreover, banks normally require at least a Foreign Currency Undertaking from the (Central) Bank of Zambia- effectively a guarantee, if the importer is a parastatal. A similar requirement now applies to Malawi.

- Additional exports in manufacturing industry would help support employment levels especially in clothing, footwear and agro-allied sub-sectors while there has been much interest expressed in neighboring countries in the products of large Zimbabwean engineering firms (e.g. Moreware Industries, Zimbabwe Engineering Company, Issels, N.E. Cochrane, South Wales and others.

- Unless Zimbabwe competes on export finance - i.e. offers "soft terms" - it will inexorably lose its "natural markets" since "forex-short" economies will place increasing priority on the financial package associated with contract bids.

- Notwithstanding the need for export credit policy modification and development in new facilities, the more fundamental issues of generating increased foreign investment in manufacturing - to provide modern plant, technology and new products - are essential to the long-run security of the manufacturing export sector. External investment is equally vital to the domestic market in respect of lowering costs, improving quality and widening product choice. Higher levels of business confidence are pre-requisites for this additional investment.

- There is little confidence that mooted Clearing House arrangements (under the PTA or even bilaterally) will be installed rapidly enough, or be operationally effective in sufficient volume, to substantially assist exporters to participate in the prospective upturn on international markets. In any event, these arrangements do not generate additional exports. Nor are government-government countertrade propositions a wholly satisfactory substitute - inter alia for reasons of delays in establishing deals, inadequate scale and existing bureaucracy requirements (a Committee now oversees contracts under Ministry of Commerce and Trade auspices). Experience of the $3 million arrangement proposed with Tanzania has not reportedly been fully satisfactory. In addition, that country has little to offer Zimbabwe.

Botswana's Mechanisms

91. Botswana's monetary and exchange control authority, the Bank of Botswana, only requires the remittance of export proceeds within 180 days, as a general rule. Exceptions, rare as they

appear, are considered by the Bank and will often be granted, dependent on the transaction and wider situation. Botswana's strong currency and high level of international reserves - 6 months of import cover and sometimes more - permit a liberal policy while actual demand for longer term facilities, in manufacturing exports, is still minor given the character of the industrial base and the significant share of exports flowing to RSA with which commercial facilities are readily arranged.

92. Botswana's attitude to a Facility would be positive although its usage would be modest and in respect of shorter rather than longer term finance. The Bank of Botswana would be able to take an equity position offshore as well as place international reserves, on appropriate terms, with any Facility.

93. Potential use of a Facility could depend on the re-opening of markets previously closed-in after payments problems, e.g. beef sales to Zambia (replaced by purchases from Australia), provided assurances on payment were acceptable. While these transactions could involve traditional goods, flexibility in any Facility to allow for such possibilities would encourage Botswana's participation.

94. Botswana's longer-term capital goods export finance demand will inevitably be weak given its economic size, requirements and SACU membership. Rates of return do not favor such investment choices in Botswana. However, aid agency restrictions on South African purchasing (e.g. by SIDA and ADB) will

influence selected import procurements and this could hold ramifications for neighbors with supply potential.

95. Non-traditional goods with export potential include office furniture and wood products, certain textiles, candles manufacturing, refrigeration equipment, brake linings, and perhaps at a later stage products derived from the development of the country's large coal and soda ash deposits. While exports of these goods are likely to be limited in volume at least initially, in time Botswana can and should improve its performance in non-traditional exports.

96. Certain relevant observations indicated by the financial and business institutions in Botswana deserve to be noted:

a) While Zimbabwe should be well placed to export to Botswana, it is not well organized to do so. Too little marketing is undertaken and the Zimbabwean export "delivery system" is weak. Moreover, telephone links are not yet on the STD automatic system, a major liability.

b) The Pula's convertibility would be an asset to any export credit scheme dependent on "hard currency" components.

c) While Botswana lacks an export insurance company, functions related to a domestic facility component of a scheme for export credits could be undertaken by the Botswana Development Corporation Ltd. (BDC). The BDC group has 28 subsidiaries, and is invested in manufacturing. It has government equity participation (through the Ministry of Finance) but operates on strictly business criteria. Alternatively, ZCIC would be willing to investigate ways and means to provide Botswana with commercial cover (and political risk insurance as well). Equally, the major banks in Botswana - Standard Bank of Botswana and Barclays Bank of Botswana - would positively examine participation in any appropriate scheme.

d) Botswana based businesses are keen to develop local financial markets and an export credit facility would be a step in this direction.

e) The main use of an export credit facility of this type would be to limit country risk and exposure through buyer credits.

f) Botswana has examined prospects in alternative regional markets, notably in Malawi, Zimbabwe and Lesotho. In aggregate these markets will not replace traditional outlets but could be useful adjuncts to the export base especially in selected industries, e.g. textiles, candles, refrigeration equipment and brake linings.

g) Botswana is in a unique position to export flexibly in several directions. This facet should contribute to the strength of potential transactions financed under any Facility.

h) The trend in countries such as Zambia and Malawi to restrict future imports to "essentials" (while holding back payments for non-essentials) complicates regional trade and has diminished business volumes.

i) Establishment of a Facility would assist Botswana to diversify its export markets, considered a necessary requirement for the longer term.

Swaziland Mechanisms

97. Exporters may not waive or delay payment of more than six months after shipment or 7 days after accrual. There are no restrictions on products that can be exported or limits for countries to which exports may be made. In general, exports are satisfactorily financed through existing channels and institutions, principally Barclays but also Standard Bank. The Central Bank of Swaziland is permitted to extend refinancing facilities to other financial institutions for periods up to 123 days. The rationale is to limit risk exposure but undoubtedly the provision inhibits exports.

98. Swaziland has a reciprocal credit facility with the Bank of Zambia for defined goods. Zambian trade is mostly conducted through this arrangement. The mechanism has operated for 4 years, largely unilaterally in direction, to finance Swaziland's asbestos, timber and poultry exports, In November, 1982 the credit was increased to E 3 million (the Bank of Zambia requested E 5 million) and woodpulp was added to the list. On occasion trade values exceed the stipulated limit. Bilateral arrangements with Kenya and Malawi are unused while proposals made in 1979/80 towards Mozambique have not been taken up.

99. The Central Bank of Swaziland has a firm view that exports could be much augmented if credit problems were not the operative constraints. It estimates that possibly E 22 million (± E 7.5 million each 4 months) could be added to current export levels, including exports of the "Swazi tractor" to agro-based economies. Given the credit situation, however, the Central Bank has been advising prudence in credit exposure to high risk countries.

100. The Central Bank was strongly receptive to proposals for an export credit facility. It could place equity abroad in such a mechanism and would be amenable to deposit some foreign reserves with any Facility, on competitive terms.

101. With adequate reserves (in excess of 3 months import cover), a strong currency, very high credit rating in international markets, no payments problems, and with borrowing access of good terms, Swaziland would be an asset to any multilateral scheme. In practice its usage would be limited by remoteness and transport constraints.

102. Various additional aspects identified by local financial and investment institutions deserve mention:

a) Swaziland has export capability towards Southern Africa, e.g. in chemicals, electronics (eventually), tractors, asbestos, processed foods and concentrates, canned fruit, pulp, zips, timber and refined sugar. This trade could grow over time although only part requires long-term (supplier credit) export finance.

b) Various registered financial institutions would welcome participation in a domestic facility (including even a direct equity stake in the case of Tibiyo Taka Ngwane, the investment arm of the traditional authorities). Participation by other broader development institutions, without exporter-links, however, would be unnecessary given the country's size.

Lesotho's Mechanisms

103. The Central Bank of Lesotho controls external transactions with current payments delegated to Commercial Banks. Non-traditional exports are very small. Those exports destined outside South Africa to Southern Africa are a fraction thereof while credits for RSA- trade present no difficulties. Export credit facilities for Lesotho, as envisaged in the Facility, would be uneconomic and probably remain under-utilized to an exceptional degree, given associated equity requirements and other obligations. Lesotho's involvement would thus be basically unviable. Even with Lesotho's Maloti having essential strong characteristics, the country (unlike Swaziland, similarly placed) does not exhibit similar commercial borrowing capacity and its market borrowing rating would not add to the net aggregate position for pooled funds.

Zambia's Mechanisms

104. Zambia continues to be a minor exporter of non-traditional products, especially towards Southern Africa. This is

recognized by the (Central) Bank of Zambia which explicitly prefers that new projects focus initially on the development of export industries. Here new venture finance might prove useful, a function not envisaged in the present Facility. The Bank's attitude to the Facility is therefore that Zambian membership now is probably premature. Phase II participation could be considered once suitable export industries have been developed.

105. Zambian exporters require to be licenced while nominal capacity to offer credit is set at 180 days, in excess of need in the case of most products. Irrevocable Letters of Credit are mandatory for all exports. Under a recently introduced scheme 50% of export proceeds are available in a Bank of Zambia account designated for use by the exporter (for raw material imports).

106. The position of copper producers is established as a unique category and export credit finance is not required in this quarter. The Ministry of Finance recognizes the need to alter Zambia's foreign exchange sources - away from copper - and it is pursuing an IBRD Export Promotion Project (similar to Zimbabwe's). Again, the emphasis will be on establishment of an export base, an approach that is strategically different to the present concept. Zambian efforts are also directed at changes in payments mechanisms and establishing bilateral accords, e.g. between Zambia and Tanzania. Here, however, there remain problems of fixing exchange rates for clearing.

107. Existing non-traditional exports are not only small in amount but are reliant mostly on short-term finance. This includes refined product (premium grade fuels) for Tanzania, and occasionally Malawi; sugar for Zaire (mostly illicitly traded); bitumen; lime for Northern Botswana; copper wire and mine spares for Zaire; and selected types of timber for Zimbabwe.

108. Zambian banks provide or use credits in various forms. Local letters of credit are written for the mines. Third Party instruments are likewise employed while certain exporters turn to Confirming Houses which take on their risks, some at large margins (e.g. 5 - 7% above base rate). Alternatively, multi- or bilateral aid funds are used. In practice, most credits fall under 90 days although formal provision nonethless allows for 180 days.

109. In addition, financial institutions in Zambia indicated a number of pertinent points vis-a-vis the local situation as well as implications thereof for Southern African countries:

a) Regional non-traditional exports remain highly restricted (e.g. for bitumen, clothing, furniture) and cannot be essentials. Many exports are non-competitive. Imports are subject to severe restrictions. (see Annex 13).

b) The 50% foreign exchange retention allowance for exporters in effect only applies in small measure, with marginal result. Re-imbursement does not appear to be automatic.

c) The "payments pipeline", built-up since 1979 for trade items, has resulted in the foreclosure of all trading on open account. Letters of Credit may only be opened if foreign exchange is guaranteed. It is not yet fully evident that the quarterly exchange allocation system, recently installed, functions smoothly and that maturities will be met on due date, as arranged under the IMF aggrement.

d) Most manufactured output does not meet domestic demand and hence for some time there will be no export surplus available in this sector. Export finance is considered, quite widely, to be "the cart before the horse" in the Zambian case. Moreoever, because of severe input supply problems, guarantees on export supply performance must be considered unreliable.

e) Import allocations have been issued without linkage to the importers' banks. The latter have not, of late, had sufficient authorized lines of credit to cover import authorizations already allocated.

f) Local banks are not always certain of the Bank of Zambia's regulations which alter considerably and at short notice. The Bank's policy intent is not well known and the reasons for changes made have varied from time to time. The administrative flux is believed to relate to the hard-pressed foreign currency position.

g) Manufacturing exports are only a medium (but more likely), long-term option at best. The import substitution orientation of industrial activity and mine-related character of much of this sector reinforces this outlook while quality and competitiveness of products would be severely tested in international markets at present.

h) Zambia could function as a (buyer credit), user in any Facility proposed, at this stage. Such a position, however, can be achieved without initial membership and at no additional cost to Zambia in terms of equity participation.

Malawi's Mechanisms

110. The Reserve Bank of Malawi allows 180 days for export proceeds to be outstanding. Demand for longer credits is miniscule. Manufacturing is consumer-goods related, not very competitive, small in scale with local market consumption having first priority. The sector is not geared to exporting. Malawi's exports, mostly agricultural, are covered by established credit arrangements. A certain amount of non-traditional exports still take the form of "cross-border" exchanges rather than inter-country trade.

111. Efforts to improve exports are under review. The Malawi Export Promotion Council (MEPC) has initiated market research in Zambia, Zimbabwe and Tanzania. Its focus at present is on an export guarantee insurance scheme, under discussion with the Reserve Bank.

112. On the import side the requirement that payment be made after entry of goods into Malawi creates problems for exporters to Malawi. Goods normally arrive within six months

but given existing transport difficulties this has often not been the case of late. Foreign exchange payments have been delayed since 1982 - up to 4 - 5 months - although improved tobacco receipts in 1983 have helped clear some of this backlog. Reserve Bank is increasingly tending to decline authorization for import allocation requests.

113. Malawi operates a bilateral settlements arrangement with Zambia. Outstanding balances are offset in hard currency.

114. The country's access to Southern Africa markets is transport-constrained and will be so for several years to come. Commercial bank reluctance to finance certain exports is partly related to the demand involved for pre-export finance amongst a weak class of debtors in relatively high risk areas (notably textiles and cotton products). Other products (e.g. rice, beans, dahl, groundnuts, fishing flies) can be readily trade-financed.

115. Financial institutions specified a number of additional points about export credits for Malawi, including the following:

a) Malawi has not exhibited any notable success in non-traditional products export, at least at levels beyond the existing capacity to finance in post-180 day paper, destined for regional markets.

b) Malawi could best participate in the Facility as a buyer (user) country, with eventual membership held in abeyance until an auspicious moment, e.g. in Phase II.

Competitive Export Credit Finance

116. While it is recognized that the Consensus Rates provide the basis of competition in export finance in regional markets, this typically applies around a standardized set of formulae (see Annex 14 on the Berne Union). Widespread impressions of competition faced from South African exporters, suggested in consultations, imply that even more favorable terms are on offer. Examination of this issue has revealed that the commonly held view in Southern African countries is largely misplaced.

117. South African exporters are undoubtedly as concerned as any others with credit risks and payments delays in the region. Companies invariably take out cover with the Credit Guarantee Insurance Corporation of Africa Ltd. (CGICA), a private company with 25 banking and institutional shareholders including the IDA (SA). Like CICZ, the CGICA re-purchases cover for political risk through the government. The company is governed by Act 78/1956 (As Amended) and must operate on commercial principles. CGICA is a Berne Union member and abides by Paris Club arrangements in which it participates (e.g. for Zambia and Malawi).

118. Country limits are applied for Southern Africa by CGICA. Some countries have reached their limits while at times certain countries have been taken "off cover" altogether. In 1982 non-traditional products covered within "Africa as a whole"

amounted to 20% of insured exports (value R 294 million). Only one-third of all cover extended in Africa was medium or long-term (i.e. over 180 days). In that year most of the R 3.3 million borne in losses related to African risks (R 1.7 million of this was covered under CGICA's political re-insurance arrangements). Mostly these liabilities arose from transfer delays. High South African interest and inflation rates have created disadvantage. CGICA's quoted rates rose by 2% to around 9.5% in 1982, along with change in OECD rates. Exchange risk cover is offered on dollar contracts at 1%. Capital goods are exported with IDC back-up but, again, on conventional terms.

119. In respect of commercial risks alone, for 180 days, CGICA can indirectly offer cover to neighboring countries. Under these triangular transactions, the sale is nominally routed via a South African company which takes out the cover vis-a-vis the buyer as if it were a South African export. This facility is infrequently used but it offers a model to ZCIC for extension of its operations to Southern African countries.

120. CGICA's operations indicate heightened business concern over the growing political risks evident in the region. If anything, cover offered is shortening as economic difficulties accumulate. For example, Mozambique trade is on open Letter of Credit with the Bank of Mozambique, at 180 days maximum; Zaire's trade is on a revolving basis with no new risk now being absorbed. Other countries are usually limited on

maturities. Changing country ratings shift with commercial assessments and it is not automatic that cover is provided.

121. It is reasonable to conclude that CGICA offers no special competition over and above Consensus Rates. Southern African countries could consequently improve their position by moving closer to OECD Consensus Rates and by developing export insurance cover arrangements.

Financial Position by Country

122. The Southern African countries exhibit major variances in economic size, growth rates, industrial strength, external account situation, international reserves, debt service obligation and fiscal balance. These factors influence economic policy and (regional) trade opportunities as well as requirements for export credit. Moreover, the current situation in the different countries has a bearing on their candidature for membership in a Facility at this stage. Table 2 provides an overall review of selected financial indicators.

123. The evidence shows that Zambia and Malawi are in very weak positions at present, while Lesotho has been identified as an unlikely participant in any Facility. There are nonetheless special factors to be noted in respect of each country's situation.

124. Botswana has had a high-growth experience over the

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TABLE 2

Selected Financial Indicators in Southern Africa

(National Currency in millions unless otherwise indicated)

Country	GDP	Real Growth Rate GDP (%p.a.)	Current Account (+/-)	Overall Balance (+/-)	Debt Service Ratio (% XGFS)	Fiscal Deficit (% GDP)	International Reserves (months)
Botswana (Pula)	850 (1982 est)	+ 5% (1983 est)	-118 (1982)	+57 (1982)	2.0 (1982)	-5.0 % (1983-84 est)	5.8 (1983)
Swaziland (Emalengeni)	683 (1982 est)	+ 3.7% (1982)	-72 SDR (1982)	-17.9 SDR (1982)	5.7 % (1982)	-7.2 % (1982-83 est)	1.7 (1983)
Lesotho (Maloti)	720 USD 1/ (1982 est)	+ 2 % (1982)	-82 (1981)	+9 (1981)	2 % (1982)	-	-
Malawi (Kwacha)	1,356 (1982)	+0.5 % (1983 est)	-148 USD (1983 est)	-69 USD 2/ (1983 est)	34.3 % 3/ (1984)	-8.5 % (1982-83)	0.5 (1983)
Zambia (Kwacha)	3,221 (1982)	+0.0 % (1983 est)	-543 SDR (1982)	-527 SDR (1982)	50.4 % (1982)	-18.5 % (1982)	0.4 (1983)
Zimbabwe (Dollars)	6,500 USD (1982 est)	+1.0 % (1983-84 est)	-743 SDR (1983 est)	-227 SDR (1983 est)	+30 % (1984)	-7.7 % (1983)	1.9 (1983)

Source: IBRD, national authorities and estimates (est. = estimate)

Notes: XGFS = exports of goods and factor services
USD = US dollars
1/ GNP
2/ Before debt relief of USD 54 million
3/ After debt relief

long-term. It is now on a positive expansion trajectory, provides strong export and investment incentives to industry, holds a high level of external reserves and has a minimal debt service problem. The country exhibits a strong overall position in balance of payments and commands ready access to commercial monies due to its sound management. For lenders, it is perceived to present low level risk.

125. Swaziland is still growing with a strong and diversified export-oriented approach. Its debt is at readily manageable levels vis-a-vis receipts. External accounts are not substantially out of balance even though reserves could still be improved. The country has ready borrowing access and unused capacity backed by a sound-currency situation. Without payments difficulties, the country is accorded a high rating in the markets.

126. Lesotho's GDP (as opposed to GNP) is very small and manufacturing export to Southern Africa unlikely to be of significance in the 1980s. The country lacks commercial borrowing capacity and is viewed as an economy without inherent financial strength.

127. Malawi exhibits a barely positive growth rate, small manufacturing export potential and increasing difficulties exhibited in balancing its external accounts (with current account deficit at over 10% of GDP). Payments delays apply, import cover is thin and debt service obligations (even after

relief) have risen to very high levels. Rollover debt rescheduling is foreseen with no quick turnaround in performance. IMF program operations will need to become effective before economic normality is restored, e.g. there is a build-up in reserves (now only at the 2 weeks level). Malawi has IMF borrowing restraints applicable to its external debt and a debt service ratio (before relief) of 40.8% is estimated for 1984.

128. Zambia's economy is stagnant. Stringent requirements must be met before effective recovery. Payments arrears in May, 1983 were SDR 669 million and these will only slowly be liquidated. The balance of payments will be under stress for at least 3-4 years (the current account negative share on GDP was 17.3% in 1982). Foreign debt is around 90% GDP with debt service taking (before Fund resources) 53% of export proceeds in 1983. Import cover is exceedingly scant and payments arrears apply for imports (K 260 million), dividends and profits (K 77 million), interest and overdrawn Letters of Credit (K 65 million). The IMF stabilization program will take some years to have full effect.

129. Zimbabwe's growth rate has slowed up. It is likely to be negative in 1984, possibly even 1985, with prospect of an option later on a lagged basis with international recovery. The balance of payments has weakened and an IMF program will apply until September 1984. Performance should improve during this period - relative to the fiscal deficit and negative current account although debt service will be

high even in 1985. The country's manufacturing base and export capability in a wide range of products make it a key element in any Facility. No payments arrears yet apply. Economic management is improving and the economy offers the most developed financial structure of all Southern African economies.

130. Botswana, Swaziland and Zimbabwe may be identified as in a financial position to permit potential Facility membership for Phase I. Lesotho's participation looks unlikely for the 1980s. Malawi and Zambia are not recommended candidates in the initial phase but could be so, after improvement in their financial situations, in Phase II.

III. THE COFINEX FACILITY

Parameters and Principles

131. In order to structure an export credit Facility on a multi-bilateral basis, it will be necessary to base any mechanism offshore. Southern Africa has no locally available offshore center (e.g. equivalent to BLADEX's location in Panama). The creation of a Facility, proposed as a Corporation for the Finance of Exports (COFINEX), would need to be on the basis of the following parameters and principles.

132. The Facility will need to be structured so as to command both market and institutional confidence, inside and outside Southern Africa. It should have relationships to member central banks and through these to governments. Operating criteria must be commercial in character and the Facility should function as a business enterprise, incorporated accordingly. International shareholders (e.g. IFC) would be able to participate and, equally, solicitations would be made to attract acceptable names as backers and financiers. Reputable management is essential for both the external and domestic facilities. Funds raised by or for the Facility would be drawn on the basis of individual equity holders financial qualities. Hence at the outset, the most viable composite of membership must be sought. The institution, however, would remain open to additional membership at a suitable later phase.

133. COFINEX should not replicate export credit business already provided by private financial institutions. It would be an adjunct to existing arrangements, draw in additional funds, and work through the private sector. Relations with any one member country would be independent of other countries, e.g. the operations of (say) a ZIMFINEX (for Zimbabwe) would not bear on those of a BOTFINEX or SWAFINEX (Botswana and Swaziland's rubrics, respectively). COFINEX's corporate status and commercial position implies that its function would not be supranational. Its overall and individual operations must be financially viable. Credit levels would require to be monitored regularly and exposure controlled according to sound practice.

Objectives

134. COFINEX would be a specialized Facility created to finance and promote non-traditional exports from Southern African member countries, within and without the region. It would aim to provide more competitive financing terms, whether rates or maturities, to exporters in this area, and do so at a profit. The main focus of COFINEX operations would be medium and long-term credits, defined relative to members' dispositions. This would not preclude either limited traditional product finance in certain cases or the holding of short-term receivables. Portfolio management would be undertaken on the grounds of efficiency and profitability while share obligations would be held by member countries through their Central Banks (as an

indication of confidence and commitment to the financial markets). While the aim of COFINEX would be to finance intra-regional trade, and then to Africa, a share of other financing could be envisaged given the objective of developing sound transactions and the need to build-up quality in the portfolio over time.

Membership Criteria

135. Initial membership (Phase I) would be open to Southern African countries identified as suitable for immediate participation. Phase II (post-1988) would enable additional membership to be considered. Provisions in the Memorandum of Association would reflect this facet. Member countries must be in a reasonably sound financial state and able to produce a sufficient volume of non-traditional export goods, on competitive terms for quality and price in regional markets, for which medium and long-term credits are needed. Demand should exist for post-180 day credits and the lack of such credits, unavailable from normal commercial channels, should be a real constraint to existing export growth.

Concepts and Functions

136. The function of COFINEX will be to lend funds (in convertible currencies) placed with it by shareholders and lenders to finance "eligible" exports, as defined. National agencies will act as liaisons for COFINEX in the respective local markets.

They will select and propose export transactions for COFINEX approval; provide political and commercial risk coverage on the transactions and thereby reduce local credit exposure for COFINEX; facilitate local administration and operational services; and provide whatever other assistance and support COFINEX will require locally. The Facility will extend post-export "buyer" credits denominated in hard currencies with which to bridge the gap following a period of 90 days after the time goods are delivered and the date payment is effected. In effect, the F ility will make payment to the exporter at the limit of existing national restrictions and simultaneously offer the importer extended payment terms. The exporting country will receive foreign exchange on a timely basis; the importing country will benefit from extended payment terms and an attractive interest rate. The Facility will thus stimulate trade on an intraregional basis.

137. While the Facility will focus on intra-regional trade, it will also support regional exporters who wish to sell goods outside the region, either to other countries in Africa or elsewhere. By making it possible for a regional exporter to offer payment terms and rates that are competitive with those provided by suppliers from developed countries (i.e. longer terms with fixed rates), the Facility will help generate export sales from the region that might otherwise not have taken place. These transactions will earn additional foreign exchange revenues for the exporting countries and serve to diversify and enhance the geographic structure and composition of the Facility's loan

portfolio. Once the Facility has established a track record and demonstrated its viability as a lending institution in international financial markets, it can embark upon a second stage of development and solicit new sources of debt and equity from private lenders at market rates. This policy is in line with the objectives of most development agencies whose emphasis is to support projects that require initial support to get off the ground, but will eventually be viable and commercially sound in their own right.

Operating Policies and Practices

138. The following are the policies and operating practices that will shape the Facility's activities:

- Criteria
  In all of its activities, the Facility shall be guided by business criteria and be managed in accordance with prudent banking practices.

- Currencies
  All loans are to be denominated in hard currencies to avoid problems associated with the non-convertibility of many of the currencies of the region.

- Eligible Exports
  The Facility will finance only exports from those Southern Africa countries who are shareholders of the Facility. However, importers who are financed by the Facility and are beneficiaries of the Facility's programs may be located within Southern

Africa, other areas of the continent or even outside Africa.

- Products Selected
  The products to be financed must qualify as "non-traditional" goods and meet criteria to be determined by each member country. Financing for traditional primary commodities such as sugar, tobacco, maize, minerals, etc. for which well-established channels of financing already exist will not normally be eligible for financing.

- Minimum Amounts
  As regards minimum transaction amounts, guidelines should be flexible and determined on a country basis based on market conditions. (The average size of individual export transactions from Botswana for example is likely to be considerably smaller than in the case of Zimbabwe.) The Facility would seek to maintain a reasonable average size in transactions values.

- Terms of Financing
  In general, the terms granted by the Facility will conform to accepted international norms and guidelines, viz. the OECD Consensus Rates and the Berne Union.

Location

139. In order to operate effectively, COFINEX must be located in a country which has no exchange controls or restrictions which limit the free flow and repatriation of capital, dividends, interest and other payments in convertible currencies. The

country must also offer a well-established system of international law and recognized international banking practices. It must be easily accessible, operate in the same time zone as Southern Africa, and ideally share the same common official language (English).

140. The most obvious choice of location for COFINEX is London, not only because it meets all of the above criteria (and more), but because the United Kingdom's long standing economic ties with Southern Africa have created within London a vast reservoir of information on the area as well as personnel with a wide variety of relevant expertise. For example, both Barclays Bank and Standard Chartered Bank and, to a lesser extent, Grindlays Bank have been operating for several decades in most Southern African countries while London Merchant Banks have historically provided advisory services to many Southern African governments.

141. A physical presence in the London market offers other longer term advantages, in line with stage two of COFINEX's strategy, namely access to new and diversified sources of financing from the private sector, and specifically the London eurocurrency market. These sources could include short-term lines of credit from banks, syndicated credits for medium term financing, issue of floating rate notes, acceptances or the use of other financial instruments to rediscount COFINEX loans. Additional sources might take the form of eurocurrency deposits

from central banks as well as multilateral organizations such as the African Development Bank.

Legal Status

142. COFINEX's legal status in the United Kingdom could take the form of a non-regulated finance company or a licensed deposit-taking institution which, if certain conditions are fulfilled, may be able to describe itself as a "bank" and its activities as "banking services".

143. The Bank of England supervises the U.K. financial system in a flexible manner taking into account the circumstances of individual banking institutions, so it is not inconceivable that a hybrid or special legal status might be negotiated for a multilateral institution such as COFINEX. Specific recommendations on the matter fall outside the scope of this Report and will require further research and valuation by legal counsel.

144. One other area that will require careful investigation involves the fiscal and tax aspects of COFINEX's legal status. The taxation of financial institutions in the U.K. is complex. Tax considerations could for instance warrant the creation of a holding company in an offshore tax center or other arrangement for booking loans, although management and day-to-day direction for COFINEX activities would be provided from London. The appraisal has assumed that the aforementioned could be realized.

Share Capital and Structure

145. Authorized share capital of $10 million is proposed, of which $5 million would be paid in initially. These dimensions appear reasonable in terms of COFINEX's activities. The capital base is sufficient to support operations during the initial years; it also affords a prudent leverage ratio of 6 : 1 and should not represent a heavy outlay of funds for any of the shareholders.

146. The classes[1] of shareholders are proposed, as follows:

Class	% of Capital	Investment (US $)
Class "A"	40%	US. 2,000,000.
Class "B"	40%	US. 2,000,000.
Class "C"	20%	US. 1,000,000.
	100%	US$ 5,000,000.

147. The shares in each class would have the same face value and carry equal voting power, as follows:

- Class A shares are to be issued in the name of the Central Bank of other banks with a government majority capital or other government institutions representing member countries from the Southern African region which qualify as "eligible" exporters. The participation of these institutions is critical to the overall objectives and

(1) Class "D" Shares - for private financial institutions - could also be envisaged at a later stage.

will also ensure smooth functioning of the Facility at a national level.

- Class B shares are to be issued in the name of one or more international development agencies active in Southern Africa. Such agencies could include institutions such as U.S. Agency for International Development, the Commonwealth Development Corporation, as well as institutions of funds associated with the EEC or other multilateral institutions. The participation of such institutions as shareholders would be made conditional to their providing COFINEX with long-term loans at favorable terms and conditions. USAID, for instance, has indicated that $30 million might be made available to a Facility that would promote intra-regional trade in Southern Africa at concessionary loan terms. In light of the funding provided at concessional rates a preferred dividend could be envisaged for Class "B" shareholders.

- Class C shares would be issued to an international organization associated with the World Bank, specifically the IFC, whose presence would enhance the standing of the Facility both in Africa and in international financial markets. The IFC might also be called upon to provide technical support to COFINEX.

148. The shareholders will elect a Board of Directors consisting of one or more representatives from each shareholding group on a basis proportional to their shareholding. The Board will will appoint the management of the corporation and determine

their powers and duties and scope of responsibility. It will also appoint external auditors and establish general operating policies. The Board should preferably remain small (at least in the initial stages) and work directly with management or establish an Executive Committee to review operations on a regular basis.

Management and Staffing

149. Consideration was given to the possibility that in the initial stages of COFINEX's development, management and credit functions might be contracted out to a well-established highly reputable commercial or investment bank in London with expertise in Southern Africa. This is considered a second-best option. The best interests of the Corporation in the short or long run will be served by recruiting permanent high-calibre management and staff with broad powers and authority to take day to day business decisions.

150. Management should consist of a Chief Executive Officer, a professional and well-rounded senior banker with extensive experience in all aspects of trade financing, specifically in Southern Africa. This individual will report directly to the Board and be accountable for implementing all decisions and resolutions adopted by the Board. The Chief Executive Officer will be assisted by a staff of two: a junior accountant-cum-administrative officer and a Secretary.

151. No need for additional credit or administrative personnel is anticipated at least in the initial stages of operation because the pre-screening and assessment of commercial risks in individual countries can be performed by the national agencies, although final decisions will be taken by COFINEX in London.

152. In the interest of keeping the operation lean and efficient in terms of cost, it is recommended that data processing, accounting and other support services be provided by a professional service bureau operating in London. A proposed organization chart is depicted in Annex 15.

The Lending Mechanism

153. Although details will vary from case to case and from country to country, the following is a step-by-step description of the mechanics involved in a typical transaction to be financed once COFINEX (working through its national agency in the exporter's country) has approved the transaction. Annex 16 summarizes the process in chart form.

1. After the sale has been finalized, the exporter hands over to his bank the documents called for in the letter of credit opened in his favor by the importer.

2. After due verification, the exporter's bank sends these documents to the importer's bank which verifies the documents. If the documents are in order, they are released to the importer against his (and usually his bank's) acceptance of a draft or term note in favor of the exporter.

3. The accepted draft or note is then forwarded to the exporter who will, under normal banking practices, generally have agreed to retain partial recourse (i.e. 10-20% of the amount) for his own account. The draft or note is then sent on to the exporter's bank for approval.

4. Once approved, the exporter's bank forwards the note or draft to COFINEX's national agency for final review.

5. The national agency, in accordance with pre-established procedures, will call on COFINEX to discount the note or draft and to remit the proceeds in convertible currency through the central bank in the exporter's country. The exporter is then paid out in local currency by his own bank.

6. Simultaneously, COFINEX creates on its books a loan to the importer (guaranteed by his bank) and carries the loan until maturity.

7. At maturity, the importer furnishes the corresponding amount of local currency due to his local bank. The proceeds are then converted into hard currency through the Central Bank and remitted to COFINEX.

154. The cycle is thus completed and funds are available for COFINEX to finance new transactions.

National Agency Functions

155. The documentary process highlights the need for a national agency to work closely with COFINEX to provide on-the-spot expertise and coordination services. The specific functions to be performed by a national agency will include, among others:

i. To prescreen credit applications submitted by exporters in the member country in terms of:
   - eligibility and compliance with pre-established criteria. (e.g. certification that goods are non-traditional);
   - creditworthiness of the exporter, as well as the importer and their respective banks.

ii. To recommend specific transactions to COFINEX for formal approval.

iii. To build and maintain up-to-date credit files and information on each transaction.

iv. To review and approve documentation on behalf of COFINEX.

v. To apprise COFINEX of any changes in legislation or of new regulations which might affect its activities and to furnish other data that might be of relevance.

vi. To provide monitoring and collection services in case there are delays in payments by the importer or recourse to the exporter must be exercised.

Selection of National Agency

156. A national agency to provide local expertise and monitoring services could in theory be created as a de novo subsidiary of COFINEX. The advantage of such an arrangement is that it would ensure 100% control over the operations of the Facility. However, it would be costly and time-consuming to set up a unit from scratch. Moreover, it would duplicate many functions already provided by local financial or other organizations.

157. For these reasons, it is recommended that COFINEX enter into a contractual arrangement with a recognized, well-established

existing institution in each of the shareholder countries, i.e. Zimbabwe, Botswana and Swaziland, to provide appropriate local support services.

158. The local agency should be a bank or financial or other institution which works with or represents local exporters and is able to evaluate credit risks both within and outside the country. The ideal associate network might be a national export credit insurance organization in each of shareholder countries. (For recommended members of COFINEX, details are given on potential national agency selections in Annex 17). An export credit insurance company can provide not only the specific support services required by COFINEX but through its insurance guarantee programs, it can control and reduce commercial and political risks for COFINEX. It can determine which buyers in which countries are good credit risks and can also assess the ability of exporters to perform and meet their obligations.

COFINEX - National Agency Relationships

159. Separate formal contracts should be signed by COFINEX with each of the organizations designated to act as its Agent. Details and responsibilities of each should be clearly identified. In addition, procedures should be set up regarding:

- Credit Approval and Credit Review Processes
- Disbursement and Control Mechanisms
- Administrative Matters and Scope of Audits

160. Each Agent will report directly to the Chief Executive Officer of COFINEX who will maintain regular communication with each unit regarding proposed and outstanding loans and other matters of interest. The Chief Executive will report to the Board of Directors on a continuous basis.

161. Each national agent will be compensated for services provided to COFINEX by fees paid by the local exporters who utilize COFINEX facilities. The fees are justified because the exporters will benefit from offering their foreign buyers more attractive terms and rates than might otherwise have been possible. Moreover, because exporters are generally required by their bankers to obtain insurance credit coverage, the cost of such coverage should be considered a normal operating charge.

162. The size of the fees that will have to be passed on to the exporters cannot be estimated at the present time; they will have to be worked out by each of the local agents and may vary from country to country. In view of the benefits to be gained by each side, it appears reasonable to assume an acceptable arrangement can be negotiated and that the local facilities will be self-financing.

Risk Mitigation

163. In making COFINEX a viable organization, one of the greatest challenges the Board and Management faces is to find ways to maximize the use of the Facility's resources and ensure

credits extended are promptly repaid. Ways to mitigate the risks involved in lending are considered in the following manner:

a. The structure of COFINEX, its shareholders and the nature of its funding (i.e. official development agencies) should in and of itself help preclude delays in payments and reschedulings of debt. Few countries, if any, want to be in the position of being past due in their payments to multilateral financial organizations, particularly for trade transactions. Nonetheless, one cannot rule out the probability of delays and reschedulings taking place.

b. In this regard, it might be advantageous for COFINEX to seek observer affiliation with the "Paris Club", an informal association of creditor countries that meet to reschedule debts with a particular country on an official government-to-government basis. While affiliation with this body will not necessarily speed up payments, debt rescheduled through this organization generally receives preferential treatment and is negotiated on a formal and orderly basis.

c. It is vitally important to establish a country risk format which will carefully allocate funds amongst various countries and ensure that risks are well diversified.

d. Exposure to countries with chronic payment delays should be carefully evaluated; credits extended to those countries should be structured so as to avoid funds being tied up in payment queues for 12-plus months. Partial coverage might be sought from U.K. Confirming Houses or certain U.S. insurance companies specialized in this field.

e. Where possible, priority should be given to financing exports that will in turn help the importing country generate foreign exchange, which can be used as the source of repayment (e.g. export of agricultural implements which help to produce export crops).

f. While the project focuses on intraregional trade, efforts should be made to spread risks to creditworthy countries outside the Southern Africa region, for example, Kenya and other countries with which members have strong or growing trade links.

g. Finally, consideration should be given to participation in transactions involving co-financing together with the World Bank and commercial banks. One technique is the cover of a cross-default clause under which failure to meet a payment obligation to a private lender is treated as a default against the World Bank. The World Bank has generally been successful in avoiding defaults or reschedulings on loans.

IV. FINANCIAL OUTLOOK AND PROSPECTS

164. The Facility's financial viability may be assessed at the COFINEX level given the assumption that domestic arrangements will be self-financing from commissions, fees and other revenues derived locally.

165. A number of basic financial parameters have been established for assessment purposes. These parameters have been determined with the aim of taking a conservative view of operations, growth, revenues and costs. Details are given in Annex 18.

Resources and Business Volume

166. COFINEX's resources have been identified as deriving from equity and soft-rated borrowings. Other resources could also potentially be tapped, e.g. (central bank) deposits, lines of credit and market borrowings (with or without recourse). These funds could be envisaged for later stages of COFINEX's activities and would add to its financial strength. The assessment undertaken has therefore concentrated only on basic resources available. The relatively low gearing assumed for COFINEX's first five years (6:1 for debt/equity in 1988), relative to normal leverage in similar institutions, serves to highlight its potential additional borrowing capacity. Moreover, since its net worth would increase significantly in this period, it should acquire favorable access to market funds.

167. If after the first five years new resources are required, COFINEX could approach member central banks for deposits as well as draw on international markets. Additional deposits of (say) $10 million, derived from shareholders in 1988, would increase total resources to $45 million at that date (an additional 28%).

168. An average portfolio turnover of around two per annum has been assumed for transactions. Higher turnover would result if maturities were shorter. Turnover levels affect fee income, enabling this component to contribute about 7.6% of total revenues from 1984 to 1988. This is not considered an unduly ambitious estimate.

169. Market borrowings have been assumed to be zero. This, too, reduces estimated transactions volume (and associated fees and interest revenue). A moderate build-up in portfolio has been estimated. More rapid development in COFINEX's portfolio would improve the revenue profile.

170. About 33% of portfolio transactions would provide additional maturities of 9 months or longer. Under one-third of maturities through COFINEX would relate to total maturities of 120 days. COFINEX could take on a longer maturity structure over time as its financial position consolidates.

171. Projected balance sheets are provided in Annex 18. These show net worth rising to $13.67 million in 1988. By this date, retained earnings would constitute 63% of net worth.

Income

172. In the first five years, net interest revenues would be a major income source (54% as of 1988). The 5% spread assumed arises from COFINEX's access to low rated borrowings. Investment income would build-up as net profits accumulate and by 1988 these would yield 35% of revenues. It is assumed in the calculations that portfolio deals and brokerage functions would not be undertaken before 1988. If these activities occurred, revenues would accrue (usually at a 1% margin for endorsements and guarantees). No net margins on potential deposits (assumed zero) have been estimated in the accounts. It is assumed that 5% of loan portfolio be kept in liquid asset form. Revenues therefrom have therefore not been included.

Expenses

173. Operating costs have been assessed at $0.3 million, a level assumed applicable in each year 1984-88. (see Projected Income Statement in Annex 18). Thereafter, costs increase as transactions grow in number. A falling unit costs per transaction applies until 1988 (from $2,142 to $1,000 per transaction). This is believed to provide ample margin. Loss Reserve provision has been put at 0.05% of total loan portfolio. It has been assumed that no taxes will arise. Total costs (plus Loss Reserve) rise to $0.45 million in 1988, allowing net profits of $2.33 million in 1988. Higher costs could therefore be readily absorbed. As of 1988 the Loss Reserve account would amount to $0.63 million.

Profitability

174. Based on the assumptions given, COFINEX could expect to generate growing net profits over 1984-88. Return on average net worth would reach 18.6% in 1988. On Paid-In Capital the return would be 46.6%. Total net profits for 1984-88 would be $8.67 million. Even a reduced spread on lendings (say, 3%) would allow satisfactory profits to be obtained, e.g. 34.6% on Paid-In Capital in 1988. However, profitability is predicated on acceptance of a dividend policy that commences payment operations only in 1989.

Cash Flow

175. Since COFINEX's financial structure is underpinned by long-term obligations, it is necessary to establish its viability beyond 1988. Cash flow positions have therefore been developed up to 2000, as per Annex 18. Amortisation only commences in 1994 (for principal and interest) while until 1993 a 4% interest charge applies. COFINEX's capital has been taken into the cash flow as a project investment, causing negative cash flow on a cumulative basis until 1987. Investment income, identified net of dividend commitments, is positive in each year. The Net Present-Value (NPV) of the net cash flow is $8.73 million at a 15% discount rate with an Internal Rate & Return measured at 46.76%. At a 25% discount rate the NPV reduces to $3.92 million.

Replenishment

176. COFINEX's accumulated net worth, generated from positive net profits, is shown in Annex 16 for 1989-2000. The creation of a Reserve and Replenishment Fund within COFINEX, to permit a capital base to exist at the end of loan maturity, can be established by means of a Sinking Fund approach. Annual investment of $69,000 at 10% will yield at least $30 million in 2023. The 2023 investment value of annual tranches provided would accumulate to a worth of $27.53 million for funds apportioned before 2000. From 1988 onwards, total net worth exceeds such levels by an increasing sum. The Replenishment Fund requirement would therefore be readily met by COFINEX.

V: POTENTIAL BENEFITS

Net Additional Resources

177. COFINEX would generate additional resources to finance non-traditional exports on terms substantially better than now prevailing. While demand for such facilities vary by country, there would be gains for all members as well as neighboring buyer countries (non-members and members). The mechanism would be an innovative adaptation to institutional options for manufacturing export finance. The net increase in resources provided would improve the area's access to foreign financing funds and help reduce a real constraint on intra-regional trade. This would complement existing export promotion efforts. The growth in COFINEX resources, operations and financing measures would add to these benefits over time.

178. At a regional level, COFINEX would represent a practical expression of efforts aimed at economic integration. It would be based on mutual economic interest and have flexibility to expand its membership to incorporate ultimately all Southern African economies.

179. Recipients of non-traditional goods financed under COFINEX would obtain competitive terms for credit. These gains would accrue equally to non-member countries in the region. The trade links established between countries would help underpin bilateral and multilateral confidence in commercial exchanges. There would be net benefits to regional growth and greater economic stability.

Improved Financing Terms

180. COFINEX should be able to increase aggregate export finance to the region above the "country limits" now implied in bank arrangements. COFINEX's acquisition of export paper should provide net improvement in the terms (rates and maturities) at the disposition of exporting and importer countries. Eventual re-discounting of bills would contribute further in this direction.

181. The COFINEX structure and shareholding have been proposed in a manner designed to ensure that it has appropriate capabilities and a non-political inclination. Participation in its equity would consist of institutions capable of creating international confidence in its objectives, operations and obligations. The shareholders, being active in Southern Africa and with significant creditials, would offer the institution appropriate high-level status and specialised knowledge and understanding of the trade regimes of the region. Senior and experienced staff would be involved in both policy and daily transactions, so permitting COFINEX to secure business, provide reasonable rates, manage its transactions efficiently, and help minimise the risks involved in regional trade.

182. The terms on offer through COFINEX would signify a structural shift in the financing options open to manufacturing exporters. This will benefit bidding, contract securement,

private industry and operating profits. COFINEX would attempt to retain a quality portfolio but also, through a judicious distribution of risks and the securement of cover, as well as its close relationship to central and commercial banks, be in a strong position to secure collections in the event of importer default.

183. The participation of IFC and international development finance institutions would signal to the markets a degree of confidence in COFINEX's structure and future. This would be a positive element in COFINEX credit-worthiness and acceptability to international financial markets. IFC's involvement, in equity and technical contributions, would provide confidence to members and shareholders about the role of COFINEX.

Export Growth

184. COFINEX would contribute directly to export growth in a key sector and assist economic diversification efforts. With estimated total manufacturing exports in Southern Africa for 1984 taken at around $400 million, the proportionate contribution would be significant at the maximum financing capacity available to COFINEX. This would raise total manufactured export levels and over time help increase the share in regional trade (now around 26%).

185. Export improvement would strengthen country merchandise accounts and improve the overall regional balance of payments. Ancillary benefits would exist in the invisibles account with credits accruing at regional level - for financial, insurance and transport services.

Indirect Gains in Capacity Utilisation and Employment

186. Additional demand for manufacturing will enable firms to produce at higher volume levels with greater use of existing capacity and unit cost economies. Derived demand for inputs will accrue to supplier sectors for raw materials and inputs.

187. Employment levels in manufacturing will be directly supported by extra export orders. New exports worth $60 million annually, would generate additional employment. COFINEX's growth and contribution to regional market development would enable further expansion in the longer term.

TRADITIONAL EXPORTS AND NON-TRADITIONAL PRODUCTS

"TRADITIONAL" EXPORTS (1)

Agricultural and Food Products

Meat, fresh frozen or chilled

Maize

Barley

Beans and peas

Animal feed

Tea

Coffee

Raw sugar

Refined sugar

Beverages and tobacco

Cattle hides

Cotton (lint and raw)

Lumber

Groundnuts

Crude Materials

Copper

Magnesite

Asbestos

Lithium

Tungsten

Coal

Coke

Other

Groundnut oil

Maize oil

Petroleum products

Fertiliser

Pulp and paper

Steel

Electricity

(1) Export finance for these commodities is less problematic in Southern Africa for various reasons. Most are traded on short-term credits, often under 90 days, and consist of homogeneous and/or graded products for which qualities (quoted prices, physical characteristics, etc.) are well-established. Commercial banks in the region have significant familiarity with the producers and exporters as well as buyers of such goods. Note, however, that this list is not intended to be exclusive in so far as it determines potential intra-regional trade transactions eligible for export credit finance.

"NON-TRADITIONAL" PRODUCTS

Chemical and Related (SITC 5)

Medicinal and pharmaceutical products

Soaps

Manufactured Goods (SITC 6)

Tires and tubes

Plywood, boards

Paper board

Yarns

Fabrics

Cement

Domestic hardware

Machinery, Transport, Electrical Equipment (SITC 7)

on-electrical machinery

Cable and wire

Radio, TV, parts

Railway vehicles and equipment

Industrial products

1. "Non-traditional" products are typically heterogeneous and non-standardised. They are often not rapidly absorbed into the production process, especially to capital goods. Moreover, regional markets for these products are less familiar to institutions and involve different and lengthy procedures. In addition, finance requirements are normally medium or long-term though for consumer goods (notably manufactured products) 180 days often suffices. In Southern Africa, however, these forms of finance are either not readily available or are very costly. For data

and estimation purposes Standard International Trade Classification (SITC) categories 5, 6 and 7 have been used as proxy measures for this basket of goods. Selected items in SITC 8 and 9 might also be considered to quality (e.g., sanitary ware, printed matter, furniture, footwear).

2. It is noted that no satisfactory clear-cut definition of non-traditional goods is available. The Terms of Reference did not provide for an exclusive listing. Nor did IFC's evaluation of the BLADEX scheme (Appraisal Report, Bladex, Washington, 27th June 1978, No. IFC/T-240) contain a positive statement thereof. Indeed, the latter IFC appraisal selected a number of goods for inclusion as traditional commodities and defined non-traditional items in negative terms, as "the difference between "traditional" and total exports, excluding petroleum". It noted that these were "primarily manufactured goods". While the focus on manufactured products has been kept in this Report, no similar list of traditional goods has been established for Southern Africa.

3. In practice goods classified as qualifying to receive export finance would be broadly established at an operational phase with some flexibility to account for country variations. Traditional and non-traditional do not refer, as can be misunderstood, to whether or not the goods have historically or otherwise been traded into given markets.

MISSION CONTACTS

The consultants undertook discussions with the following institutions inter alia:

a.	Washington	USAID; Bureau of Private Enterprise; IFC; IBRD; IMF.
b.	London	Standard Chartered Bank; Barclays Bank International; Samuel Montago Co. Ltd.; Morgan Grenfell & Co.; Grindlays Bank; British Overseas Trade Board.
c.	Zimbabwe	USAID; ZCIC: Standard Bank; Merchant Bank of Central Africa; Citibank; Zimbabwe Banking Corporation; UDC Ltd.; First National Bank of Boston; RAL Merchant Bank; Grindlays Bank; Reserve Bank of Zimbabwe; Confederation of Zimbabwe Industries; Ministry of Finance; Economic Development and Planning; Barclays Bank; Chamber of Mines; Discount Company of Zimbabwe.
d.	Botswana	USAID; Ministry of Finance and Development Planning; Botswana Development Corporation; Ministry of Commerce and Industry; Bank of Botswana; Barclays Bank; Standard Bank of Botswana.
e.	Swaziland	USAID; Tibiyo Taka Ngwane; Central Bank of Swaziland; Barclays Bank; Swaziland Development and Savings Bank.
f.	Zambia	Bank of Zambia; USAID; Grindlays Bank; Standard Bank; Barclays Bank; Ministry of Finance; Indeco; PTA.
g.	Malawi	USAID; Reserve Bank of Malawi; Malawi Export Promotion Council; Ministry of Economic Planning; Commercial Bank; National Bank.

Banco Latino Americano de Exportaciones, S.A. (BLADEX)

BLADEX, formed as a Panamanian based bank in September, 1977 to promote and finance Latin American exports, began operating in January, 1979. Initial capital was U.S. $25 million paid in by 193 shareholders: 20 Central Banks from Latin America; 172 private commercial banks from Latin America, United States, Canada, Europe, Japan and the Middle East; and, lastly, the International Finance Corporation.

During its 4 years of operation, BLADEX has extended credits exceeding U.S. #3 billion. BLADEX finances a wide range of traditional and non-traditional exports. Approximately 28% of the trade it finances represents exports from one Latin American country to another. The remainder covers Latin American goods exported outside the region, primarily to the U.S. (40%), then Europe (25%) and Asia (7%).

Of loans and acceptances totaling $811 at year-end 1982, approximately two-thirds were short-term (86 days on average), while 34% were medium-term, with an average tenor of 46 months. An analysis of loans granted during 1982 shows a portfolio that is widely diversified by country, though four large countries, (i.e., Argentina, Brazil, Colombia and Mexico) represented 52% of all credits extended during the year.

BLADEX obtains its funding from lines of credit extended by commercial banks, both for short and medium terms. Its ratio of total liabilities to capital averages 8.5:1. Funding has generally matched loan maturities. The Bank is active in both placing and taking deposits and has a $30 million line for acceptances from the Inter-American Development Bank. It also has a long-term loan from A.I.D. to finance non-traditional exports from Central America to countries outside that region. Due to the difficult economic situation in Latin America, BLADEX was not able to undertake a medium-term placement of funds in the Eurodollar market in 1982.

Total equity at year end 1982 was $52 million; the number of shareholders has increased to 235. As a Panmanian corporation, BLADEX does not pay corporate income taxes. Net profits in 1982 exceeded $6 million, which represents a return on assets of 0.84%. The reserve for loan losses amounts to 0.96% of the total loan and acceptance portfolio outstanding. As of December 31, 1982, there were no charges made to the reserve for loan losses and there were no non-performing loans.

The success of BLADEX as an institution financing regional trade can be attributed to sound and prudent pol ies implemented since its founding. Loans are extended only to shareholder institutions, never directly to the private sector unless they are guaranteed by a state-owned export credit organization. Credits are extended on commercial and business criteria. Other factors which have facilitated the development of BLADEX include its location in a well-defined international banking center; the similarity in language and culture of its Latin American shareholders; and the fact that the organization is managed by professional bankers dedicated to the goals of the organization and the region as a whole.

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STATISTICAL TABLES (I-XXI)

Table I: Summary Features of Exchange and Trade Systems of Fund Members in Southern Africa. (As of January 1982)

	Botswana	Lesotho	Malawi	Swaziland	Zambia	Zimbabwe
A. Acceptance of Article Status						
1. Article VIII	-	-	-	-	-	-
2. Article XIV	x	x	x	x	x	x
B. Exchange Arrangement						
1. Exchange rate maintained within relatively narrow margins 1/ in terms of:						
(a) U.S. dollar	-	-	-	-	-	-
(b) pound sterling	-	-	-	-	-	-
(c) French franc	-	-	-	-	-	-
(d) South African rand	-	x	-	x	-	-
(e) a cooperative exchange arrangement (under mutual intervention system)	-	-	-	-	-	-
(f) a composite of currencies	x	-	x	-	x	x
2. Separate exchange rates for some or all capital transactions and/or some or all invisibles	-	x	-	x	-	-
3. Import rate(s) different from export rate(s)	-	-	-	-	-	-
4. More than one rate for imports	-	-	-	-	-	-
5. More than one rate for exports	-	-	-	-	x	-
C. Prescription of Currency 2/	x	x	-	x	x	x
D. Bilateral Payments Arrangements						
1. With members	-	-	-	-	-	-
2. With nonmembers	-	-	-	-	-	-
E. Payments Restrictions						
1. Restrictions on payments for current transactions 3/	x	-	x	-	x	x
2. Restrictions on payments for capital transactions 3/ 4/	x	x	x	x	x	x

	Botswana	Lesotho	Malawi	Swaziland	Zambia	Zimbabwe
F. Cost-Related Import Restrictions						
1. Import surcharges	-	-	x	-	x	x
2. Advance import deposits	-	-	-	-	-	-
G. Surrender Requirement for Export Proceeds	x	x	x	x	x	x

Source: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1982; and data provided by national authorities.

1/ Margins of approximately 2.25 p34 cent on either side of parity.
2/ Including prescription of marketable or convertible currencies.
3/ Restrictions (i.e., official action directly affecting the availability or cost of exchange, or involving undue delay) on payments to member countries, other than restrictions imposed for security reasons under Executive Board Decision No. 144-(52/51), adopted August 14, 1952.
4/ Resident-owned funds.

Table II - ZIMBABWE: DOMESTIC EXPORTS TO SADCC AND PTA COUNTRIES, 1981 - Z$000

SITC SECTION	0	1	2	3	4	5	6	7	8	9	TOTAL
	FOOD & LIVE ANIMALS	BEVERAGES & TOBACCO	CRUDE MATERIALS EXCEPT	MINERAL FUELS & ELECTRIC-	ANIMAL & VEGETABLE OILS	CHEMICALS	MANUFAC-TURED GOODS CLASSIFIED BY MATERIALS	MACHINERY AND TRANSPORT EQUIPMENT	MISC. MAN-UFACTURED ARTICLES	MISCEL-LANEOUS TRANS-ACTIONS & COMMOD-ITIES n.e.s.	
SADCC											
Angola	1,450	805	39	-	-	12	-	-	16	-	2,322
Botswana	11,639	7	511	59	906	395	11,301	1,217	2,260	381	28,676
Lesotho	1	-	-		-	-	-	280	214	31	526
Malawi	4,571	109	169	6	8	1,816	5,057	984	1,133	373	14,226
Mozambique	4,719	331	2,864	530	-	120	1,801	313	422	55	11,155
Swaziland	830	-	101	-		2	119	93	16	278	1,439
Tanzania	1,186	-	-	3	-	-	137	42	-	5	1,373
Zambia	17,227	104	297	2,639	-	3,731	3,837	6,900	361	187	35,283
PTA Above countries plus											
Comoros	190	-	-	-	-	-	2	-	-	-	192
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	-	-	-	-	-	-	-	-	-	1	1
Kenya	1,490	-	-	-	-	2	925	17	13	30	2,477
Malagasy	-	-	4	-	-	-	17	-	-	-	21
Mauritius	4	-	-	-	-	-	2,341	-	5	4	2,354
Seychelles	5	51	11	-	-	1	8	-	2	4	82
Somalia	-	-	-	-	-	-	-	-	-	-	1
Uganda	-	-	28	-	-	-	-	-	-	-	28
TOTALS	43.3;2	1,407	4,024	3.237	914	6,079	25,545	9,847	4,442	1,349	100,156
MEMORANDUM ITEMS											
Zaire	10,429	1,420	-	6,777	16	209	654	49	9	1	19,564
South Africa	24,860	18,645	29, 633	339	69	2,375	39,217	8,069	23,281	45,689	192,177

Source: Central Statistical Office

- Nil or Negligible.

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TABLE III - ZIMBABWE: IMPORTS FROM SADCC AND PTA COUNTRIES 1981 - Z$ 000

SITC SECTION	0. FOOD & LIVE ANIMALS	1. BEVERAGES & TOBACCO	2. CRUDE MATERIALS EXCEPT FUEL	3. MINERAL FUELS & ELECTRICITY	4. ANIMAL & VEGETABLE OILS	5. CHEMICALS	6. MANUFACTURED GOODS CLASSIFIED BY MATERIALS	7. MACHINERY AND TRANSPORT EQUIPMENT	8. MISC. MANUFACTURED ARTICLES	9. MISC. TRANSACTIONS & COMMODITIES n.e.s.	TOTAL
SADCC											
ANGOLA	-	-	-	-	-	-	-	-	-	-	-
BOTSWANA	759	-	1 425	-	1 465	574	7 888	228	4 996	27	17 362
LESOTHO	-	-	-	-	-	-	-	-	-	4	4
MALAWI	3 640	396	292	-	2	282	8 210	6	2 116	94	15 038
MOZAMBIQUE	126	-	91	18 149	345	-	240	-	13	1	18 965
SWAZILAND	-	-	2 972	-	-	-	8	1	2	-	2 983
TANZANIA	4	-	-	-	-	-	142	29	4	-	179
ZAMBIA	6	-	127	23 445	-	130	622	91	33	181	24 635
PTA above countries plus											
COMROS	-	-	-	-	-	-	-	-	-	-	-
DJIBOUTI	-	-	-	-	-	-	-	-	-	1	1
ETHIOPIA	-	-	-	-	-	-	-	-	1	7	8
KENYA	-	-	1	-	-	96	158	39	124	47	465
MALGASY	10	-	-	-	-	-	-	-	-	-	10
MAURITIUS	-	-	-	-	-	-	-	-	8	1	9
SEYCHELLES	-	-	-	-	-	-	-	-	-	-	-
SOMALIA	-	-	-	-	-	-	-	-	-	-	-
UGANDA	-	-	-	-	-	-	-	-	-	-	-
TOTALS	4 545	396	4 908	41 594	1 812	1 082	17 268	394	7 297	363	79 659
Memorandum items											
ZAIRE	-	-	146	-	-	-	622	-	-	-	768
SOUTH AFRICA	3 160	853	9 186	49 800	298	50 879	80 343	64 615	14 431	6 087	279 652

SOURCE: CENTRAL STATISTICAL OFFICE

- Nil or negligible.

TABLE IV: ZIMBABWE'S NON-TRADITIONAL PRODUCTS[1] TRADE WITH SOUTHERN AFRICA, 1982 (Z $ 000)

SITC Section / Southern Africa(2)	SITC 5		SITC 6		SITC 7		SITC 8 + 9		Total Trade ($ millions)			
									Imports		Exports	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Value	Non-Trad. Share	Value	Non-Trad. Share
Botswana	247	439	13,185	9,720	571	1,402	10,539	2,309	34.12	71.9%	25.50	54.4%
Zambia	837	4,252	829	4,524	166	2,379	263	761	24.92	5.4%	27.84	42.79%
Malawi	653	1,784	3,203	6,121	2	1,264	1,584	1,289	10.29	52.9%	12.29	85.4%
Lesotho	-	-	-	103	-	8	9	141	0.01	90.0%	0.26	96.9%
Swaziland	-	1	-	85	-	756	11	168	3.01	0.3%	1.24	81.4%
Southern Africa(2)	1,736	6,475	17,217	20,553	739	5,809	11,406	4,668	72.34	42.9%	67.13	55.9%
SADCC Total	1,744	6,593	17,325	21,538	740	6,892	12,438	5,226	81.93	39.3%	93.03	43.2%
All Countries ($ million)	125.0	12.2	157.3	230.5	439.9	12.7	123.4	71.5	1081.7	77.9%	807.1	40.5%

Source: Central Statistical Office

Note: (1) Non-traditional here taken as SITC Sections 5-9 inclusive.
(2) BLS, Malawi and Zambia.
\- Negligible or Nil.

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TABLE V
Z i m b a b w e

MAJOR TRADE COMPONENTS WITH SOUTHERN AFRICA

1981

Imports from:	% total imports	Exports to:	% total exports
BOTSWANA Synthetic fibres and other piece goods Tallow animal Nickel ore, concentrated and mattee Soups, powdered	60	Beet and cane sugar refined Textile manufactures (nes) Fabrics (nes) Cement Metal Windows and doors Vegetable oil soft	57
LESOTHO Postal articles	75	Asbestos cement products Iron or steel, pipes, tubes & fittings Manufactured materials (nes)	73
SWAZILAND Wood, pulp, sulphate, unbleached	99	Beans, peas, etc. dried Cereal preparations nes postal parcels, not Classified	75
MALAWI Cotton fabrics, printed 100% cotton, other Rice not in husk including polished or broken Cotton fabrics, dyed, other 100% cotton, other Cotton fabrics, bleached and unbleached, 100% cotton imported under license Bleached or unbleached cotton fabrics, 100% cotton other	42	Manufactured goods classified by materials Food and live animals	67
ZAMBIA Electrical energy Aviation turbine fuel		Railway materials and parts Soap and other washing preparations Foodstuffs for animals Coke Iron or steel bars, angles rounds, etc. Agricultural machinery nes Fertilizers, manufactured, etc.	42

Source: Ministry of Trade and Commerce, Zimbabwe

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TABLE VI

ZIMBABWE

MANUFACTURING REHABILITATION IMPORTS PROGRAM LOAN AND CREDIT

Estimates of Manufacturing Idle Capacity and Foreign Exchange Requirements

	INDUSTRIAL DIVISION	DOMESTIC MARKET			EXPORT MARKET		Additional Employment	Imported Raw Materials
		Spare Capacity For Which Market Exists (%)	Additional Foreign Exchange Required per Annum (Z$'000)	Additional Resultant Sales/Annum (Z$'000)	Additional Foreign Exchange Required per Annum (Z$'000)	Additional Resultant Sales/Annum (Z$'000)		
01	Meat & Meat Product	40	196	490	30	45	70	packaging, casings
02	Dairy Products	20	116	300	–	–	20	packing
04	Cereal Products	15	200	2,500	–	–	40	flour improvers
05	Fruit & Vegetables	5	10	180	–	–	10	packaging
06	Confectioners	40	80	200	–	–	25	flavors, dyes, cocoa
06A	Sugar Refineries	0	–	–	–	–	–	spares
07	Coffee & Tea	10	–	–	–	–	–	
08	Miscellaneous Foodstuffs	15	20	50	10	25	10	flavors, dyes
09	Animal & Vegetable Oils	35	300	4,800	–	–	20	
10	Livestock feed	25	40	100	20	40	40	fishmeal, aminoacids, salt, vitamins, urea
11	Beverages	30	150	350	20	32	25	spirits, closures
12	Tobacco	30	670	3,000	50	230	40	paper, board, flavoring
14	Leather	33	1,117	3,517	975	2,815	331	dyes, chemicals,
16	Rubber	30	508	1,270	180	450	60	fabric, rubber, carbon black
16A	Tyres	–	–	–	–	–	–	fabric, rubber, carbon black
17	Wood & Lumber	–	–	–	–	–	–	glue, wood proof
18	Wood Manufactures	0	–	–	0	–	–	hardwoods, glue
19	Furniture	20	567	2,830	450	2,250	420	exotic hardwoods, fabrics, fittings
20	Paper Mill							chemical pulp

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TABLE VI Cont'd....

	INDUSTRIAL DIVISION	DOMESTIC MARKET: Spare Capacity For Which Market Exists (%)	DOMESTIC MARKET: Additional Foreign Exchange Required per Annum (Z$'000)	DOMESTIC MARKET: Additional Resultant Sales/Annum (Z$'000)	EXPORT MARKET: Additional Foreign Exchange Required per Annum (Z$'000)	EXPORT MARKET: Additional Resultant Sales/Annum (Z$'000)	Additional Employment	Imported Raw Materials
21	Paper Converters	7	821	1,060	71	134	170	paper
22	Travel Goods	28	120	250	190	400	57	fittings
23A	Plastics	16	650	1,300	606	1,202	27	plastic raw materials
23B	Jewelry	0	-	-	-	-	-	gold, fittings, findings
23C	Pens	0	-	-	-	-	-	plastic, components
23D	Clocks & Watches	50	100	300	0	0	30	
23E	Optics	0	-	-	-	-	-	
23F	Toys	30	58	150	20	50	15	paint, fittings
23G	Photography	10	30	75	-	-	10	
23H	Brushware	0	-	-	-	-	-	fibre, bristle
23J	Candles	10	100	250	-	-	40	wax
23M	Miscellaneous	15	60	125	-	-	15	
24	Textiles (Misc.)	35	3,957	22,609	5,030	15,050	558	yarns, dyes
25	Textiles	33	20,600	96,600	4,400	20,300	1,850	yarns, dyes
26	Clothing	40	14,500	25,000	5,000	10,000	3,200	fabric, accessories
27	Footwear	45	2,380	2,970	1,917	14,520	1,070	rubber
28	Iron & Steel	25	400	5,500	1,100	16,600	300	ferro silicon & manganese
29	Non-ferrous Metals	48	1,500	3,200	350	750	150	brass, bronze, copper sheet
30	Metal Manufactures	20	3,585	7,000	1,200	2,500	460	steel sheet, zinc
31	Non-electrical Machinery	20	300	1,400	200	420	200	components
32	Electrical Machinery	55	9,100	24,200	-	-	250	PVC, components
32A	Radio	56	2,600	10,000	-	-	170	components
33	Transport & Rolling Stock	55	10,000	17,100	-	-	200	bus kits, steel plate
34	Non-metallic Minerals	30	120	320	120	320	50	acid, minerals, glazes
36	Gases	0	-	-	-	-	-	
37	Chemical Elements	0	-	-	-	-	-	
38	Paint	65	1,450	1,862	413	532	133	
39	Medical Preparations	30	1,420	2,840	1,420	2,840	284	raw drugs, packaging
40	Toilet Preparations	20	907	2,250	483	1,200	103	tallow, perfume, oil
41	Fertilizer	25	2,200	3,080	-	-		
42	Miscellaneous Chemicals							
	Assembly Plants:							
	Passenger Vehicles	72	16,200	32,000	-	-	)	
	Commercial Vehicles	55	18,000	34,000	-	-	)650)	vehicle kits
	TOTALS		115,132	327,628	24,555	92,705	11,103	

Source: Ministry of Industry & Energy Department
August 16, 1982

Table VII

ZIMBABWE

SELECTED NON-TRADITIONAL EXPORTS (1)

1981

	Value Z$000
Section 5: Chemicals	
Glycerine, crude	632
Wattle extract	2,992
Medicinal preparations, nes	2,484
Soap toilet, in tablet form	2,392
Synthetic detergents	501
Polyvinylchloride	665
Insecticides, fungicides and similar prepration s, nes	349
Total (all section 5):	11,697
Section 6: Manufactured goods	
Leather in the piece, nes	1,780
Motor car and truck tyres, other	560
Tyres for bicycle wheels	189
Bicycle tubes	222
Conveyor belts and belting, nes	353
Plywood, nes	331
Blockboard, timberboard, laminboard	214
Joinery, wooden	247
Exercise books, registers, and other manufactures of writing paper, printed	327
Rayon yarn, 100% rayon	1,075
Yarn and thread of textile fibres, nes	2,447
Filter cloth, gauze, sieving and screening	288
Canvas, of cotton, in the piece	550
Towels and towelling, napkins	1,141
Bed sheets	2,335
Household linen and textile articles for furnishing	428
Carpets, carpeting and floor rugs	341
Cement, for building purposes	1,529
Asbestos cement, pipes, piping and tubes	500
Bricks, clay, nes	435
Precious and semi-precious stones	1,198
Ferro-chrome, high carbon	59,425

(1) Central Statistical Office, Statement of External Trade, 1981, Harare.

Section 6: Manufactured Goods

Ferro-chrome low carbon	11,839
Ferro-chrome-silicon, ferro-silicon-chrome	8,253
Blooms, billets, slabs, sheet bars	24,185
Iron and steel rods	13,764
Iron and steel channel	2,510
Nail wire	922
Pipe fittings, cast iron	374
Copper anodes	3,352
Copper refined	989
Nickel and nickel alloys	46,787
Tin, bar, block and ingot	8,286
Doors and door frames, metal	399
Windows, metal, complete	637
Structural steel, nes not being mine head frames	330
Wire rope	295
Wire, iron or steel, plain or galvanised	4,720
Welded wire mesh	300
Netting for fencing, metal nes	459
Screws, including screw hooks, rings and knobs	622
Artisan's and mechanics' tools, not electric	293
Basins, bowls, plates of metal or enamel	1,467
Mugs, enamel and metal	648
Saucepans and stewpans over 3,5 litres	472
Hollow-ware and enamelware, nes	587
Balls, steel, for tube mills	690
Copper manufactures, nes	530
Manufactures of metal, nes	333
Total (all section 6):	238,786

Section 7: Machinery and Transport Equipment

Harrows, drag and disc	573
Ploughs, single furrow mould board, nes	201
Parts for single furrow mould board ploughs	204
Agricultural machinery and appliances, nes	909
Food processing machines, nes	172
Castings, iron or steel not exceeding 4,536 kg.	1,206
Mining machinery, nes	879
Laundry machinery	208
Rock drill spares	375
Machinery, industrial, nes	788
Wire and cable, copper, insulated	1,636
Radios and radiograms (domestic)	1,394
Television, radio and radiogram parts	321

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Section 7 (ctd.)

Radios, radiograms, TV sets, of transistor type and car radios	949
Cabinets imported separately, complete or incomplete, including parts	368
Radio and wireless apparatus, nes	383
Electric machinery, apparatus and parts, nes	182
Railway locomotives, electric	127
Railway and tramway freight and maintenance cars and wagons	4,918
Parts of railway rolling stock (except electric and internal combustion engine parts)	164
Motor vehicles and trailer parts and accessories, nes	428
Trailers, nes	292
Total (all section 7):	19,244

Section 8: Manufactured Articles (misc.)

Baths and sinks, etc., fittings therefor	1
Wooden furniture and fixtures, nes	4,590
Travelling and sports cases and bags of all types, nes (including shopping bags)	827
Ready made trousers, other	1,783
Women's and girls' dresses, other	2,416
Shirts and jacket shirts, other	902
Textile haberdashery	220
Boiler suits	423
Clothing, nes	1,460
Footwear, canvas, rubber soled	3,498
Men's and youths' leather	1,799
Printed matter on paper or cardboard, nes	329
Plastic sheet/strip, rigid	2
Articles and manufactures of carving and moulding materials (curios)	1,078
Prefabricated buildings	448
Manufactured articles, nes	389
Total (all section 8):	30,220

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TABLE VIII

BOTSWANA'S TRADE IN AFRICA

EXPORTS AND IMPORTS, 1981

(Rand, millions)

Destination/Source	Exports	Imports
SACU*	57.6	608.5
Zimbabwe	20.5	42.2
Mocambique	7.2	-
Angola	2.6	-
Zambia	1.3	0.7
Nigeria	0.8	-
Malawi	-	0.6
Other Africa	2.0	n.a
Total Africa	92.0	652.0
Total All trade	347.8	695.0
Total Africa (excl. SACU)	34.4	44.0

Source: Central Statistical Office, External Trade Statistics, 1981.

* Southern Africa Customs Union

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TABLE IX

BOTSWANA'S NON-TRADITIONAL EXPORTS

1981

(Rand)

Organic chemicals	3,591
Pharmacentical	2,473,636
Fertilizers	1,528
Tanning Extracts	20,081
Toilet preparations	38,179
Soaps	318,937
Glues	1,723
Explosives	9
Photo goods	9,399
Chemicals	18,276
Carving material	435,856
Misc. manufactures	4,542
Resins and plastics	69,377
Rubber articles	63,089
Leather articles	477,076
Wood articles	156,678
Manufactured straw	65,110
Paper & board	61,395
Printed blocks	48,108
Manmade fibres	10,536,524
Textiles & wool	4,360
Headgear	1,907,668
Tools	44,396
Boilers, machinery	2,356,566
Electrical machinery	303,886
Transport equipment	5,923,914
Other	300,000
Total (rounded)	R.31,530,000

Note: no distinction exists in the data for "re-exports"

Source: Central Statistical Office, Annual Trade Statistics, 1981.

TABLE X - Swaziland: Merchandise Trade, 1978-82

(In millions of SDRs)

	1978	1979	1980	1981	1982 est.
Exports, f.o.b.	157.0	185.8	267.1	306.3	281.9
Sugar	54.8	63.6	126.8	122.5	96.6
Woodpulp	24.9	25.9	36.3	45.2	50.6
Asbestos	16.7	16.2	15.4	17.3	17.1
Citrus and Canned fruit	14.2	17.1	16.8	21.2	20.4
Meat and meat products	5.8	8.3	7.9	3.6	3.5
Iron Ore	5.7	4.9	2.8	--	--
Coal	1.9	2.7	2.8	3.1	3.1
Chemicals	6.2	9.2	23.4	35.4	35.0
Others	26.8	37.9	34.9	58.0	55.7
Imports, c.i.f. 1/	248.8	336.8	457.6	351.4 2/	468.1
Food and live animals	17.5	18.1	25.7	24.4	...
Beverages and tobacco	7.3	4.5	6.2	4.8	...
Crude materials, mineral fuel and lubricants, animal and vegetable oils and fats	25.6	46.1	78.7	59.2	...
Chemical products	21.7	39.6	48.0	30.3	...
Manufactures classified by materials	25.9	62.6	78.7	43.3	...
Machinery and transport equipment	62.3	56.1	75.5	73.8	...
Mis. manufactures	18.2	51.7	67.6	45.7	...
Commodities not classified by kind	70.3	58.1	77.2	69.9	...

Source: Central Statistical Office.

1/ Includes duties.
2/ Three quarters to September 1981 (estimate for 12 months: SDR 487 million).

TABLE XI
SWAZILAND'S TRADITIONAL AND NON-TRADITIONAL EXPORTS TO AFRICA (EXCLUDING RSA)

(Emalengeni 1000)

Traditional Exports	Items	Country	Value
SITC 0	Chickens	Mocambique	117.8
	Cattle	Mocambique	1,082.4
	Canned meat	Mocambique	690.6
SITC 2	Sawn timber	Zambia	1,084.0
	Industrial timber	Zambia	467.0
	Industrial timber	Lesotho	34.0
	Unbleached pulpwood	Mocambique	10,051.7
SITC 3	Coal	Kenya	869.0
Non-traditional Exports			
SITC 6	Chrysalite asbestos	Kenya	83.7
	Chrysalite asbestos	Nigeria	892.4
	Chrysalite asbestos	Zambia	978.4

Source: (Swaziland) Central Statistical Office, Annual Statistical Bulletin, 1981.

TABLE XII

LESOTHO - SUMMARY OF FOREIGN TRADE

(M millions)

Period	Imports (1) cif	Exports (2) (3) fob
1973	62.57	8.77
1974	86.20	9.81
1975	122.23	9.24
1976	184.34	14.64
1977	204.69	12.20
1978	244.22	27.69
1979	311.81	37.92
1980	372.27	45.28
1981	453.14	43.08

Source: Central Bank of Lesotho, *Quarterly Review*, Dec. 1982.

(1) Includes food donated

(2) The series include diamond exports as follows:

1979 : .25 1974 : .90 1975 : .48 1976 : .45
1977 : 1.25 1978 : 16.70 1979 : 21.22 1980 : 24.72
1981 : 18.17

(3) Other major exports are wool and mohair, livestock products, crafts. Manufactured exports are very small. No breakdown for non-traditional exports to markets other than South Africa are provided in the data.

TABLE XIII - Zambia: Exports of Major Commodities, 1978-82

(Values in millions of kwacha)

	1978	1979	1980	1981	1982 Prel.
Copper					
Volume (in thousand tons)	590	647	619	552	604
Price					
In US$ per lb.	0.62	0.89	0.91	0.79	0.68
In K per ton	1,110	1,535	1,579	1,482	1,417
Freight (K per ton)	97	148	148	148	150
f.o.b. (K per ton)	1,013	1,387	1,431	1,334	1,267
Export value	598	897	886	736	765
Cobalt					
Volume (in tons)	1,793	2,974	2,100	2,211	3,085
Price					
In US$ per lb.	11.88	25.50	24.95	9.73	6.07
In K per ton	21,296	44,542	43,380	17,639	11,669
Freight (K per ton)	660	830	1,000	1,000	1,300
f.o.b. (K per ton)	20,636	43,712	42,380	16,639	10,369
Export value	37	130	89	37	32
Other metals	21	33	27	28	35
Zinc	18	27	20	23	29
Lead	3	6	7	5	6
Other	9	58	46	52	32
Total exports, f.o.b.	665	1,118	1,048	853	864

Sources: Data provided by the Zambian authorities.

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TABLE XIV

ZAMBIAN EXPORTS TO AFRICA

1981

(US$ millions)

Country	Value
Botswana	0.3
Burundi	6.1
C.A.R.	0.2
Kenya	3.1
Malawi	7.2
Namibia	0.3
Swaziland	0.1
Tanzania	3.9
Zimbabwe	25.5
Total Africa	54.6

Source: IMF. Direction of Trade Statistics Yearbook, 1982.

TABLE XV: ZAMBIAN SELECTED IMPORTS BY SITC DIVISIONS

Division Code No.	Description	1980*
01	Meat and Meat Preparations	16
02	Dairy Products and Eggs	6,295
03	Fish and Fish Preparations	1,326
04	Cereals and Cereal Preparations	22,055
05	Fruit and Vegetables	818
06	Sugar, Sugar Preparations and Honey	258
07	Coffee, Cocoa, Spices, Tea and Manufactures	1,530
08	Animal Foods (not unmilled Cereals)	2,950
09	Miscellaneous Food Preparations	2,318
11	Beverages	745
23	Crude Rubber (including Synthetic and Reclaimed)	4,107
24	Wood, Lumber and Cork	1,771
26	Textile Fibres (not Manufactured into Yarn, Thread of Fabrics) and their Waste	977
27	Crude Fertilisers and Crude Minerals (excluding Coal, Petroleum and Precious Stones)	3,156
32	Coal, Coke and Briquettes	2,293
33	Petroleum Products and Petroleum	188,660
42	Fixed Vegetable Oils and Fats	6,044
51	Chemical Elements and Compounds	10,950
53	Tanning, Dyeing and Colouring Materials	3,241
54	Pharmaceutical and Medical Products	19,526
55	Polishes, Essential Oils and Toilet Preparations	8,999
56	Fertilisers, Manufactured	12,386
58	Plastic Materials, Regenerated Cellulose and Artificial Resins	18,807
63	Wood and Cork Manufactures (excluding Furniture)	1,972
64	Paper, Paperboard and Manufactures	15,781
65	Textile Yarn, Fabrics and Related Products	41,707

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TABLE XV: (cont'd...)

Division Code No.	Description	1980*
66	Non-Metallic Mineral Manufactures, N.E.S.	16,533
67	Iron and Steel	44,027
68	Non-Ferrous Metals	3,716
69	Metal Manufactures, N.E.S.	40,018
71	Machinery, other than Electric	15,850
72	Electric Machinery, Apparatus and Appliances	61,792
73	Transport Equipment	4,261
81	Plumbing, Heating and Lighting Fixtures and Fittings	1,690
84	Clothing	3,754
85	Footwear	3,801
86	Watches, Clocks, Professional Scientific Photographic and Optical Goods	7,834
89	Miscellaneous Manufactured Articles, N.E.S.	9,607
	Other imports	284,080
	Grand Total	1,451,379

* Provisional

Source: Central Statistical Office, Monthly Digest of Statistics, July/Sept. 1982.

TABLE XVI - Malawi: Value of Exports, 1978-82

(In millions of U.S. dollars)

	1978	1979 1/	1980 1/	1981	1982 est.
Agricultural	164.1	198.3	248.2	255.3	193.9
Tobacco	102.1	120.7	128.2	118.2	127.9
Tea	34.5	37.5	37.9	36.2	33.7
Sugar	14.5	19.7	48.0	78.2	20.2
Groundnuts	5.6	10.9.	20.2	12.4	3.6
Cotton	0.8	2.2	5.7	1.7	0.5
Rice	2.5	2.7	3.8	3.6	3.2
Coffee	0.5	1.5	1.2	1.2	0.4
Other	3.6	3.1	3.2	3.8	4.4
Nonagricultural	12.3	17.5	29.5	30.9	23.7
Cotton fabric, yarn, twine	3.4	4.0	10.2	12.6	...
Cattle cake	0.6	0.2	0.9	0.7	...
Wooden boxes	0.2	0.1	0.1	0.0	...
Hides and skins	0.6	0.9	0.8	0.5	...
Other non-agricultural	7.5	12.3	17.5	17.1	...
Domestic exports	176.4	215.8	277.7	286.2	217.6
Re-exports	8.1	6.6	16.9	13.4	7.1
Total exports, f.o.b.	184.5	222.4	294.6	299.6	224.7

Source: Data provided by the Malawi authorities.

1/ Trade data for 1979 and 1980 are distorted because of transportation difficulties in these two years.

TABLE XVII

MALAWIAN EXPORTS TO AFRICA, 1981

(US$ millions)

Cameroon	0.22
Ethiopia	0.57
Gabon	0.44
Kenya	1.00
Liberia	1.12
Mauritius	0.74
Mocambique	2.81
Sierra Leone	1.09
Tanzania	0.05
Uganda	0.21
Zaire	0.30
Zambia	4.35
Zimbabwe	22.21
Other Africa	5.48
Total	54.46
Southern Africa	26.56

Source: IMF, Direction of Trade, 1982.

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TABLE XVIII
MALAWI - ZIMBABWE TRADE
Selected Products, 1980 (1)

Imports from Zimbabwe	Kwacha 000
Animal and vegetable fats, oils and waxes	335
Tobacco	309
Pharmaceutical products	1,967
Essential oils, etc. scent, toilet preparations	290
Soaps, scourers, candles, etc.	200
Artificial resins and plastic materials, etc.	359
Rubber, factice, and articles thereof	555
Paper and paperboard, and articles thereof	325
Manmade fibres (discontinuous)	1,353
Footwear, gaiters, and parts of such articles	420
Iron and Steel and articles thereof	2,477
Boilers, machinery and mechanical appliances	381
Electrical machinery and equipment; parts thereof	355
Locomotives, track fixtures signalling gear, etc.	450
Total (aggregate)	12,661

Domestic exports to Zimbabwe	
Fish, simply preserved, nes	1,299
Edible vegetables, other	203
Rice not in the husk	1,797
Groundnuts	157
Fruit preparations with sugar, nes	302
Yarn, cotton, for industry, grey	418
Fabric, cotton, grey or unbleached, nes	1,525
Fabric, cotton, printed, nes	1,126
Fabric cotton dyed in the yarn	866
Other vegetable textile materials; other	594
Twine, rope. etc. nes	275
Shirts, mens, nes	605
Footwear wholly or mainly of rubber	599
Mattress supports	153
Total (aggregate)	12,290

(1) Only major items by value have been identified.

TABLE XIX

MALAWI - ZAMBIA TRADE

Selected Products, 1980 (1)

Imports from Zambia	Kwacha 000
Tobacco	1,355
Salt, sulphur, earth, stone, lime, cement, etc.	2,623
Mineral fuels, oils, distillates, and waxes	1,057
Cotton	1,573
Articles of stone, plaster, asbestos, cement, mica	610
Electrical machinery and equipment; parts thereof	104
Total (aggregate)	7,661
Domestic exports to Zambia	
Fish, simply preserved, nes	628
Tea	221
Rice not in the husk	410
Cattle-cake, groundnut	299
Medicaments under individual prescription	163
Pharmaceutical products for humans	293
Fabric, cotton, dyed in the piece, nes	294
Fabric cotton dyed in the yarn	202
Total (aggregate)	3,521

(1) Only major items by value have been indicated.

TABLE XX

SOUTHERN AFRICAN TRADE WITH THE RSA

(R 1000)

Country	Year	Total exports	Exports to RSA		Total imports	Imports from RSA	
		Value	Value	% of total exports	Value	Value	% of total imports
Botswana	1980	399,380	26,342	6.6	548,644	477,354	87.0
Lesotho [1]	1980	33	-	-	( )	( )	90.0
Malawi	1980	210,253	6,904	3.3	332,150	123,808	37.3
Swaziland	1976	166,363	32,958	19.8	174,084	157,227	90.3
Zambia	1980	940,763	310,353	33.0	833,976	130,833	15.7
Zimbabwe	1981	1,082,731	234,302	21.6	1,240,772	340,951	27.5

Source: National data.

[1] At least 90 percent of Lesotho's imports originate from South Africa.

TABLE XXI

SOUTH AFRICAN EXPORTS TO AFRICA

1980/1981

Section BTN	Description	Exports to Africa (R 1000)		Exports to Africa as % of total imports	
		1980	1981	1980	1981
01	Live animals, animal products	56,444	34,341	30.5	20.5
02	Vegetable products	253,499	156,445	31.2	16.1
03	Animal and vegetable fats and oils and their cleavage products	8,485	17,066	23.0	27.3
04	Prepared foodstuffs, beverages, spirits and vinegar, tobacco	35,266	43,215	4.9	7.4
05	Mineral products	39,337	83,676	6.9	4.2
06	Products of chemical and allied industries	125,766	152,189	32.2	41.2
07	Artificial resins and plastic materials and products, rubber, etc.	43,946	43,661	58.1	64.8
08	Raw hides and skins, products	1,104	1,623	0.8	1.5
09	Wood and articles of wood and products	9,265	10,166	17.3	25.2
10	Paper-making material, etc.	34,145	32,982	19.0	16.3
11	Textile and textile articles	32,239	31,511	9.0	8.0
12	Footwear, headwear and others	3,511	4,565	20.7	32.7
13	Articles of stone, glass, etc.	23,341	21,800	42.1	52.3
14	Precious stones, metals, etc.	3,940	931	0.1	0.1
15	Base metals and articles	150,771	142,933	9.5	9.1
16	Machinery and equipment, etc.	167,413	169,410	63.6	60.3
17	Vehicles, aircraft, etc.	86,931	66,095	65.9	44.1
18	Instruments and apparatus, etc.	10,019	13,348	41.3	47.1
20	Misc. manufactured articles	3,738	3,751	13.8	15.9
21	Works of art, antiques, etc.	42	35	0.6	0.7
22	Other unclassified goods	8,830	8,160	0.1	0.1
	Total	1,098,034	1,037,904	5.6	5.7

Source: South Africa, Bureau of statistics.
The statistical territory in respect of the external trade statistics of the RSA does not coincide with its political boundaries, but includes Lesotho, Swaziland, Botswana and Namibia. Statistics of trade between the Republic and these territories are not recorded.

ESTIMATION OF EXPORT CREDIT REQUIREMENTS

1. No statistics are available on export credit volumes and demand outstanding for Southern African countries. No single bank has such information and central banks do not collect aggregate data. Precise estimates of current financing and the evolution therein are therefore not possible. Only crude and indicative orders of magnitude may be put forward, accordingly qualified.

2. Certain special regional features complicate the picture. Zimbabwe's return to open trading since 1980 involves a significant change in the overall position which cannot be captured in regional trend assessment. Information on trade flows is weak and disaggregation of traditional/ non-traditional goods incomplete.

3. The scale of exports requiring finance also partly depends on the existence of a facility. Until the latter is established actual demand will be difficult to determine. Therefore, it is important that the facility in the first instance attempts to satisfy only part of total potential demand. A conservative approach to measurement of need has thus been taken in order not to overstate demand requirements.

4. Demand for non-traditional goods refers to items described in Annex 1. Additionally, in the case of selected transactions or countries, an element of traditional product demand - for regional markets - could be assumed. The extent of demand for non-African demand has been very restrictively assessed.

5. Additional non-traditional exports requiring finance have been estimated per country on the lines of Table 1. The estimate reflects 1984 prices of potential export realisations and assumes (for convenience) no build-up period in reaching this level. The figures were determined with reference to disaggregated national data, discussions with authorities, assessment of available market research data (for Botswana and Malawi) and consultations held with banks and financial institutions involved in export transactions.

6. Total potential additional exports for finance would be around $85 million (1984 prices), $74 million deriving from Zimbabwe, Botswana and Swaziland (the "major exporters"). Taking the latter sum as a conservative measure, and assuming that only (say) 80% required financing by COFINEX, then (as shown in Table 2) $59.2 million would represent transactions

demand for financing as of 1984. It might reasonably, and conservatively, be estimated that a 10% p.a. increase could apply. This would in fact probably only keep real export values constant (and hence would reflect a cautious estimate). On this basis, exports for finance (at 80% for COFINEX's share) would grow to $140 million by 1993.

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TABLE 1

Southern Africa
Estimated Potential Additional
Non-Traditional Exports (1)
(1984 US$ millions)

Country	Southern Africa	Other Africa (2)	Other
Zimbabwe	30.0	15.0	7
Botswana	5.0	2.5	0.5
Swaziland	9.0	4.5	0.5
Zambia	4.0	2.0	-
Malawi	3.0	1.5	-
Lesotho	0.5	-	-
TOTAL	51.5 (60.5%)	25.5 (30%)	8.0 (9.5%)

(1) Based on broad assessment of data supplied by national authorities, market research information, industry surveys, and discussions with bankers, exporters, officials and trade organisations. Assumes export credit finance facility available and no worsening in payments problems plus 12 months gearing-up and no further difficulties in import procurement by exporters.

(2) Taken as 50% of Southern Africa figures (except for Lesotho).

TABLE 2

Southern Africa
Potential Trade Expansion
Requiring Export Credits

Estimates
(US$ millions)

Year	Additional Exports (1)	Southern Africa	Major Exporters (2)	Exports Requiring Credits (3) Major Exporters	
				60%	80%
1984	85.0	51.5	74.0	44.4	59.2
1985	93.5	56.7	81.4	48.8	65.1
1986	102.9	62.3	89.5	53.7	71.6
1987	113.1	68.5	98.5	59.1	78.8
1988	124.4	75.4	108.3	65.0	86.8
1989	136.9	82.9	119.2	71.5	95.3
1990	150.6	91.2	131.1	78.7	104.8
1991	165.6	100.3	144.2	86.5	115.3
1992	182.2	110.4	158.6	95.2	126.9
1993	200.4	121.4	174.5	104.7	139.6

(1) See Annex 5, Table 1. Growth assumed at 10% p.a. current prices.

(2) Zimbabwe, Botswana, Swaziland. Growth at 10% p.a. current prices.

(3) Assuming two different shares of export potential realised (and requiring credits) by "major exporters".

7. A portfolio structure of credits outstanding could be assumed as follows for COFINEX facilities:

Portfolio Share	Months Financing
10%	1
30%	3
30%	9
30%	21
100%	Av. = 12 months

8. Against estimated levels of exports (Annex 5, Table 2) and projected growth, the following pattern would result:

Assumed Portfolio Share	Outstanding Export Credits (1) 1984 (US$ m)	1993 (US$ m)
10	0.49	1.16
30	1.48	3.49
30	4.44	10.47
30	10.36	24.43
	16.77	39.55

(1) Export credit is calculated as per formula: credit = (terms in months) x (exports)/(12 months)

9. Average annual additional credits in this 10 year period would be measured at US$ 2.8 million (39.55-16.77/10). This assumes no change in the portfolio financed or alteration in export growth rates.

Zimbabwe: Import Payments and Export Proceeds

Imports and Import Payments

1. With the exception of products covered by the Open General Import License (OGIL), all imports are subject to licensing requirements. (At present the OGIL covers very few items.) Import licenses are issued only against a certificate of foreign exchange allocation. Global foreign exchange allocations are made available by the Ministry of Finance or the Ministry of Trade and Commerce for three-month periods. The latter Ministry is responsible for the detailed distribution of allocations to the various sectors, both public and private, on a priority basis. For purposes of allocating commercial imports, individual products are classified into five categories in accordance with the degree of essentiality. (In the manufacturing sector, because of employment considerations, similar priority ratings are not so strictly applied.) Foreign exchange is allocated to individual commercial importers for single tariff items (with facilities for a limited degree of transferability between items), whereas foreign exchange allocated to manufacturers is for a group of tariff items appropriate to the industrial division concerned. Manufacturers receive through the Ministry of Industry and Energy Development separate allocations for raw materials required for production for the local and export markets; the former is assessed

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on the basis of priority and foreign exchange availability, while the latter is adjusted in the light of actual export performance over the previous 12-month period. Allocations granted during the first and third quarters of the year may be carried forward and added to those granted in the second and fourth quarters, respectively.

Import licenses have to be drawn against allocation certificates at the time orders are placed. The normal validity of import licenses is six months from the end of the month of issue, but the validity period can be extended in certain circumstances. Import licenses are normally issued without geographical restriction, and importers are free to choose the country of supply. Licenses are issued on an f.o.b. basis and do not, therefore, cover the invisibles element of the transactions.

Imports of certain goods (mostly agricultural and processed food products) require a special permit issued by the Ministry of Agriculture. Certain agricultural products (coffee, maize, sorghum, soybeans, and wheat) may be imported only by the Grain Marketing and Cotton Marketing Boards or by others with the permission of the Boards. No quotas are in force, but seasonal restrictions are applied in the case of certain agricultural products.

Authorized dealers may approve applications to effect payments for authorized imports, provided necessary documentation (including the details of import licenses or open general licenses) is submitted. Payments for imports into Zimbabwe from all countries may be made in Zimbabwean currency to a local non-resident account or in any foreign currency.

The customs duty regime consists mainly of ad valorem duties, which range up to 40 percent, and specific duties on a number of products. Generally, imports are subject to an additional tax of 12 percent or 15 percent, which is the countervailing levy to the sales tax imposed at the same rates on goods sold domestically. Most imports are subject to a surtax of 5 percent.

Exports and Export Proceeds

2. Licenses are required to export certain products which are not covered by the Open General Export Licenses; these include (1) any ore, concentrate, or other manufactured product of chrome, copper, lithium, nickel, tin, or tungsten; (2) petroleum products; (3) jute and hessian bags; (4) road or rail tankers for carrying liquids or semiliquids; (5) bitumen, asphalt, and tar; (6) wild animals and wild animal products; (7) certain wood products; (8) ammonium nitrate; and (9) implements of war. In addition to security or social reasons, export licensing requirements are intended to ensure adequate domestic supply of essential products.

Goods may not be exported without permission, unless the customs authorities are satisfied that payment has been made in an approved manner or will be so made within three months from the date of shipment or such longer period as may be permitted by the Reserve Bank. Payments for exports must be received within 90 days in either of the following:

(a) a denominated currency:--

Austrian Schillings
Belgian Francs
British Sterling
Canadian Dollars
Danish Kroner
Deutsche Marks
South African Rand
Swedish Kroner
United States Dollars
French Francs
Italian Lire
Japanese Yen
Netherlands Guilders
Norwegian Kroner
Portuguese Escudos
Spanish Pesetas
Swiss Francs

(b) Zimbabwe currency from a Non-Resident Account conducted in terms of Section 15 of the Instructions to Authorised Dealers.

(c) In addition, payments must be received in advance of the export or be covered by an irrevocable Letter of Credit at an authorised usance issued or confirmed, prior to export, by a reputable overseas bank, in respect of the following countries:--

Afghanistan
Angola
Bolivia
*Botswana
Burma
Burundi
Cambodia
Cameroun
Central African Republic
Chad
Congo Republic
Costa Rica
Cuba
Cyprus
Dahomey
Djibouti
Dominican Republic
Egypt
El Salvador
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guyana
Iran
Ivory Coast
Jamaica
Kenya
Korea
Laos
Lebanon
Liberia
Malagasy Republic
*Malawi
Mali
Mauritania
Morocco
Nepal
Nicaragua
Niger
Nigeria
Pakistan
Poland
Rwanda
Senegal
Seychelles
Sierra Leone
Somali Republic
Sri Lanka
Sudan
Syria
Tanzania
Togo
Turkey
Uganda
Upper Volta
Veitnam
Yemen
Zaire
Zambia

*In respect of these two countries, locally issued irrevocable Letters of Credit do not require confirmation by an overseas bank.

Botswana: Import Payments and Export Proceeds

Imports and Import Payments

1. Botswana is a member of a customs union with Lesotho, South Africa, and Swaziland, and there are generally no import restrictions on goods moving between the four countries. Import permits are required, however, for most goods imported directly into Botswana from outside the customs union. Certain imported goods, including firearms, ammunition, fresh meat, and some agricultural and horticultural products, require permits, regardless of the country of supply. There are no restrictions or delays on payments for authorized imports. Goods of domestic origin may move freely between Botswana, Malawi, and Zimbabwe by virtue of a customs agreement of 1956, provided they are not intended for re-export.

Exports and Export Proceeds

2. Certain exports are subject to licensing, mainly for revenue reasons. Proceeds from exports must be received in a foreign currency or from a nonresident pula account. For a few items, such as precious and semiprecious stones, permits are required before export is allowed.

Swaziland: Import Payments and Export Proceeds

Imports and Import Payments

1. Swaziland is a member of a customs union with Botswana, Lesotho, and South Africa, and there are no import restrictions on goods originating in any country of the customs union. Imports from South Africa do not require licenses and include an unknown quantity of goods originating outside the customs union. Insofar as Swaziland imports goods directly from countries outside the customs union, such imports are usually licensed in conformity with South Africa's import regulations. Import licenses are valid for all countries and entitle the holder to buy the foreign exchange required to make the import payment.

Exports and Export Proceeds

2. Certain exports are subject to licensing, mainly for revenue and similar reasons, but most exports are shipped without license to or through South Africa.

Lesotho: Import Payments and Export Proceeds

Imports and Import Payments

1. Lesotho is a member of a customs union with Botswana, South Africa, and Swaziland, and there are no restrictions on imports originating in any country of the customs union. Imports from countries outside the customs union are usually licensed in conformity with South Africa's import regulations. Lesotho reserves the right to restrict certain imports. Import permits are valid for all countries and entitle the holder to buy the foreign exchange required to make the import payment upon customs entry. There are no bilateral payments arrangements.

Exports and Export Proceeds

2. Certain exports are subject to licensing for revenue purposes,[1] this requirement, in practice, is restricted to the export of diamonds. Most exports are shipped without license to or through South Africa.

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[1] The Central Bank of Lesotho controls external currency transactions. Authority to approve certain types of current payments is delegated to commercial banks up to established limits. Lesotho's trade licensing arrangements are designed mainly to raise revenue and to prevent tax evasion; permits are issued by the Ministry of Commerce and Industry. Licenses for financial institutions and insurance agents are issued by the Monetary Authority.

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Zambia: Import Payments and Export Proceeds

Imports and Import Payments

1. The import from all countries of certain specified commodities is prohibited for reasons of health, safety, or public policy. Personal and household effects, samples, diplomatic shipments, and means of transportation entering Zambia temporarily do not require individual import licenses, nor do any other goods for personal use and consumption, provided that the person importing them does not import more than K 50 worth of such goods in any period of 90 days. However, no payment may be made for goods not licensed, even where the value is less than K 50. The import of goods up to a value of K 500 that does not involve a remittance of foreign exchange is also exempt from a licensing requirement. The two major mining companies and the Ministry of Health are granted priority for bonafide requirements. The Controller of Customs is authorized to admit emergency goods imported without prior reference to the Ministry of Commerce. All other imports require individual import licenses.

Import licensing aims at containing imports within a half-year exchange allocation established by the Ministry of Commerce in consultation with the Ministry of Finance and the Bank of Zambia. However, subject to approval, imports may be licensed without allocation of exchange. All imports under individual licensing are divided into three-digit groups following the Standard International Trade Classification system and into end-use groupings. Exchange allocations are specified for each of these categories. Normally, raw materials, intermediate goods for further processing in Zambia, pharmaceuticals, and fuel and electricity are licensed liberally; alcoholic beverages, tobacco, durable consumer goods, and other consumer goods are licensed restrictively. No licenses are being issued for items that are also produced locally. In principle, foreign exchange for import payments is automatically made available once an import license has been obtained, subject to presentation of the relevant documents to an authorized bank, including a clean report of findings issued by the General Superintendence Company Limited of Geneva, which verifies the price, quality, and quantity in the country of origin or shipment.

Importers must obtain the approval of the Bank of Zambia before letters of credit can be opened by the commercial banks, and all financial arrangements between importers and foreign suppliers for the supply of goods on credit must be approved by the Bank of Zambia. All imports except those financed by suppliers' credits must be financed by letters of credit with minimum terms of 90 days. The commercial banks are notified every six months about the maximum amount of letters of credit that each bank may open. Importers intending to import goods not involving use of official foreign exchange must obtain the prior approval of the Bank of Zambia before applying to the Ministry of Commerce and Industry for a "no currency" import license.

Importers must have the import license approved by the Ministerial Committee on Foreign Exchange Allocation before presenting it for approval by the Bank of Zambia and subsequently to the commercial banks for the issuance of letters of credit. The commercial banks are required to submit to the Bank of Zambia a weekly return on letters of credit opened, giving specified pieces of information.

Most imported goods are subject to a sales tax of 12.50 percent of taxable value, which is calculated as the sum of (1) 120 percent of the customs value; (2) the applicable customs duty; and (2) 25 percent of the sum of (1) and (2). Certain import payments are in arrears; these arrears have been centralized, and the Bank of Zambia is settling them in accordance with certain priorities.

Exports and Export Proceeds

2. All exports valued at over K 50 require a license, except those covered by an open general license; minerals are exported under general agreements with the mining companies. The export of certain metals is reserved, in principle, for an official agency, the Metal Marketing Corporation. Certain commodities are subject to licensing mainly to ensure domestic supplies of needed goods and of certain strategic materials, such as implements of war, lead in any form, certain minerals, petroleum products, certain rough and uncut precious stones, scrap and old metals, and jute bags. For most goods, however, export licenses are issued freely. Export proceeds in foreign currency

appropriate to the country of destination must be offered for sale to an authorized bank within six months of the date of shipment; the foreign exchange proceeds of copper exports, however, must be credited to a Bank of Zambia account in London upon receipt. All exports must be financed through irrevocable letters of credit and be registered with the Bank of Zambia.

Nonnational agricultural producers are eligible for certain incentives in the form of foreign exchange, on the basis of every standard bag of maize, wheat, or soybean sold by them in excess of the prescribed number of bags. Corresponding foreign exchange incentives for national agricultural producers are made available on application to the exchange control authorities.

NOTE: Exchange control is administered by the Bank of Zambia under powers delegated to it by the Minister of Finance. Much of the authority for approving normal current payments is in turn delegated to commercial banks authorized to deal in foreign exchange. The control of trade is the responsibility of the Ministry of Commerce, which also issues import and export licenses. Overall import policy is determined by the Ministerial Committee on Foreign Exchange.

MALAWI: IMPORT PAYMENTS AND EXPORT PROCEEDS

a. Imports and Import Payments

For a number of items,[1] import licenses are required regardless of the country of origin. All other goods[2] may be imported under an open general license when originating in Commonwealth countries or in non-Commonwealth countries that are members of the GATT (except Poland). For other countries (including Poland) an import license is required for all commodities except certain items that are free from licensing irrespective of origin, such as petroleum products, exposed cinematographic films, samples, and advertising materials.

Except with the permission of the exchange control authorities, payments for imports from all countries must be made after the arrival of the goods in Malawi. Applications for foreign exchange for these payments are referred to the exchange control authorities for formal approval subject only

Notes

1. Certain agricultural and food products, new (military type) and used clothing, gold, sugar, wheat flour, cement, fertilizers, newsprint and certain paper products, pencils, ball-point pens, office stapling machines and staples, printing inks, erasers, hand-operated numbering stamps, flick knives, explosives, arms and ammunition, game traps, mist nets, wild animals, live fish, cassava, and copyright articles.

2. A licensing system based on tariff quotas and linked to purchases of domestic substitutes is applied to imports of clothing items under two tariff headings.

to the presentation of relevant import documents. Any transfer of funds in anticipation of imports is prohibited, except with the permission of the exchange control authorities. Payments against sight letters of credit and sight bills of exchange are not permitted. Imports may be paid for in Malawi currency to an appropriate local non-resident account or in any convertible currency. In addition to a 3 per cent levy, a surcharge of 20 percent is levied on most goods imported into Malawi, irrespective of origin; the surcharge is calculated on 120 per cent of the sum of the value for customs duty purposes and any customs duty payable. For certain imports that are channeled through clearing and forwarding agents, a prepayment of 50 per cent of the applicable port duties and clearing charges is required.

b. Export and Export Proceeds

Exports of goods of any description that exceed MK 100 in value are not allowed, unless the Controller of Customs and Excise is satisfied that payment has been made or will be made in an appropriate manner to a resident of Malawi not later than six months after the date of exportation. Certain commodities are subject to export licensing, mainly to ensure the adequacy of domestic supplies. Export proceeds in foreign currency must be sold to an authorized dealer.

ESTABLISHED PRIVATE FINANCIAL INSTITUTIONS IN ZIMBABWE[1]

a. Registered Institutions

Commercial Banks

Barclays Bank of Zimbabwe
Bank of Credit and Commerce Zimbabwe Limited
Grindlays Bank Limited
Zimbank Limited
The Standard Bank Limited

Accepting Houses

Merchant Bank of Central Africa Limited
RAL Merchant Bank Limited
Standard Merchant Bank Zimbabwe Limited
Syfrets Merchant Bank Limited

Discount Houses

BARD Discount Houses Limited
DCZ Discount Company Limited

Financial Institutions

Fincor Finance Corporation Limited
Grindlays Industrial and Commercial Finance Limited
Scotfin Finance Limited
Standard Finance Limited
UDC Limited

b. Other Financial Intermediaries

Building Societies

Beverly Building Society
Central African Building Society
Founders Building Society

Note:

1. In addition there are 7 major trust companies, one Stock Exchange, 50 Direct Insurers, 8 Professional Re-insurers, 17 Insurance Brokers and 3 Development Finance Companies.

International Banks (Representative Offices)

Banque International Pour L'Afrique Occidentale
Citibank
First National Bank of Boston
Druzena Beogradska Banka (Bank of Yugoslavia)

Export Credit

Zimbabwe Credit Insurance Corporation Limited

ZAMPIAN IMPORT POLICY

a. Applications for Foreign Exchange

Applications to the Technical Committee, for foreign exchange for imports which come under the following headings are unlikely to be considered:

(a) Items which are monopolised by a particular organisation.

(b) Restricted items which are considered luxuries or unnecessary commodities.

(c) Protected items which are produced locally.

b. Monopoly Imports

Dried yeast, liquor, mineral waters, towels, kitchen and table glassware, householdware, crockery, tableware, hollo-ware (excluding highly specialised imports) dry cell batteries, bicycles, parts and accessories for bicycles and tricycles, iron and steel buckets, sanitary articles, domestic articles, travel goods and other sports cases (excluding camera cases), other containers of plastic and leather, towelling napkins, matches.

c. Restricted and Luxury Imports

Poultry, all meat and fish preparations except for baby food, eggs, prepared cereals, and other cereal preparations, rolled oats, biscuits, cakes, fruit, fruit juices, nuts, dried, frozen and tinned vegetables, soups, confectionery, puddings, peanut butter, other food preparations, second-hand textile articles, talc, cosmetics and toilet preparations, mats, hangers, gold, watches, clocks, jewellery, record players, sound re-corders, toys.

Passenger motor vehicles except one model of the following makes: Honda, Toyota, Datsun, Ford, Peugeot, Leyland, Volkswagen, Holden, Renault.

Trucks except for the following commercial vehicles under three tons: Belford, Leyland, Mercedes Benz, Toyota, Peugeot, Volvo, Mazda, Ford Australia, Holden, Morris, Volkswagen, Mitsubishi (Fuso and Canter), Datsun, Kenworth, Chevrolet, Honda, Fiat, Renault, Tata.

d. Protected Items Produced Locally

Cornflour, other cereal flours, honey, sugar confectionery, margarine, groundnuts, paint and enamels, toothpaste, shampoo, scouring powder, shoe and floor polish, garden hoses, rigid pipes, plastic articles (unspecified), aerosol insecticides, glues, tyres, boxes, cartons, toilet paper, cotton, blanketing, fishing nets, finished blankets, asbestos articles, glass containers, tubes, flanges, elastic textile fabric, iron and steel windows, aluminium doors, fencing, nails, etc., drill bits, basins, crown corks, radios, televisions, etc., batteries, accumulators, transformers, animal drawn vehicles, carbon electrodes, chairs and seats metal and wooden, metal office furniture, wheelbarrows and parts, plastic tableware etc., furniture, metal bedsteads, ball-point pens, filing cabinets, finished clothing, shoe laces, brooms, brushes, paper clips, lampwicks.

BERNE UNION ARRANGEMENTS

1. The Berne Union is a non-official association of export credit insurance whose members include both private and official agencies providing export credit insurance or overseas direct investment, or both. The Union has 36 members from 28 countries and its statutes provide that it shall work for the international acceptance of sound principles of export credit insurance and the establishment and maintenance of discipline in the terms of credit for international trade.

2. The members of the Union have agreed to exchange information and furnish the Union with the information necessary for the accomplishment of its task, as well as to cooperate with other international institutions concerned with these matters and, where appropriate, take coordinated action. The principal instrument for attaining these objectives is the process of exchange of information under which members have accepted the obligation to reply promptly and accurately to the questions of other members concerning the length of credit they are prepared to extend in support of contracts under negotiation. Thus, there is a constant flow and exchange of information between members on these questions and this is one of the main means by which members are able to resist requests to support unnecessarily long credit.

3. Any member who supports credit of longer than five years is required to report the details to the secretariat of the Union for circulation to all members under joint arrangements with the IBRD and OECD.

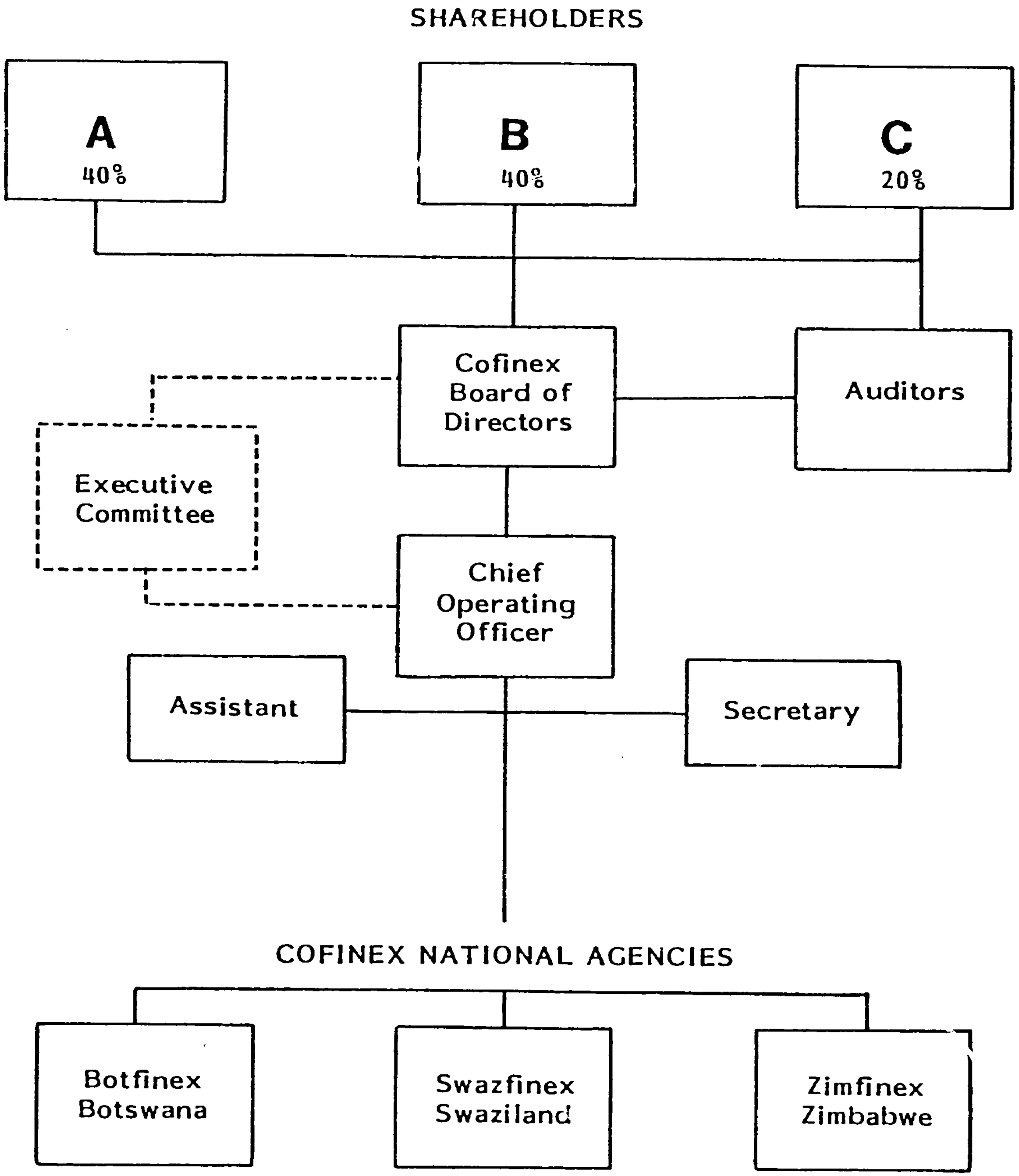
4. The Berne Union defines the starting point of credit from the date of delivery or the date of completion of construction or installation, depending upon the nature of the contract. In addition, members have agreed on the maximum length of credit which should normally be supported for certain categories of goods. At meetings, the members exchange views on underwriting matters, policies relating to various importing markets and trends in the terms of payment for goods.

5. As an association of export credit insurers rather than of governments, its decisions are not binding on member States. Members are, however, required to obtain the consent of their governments before entering into any agreement restricting the length of credit which may be agreed for particular goods. Departures from such agreements are, in fact, rare, though they occasionally occur

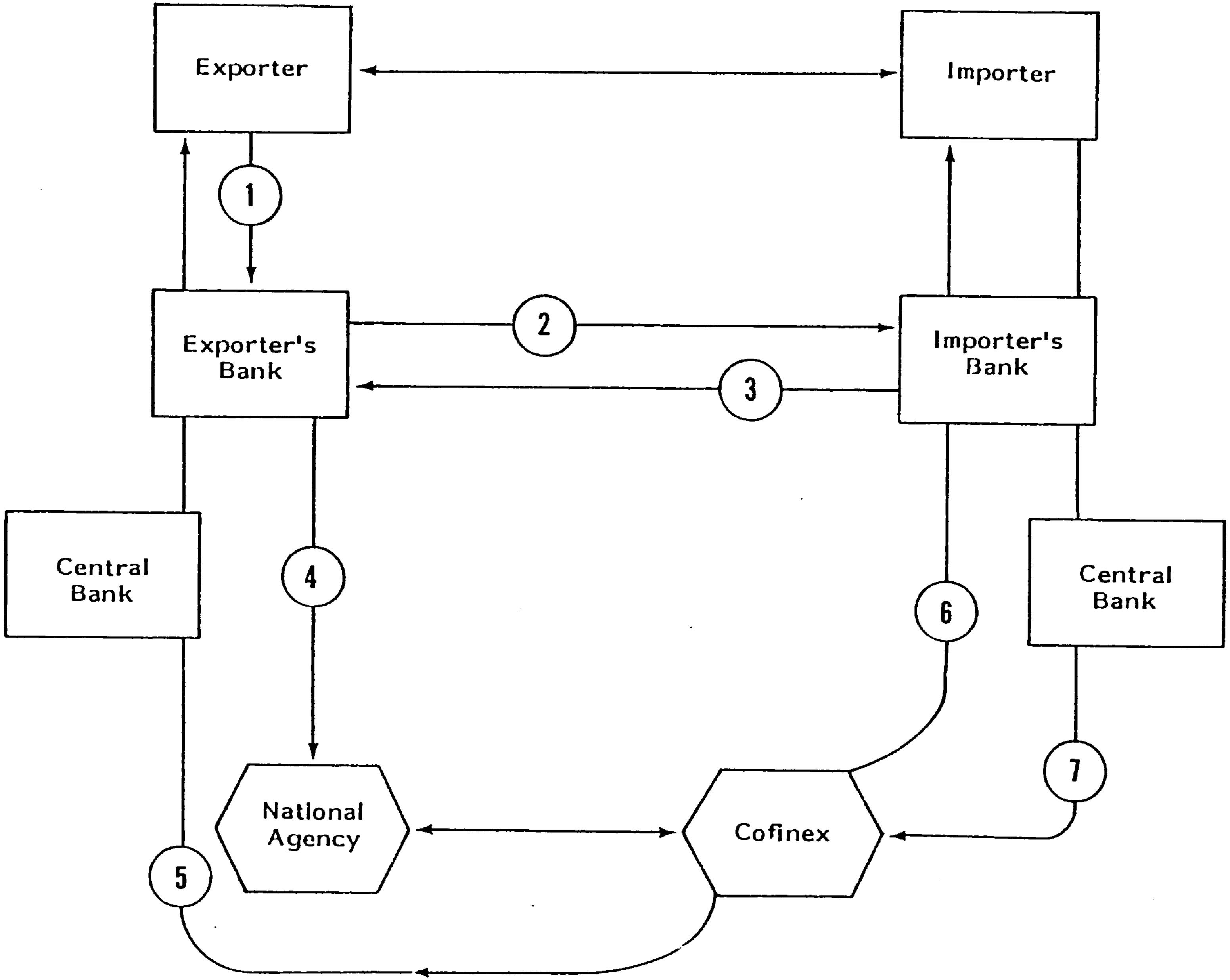
for reasons of policy. Similarly, in the exchange of information on contracts in negotiation, members are expected to give due notice if they are instructed by their government to exceed the terms previously agreed.

6. As of August, 1983 the highest OECD Consensus Rate was 12.4% (lowest 10.0%) for 2-5 year contracts. These rates are under discussion and one proposal is a reduction of 0.5% in the lowest rate (for countries eligible for IDA credits).

Cofinex Organizational Chart



Cofinex Lending Mechanism



POTENTIAL NATIONAL AGENCIES

Zimbabwe Credit Insurance Corporation

ZCIC was established in 1965. Its shareholders consist of eleven banks, financial institutions and insurance companies as follows:

Barclays Bank Zimbabwe Limited
Grindlays Bank Limited
Industrial Development Corporation of Zimbabwe Ltd.
RAL Merchant Bank Limited
Zimbabwe Banking Corporation Limited
Standard Merchant Bank Zimbabwe Limited
Credit Guarantee Insurance Corporation of Africa Ltd.
Old Mutual Fire & General Insurance Co. (Pvt.) Ltd.
Munich Reinsurance Company of South Africa Limited
Swiss Re Holding Limited
Moorfields Home and Overseas Agencies Limited (subsidiary of the Mercantile and General Reinsurance Co. Ltd.)

ZCIC underwrites both commercial and political risk, and conducts its activities in cooperation with the Zimbabwe government. Political risks are re-insured with the government, while commercial risks are re-insured with professional re-insurers. Risk coverage provided by ZCIC includes:

Commercial Risks

- the insolvency of the buyer or any other legal process which prevents the buyer from making payment of the whole or any portion of the insured debt;
- the failure of an insured buyer to pay an undisputed insured debt within a specified period after due date.

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- the failure or refusal of the insured buyer to accept delivery of goods without justifiable cause.

Political Risks

- The operation of a law (or equivalent) which in circumstances beyond the control of the insured either prevents, restricts or controls the importation of goods into an external country; or prevents, restricts or controls the transfer of payment from an external country to Zimbabwe.

- The occurrence of war, hostilities, civil war, revolution, insurrection, boycott, strike or other disturbances in Zimbabwe.

Risks Not Covered

- Changes in currency exchange rates against the Zimbabwe dollar;
- Any risk which is normally covered under any other type of insurance, e.g., Transport, Marine, Fire, etc.
- The default of an agent of the insured and the non-compliance by either the importer or the exporter with import regulations of the country of destination in force at the time of shipment, and trade disputes.

ZCIC is headquartered in Harare and operates a branch in Bulawayo. Approximately 35% of all exports from Zimbabwe are covered by ZCIC. For the year ending December 31, 1982, ZCIC underwrote Z $284 million of risks and produced a before-tax profit of Z $241,671. During 1982, claims experience improved; claims paid amounted to Z $111,210, compared with Z $483,928 in 1981. ZCIC has been granted member status with the Berne Union.

ZCIC offers a wide range of insurance policies which can be custom-tailored to fit a specific situation. In the case of COFINEX, ZCIC could provide political risk coverage as described above as well as 100% commercial risk coverage for all Zimbabwe exports financed by COFINEX. This means, for example, that if COFINEX were to finance a Botswana (or other) importer for exports from Zimbabwe, and that importer were unable to pay at maturity because of bankruptcy or any other reason, COFINEX could claim payment from ZCIC. Coverage could also be provided for those instances where COFINEX might have partial recourse to an exporter who was also unable to make payment.

While ZCIC can thus provide commercial coverage, for Zimbabwe exports, under present Zimbabwe exchange regulations, it would be able to make payment only in the local currency of the importer (or that of the exporter if partial recourse had to be exercised). Permission for ZCIC to remit payment in the hard currency equivalent would have to be granted by the Reserve Bank of Zimbabwe.

ZCIC appears well placed to act as COFINEX's agent in Zimbabwe. It can provide support and coordination services, as well as certain types of insurance coverage, and ensure that loans extended by COFINEX are commercially creditworthy. It must be emphasized, however, that neither ZCIC nor, for that matter, any other institution of its type can offer coverage against risks that materialize when an importer is able to effect payment in local currency, the country either does not

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have sufficient foreign exchange available to remit in hard currency, or the country actually repudiates its external debt. These "country" risks will have to be borne by COFINEX, although there are ways in which risk can be mitigated.

Botswana, Swaziland and Other Countries

Since neither Botswana nor Swaziland have the equivalent of a ZCIC type organization in their own market, ZCIC management was asked whether it might be in a position to underwrite insurance coverage for those markets in a form similar to that provided for Zimbabwe exports. This appears to be feasible although it will need to be studied further.

Alternatively, because of national political considerations, it might be more acceptable for ZCIC to work with or through a local organization in each country. A local organization could service COFINEX basic requirements and provide export credit insurance, with ZCIC acting on a consultant basis.

Although time precluded full discussions regarding a potential agency agreement with any organization in Botswana or Swaziland, it is felt the ZCIC prototype agency arrangement can be applied and implemented in both countries. In Botswana, possible candidates to act as COFINEX's local agent include Barclays Bank, Standard Bank and the Botswana Development Corporation (BDC) which is controlled by the government, and in which the IFC has a small equity participation. BDC appears particularly interesting as a candidate because it has investments and loans in a wide number of commercial and financial enterprises, including a 51% investment in Botswana Insurance Company and a participation with Barclays, Standard and the National Development Bank in Financial Services Corporation of Botswana Ltd. In Swaziland, candidates are Barclays Bank and Standard Bank. Tibiyo Taka Ngwane which has important investments in the industrial and financial sectors of the economy would be willing to take an equity position.

There is no need for agency arrangements to be concluded in any other Southern African country not a COFINEX shareholder. Local support required in markets such as Zambia and Malawi, or other countries, can be provided by the local banks.

COFINEX FINANCIAL ASSUMPTIONS

The major assumptions applicable to COFINEX's structure, operations and financial policies are given as follows:

1. Capitalisation

Authorised capital would be $10.0 million. Paid-in capital would be $5.0 million. Of the latter 40% would be from member central banks, 40% from USAID (and/or other bilateral sources) with 20% from IFC. It is expected that COFINEX would operate on the basis of its paid-in capital at least for the first 5 years of operations. New membership could be accommodated at existing capitalisation within the first five years, as accompanied by a re-structuring of holdings, or if thereafter by the issue of additional (authorised) capital.

2. Borrowing Capacity

COFINEX's borrowings will be kept at moderate levels. The debt/equity ratio will be increased only slowly - from under 3:1 in the first year to around 6:1 in the fifth year. Thereafter debt ratios could rise further, to a maximum envisaged gearing of 10:1.

3. Borrowed Funds

Initially, borrowed funds will come from USAID and/or other bilateral sources as follows: US $30 million, over 40 years with 10 years grace period for capital repayments, and 4% per annum interest charge. Only at a later date will non-concessional borrowings be considered.

4. Loan Disbursements

The drawdown of loans in the first three years will be at $14 million, $8 million and $8 million respectively. If necessary this profile could be altered to reflect a more rapid build-up in financing operations.

5. Flow of Funds

The flow of funds for years 1-5 would take the following format:

COFINEX FLOW OF FUNDS (US$ millions) [1]

Year	Date	Capital paid-in	Loans drawn	Total Funds	Operations (Disbursements)
1	1984	5	14	19	14
2	1985	5	22	27	22
3	1986	5	30	35	30

(1) Years 4 + 5 assumed as per year 3.

Loan disbursements increase from year 6 onwards up to $50 million in year 17.

6. Liquidity Requirements

COFINEX is expected to maintain a minimal amount of cash and liquid funds for its market operations. Total liquid assets are assumed initially at 5% of the loan portfolio.

7. Member Drawings

Members drawings will be monitored within guidelines established by a negotiated arrangement. This could depend on the numbers of members and the relative (export-weighted) transactions volume to be financed.

8. Country Exposure

No more than 10% of total assets should be committed to any one country although this limitation should be flexible. Country limits will be adjusted periodically to reflect new conditions.

9. Institutional Exposure

No more than 10% of total assets should be committed to any one client.

10. Denomination of Assets and Liabilities

It is expected that COFINEX's transactions will be executed in US dollar denominations. In practice, this could vary vis-a-vis convertible currencies in accordance with individual transaction requirements, assuming that currency risk is covered.

11. Transactions Volume

Given the availability of funds, it is assumed that the loan portfolio reflecting transactions financed would grow as follows:

LOAN PORTFOLIO

(Average Volume: 1984 US$ millions)

Year	Date	Annual	Cumulative	Portfolio Turnover
1	1984	14.0	14.0	28.0
2	1985	22.0	36.0	44.0
3	1986	30.0	66.0	60.0
4	1987	30.0	96.0	60.0
5	1988	30.0	126.0	60.0
6	1989	31.3	157.3	62.6
17	2000	50.0	605.8	100.0
40	2023	50.0	1755.8	100.0

Note: Annual loan portfolio growth after year 5 is at 4.348 p.a. until 2000 (year 17) when the $50 million level is attained. Then the loan portfolio/capital ratio is given as 10:1, a ratio assumed to hold until year 40.

The loan build-up in years 1-3 is presumed to be rapid given unfulfilled demand. After this, consolidation is assumed in years 4 and 5; thereafter a growth rate of 4.35% p.a. until year 17.

By the end of year 5 $126 million in transactions will have been financed. By year 2000 the sum will amount to $606 million.

12. Interest Spreads

It is assumed that the average lending rate will exhibit a 5.0% interest spread on the cost of funds acquired. The margin will vary over time. With borrowed sources rated at 4.0% average lending rate (across portfolio maturities) would be at 9.0%.

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13. Maturities

COFINEX will finance net additional term requirements. In practice, the actual structure of maturities will depend on individual transactions, the country of the exporter (given the different regulations applicable), and borrower requirements.

For evaluation purposes, it is assumed that the average portfolio held by COFINEX is spread across maturities such as to weigh the value of transactions in favor of medium and long-term paper.

The following pattern has therefore been taken to reflect the operations envisaged:

COFINEX TRANSACTIONS PORTFOLIO
BY MATURITY (Per US$ 1.0 million)

Total Maturity (Gross) (1)	COFINEX Maturity (Net) (2)	Distribution Share %	Cumulative %	Annual Turnover No. (3) (times)	US$ M	Portfolio Turnover by Share
90-120	30	5	5	12.00	0.60	28.6%
120-180	90	20	25	4.00	0.80	38.0%
180-360	270	35	60	1.33	0.47	22.4%
360-720	630	40	100	0.57	0.23	11.0%
-	-	-	-	-	2.10	100.0%

(1) All member countries are assumed capable of bearing the first 90 days credit requirement directly.

(2) Refers to average portion borne by COFINEX, taken as the full amount of additional credit offered (by maturity).

(3) Number reflects the extent of maturity turnaround per annum. Turnover is weighted by portfolio share distribution.

For every $1 million in loan disbursement funds around $2 million are generated in portfolio transactions. The weighting provides that about one-third of maturities exceed an additional 9 months (i.e. total maturities greater than 12 months) while 11% relate to transactions of an average of 2 years maturity.

A shorter structure of maturities increases the value of portfolio transactions which can be financed per unit of funds. The most significant variable is the proportion of funds placed in shorter-dated paper (vis. COFINEX 30 day and 90 day instruments).

14. Loss Provisions

It is assumed that COFINEX will maintain a reserve for bad debts at 0.5% of total loan portfolio.

15. Dividends

No dividends would be declared in the first five years of operations. Thereafter, dividends could be paid from investment income and/or profits on transactions. Initially, dividend yield on net worth would be kept at modest levels and possibly increased subsequently in accordance with financial performance improvements. This is to ensure the maximum availability of own funds with which to finance transactions and thereby increase total portfolio turnover. For evaluation purposes, a dividend of 5% on net worth (paid-in equity and retained earnings) was assumed from year 6-17. Dividends are paid from investment income at year end and deducted against the subsequent year.

16. Operating Costs

COFINEX would incur expenses in London related to its business. Either these costs would be absorbed directly or paid under a management contract fee. This assessment has been calculated on own costs incurred (deemed equivalent to the likely sub-contract fee), based on the following assumptions:

COFINEX EXPENSES

US$ (1984 prices)

Staff (salaries and benefits) (1)	135,000
Office premises (2)	30,000
Computer and accounting services (3)	40,000
Communications and travel	50,000
Rates and services (4)	30,000
Leasing(equipment) (5)	5,000
Total	300,000

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Notes:

(1) 2 professionals (Chief Executive, Accountant and Secretary).

(2) Assumed 600 sq.ft. at $50.00 per sq.ft. (London Financial District).

(3) Hardware and software would be leased.

(4) Rates and services taken as equivalent in cost to premises.

(5) Leasing of office equipment taken in lieu of asset purchase and depreciation.

The $300,000 estimated as COFINEX annual expenses is 1.0% of the annual transactions loans in years 3-5.

The expenses identified are assumed to apply for 1984-1988. Thereafter, as transactions increase in number and value, so staff requirements will expand. An assumed increase in operating costs can be taken pro rata according to the numbers of estimated transactions involved. This results in assumed transaction numbers rising from 313 to 1989 to 500 in 2000.

17. Transactions Costs

Transactions costs are to some extent volume variable. On the assumption of estimated COFINEX costs and an average transaction size of $0.2 million, the cost structure would develop as follows:

Year	Date	Costs of COFINEX (US$ m)	Transactions Numbers	Transaction Cost (US$)	Portfolio Turnover (US$ m)
1	1984	0.3	140	2,142	28.0
2	1985	0.3	220	1,363	44.0
3	1986	0.3	300	1,000	60.0
4	1987	0.3	300	1,000	60.0
5	1988	0.3	300	1,000	60.0

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By year 3 unit transaction cost would $1,000. Thereafter COFINEX costs may be taken as a function of transaction numbers (at $1,000 per transaction). This is believed to be generously estimated so as not to understate costs. While further economies could be envisaged, this unit transaction cost is assumed to hold over 1989-2000.

18. Fees and Commissions

Transactions fees would be charged to cover costs and commission due. A variable and graduated scale would be established in order to be attractive to members and user countries. Discounts would be provided on larger transactions. The assessment is based on an average transaction and assumes a transactions fee at 0.5% of the value of portfolio turnover. Fees could be reduced as economies of scale are realised.

19. Interest on Loans

Interest on loans provided by COFINEX has been taken at an average of 9.0% on annual sums outstanding.

20. Investment Income

For that portion of COFINEX's invested funds (capital, less liquid assets, plus retained earnings), a return of 10.0% per annum is assessed. It is possible that better rates could be derived from longer-dated securities.

21. Amortisation

COFINEX's main obligation for amortisation will be towards the USAID $30 million loan for which repayments need only, in principle, commence in year 11. Obligations could therefore be retired over years 11-40. Consequently, the annual charges required for capital recovery (principal plus interest) for years 11-40 have been separately estimated (at 0.0578% per annum for $30 million in the case of 4.0% loan). Years 1-10 only bear an interest charge taken at 4.0% on $30.0 million ($1.2 million). Repayments cover all principal and interest in relation to periodic drawings needed to finance charges over the full period. The loan is fully repaid at year 40 (2023). Payments arise as per the schedule below:

COFINEX AMORTISATION AND INTEREST CHARGES

1994 - 2000

Year	Annual Charge (US$ m)	Cummulative Charge (US$ m)
11	1.734	1.734
12	1.734	3.468
13	1.734	5.202
14	1.734	6.936
15	1.734	8.670
16	1.734	10.404
17	1.734	12.138
(18-40	39.882	52.020)

Given $1.2 million in interest charges still applicable in year 10, there is a sharp 44.5% rise in the following year as a result of capital costs repayments.

22. Reserves + Replenishment

The objective of creating COFINEX, and the purpose of access to soft-rated operating funds, is to develop a trade financing institution which over time establishes a capital base for on-going transactions. A replenishment account is therefore required, since loans must be retired, eventually building up over time, while prior to loan amortisation normal provision for reserves must take place. It is proposed that Reserves + Replenishment Funds (R+R Fund) be created by appropriation from gear 1 onwards in order to enable a sum of $30 million to be generated by year 40 in addition to initial paid-in capital. This requires a Sinking Fund apportionment each year according to the factor 0.0023 (for 40 years at interest of 10%), i.e. $69,000 allocated per annum.

COFINEX

Projected Balance Sheet

(US$ million)

	1984	1985	1986	1987	1988
Assets					
Cash and Liquid Assets[1]	0.70	1.10	1.50	1.50	1.50
Loan Portfolio	14.00	22.00	30.00	30.00	30.00
Less Loss Provision[2]	0.07	0.11	0.15	0.15	0.15
Net Loan Portfolio	13.93	21.89	29.85	29.85	29.85
Long Term Assets	5.27	6.30	7.75	9.89	12.22
Total Assets	19.90	29.29	39.22	41.34	43.67
Liabilities					
Deposits	-	-	-	-	-
Credit Lines	-	-	-	-	-
Borrowings	14.00	22.00	30.00	30.00	30.00
Total Liabilities	14.00	22.00	30.00	30.00	30.00
Net Worth					
Paid-in Capital	5.00	5.00	5.00	5.00	5.00
Retained Earnings	0.90	2.29	4.22	6.34	8.67
(Reserves + Replenishment)	(0.07)	(0.14)	(0.27)	(0.28)	(0.35)
Total Net Worth	5.90	7.29	9.22	11.34	13.67
Total Liabilities + Net Worth	19.90	29.29	39.22	41.34	43.67

Notes:
1. At 5% of loan portfolio
2. At 0.5% of loan portfolio

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COFINEX

Projected Income Statement

(US$ millions)

	1984	1985	1986	1987	1988
Income					
Net Interest (1)	0.70	1.10	1.50	1.50	1.50
Transactions fees (2)	0.14	0.22	0.30	0.30	0.30
Portfolio Deals + Brokerage	-	-	-	-	-
Investment Income (3)	0.43	0.48	0.58	0.77	0.98
Total Income	1.27	1.80	2.38	2.57	2.78
Expenses					
Operating Costs	0.30	0.30	0.30	0.30	0.30
Loss Reserve	0.07	0.11	0.15	0.15	0.15
Taxes	-	-	-	-	-
Total Expenses	0.37	0.41	0.45	0.45	0.45
Net Profit					
Average Net Worth	5.45	6.60	8.26	10.28	12.50
Return on Average Net Worth	16.5	21.1	23.4	20.6	18.6
Return on Paid-in Capital	18.00	27.8	38.6	42.5	46.6

Notes:

(1) Assumes 5% spread on borrowing (costed at 4% p.a.)

(2) Transactions fees at 0.5% on loan portfolio turnover

(3) At 10% p.a. on (annual) invested funds - including capital (non-liquid) funds and re-invested Retained Earnings.

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COFINEX CASH FLOW, 1984 - 2000

(US$ millions)

		1	2	3	4	5	6	7	8	9	10
		Capital Charges						Reserves			
Year	Date	Interest	Amortisation + Interest	Equity	Operating Costs (plus loss provision)	Total Costs	Interest Earned	Transaction Fees	Investment Income (after Dividends)	Total Reserves	Net Cash Flow
1	1984	0.56		5.00	0.37	5.93	1.26	0.14	0.43	1.83	-4.10
2	1985	0.88			0.41	1.29	1.98	0.22	0.48	2.68	1.39
3	1986	1.20			0.45	1.65	2.70	0.30	0.58	3.58	1.93
4	1987	1.20			0.45	1.65	2.70	0.30	0.77	3.77	2.12
5	1988	1.20			0.45	1.65	2.70	0.30	0.98	3.98	2.33
6	1989	1.20			0.46	1.66	2.70	0.31	1.22	4.23	2.57
7	1990	1.20			0.48	1.68	2.70	0.33	0.81	3.84	2.16
8	1991	1.20			0.49	1.69	2.70	0.34	0.92	3.96	2.27
9	1992	1.20			0.51	1.71	2.70	0.36	1.40	4.10	2.39
10	1993	1.20			0.52	1.72	2.70	0.37	1.15	4.22	2.50
11	1994		1.73		0.54	2.27	2.70	0.39	1.26	4.35	2.80
12	1995		1.74		0.55	2.29	2.70	0.40	1.41	4.51	2.22
13	1996		1.73		0.57	2.30	2.70	0.42	1.54	4.66	2.36
14	1997		1.74		0.59	2.33	2.[illegible]	0.44	1.69	4.83	2.50
15	1998		1.73		0.61	2.34	2.70	0.46	1.84	5.00	2.66
16	1999		1.74		0.63	2.37	2.70	0.48	2.00	5.18	2.81
17	2000		1.73		0.65	2.38	2.70	0.50	2.17	5.37	2.99

Notes: (see next page)

NOTES:

Col. (1):	At 4% on loan disbursements
Col. (2):	See Annex 18, Para. 21
Col. (3):	Capital investment
Col. (4):	Loss provision at $1.5 from 1989-2000. Operating costs increase over 1989-2000in accordance with transactions volume, growing at 4.35% p.a. This level is assumed constant thereafter.
Col. (5):	Addition Cols (1) - (4) inclusive
Col. (6):	At 9% on loan portfolio
Col. (7):	At 0.5% on transactions turnover. See Annex 18, Para. 11.
Col. (8):	Net investment income from capital (less liquid assets) plus retained earnings at 10% p.a., with dividends at 5% on net worth commencing 1989, payable from 1990-2000.
Col. (9):	Addition Cols (6) - (8) inclusive
Col. (10):	Col (9) - Col (5), net.

COFINEX REPLENISHMENT FUND

(US$ millions)

Year	Net Profits	Dividend	Net Worth	Reserve + Replenishment Fund[1] Annual Tranche Value	Reserve + Replenishment Fund[1] Cumulative Value
1984	0.9	-	5.90	3.12	3.12
1985	1.39	-	7.29	2.84	5.96
1986	1.93	-	9.23	2.58	8.54
1987	2.12	-	11.34	2.35	10.89
1988	2.33	-	13.67	2.13	13.02
1989	2.57	0.81	16.24	1.94	14.96
1990	2.16	0.92	18.40	1.76	16.72
1991	2.27	1.03	20.67	1.60	18.32
1992	2.39	1.15	23.06	1.46	19.78
1993	2.50	1.26	25.56	1.32	21.10
1994	2.61	1.41	28.17	1.20	22.30
1995	2.76	1.54	30.93	1.09	23.39
1996	2.89	1.69	33.82	0.99	24.38
1997	3.04	1.84	36.86	0.90	25.28
1998	3.19	2.00	40.05	0.82	26.10
1999	3.35	2.17	43.40	0.75	26.85
2000	3.52	2.34	46.92	0.68	27.53

Notes:

(1) R + R Fund annual tranches reflect capital sum derived from investment of $69.000 for outstanding period, i.e., 1984 tranche for 40 years.

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