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REPORT ON A SURVEY TO ESTIMATE  
FIRM LEVEL DEMAND  
FOR A PRE-EXPORT REVOLVING FUND (PERF)  
IN MALAWI, MOZAMBIQUE, TANZANIA AND ZIMBABWE

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by

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VOLUME 1

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BACKGROUND TO THE STUDY

A. INTRODUCTION

1. The PERF Design Initiative

The present study reports on the results of a survey of exporting companies and export sector-related financial institutions and government agencies in four countries of the Southern Africa region (Malawi, Mozambique, Tanzania, Zimbabwe). The study was commissioned by U S Agency for International Development's Zimbabwe Mission (USAID/Zimbabwe), and was prepared by a Deloitte Haskins & Sells (DH&S) team drawn from the firm's Harare, Blantyre/Lilongwe, Nairobi and Washington D C offices. The DH&S effort was supported by IMAHI Development (Pvt) Ltd of Harare, acting as a subcontractor.

DH&S was engaged to undertake the study as one part of USAID/Zimbabwe's program to design a "Pre-Export Revolving Fund" (PERF) to serve selected countries of the Southern Africa Development Coordination Conference (SADCC) region. Based on investigations prior to the present study, the PERF concept had been formulated as a possible mechanism to help promote growth of export revenues for SADCC nations, one of the region's key development priorities. In particular PERF would address the perceived problem of foreign exchange shortages as a constraint to the export sector. Through PERF, exporting firms would be able to obtain foreign exchange credits to finance import of raw materials and other recurrent inputs needed to produce export commodities. Foreign exchange financing for capital equipment, however, would be excluded from the PERF program. While the detailed PERF operating mechanism remains to be worked out, it is understood that, in principle, PERF would be administered on a regional basis by an offshore bank; would run on commercial lines (ie non-subsidized, market rates of interest); would involve local commercial banks acting as correspondents of the off-shore bank in dealings with the exporting firms; and would feature streamlined approval procedures for import licensing and access to foreign exchange. The Fund would also involve a retention element to increase overall PERF resources, and perhaps a measure of firm-specific foreign exchange retention as well as an incentive to participants.

2. Purpose of DH&S Survey

The DH&S survey was intended to provide four different elements of information to contribute to the overall PERF design program. Specifically, DH&S was instructed to :-

- \* Project the financial demand for PERF resources among eligible firms in Malawi, Mozambique, Tanzania and Zimbabwe for the period 1989 through to 1993, including disaggregations of this projected demand by country, sector, size group and ownership group.

- \* Estimate the import content of export commodities which would be generated by PERF, disaggregated by country and sector.
- \* Estimate the cycle times (ie period between credit drawn-down and receipt of export proceeds) required by exporting firms to repay the PERF credits extended to finance imported inputs.
- \* Present detailed descriptions of current procedures, regulations and institutional responsibilities concerning importing, exporting and foreign exchange transactions.

It is understood that the first three estimates or projections would be used by USAID/Zimbabwe's future PERF operating mechanism consultants to develop a financial model of the proposed Fund. The set of procedural and institutional descriptions would be used by USAID/Zimbabwe as background information for the negotiations it would undertake with governments of countries participating in PERF aimed at establishing an efficient administrative environment for the Fund.

## B. STUDY APPROACH

### 1. Identifying Potential PERF Users

An initial problem for the DH&S study team was to define, in each country, the "universe" of potential PERF users whose demand for PERF foreign exchange resources would be represented in our surveys of firms. Early in the study, through discussions with USAID/Zimbabwe, a series of criteria was established to clarify probable firm-level eligibility standards for participation in PERF. These criteria reflect USAID's overall policy guidelines for extension of development assistance for parastatal enterprises. They also reflect perceptions of the kinds of operations likely to fit the streamlined, revolving, off-shore foreign exchange supply mechanism that PERF was intended to be. In brief, in any of the four study countries, for eligibility for participation in PERF, an enterprise would need to be :-

- \* a private sector firm (defined as featuring at least 50% private ownership); or
- \* a parastatal enterprise expressly certified as eligible for PERF by a Center for Privatization consulting team acting in parallel to the DH&S effort; and
- \* a direct exporter, itself exporting products or commodities (no "indirect" exporters) whose export sale proceeds could be ultimately deposited in the PERF off-shore account; and
- \* a direct importer, itself importing inputs to incorporate in its export production (no "indirect" importers); and
- \* typically experiencing a cycle period of no more than 12 months in which to recapture, through its export proceeds, the foreign exchange expended for imported inputs; and

- \* in principle able to relate imported inputs financed under PERF to specific export transactions.

Note that in the category of "direct exporters", DH&S included both firms actually exporting at present, and those with exporting potential -- ie producing products which appeared to have export possibilities.

Export revolving fund arrangements such as PERF are normally associated with export manufacture. However, USAID/Zimbabwe and DH&S believed that, if feasible, the benefits of a PERF should be extended as widely as possible. Consequently, it was agreed that in its definition of the universe of potential PERF users DH&S would include not only enterprises in export manufacture, but also those in export agriculture and export mining which met the above criteria.

## 2. The Survey Effort

In each of the four study countries, DH&S conducted its survey along roughly the same lines. First, with assistance from local business organizations, government or donor agencies, financial institutions and knowledgeable individuals, a proposed sample of exporting firms to be surveyed was drawn up. This sample was selected somewhat subjectively, but was intended to be as representative as possible of the universe of eligible PERF users, as defined by the criteria laid down earlier. Secondly, contact was made with sample firms, the purposes of the study explained, and a formal questionnaire was submitted for their consideration. The questionnaire was designed to elicit quantitative data (foreign exchange demand, import content, cycle times) and serve as a basis for discussion of overall export sector conditions. Firms were urged to fill out the questionnaire either with assistance from a DH&S staff person or independently, as preferred. Thirdly, follow-up meetings were held with many respondent firms to clarify and elaborate on data provided. Finally, additional meetings were held with selected private and public sector organizations to review issues raised by the survey and to confirm DH&S analysis and conclusions based on survey results.

The characteristics of the four country samples, and the details of the respective sample selection methodologies and conduct of the survey in the four study countries are outlined further below. The PERF survey questionnaire, applied in all four study countries, is attached in Appendix A. Note that a Portuguese version of the questionnaire was prepared for use in Mozambique.

## CONFIDENTIALITY OF DATA

Much of the information requested of the firms surveyed by DHS is sensitive : firm size, turnover, export sales targets and the like. DHS assured all private firms contacted that confidentiality of their responses would be maintained. Accordingly, while questionnaires, workpapers and notes for firms interviewed have been kept on file, survey data are presented in this study largely without identifying individual firms by name. The principal exception to this guideline concerns the various parastatal enterprises, for which financial and other information are publicly available.

## D. STRUCTURE OF THE STUDY

This study is divided into five chapters, in addition to the present one. An "Overview of Study Findings" immediately follows, summarizing and analyzing the overall results of the PERF surveys. After this Overview, a series of four "Country Survey" chapters is presented. These chapters are laid out in a common format. First, a country's export sector is briefly described in order to provide a sense of the operating conditions and trends sample firms face. Next, the country's export, import and foreign exchange-related regulations and procedures are detailed. The characteristics of the survey country's sample and its sample selection process are then examined. Last of all, the country-specific results of the survey are reported, and DHS' quantitative and qualitative conclusions are explained.

Finally, following the country survey chapters, a range of four Appendices are attached, most of them containing detailed notes pertaining to export and import licensing procedures.

CHAPTER II  
OVERVIEW OF STUDY FINDINGS

## OVERVIEW OF STUDY FINDINGS

## A. QUANTITATIVE SURVEY CONCLUSIONS

1. Firm Level Demand for PERF

## Total Demand

Based on the responses of the sample of firms DH&S has interviewed, we have identified a demand for a PERF-style export revolving fund in two of the four survey countries: Mozambique and Tanzania (Exhibit II - 1). In order-of-magnitude terms, we estimate this demand at about US\$ 3 million (Tanzania) and US\$ 13 million (Mozambique) in 1989, rising to US\$ 12 million (Tanzania) and US\$ 30 million (Mozambique) in 1993.

For the other two survey countries, Malawi and Zimbabwe, we perceive no demand for PERF. In Zimbabwe, the existing Export Revolving Fund (originally set up with World Bank assistance) at present appears to be adequately meeting the demand of exporters for imported raw materials and other inputs. In Malawi, a proposed "Malawi Export Revolving Fund" (MERF) with a capitalization of US\$ 25 million to US\$ 35 million is to be established before the end of 1988 as part of a World Bank-sponsored industrial sector and trade liberalization reform package. This MERF should be sufficient to meet exporters' needs for imported inputs.

## Demand by Sector, Ownership and Firm-Size

Assuming the distribution of demand within the total population of PERF users in Mozambique and Tanzania approximates the distribution of demand evident in the two respective country samples, manufacturing exporters would be the principal participants in PERF. Their demand account for 70% to 85% of total demand for PERF. Agro-processors -- tea processors, sisal fibre producers, edible oil producers, seedbean processors and others -- would account for the balance. In Tanzania the export mineral industry (rock salt producer) would have a very modest requirement for PERF resources.

By ownership, private sector exporting firms would generate the bulk of demand for PERF. Public sector firms would account for 5% (1989) to 30% (1993) of PERF demand (assuming again the same proportional distribution of demand for all users as that estimated for the country samples). The public sector firm share of demand would arise not only from the seven parastatal enterprises in Mozambique and Tanzania identified by the Center for Privatization team as eligible for PERF, but also from other public sector firms which over time transform themselves sufficiently to qualify for PERF.

Based on the distribution of demand for PERF among firms interviewed, by firm-size small to medium scale enterprises (between 100 and 1 000 employees) would account for 75% to 85% of total PERF demand.

Exhibit II - 1 presents details of the above.

## EXHIBIT 11 - 3

## REPRESENTATIVE BY SECTOR AND COUNTRY OF FOUR COUNTRY SURVEY OF PERP DEMAND

	<u>Malawi</u>	<u>ZAMBIA</u>	<u>TANZANIA</u>	<u>ZIMBABWE</u>	<u>TOTAL</u>
<b><u>Firms Submitting Questionnaires</u></b>	<u>14</u>	<u>14</u>	<u>17</u>	<u>13</u>	<u>58</u>
• By Sector					
- Agro-processing	5	5	7	2	19
- Manufacturing	9	9	9	11	38
- Mining	-	-	1	-	1
• By Ownership					
- Private Sector	12	11	15	12	50
- Public Sector	2	3	2	1	8
• By Firm-Size					
- Less than 100 employees	-	-	4	1	5
- 101 to 500 employees	6	7	7	4	24
- 501 to 1 000 employees	1	1	1	4	7
- Over 1 000 employees	7	6	4	4	21
- Unknown	-	-	1	-	1
<b><u>Additional Firms Interviewed/No Questionnaire (a)</u></b>	<u>5</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>14</u>
• By Sector					
- Agro-processing	-	-	-	3	3
- Manufacturing	5	-	-	5	10
- Mining	-	-	-	1	1
• By Ownership					
- Private Sector	5	-	-	9	14
- Public Sector	-	-	-	-	-
<b><u>Additional Firms Contacted/No Questionnaire (b)</u></b>	<u>-</u>	<u>5</u>	<u>2</u>	<u>12</u>	<u>19</u>
• By Sector					
- Agro Processing	-	-	1	3	4
- Manufacturing	-	5	1	9	15
- Mining	-	-	-	-	-
<b>TOTAL SURVEY FIRMS</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>34</b>	<b>91</b>

(a) For Malawi, represents firms interviewed by telephone, but which were not requested to fill in a questionnaire. For Zimbabwe represents firms which were initially interviewed by DHS but at the end of the interview concluded they had no demand for PERP resources.

(b) Represents firms which originally promised to participate in the PERP survey and received questionnaires but ultimately did not return these to the DHS survey team.

Source : DHS

EXHIBIT II - 2

SUMMARY OF PERF SURVEY IMPORT CONTENT AND CYCLE TIME ESTIMATES

	IMPORT CONTENT (%) (a)				CYCLE TIMES (MONTHS) (b)			
	<u>MALAWI</u>	<u>MOZAMBIQUE</u>	<u>TANZANIA</u>	<u>ZIMBABWE</u>	<u>MALAWI</u>	<u>MOZAMBIQUE</u>	<u>TANZANIA</u>	<u>ZIMBABWE</u>
Average	38	44	30-40	40	6	9	5-6	3-6
Range	3-80	8-80 (c)	10-30	2-80	6-8	6-18	3-9	1-8
<b>Selected Export Products</b>								
* Agricultural implements	27				6			
* Canned foods	80				6			
* Plywood	25				6			
* Polypropylene netting	75				6			
* Copra		6						
* Cotton yarn		20				12		
* Galvanized pipe		70				12		
* Bicycle tires		40				6		
* Plastic ware			80			13		
* Sisal fibre			10				9	
* Seed beans			20				6	
* Vegetable oil			29				9	
* Clothing				53			6	
* Packaging				80				8
* Processed foods				30				6
* Stock feeds				2				1

- (a) Represents only inputs imported directly by companies for incorporation into export production. Computed as value of imported inputs as a percent of FOB price of export product into which they are incorporated.
- (b) Represents time period between drawn-down of a credit for purchase of imported inputs for export production and receipt of export proceeds.
- (c) Excludes one respondent which specified 94% import content (manufacture of electronic cables) probably a calculation error.

Source: PERF survey data.

## Other Key PERF Parameters

### Import Content

Inputs directly imported by exporters for incorporation in their export production ("import content.") appear on average to account for roughly 30% to 45% of the FOB value of goods produced (Exhibit II - 2). The overall range of import content shares runs from a low of 2% (stock feeds, Zimbabwe) to a high of over 80% (plastics manufacture, Tanzania; packaging, Zimbabwe). Import content for most agro-processing firms is probably about 15% to 35%. Import probably falls within about 30% to 65%. Import content figures are of course in part a function of the opportunities for local sourcing of inputs: for example a clothing manufacturer in Zimbabwe reports an import content of 53%, while another in Malawi specifies a proportion of 75%.

### Cycle Times

Cycle times represent the period between draw-down of credit to purchase imported inputs for export production and receipt of the proceeds of the sale of the export items produced. Cycle times reported by firms surveyed range from 1 month (stock feeds, Zimbabwe) to 18 months (tea manufacturer, Mozambique). In general, cycle times appear to be roughly 6 months for many firms in Malawi, Tanzania and Zimbabwe (Exhibit II - 2). In Mozambique, they are markedly longer -- probably closer to 9 months or more on average. The more extended Mozambique cycle times may arise from the general economic disarray in the country and continuing disruptions to its transportation and trade systems.

## B. QUALITATIVE SURVEY CONCLUSIONS

### 1. General Findings

An interesting set of consistent responses arises from our discussions about export sector conditions with firms participating in our survey. Major findings include :-

#### Domestic Market Orientation (Exporting as a "Sideline")

Many non-traditional exporter firms we encountered repeatedly made the point to us that the attraction of exporting for them is the foreign exchange they are able to generate through retention schemes. Export markets, they emphasize, are more demanding and lower priced than domestic markets, and often require sales on a marginal cost basis to be competitive. Without the incentive of foreign exchange earnings -- which they can use to buy spares and raw materials for more profitable domestic market production -- many firms would not be exporters. Exceptions exist of course (garment manufacturers in Zimbabwe and Malawi for example). But this general pattern of a domestic market orientation even among exporters underlines the nature of the incentives that the existing structure of industrial and trade sector policies sends to producers in the survey countries.

## Complex of Exporting Constraints

While lack of foreign exchange to import inputs is definitely a problem for some exporters, it is worthwhile to note that the PERF survey reveals that the export sector confronts a complex of constraints to exporting. Among others these include domestic liquidity problems; out-moded and inefficient plant and equipment and production technology; unreliable and high cost transportation; overall lack of export incentives; administrative and procedural delays for financing and licensing of export production and imported inputs it requires; and lack of knowledge about markets and quality and design standards. Moreover, a major constraint to exporting in the natural market for most PERF survey firms -- the regional Preferential Trade Area -- is the fact that prospective clients and their governments lack foreign exchange to import. Therefore, even if a regional PERF were to be established, it is unlikely that it in itself would generate a major increase in export volumes.

## Need for Capital Rehabilitation

Reinforcing the point made above, many firms indicated that one of their foremost priorities is to obtain foreign exchange to rehabilitate existing plant and equipment. Given years of economic decline and strict foreign exchange rationing, firms have been unable to properly maintain or replace their equipment. Many speculate whether or not they would be able to sustain production to take advantage of major export opportunities, should such opportunities be presented to them. And they also wonder whether, without substantial capital investment in new plant and equipment, they would be able to benefit fully from access to PERF resources.

## Need for Spare Parts

Firms indicate, nearly unanimously, that their first priority imported input requirements are spare parts for equipment and machinery. They urge that a PERF should establish as one of its primary functions the provision of foreign exchange for importation of spares.

## Maze of Export Support Programs

Exporting firms participating in the survey in all four countries described to us the maze of incentive schemes, import support mechanisms and special foreign exchange allocation procedures that they face. Though these initiatives are all designed to support the exporter, the array of individual objectives, requirements, procedures and restrictions they involve adds to the complexity of exporting. It also increases costs, for often only senior management can manoeuvre through the administrative structure of export support programs, a time-consuming diversion from management's principal task of running business operations. Survey respondents advise donor agencies concerned with exporting to work with national governments and each other to coordinate and simplify programs for the export sector.

## Importance of Indirect Exporters

Many firms emphasized that indirect exporters are important actors in the export sector and should not be excluded from the benefits of a PERF program. They point out that indirect exporters can range from manufacturers of packaging (cans, corrugated boxes, plastic bagging), to producers of raw materials sold domestically for further processing and export (eg sisal), to transport operators who are critical to exporting process. These indirect exporters have their own requirements for imported raw materials and spares, which if unmet, bring the export sector to a halt. Certain respondents pointed out, moreover, that exclusion of indirect exporters from the benefits of export support programs can have perverse effects: some firms may pass up opportunities to sell an agricultural commodity to domestic processors in favor of direct export sale of the commodity in an unprocessed form in order to obtain retention foreign exchange allocations available only to direct exporters. National value-added is diminished as a result. Others suggested that the PERF principle of requiring participants to import directly, which reduces the role of the indirect exporter, might lead to increased costs: for example, excluded from participation in PERF, indirect exporter firms would tend to carry smaller inventories of spares, packaging and other items sold to the export sector, leading in turn to shortages and inefficiencies.

## Foreign Exchange for Priority Exporters

While foreign exchange for imported inputs is a constraint for some exporters, this is not the case for all of them. Leaving Zimbabwe and its ERF aside, a number of firms in Malawi, Tanzania and Mozambique indicated that at present they had access to sufficient foreign exchange for importation of export-related inputs, and that conditions of "freely available foreign exchange" would not improve their performance. These firms tended to be larger enterprises, both public sector and private, the latter often with multinational connections. Also these firms were frequently involved in export of the traditional strategic products: tea, sugar, cotton, cashew and the like. Their access to foreign exchange appears in some cases to be the result of special agreements outside normal allocation channels that larger, more established and important exporting firms can strike with governments. The relatively more favored foreign exchange position of various larger exporters is consistent with the fact that most of the demand for PERF estimated in the survey arises from medium-sized firms.

## Uncertain Operating Environment for Exporters

The survey highlights the fact that exporters in the region, especially in countries such as Tanzania and Mozambique, operate under very uncertain circumstances. Years of economic decline (severe in Mozambique and Tanzania, less so in Malawi), disruption to transport and impacts of ineffective government policies have made business operations a matter of survival from day to day. In such an environment planning and development of business strategies have little relevance. Consequently, at present many firms -- especially in Mozambique and Tanzania -- are probably unprepared organizationally and psychologically to undertake major export expansions, even with access to PERF resources. One fallout from this state of affairs is that the levels of export performance that many firms have projected for the PERF survey are no doubt highly optimistic and impractical. We have attempted to "correct" for such over-optimism in our PERF demand estimates, but some measure of unrealistic export expectations may still remain.

## Skeptical View of PERF Administrative Mechanism

While many firms were enthusiastic about the PERF concept, a significant number of respondents raised questions about the practicality of the administrative and organizational framework that PERF proposes. In short, many firms felt it unlikely that their governments -- and especially their central banks -- would accept the role of relative non-involvement for them that is envisaged in PERF. All predicated a hard negotiation for USAID with central banks to establish the PERF operating mechanism that we described.

## Country-Specific Findings

The PERF survey also gives rise to certain country-specific findings of note, among them :-

### Malawi

- \* PTA - exporters expressed considerable frustration over the Preferential Trade Area, which they say has led to no easing of trade restrictions or improvement of trade flows -- and point out that Malawi's trade with Zimbabwe has actually declined under PTA.
- \* Garment industry - Survey respondents indicated that certain overseas garment industry operators are interested in Malawi as a new "non-quota" location for development of garment production for the United States market, and in fact some CTM (cut/make/trim) operations exporting to the U.S. have already set up.

### Mozambique

- \* South Africa - The Republic of South Africa is an important export market and source of inputs for Mozambique exporters, and many expressed dismay at the idea of PERF restricting sales or purchases from RSA.

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EXHIBIT II - 1

SUMMARY OF PERF SURVEY DEMAND ESTIMATES

(US \$ Million)

	MALAWI		MOZAMBIQUE		TANZANIA		ZIMBABWE		TOTAL SURVEY	
	1989	1993	1989	1993	1989	1993	1989	1993	1989	1993
Total Demand	-	-	13.0	30.0	3.0	12.0	-	-	16.0	42.0
By Sector										
* Agro-processing	-	-	1.7	8.1	0.9	3.6	-	-	2.6	11.7
* Manufacturing	-	-	11.3	21.9	2.1	9.4	-	-	13.4	30.3
* Mining	-	-	-	-	(a)	(a)	-	-	(a)	(a)
By Firm Ownership										
* Private Sector	-	-	13.0	24.6	2.1	7.7	-	-	15.1	32.3
* Public Sector	-	-	-	5.4	0.9	4.3	-	-	0.9	9.7
By Firm Size (employees)										
* Less than 100	-	-	-	-	(a)	(a)	-	-	(a)	(a)
* 100 - 500	-	-	2.8	12.2	2.7	10.6	-	-	5.5	22.8
* 501 - 1 000	-	-	8.4	8.8	-	-	-	-	8.4	8.8
* Over 1 000	-	-	1.8	10.0	0.3	1.4	-	-	2.1	11.4

(a) Less than US\$ 100 000

Source : Exhibits IV - 10 and V - 9.

- \* Local foreign exchange sales - Several sample firms have significant hard currency earnings from "exporting" to Mozambique's domestic market where they are paid in foreign exchange (clients tend to be donor agencies or the Lojas Francas Shops).

#### Tanzania

- \* Seed Capital Revolving Scheme (SCRS) - SCRS has contracted with a total of 46 exporter firms, and the scheme has clearly benefited many participants, although a significant share of SCRS firms have not yet exported according to their projected export commitments.
- \* Local currency liquidity - Several exporters emphasized that Tanzania's Economic Recovery Program has led to a Tsh liquidity crises for several firms, so that, even if they receive them, they are unable to provide the local currency cover required for foreign exchange allocations.

#### Zimbabwe

- \* Transportation - Exporters specified that the high cost of air freight transport is a major constraint to exporting, and offered that a major export drive would be limited by the poor state of Zimbabwe's transport, especially vehicle spares.
- \* Administrative constraints - Exporting firms praised the efficiency and responsiveness of the Export Revolving Fund, but maintained that the other systems (import control in particular) are a major constraint to economic activity.

### C. SURVEY METHOD

#### 1. PERF Survey Firms

The PERF survey involved contacts with a total of 91 companies in the four survey countries. Of this number, 58 firms submitted detailed questionnaire responses and another 14 firms participated in interviews regarding potential demand for PERF and export sector constraints. Another 19 firms promised to return the PERF questionnaire, but did not do so.

The characteristics of firms participating in the survey (sector, firm-size, ownership) are summarized in Exhibit II - 3. All 9 parastatal firms certified as eligible for participation in PERF were contacted and 7 returned questionnaires.

2. Sample Selection

In all PERF survey countries, the selection of the sample was somewhat subjective, but with the aim of developing a group of firms to survey which would be as representative as possible of the potential PERF user population. In particular, we sought to select a sample presenting a good cross-section of (1) the full array of major products and commodities exported by the private sector and (2) the full range of conditions existing in the private export sector (eg firm-size; foreign-owned firms/locally owned firms; geographical dispersion, if possible; participation in existing revolving funds). Care was also taken to include some potential exporters as well as actual exporters in the sample.

DH&S survey teams relied on exporter rosters and the opinion of knowledgeable private and public sector individuals concerned with the export sector to help initially in selecting the samples, and then to reconfirm the "representativeness" of the targeted firms once the survey was underway.

3. Demand Estimation

In all four survey countries, the DH&S survey teams used a questionnaire designed, among other points, to contrast a "Best Case" scenario for exporters with their "Base Case" scenario. The "Best Case" asked the respondent to project his export performance for the period 1989 through 1993 assuming conditions of "freely available foreign exchange" for purchase of imported inputs. The "Base Case" asked him by contrast to project his export performance under roughly a continuation of present conditions of foreign exchange availability. The difference between the two would be the yearly "net increase" in export revenues attributable to introduction of a PERF -- the source of "freely available foreign exchange" for imported inputs.

Using the exporter's estimates of import content for his export product or commodity, the annual net increases in export revenues were then converted to their imported-input-equivalent value in foreign exchange. Applying the exporter's estimates of cycle time, annual foreign exchange values were reduced to the net amount of foreign exchange required to meet annual imported input needs, after the effects of cycling of funds were taken into account. The result was a sample firm's projected demand for PERF in a given future year.

For the two countries in which some demand for PERF appears to be present, Mozambique and Tanzania, a distinction was made between firms' "nominal" demand for PERF -- their stated demand -- and an "effective" demand for PERF. The latter represents an across-the-board reduction of nominal demand by a factor of 40% to adjust for suspected over-optimism on the part of responding firms. The 40% factor roughly reflects the share of firms enrolled in Tanzania's Seed Capital Revolving Scheme, which at last report had not yet actually achieved an export sale.

Finally, the "effective" demand for PERF among sample firms was extrapolated to the whole of the potential PERF user population. In Mozambique this was done by building upon the sample firms' estimated proportional share of all exports handled by all potential PERF users. In Tanzania, this was done by employing what we judge to be reasonable extrapolation factors to sample firms' demand for PERF.

4. Limitations of the Survey

In each of the four countries of the PERF demand study, every effort was made to conduct the survey in as objective and impartial a manner as possible, in both sample selection and organization and interpretation of data flowing from survey questionnaires and interviews. It must be recognized, however, that given constraints of time and budget and lack of basic information on the export sectors of the four survey countries, the PERF survey is essentially an impressionistic exercise rather than a statistical one. As such, it provides useful insights into operating conditions for exporting firms, and it furnishes a basis for order-of-magnitude estimates of demand for PERF and other quantitative parameters (import content and cycle time) that would shape PERF design. But ultimately the quantitative findings of the PERF survey are fairly rough indicators and should be recognized as such.

D. COUNSEL TO USAID

Based on the results of the PERF survey, we offer the following counsel to USAID :-

- (1) For Malawi, in view of the imminent establishment of the Malawi Export Revolving Fund, we recommend withdrawing any plan to finance a PERF. If, contrary to our findings, the capitalization of MERF proves inadequate to meet the needs of exporters, the issue of Malawi's participation in a PERF could be reopened. In the meantime there are still a number of conceptual and procedural questionmarks associated with MERF's future operations. USAID/Zimbabwe's SADCC Regional Program has already acquired in connection with PERF, a fair amount of expertise on design of export revolving funds. Hence, working with USAID/Malawi, the Regional Program could make a useful contribution in assisting Government and the World Bank set up the Malawi Export Revolving Fund to operate in an efficient manner. The design of MERF might in this respect be treated as a prototype to be tested and perhaps later "regionalized" as appropriate to serve several SADCC countries.

- (2) For Mozambique, in view of the positive indications of a demand for PERF, we recommend proceeding with further design work for the Fund. We signal caution, however. Not only is the economic situation in Mozambique obviously very fluid, but also export sector systems and institutions -- notably the Bank of Mozambique -- will very likely be poorly suited to the streamlined, commercially-oriented thrust of PERF. Substantial and careful background design work for PERF will need to be done. Also, we recommend that PERF not be established as a single initiative in Mozambique, but as one of a series of measures -- including a program of firm-level capital rehabilitation for example -- oriented toward promoting the export sector.
- (3) For Tanzania, also in view of the positive indications of demand for PERF, we recommend proceeding with further design work. In particular, we urge that an effort be made to probe the Tanzania Seed Capital Revolving Scheme's experience in detail and to incorporate that experience in any future PERF mechanism. We would also counsel that, if possible, a method for consolidating the two funds be sought, or at least for coordinating their operations on a working basis. Again, like Mozambique, we recommend that in Tanzania PERF be one element of a set of complementary export sector promotion measures.
- (4) For Zimbabwe, in view of the apparent effectiveness of the existing Export Revolving Fund, we recommend withdrawing plans for introduction of PERF. We would suggest, however, that USAID/Zimbabwe consider proposals put forth to the DH&S survey team by firms and by the Reserve Bank to contribute to a capital project-oriented fund, which would finance new plant and equipment in foreign exchange for exporters; and/or to a special "revolving fund" to provide foreign exchange to purchase imported spare parts for export enterprises.
- (5) At a more general regional level, we would counsel USAID to reconsider the "regional" character of the PERF concept proposed to date. We suspect that given the diversity of conditions in the SADCC region, an explicitly "sub-regional" PERF directed to countries with reasonably similar circumstances is in order: for example, export sector promotion in the context of economies undergoing radical reform through IMF/World Bank Economic Recovery Programs (Tanzania and Mozambique initially, perhaps at a later time to include Zambia and Angola). Finally, on a truly regional basis, USAID might consider a program of export sector development through provision of a regional line of credit for capital goods and spare parts, plus production engineering and marketing technical assistance to help rehabilitate exporting firms. Even in the relatively limited scope of the PERF survey, the need for support on these levels strongly emerges in economies as different as those of Mozambique and Zimbabwe. Accordingly, a regional program might be useful and merits further examination.

CHAPTER III  
MALAWI COUNTRY SURVEY

## CHAPTER III

### MALAWI COUNTRY SURVEY

#### A. EXPORT SECTOR OVERVIEW

##### 1. Macroeconomic Context

In the period 1978 - 1981 a combination of circumstances severely slowed Malawi's economic growth. These circumstances included adverse movement in terms of trade, increase in fuel prices, disruption of the traditional transport routes through Mozambique and poor weather conditions. All these factors led to structural imbalances in Malawi's economy, both internal (fiscal deficits) and external (current account deficits).

Following the adoption of a Structural Adjustment Program in 1981, GDP growth resumed in the period 1982 to 1985. However, the closure of access to the Mozambique ports in 1985 led to increased transport costs for Malawi and general disruption to its economy. This situation has been further intensified over the last three years by increased Government expenditure on displaced persons from Mozambique, further deterioration in export commodity prices, particularly tea, and significant financial outflows by Government to support Malawi's major parastatal bodies.

Government has recognised these problems and has taken a number of steps to rectify the situation, notably including three devaluations of the Malawi Kwacha during the last eighteen months. Additionally far-reaching measures are also presently being introduced as part of an Enhanced Structural Adjustment Facility offered by the IMF, and in line with an Industrial and Trade Policy Adjustment credit of US\$ 175m to be provided through the World Bank later this year. The industrial sector and trade regime adjustment measures proposed include:-

- \* Import liberalisation with a target of full liberalisation by December 1990.
- \* Tax reforms, including expansion of the surtax base, faster duty drawback for exporters, a change in excise rates from ad rem to ad valorem, and reductions in import tariff levels.
- \* Removal of remaining price controls -- since 1981 over 50 items have been de-controlled and the present list comprises only 4 items.
- \* Flexible exchange rate management to help maintain Malawi's export volumes.
- \* Reduction in fiscal deficits through cuts in Government expenditure.
- \* Several export promotion initiatives, including the setting up of a Malawi Export Revolving Fund ("MERF").

Through these actions, Malawi anticipates real growth in GDP over the next five years, a dramatic reduction in its inflation rate from a present level of 26%, and progress towards a sustainable external financial position.

## EXHIBIT III - 1

PERFORMANCE INDICATORS FOR MALAWI 1984 - 1987  
(PERCENT)

	1984	1985	1986	1987 <u>a/</u>	1988 <u>b/</u>
GDP (rate of change)	4.5	4.2	2.2	- 0.2	2.6
GDP Per Capita (rate of change)	N/A	- 7.1	- 2.6	- 2.1	1.3
Govt. Deficit/GDP	- 8.5	- 9.8	- 12.5	- 10.7	- 9.0
Debit Service/GDP	10.7	10.5	12.5	10.9	10.6
Debit Service/Exports	37.6 <sup>1</sup>	44.5	56.9	45.8	49.4
Exports/GDP	28.4	23.5	22.0	23.8	21.3
Exports (rate of change)	24.4	- 3.9	3.0	5.8	- 4.9
Imports/GDP	26.4	28.1	24.5	25.9	30.0
Imports (rate of change)	-16.4	11.9	- 13.0	1.1	19.3
Current Account/GDP	1.7	- 8.2	- 6.1	- 4.1	-11.2
Foreign Exchange Reserves (weeks of CIF Imports)	11.5	7.9	3.9	7.6	9.4

/ Estimated

/ Projected

Source: World Bank Data

EXHIBIT III - 2

MALAWI'S DOMESTIC EXPORT PRODUCTION, BY MAJOR COMMODITY 1983 - 1986

(MK 000)

<u>Commodity</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Tobacco	136 743	225 652	187 417	244 355
Tea	55 866	112 935	91 399	68 413
Sugar	27 052	28 916	44 420	39 926
Groundnuts	2 886	1 075	5 968	15 535
Cotton	6	2 977	12 981	2 066
Beans and peas	9 644	6 379	8 275	9 053
Maize	11 238	28 477	29 427	13 518
Tung	396	492	213	241
Rice and cassava	202	913	309	1 118
Cattle cake	637	43	42	1 500
Hides and skins	500	1 069	1 742	1 449
Coffee	1 991	4 335	11 577	22 525
Unbleached cotton fabric	5 241	5 120	12 361	10 193
Printed cotton fabric	321	530	367	1 169
Dyed cotton fabric	1	210	864	476
Cotton yarn	66	382	327	77
Other commodities <u>a/</u>	<u>12 377</u>	<u>10 946</u>	<u>11 456</u>	<u>14 251</u>
TOTAL	<u>265 167</u>	<u>430 751</u>	<u>419 145</u>	<u>445 865</u>
US\$ (000) equivalent	220 000	302 000	246 000	247 000

a/ See Exhibit III - 3 for detailed breakdown

Source : National Statistical Office

EXHIBIT III - 3

BREAKDOWN OF MALAWI'S OTHER COMMODITY EXPORTS a/

1983 - 1986 (MK 000)

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Fish for aquaria or food	1 054	480	645	898
Fruits and nuts	305	646	451	996
Mixtures of coffee and substitutes	735	746	373	73
Pepper, pimento and spices	164	381	755	800
Cereals excluding maize	155	1 152	399	1 174
Seeds, fruits and other vegetables	1 242	1 524	2 200	1 952
Residues and food waste	1 026	142	85	1 504
Pharmaceutical products	383	539	170	1 374
Essential oils, scents, toiletries	626	59	-	232
Rubber	290	494	1 779	1 015
Carriage, rope and cables	609	214	137	277
Apparel and clothing	491	131	3	1 519
Glycerol	537	953	1 650	1 054
Hoes and hand tools	4	-	552	725
Other commodities	<u>4 756</u>	<u>3 485</u>	<u>2 257</u>	<u>658</u>
(less than MK500,000 each)	<u>12 377</u>	<u>10 946</u>	<u>11 456</u>	<u>14 251</u>

a/ Based on "Other commodities" in Exhibit III - 2

Source : National Statistical office

EXHIBIT III - 4

DIRECTION OF MALAWI'S EXPORTS 1983 - 1986

(percent of total)

<u>Country</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
United Kingdom	27.6	31.5	33.9	26.4
South Africa	8.3	7.4	6.4	7.4
United States	6.0	8.8	0.3	9.0
West Germany	6.4	9.2	8.3	9.9
Zimbabwe	6.3	3.8	2.3	2.0
Netherlands	6.0	6.6	5.4	6.5
Zambia	1.3	2.8	6.4	2.5
Japan	4.7	3.1	3.3	6.2
Australia	1.7	1.5	1.5	2.2
France	2.2	3.3	3.5	3.3
Mozambique	3.0	1.6	1.4	4.0
Rest of World	<u>23.3</u>	<u>16.9</u>	<u>14.1</u>	<u>15.20</u>
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Source : National Statistical Office

Furthermore, early in 1988 the Government secured a debt rescheduling programme which will reduce the debt service ratio from over 50% in 1986, to around 30% by the early 1990's. The chronic foreign exchange shortages experienced during 1986 and 1987 have been relieved due to this rescheduling and further assistance packages. On balance therefore, Malawi's present economic situation is looking more healthy than it has for some time. Exhibit III - 1 presents recent trends in selected Malawi economic indicators.

2. Export Production

Agricultural commodities account for the vast majority of Malawi's export earnings (Exhibit III - 2). In 1986 agricultural commodities generated more than 89% of total export value, and in 1985 and the previous three years, this proportion was between 86% and 93%. Of the agricultural commodities exported, tobacco, tea, sugar and coffee generally constitute around 90% of value of all agricultural exports. These commodities are produced chiefly by private commercial estates. Groundnuts, pulses, rice, maize and cotton are mostly produced by smallholder farmers. Until 1987 the marketing of these products was controlled by the Agricultural Development and Marketing Corporation (ADMARC), a parastatal body. The purchase and first sale of all smallholder crops except cotton and tobacco is now open to any Malawi citizen along with ADMARC.

Malawi's major non-agricultural exports have been cotton fabrics, clothing, fishing flies, glycerol, hoes and hand tools and pharmaceuticals, among others (Exhibits III -2 and III - 3). The major non-agricultural exporter is David Whitehead, a textile manufacturer, and while the firm processes local cotton it also imports synthetic yarns for blending. Other potentially exportable products from Malawi include some processed food items, netting products, leather goods, wooden furniture, plywood and blankets. Most of these products would be directed to the SADCC/PTA regional market. The principal products for export overseas are textiles, yarn, clothing, fishing flies and wooden furniture. The EEC countries take over 50% of Malawi's exports. Other significant markets include USA, South Africa and Japan (Exhibit III - 4).

3. Public/Private Sector Roles in Exporting

The smallholder sector accounts for almost 80% of total agricultural production, meeting the country's demand for staple foods (maize, beans, rice) and generating cash crops, notably cotton and tobacco, for sale to ADMARC.

EXHIBIT III - 5

ADMARC - AGRICULTURAL COMMODITY EXPORTS a/

1984 - 1987 Years ended 31 March (MK 000)

	Cotton	Groundnuts	Tobacco	Maize	Rice	General Produce	Total
1987	3 306	24 996	5 333	9 508	1 289	8 503	52 935
1986	11 887	4 891	3 637	12 446	86	1 494	34 441
1985	6 213	2 343	- o -	42 972	797	646	52 971
1984	196	5 684	- o -	21 747	154	223	28 004

a/ Note that for commodities such as maize and rice, where ADMARC is Malawi's sole exporter, it is not possible to compare data in Exhibit III - 5 to those in Exhibit III - 3, due to the fact ADMARC accounts are compiled according to different year ends relative to data of the National Statistical Office.

Source : ADMARC published accounts

EXHIBIT III - 6

MALAWI'S EXPORT LICENSING PROCEDURES

- A Do the goods to be exported require a license? No - proceed to customs.
- Yes
- Obtain export license
- C Complete form 34 or form 36 and submit to customs for clearance together with CDI form
- D Arrange for customs to examine the goods and certify details on CDI form
- E Ensure that the sales invoice and certificate of origin are included with the consignment.
- F Complete the CDI form (for exchange control) and submit to the Reserve Bank of Malawi and Ministry of Trade and Industry
- G Sell foreign currency proceeds to authorised dealer immediately on receipt and notify same to RBM.

Source : DH&S.

NOTES TO Exhibit III - 6

- A The present licensing system is primarily used as a means of monitoring the export of goods which are considered to be of strategic importance to Malawi. This is intended to ensure adequate domestic supplies, to maintain security and to ensure compliance with international sanitary regulations. A complete list of goods requiring export licences is given in Appendix B -1.
- B Most export licences fall under the administrative control of the Ministry of Trade, Industry and Tourism.
- C Form 34 (goods exported from open market) is a Bill of Entry which should be completed and submitted in seven copies to Customs on exportation of goods which have been locally produced. Form 36 should be completed and submitted to Customs on exportation of the goods ex-bond.
- D Customs require an examination of all goods to be exported. Where goods are to be transported by road, this would normally be at the place of loading (eg Blantyre or Lilongwe) and the vehicle would then be locked. A similar procedure applies to rail freight.
- E The certificate of origin is used by the importing country to establish whether the goods are entitled to preferential duties. In the case of exports to the EEC a EUR 1 Form should be completed.
- F/G Generally, exports are not permitted unless payment will be made in an appropriate manner to a resident of Malawi within six months of the date of exportation. If proceeds are not received within this six month period, an explanation will be required by the Reserve Bank of Malawi.

EXHIBIT III - 7

MALAWI'S IMPORT APPROVAL SYSTEM

Notes Is item to be imported liberalised? Yes - see Exhibit III - 8

A No

Obtain pro-forma invoice from intended supplier and submit to a commercial bank with request for foreign exchange.

B Request approved No - re-submit application

C Yes

Order goods within three months of approval emphasising essential documentation required

D On arrival of goods, present all relevant documents to customs at inland port to obtain customs clearance

All goods received    No    Delay in shipping    Yes    Await Receipt

Yes

No

Short supply/goods lost in transit?

E & F Submit form "E", invoice, customs proof of arrival and credit note (if applicable) to the commercial bank Obtain foreign exchange credit note/insurance credit note for shortfall

Remittance approved?

Yes

G Instruct the commercial bank on remittance of funds within six months of approval.

Source : DH&S.

## NOTES TO EXHIBIT III - 7

- A. The commercial bank forwards all such import applications to the Reserve Bank of Malawi. RBM have stated that they will deal only with the commercial banks and will ignore any applications received direct from companies or individuals.
- Some companies furnish details of the order quantity, the quantity currently held in stock and the annual demand to support their application. RBM have indicated that although this information is useful and interesting, it has little influence in obtaining approval.
- B. RBM do not generally give reasons for rejecting applications. Rejected applications may be resubmitted.
- C. The suppliers must provide a certificate of origin, certificate of value and an invoice (the pro-forma is not sufficient). The carrier must also supply an advice note.
- D. The four documents noted above must be presented to Customs at the internal port together with the bill of entry, an import licence, (if relevant) and means of paying duty. For details of duty rates and means of payment see Appendix B - 2.
- E. Foreign exchange will only be approved for the payment of goods which have physically arrived in Malawi. Thus if goods are lost in transit, insurance proceeds should be receivable in foreign currency to cover the shortfall.
- G. Again, the forms submitted to the commercial bank will be forwarded to RBM, who will in turn inform the commercial bank when remittance is approved.
- g. If payment is by way of a bill of exchange it is likely that the bill will fall due before the remittance has been approved. In this case, the funds will be debited to the client's account on the due date and will be held in a bills suspense account, by the bank, until the approval to remit is received.

### General

Currently approximately 85% of Malawi's imports are subject to the Open General Licence System. In addition to this there are thirty-four specific categories of goods and from which all goods from thirty-eight countries requiring import licences from the Ministry of Trade Industry and Tourism. Details are included at Appendix B - 3. Government intends to eliminate this requirement for eight categories of goods and twenty two countries -- the remaining requirements are to be maintained in the interests of public health, safety and security.

Additional charges (eg freight, insurance, bill interest etc) must be separately approved by RBM. Approval is usually granted providing the relevant documentation is complete and amounts are not excessive. However, note that supplier's interest for late payment is unlikely to be approved unless the terms are specifically stated on the supplier's proforma invoice.

EXHIBIT III - 8

**MALAWI'S LIBERALISED IMPORT APPROVAL SYSTEM**

Obtain Proforma Invoice from intended supplier and submit to a commercial bank

Request approved by Commercial Bank if

- \* Goods are on list of liberalised raw materials or spare parts
- \* Customer is on list
- \* Customer has not exceeded monthly Kwacha limit.

Flow then continues as per Exhibit III - 7

Commercial banks notify RBM of orders approved

(A list of the major items included on Malawi's liberalised raw materials and liberalised spare parts list is included in Appendix B - 4)

Source : DH&S.

Up until 1987 ADMARC alone could purchase smallholder surplus production and has thus historically been the dominant parastatal involved in exporting. With certain crops such as maize and rice, ADMARC has been the country's sole exporter. An indication of ADMARC's range of commodity exports is provided in Exhibit III - 5. In the main, commodities purchased from smallholders are not subject to primary processing prior to export.

ADMARC's export role may diminish in future given the recent granting of permission to private sector Malawi citizens to purchase smallholder crops except tobacco and cotton, for resale. However, growth of the private sector role in this regard is likely to be a gradual process as private firms slowly mobilize resources over time -- especially working capital required for marketing.

Parastatals other than ADMARC account for only a minimal proportion of exports. This share, composed largely of hides and skins exported by Cold Storage Company Limited, amounted to about MK 2.4 million in 1986.

## **B. EXPORT TRANSACTIONS : MALAWI POLICIES AND PROCEDURES**

### **1. Export and Import Licensing**

The details of import and export licensing procedures for Malawi are presented in Exhibit III - 6, III - 7 and III - 8 below. Notes accompanying these exhibits provide additional elaboration of the licensing systems.

Note that since February 1988, the first stages of import liberalization in Malawi have already gone into effect. Under this first phase, prior approval is no longer required to obtain foreign exchange for items representing about 25% of Malawi's import bill. These items include about 25% of various imported raw materials and spare parts, plus fertilizer and petroleum. Under this new system Malawi's commercial banks give automatic foreign exchange allocations to a selected group of firms wishing to import the liberalized items. The system is to be gradually extended to cover foreign exchange allocations for all imports by the end of 1990.

### **2. MERF and Other Measures to Promote Exports**

Certain continuing and recently introduced measures by Malawi's Government are designed to promote export activities. Most fundamentally, recognising the inhibiting impact of high transport costs on the trade sector, Government continues to invest in the Northern Corridor route to Tanzania and also in the rehabilitation of the rail link to Nacala.

Also, Government has recently passed the Export Incentives Act of 1988 to make the legal framework and administrative procedures affecting exporters more efficient. For example, the duty drawback system has proved cumbersome and difficult to implement in practice. Under the Export Incentives Act a mechanism is provided to move away from specific import rebates to a system of flat rebate by sector of production according to import content. This should permit speedier recoupment of duty paid.

The Act also allows a tax reduction based on 4% of taxable income derived from export sales, and requires the Export Promotion Council to provide technical assistance to exporters in such areas as packaging, marketing and product diversification.

It is particularly notable that the Act also envisages a Foreign Exchange Revolving Fund which will be accessible to registered exporters. The mechanism will be funded by Government and administered by the Reserve Bank of Malawi, the latter receiving instructions on the administration of the Fund from the National Export Policy Committee. This is a body chaired by the Secretary to the President and Cabinet whose membership includes the General Manager of the Reserve Bank and the General Manager of ADMARC.

This Malawi Export Revolving Fund (MERF) is designed to ensure exporters have adequate access to foreign exchange during the trade liberalisation period upon which Malawi is about to embark. To capitalise the Fund, Government will use resources provided expressly for this purpose within the World Bank's Industrial and Trade Policy Adjustment credit. (Initially USAID Malawi was to provide co-financing for the World Bank program earmarked especially for MERF. More recently -- June 1988 -- USAID's funding link to MERF has apparently become less direct, though it will continue to participate significantly in co-financing the Industrial and Trade Policy program).

The details of the MERF operating mechanism are presently being formulated, but certain information has been released to the commercial sector. We summarise below the key characteristics of MERF as outlined in information publicly made available to date:-

- \* Capitalization of up to US\$35 million;
- \* Operating as a separate account at the Reserve Bank of Malawi;
- \* Available to registered exporters, ie those registered with the Malawi Export Promotion Council under the Export Incentives Act;
- \* Approval by the Reserve Bank of Malawi required for exporter applications for MERF foreign exchange;
- \* Initially only available for raw materials and packaging but planned eventually to include funding for spare parts and capital equipment;
- \* Inputs which it will finance must not be available locally;
- \* Exports which it is to support must have minimum added value of 30%;
- \* Foreign exchange allocations of up to 70% to 80% of FOB value of the export items to be produced will be available through MERF (Note that an 80% of FOB value allocation would appear to contradict the 30% minimum value-added standard cited in the previous point);
- \* Certification of CDIs' by an exporter's bank before an export is made, to confirm that export proceeds will be received into Malawi;

- \* Export proceeds to be received in Malawi 120 days after stamping of the CDI by customs.

Although passed by Parliament, the commencement date of the Act has yet to be gazetted. The text at present includes certain ambiguities, particularly concerning the tax rebate and duty refund systems. These will have to be ironed out before the Act -- including the Export Revolving Fund and the other export promotion measures -- comes into force.

### 3. The Preferential Trade Area

The Preferential Trade Area for Eastern and Southern African States has been established as an instrument for restructuring the economies of the participating countries, with a view to uplifting the standards of living of the sub-region. The participating countries are Ethiopia, Somalia, Uganda, Kenya, Tanzania, Malawi, Zimbabwe, Zambia, Swaziland, Lesotho, Mauritius, Comoros Islands, Djibouti, Rwanda and Burundi. Madagascar, Mozambique, Botswana, Angola and the Seychelles are observers and potential members.

The programs and activities of the PTA are designed to accelerate trade liberalisation measures in order to promote intra-PTA Member State trade, and lessen dependence on South Africa. In this connection measures have been taken to reduce tariffs and to eliminate non-tariff barriers. The products affected and the percentage tariff reductions are contained in a Common List.

A key PTA initiative has been the creation of the PTA Clearing House. The objective of the PTA Clearing House is to encourage the use of national currencies in the settlement of intra-PTA transactions, and thereby minimise the use of foreign exchange in regional trade. In theory, the use of national currencies in settling intra-PTA transactions should lead to the creation of additional liquidity for trade financing in the region and therefore reduce the need for Member States to hold large foreign exchange working balances. At the end of a transaction period the settlement of outstanding balances is made in convertible currencies.

The growth in intra-PTA trade has not materialised to the extent envisaged. In Malawi's case, exports to Zimbabwe have actually declined from MK16 million in 1984 to MK9 million in 1986. From discussions with the Ministry of Trade Industry and Tourism it appears participating countries have not as yet formally implemented the tariff reduction scheme, nor are they promoting the use of the PTA Clearing House. It seems approvals to import from PTA countries are no easier to obtain than approvals to import from non-PTA countries.

C. MALAWI SURVEY APPROACH

1. The Malawi Sample

The first task of the Malawi survey team lay in defining the type of exporting organisations and export products we wished to include in our population of potential PERF users, following which we could proceed to compile a list of firms who met the criteria.

Initially we excluded from our population firms exporting the major Malawi products of tea, sugar and tobacco on the grounds that:-

- \* Such firms already have priority access to foreign exchange;
- \* A major share of their inputs, fertiliser, chemicals, packaging is bought locally;
- \* Although access to foreign exchange for the import needs of these firms could be made less complicated, to do so is not likely to enhance the value of commodities they export as this is determined by world market prices;

Having defined the entities and narrowed the product range we obtained information from the following sources :-

- \* Reserve Bank of Malawi
- \* Malawi Export Promotion Council
- \* Chamber of Commerce
- \* National Statistical Office
- \* IMANI DEVELOPMENT (Pvt) Ltd (our sub-contractor)
- \* DH&S firm knowledge

From this information we compiled a list of all Malawi firms (other than tobacco, tea and sugar exporters) who are currently exporting and who appear to meet the proposed PERF eligibility criteria. We attempted to reconcile the total exports of these firms by value to official Government export statistics for all items (other than tobacco, tea and sugar) for 1986, the most recent full year available. Moderate differences (MK10million in 1986) were not considered significant. (It is likely that such differences are due to the recording of some 1986 exports in 1987 due to the late submission of CDI forms). We have subsequently received an analysis of exports by product type from the National Statistical Office and it confirms that our list of exporting firms accounts for all products other than tobacco, tea and sugar presently exported from Malawi.

Following a review of parastatals and their eligibility to participate in PERF by the Center for Privatization, we were informed that two parastatals -- Wood Industry Corporation and Admarc Canning Limited -- presently fulfil the PERF criteria. They have therefore been included in our list of eligible PERF users. Neither are presently significant exporters.

We also attempted to compile a list of potential exporters who might be encouraged to begin export activity with introduction of an Export Revolving Fund. We turned to the same data sources as before. For example, we again reviewed the names of all manufacturers registered with the Chamber of Commerce, as well as our firm's local contacts and client list. We also re-examined the IMANI DEVELOPMENT (Pvt) Ltd. list of Malawi's actual and potential exporters, and the Malawi Export Promotion Council's list of registered exporters and ad-hoc exporters. As a result we believe we have been able to extend our roster of possible PERF users to represent all firms even remotely likely to have significant exports in the near to medium term. This actual/potential PERF user population numbers about 70 firms in total, and includes private and public enterprises.

2. Malawi Sample Selection Methodology

Once we established the PERF user population, the most important criterion we applied in selecting our sample was representation of the full range of export commodities/products (excluding tobacco tea, and sugar) handled by the private sector of Malawi. We also consciously biased the sample towards inclusion of actual or potential exporting firms which, in our opinion had the highest likelihood of generating export value in the near future.

From our list of about 70 actual and potential exporter firms developed as described above, we initially selected a set of 12 firms representing textiles, garments, pulses, metal products, coffee, wood products, sundry other manufactured items (sporting goods, nets) and minor agricultural products (rubber and edible nuts). We then categorized these firms by size, according to a criterion we believe is appropriate for the Malawi context:

	<u>Employees</u>	<u>Exports Actual/Potential (MK million)</u>
Large	> 400	> 5
Medium	100 - 400	.5 - 5
Small	< 100	< .5

We also included the two approved parastatals in our sample.

After discussions with USAID/Zimbabwe on their interest in extending our survey to the broadest range of eligible sectors, and contrary to our initial decision, we expanded our sample to firms involved in tea, tobacco and sugar industry. We came to believe this extension was correct from a sampling perspective in view of the significance of tobacco, tea and sugar in Malawi export revenues and the fact that the majority of exporting firms for these commodities are private sector. Hence, our sample as extended included firms exporting the products mentioned above plus:-

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EXHIBIT III - 9  
THE MALAWI SAMPLE OF EXPORTING FIRMS a/

FIRM NO.	INDUSTRY	PRINCIPAL PRODUCTS	OWNERSHIP (% PRIVATE)	SIZE		
				PRESENT TURNOVER Total	(US\$000) Exports	EMPLOYEES
M1	Agro-processing	Tea, Coffee, Rubber	100% [68% foreign]	13 727	2 145	6000
M2	Agro processing	Tea, Macadamia Nuts	100%	4 029	826	8365
M3	Manufacturing	Fishing Flies, Other Sports Goods	100%	153	123	150
M4	Manufacturing	Tea Machinery, Maize Mills, Windows and doors	100% [10% foreign]	6 977	400	1 200
M5	Manufacturing	Poles, Sawn Timber, Furniture	Nil	2 353	159	1 100
M6	Agro processing	Sugar	50% [foreign]	26 277	14 400	11 000
M7	Agro processing	Chall, Beans, Peas, Spices	100%	1 177	800	150
M8	Manufacturing	Shirts, Shorts, Trousers	100%	2 039	315	
M9	Manufacturing	Processed Tobacco	100% [foreign]	3 575	-	2
M10	Agro processing	Canned Fruit and Vegetables	Nil	471	157	)
M11	Manufacturing	Agricultural Implements	60% [foreign]	1 059	336	150
M12	Manufacturing	Textiles	51% [foreign]	28 930	8 225	4 000
M13	Manufacturing	Netting, Polypropylene sacks	51% [foreign]	5 099	1 210	30
M14	Manufacturing	Soaps, Edible Oils	100% [foreign]	23 221	454	556

a/ Represents those firms submitting completed questionnaires to the Malawi PERF survey team.

Source: DB&S

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EXHIBIT III -10

EXPORT PRODUCTS/COMMODITIES  
REPRESENTED IN MALAWI PERF DEMAND SURVEY

<u>FIRM CODE</u>	<u>PRODUCT</u>		<u>SURVEY COVERAGE</u>
	<u>SITC CODE</u>	<u>NAME</u>	Q = Questionnaire TI = Telephone Interview
MA 1	0711	Coffee	Q
	0741	Tea	
	2320	Natural rubber	
MA 2	0577	Edible nuts (Macadamia)	Q
	0741	Tea (special product)	
	4249	Nut oil	
MA 3	8947	Sporting goods	Q
MA 4	7272	Tea machinery	Q
MA 5	2482	Sawn timber	Q
	8219	Furniture	
MA 6	0612	Sugar	Q
MA 7	0542	Pulses	Q
	0751	Spices/seeds	
MA 8	8434	Ladies skirts	Q
MA 9	1212	Stripped tobacco	Q
MA 10	0565	Vegetable sauces	Q
	0583	Jams/marmalades	
	0585	Fruit juices	
	0589	Canned fruits	
MA 11	6951	Hoes and hand tools	Q
	7211	Other implements	
MA 12	6513	Cotton yarn	Q
	6521	Cotton fabrics	
MA 13	58XX	Polyprop bags	Q
	6575	Twine/fish netting	
MA 14	431X	Glycerine	Q
MA 15	851X	Footwear	TI
MA 16	0484	Confectionery (biscuits)	TI
MA 17	696X	Domestic ware (cutlery)	TI
MA 18	6342	Plywood	TI
MA 19	541X	Pharmaceuticals	TI

Source: DH&S

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- \* One sugar producer/processor, which accounts for the total industry;
- \* One tobacco processing company;
- \* Two significant tea estates (both firms had already been part of the sample on grounds of other products they export).

Exhibit III - 9 presents the characteristics of our core sample of 14 firms.

In addition, we made telephone contact with certain other firms (all private) either currently engaged in exporting on a small scale or with potential to export. These contacts were made to cover actual/potential exports of the following products: confectionery items (biscuits), footwear, pharmaceuticals, and plywood products. We questioned these firms regarding their exporting plans and their opinions of export constraints, but we did not ask them to complete questionnaires for us. In total, therefore, we received response either by questionnaire or by telephone interview from 19 companies.

We consider that our survey has thus covered all the major classes of products or commodities actually exported or with potential for export from Malawi, emphasising those firms and product areas which we believe have the maximum possibilities in the next five years to increase export earnings.

We discussed our list of 14 core sample firms selected plus the other 5 subsequently interviewed with the Chamber of Commerce to further confirm that our objective of representing significant actual or potential export activity had been met.

The total number of export products or commodities covered in our survey is presented in Exhibit III - 10.

### 3. Conduct of the Malawi Survey

The Chief Executive in each of our selected firms was contacted by phone. The concept of PERF was described to him and he was asked if his firm was willing to participate in the survey.

All those contacted expressed their willingness to participate although some wondered why a further survey was being conducted approximately 13 months after a similar World Bank exercise and shortly after documents setting out in outline the operating mechanism for the Malawi Export Revolving Fund had been circulated in the business community. Those who were aware of the MERF also questioned why two operating mechanisms are necessary.

Following the phone conversation, questionnaires were despatched and followed up with a personal interview with each Chief Executive/Senior Officer once the firm had completed the necessary data. For those firms surveyed but without asking for submission of a questionnaire, our approach was to engage in an extensive telephone interview. The interviewees were the Chief Executives of their firms and our discussions with them focussed on firms' evaluation of the need for PERF, exporting plans and input import needs.

The results of the survey are reviewed in Section D and a detailed analysis and commentary on industry factors in PERF demand is provided in Section E.

4. Limitations of the Malawi Survey

As our sample was selected subjectively, we recognize that extrapolation of results will not be statistically precise. However, we believe our conclusions will not greatly misstate the potential demand for PERF, and if anything may overestimate demand for PERF resources.

D. MALAWI SURVEY RESULTS

1. Estimate of Demand for PERF in Malawi

MERF and PERF

Our projection of demand for PERF in Malawi was complicated by the fact that the Malawi Export Revolving Fund (MERF) has already been agreed to by Government and is likely to begin operation before the end of 1988. As has been noted above, this export revolving fund has essentially the same purpose as that of PERF -- providing foreign exchange for purchase of imported inputs -- and is to be capitalized at a level of US\$25 million to US\$35 million under the World Bank's Industrial and Trade Policy Adjustment credit. All firms eligible for PERF would also be eligible for MERF (although the user population of the latter will be broader, since it contains all public-sector-owned exporter firms as well as private exporters). Consequently, any exporter demand DH&S identified for PERF is simultaneously a demand for MERF.

We chose to deal with the MERF/PERF problem by asking survey respondents to disregard both mechanisms in projecting their future export targets and imported input needs. Because plans to put MERF into action shortly have been widely reported in Malawi, we were concerned that some sample companies would implicitly anticipate the availability of MERF resources in responding to questions of future foreign exchange needs, while others would not. By asking sample firms to exclude consideration of MERF in their projections of desired future levels of export production and associated requirements for foreign exchange for imported inputs, we arrive at a "clean" estimate of exporter foreign exchange demand over and above amounts presently available from other sources.

Having developed this "clean" estimate of incremental foreign exchange demand -- which we call a demand for PERF -- we can then relate it to the capitalization of MERF, although direct comparisons are not meaningful since PERF-eligible firms are a sub-set of the MERF user population. Based on this exercise, we can then roughly assess whether and in what circumstances demand for PERF might exist in excess of MERF resources.

## Estimate of Demand

We estimate the value of the incremental demand for foreign exchange for imported inputs among PERF-eligible exporters in Malawi to be about US\$3.1 million in 1989 rising to about US\$7.2 million in 1993. This demand is incremental in that it is over and above amounts of foreign exchange for imported imports presently available to exporters who would be eligible for PERF. Assuming there is no major reduction in the future amounts of foreign exchange presently available to these exporters, MERF resources should be more than sufficient to meet the needs of exporter firms which would otherwise be users of PERF. We therefore conclude that there is no immediate requirement for a PERF in Malawi.

There are situations, at least in theory, which would lead us to modify this conclusion. One would be the case of dramatic growth in foreign exchange demand for imported inputs among non-PERF eligible users -- i.e. parastatal exporters. If this growth were so large that it totally absorbed MERF funds, it would thus crowd out the rest of the exporting sector from access to MERF. This seems highly unlikely.

A second situation that could arise may be more realistic. It is possible that with rapid liberalization of Malawi's import regulations, a sharp rise in import demand throughout the economy will ensue. The result might be a substantial reduction in the future levels of foreign exchange available to exporters compared to amounts to which they presently have access. This outcome would violate the assumption underlying the estimate of incremental demand for foreign exchange just stated above, and render our conclusion invalid.

Unfortunately, we do not know and cannot know how much pressure would be put on MERF in this situation: i.e. how much exporters would find their present non-MERF amounts of foreign exchange for importing inputs disappearing under conditions of rapid economy-wide increase in imports. We have, however, probed the problem as follows. We assumed, first of all, that the strategic exports -- tobacco, tea and sugar -- are likely to be guaranteed access to foreign exchange from non-MERF sources, particularly for import of agricultural inputs (fertilizer and chemicals). Once the input demand of these export commodities is excluded, we estimate the total export-related foreign-exchange-for-inputs demand of all other Malawi exporters handling the nearly 30 other export products/commodities represented in our survey to be about US\$5.2 million in 1989 and about US\$10.6 million in 1993. We emphasize that these are total, not incremental, foreign exchange needs for import of inputs among exporters specified. These figures do not of course include the export-related imported input demand of parastatal enterprises, nor do they encompass such demand by future exporters of products/commodities not represented in our survey: groundnuts and maize being the most significant. Despite these qualifications, we still suspect that funds available in MERF will be adequate to meet the foreign exchange demand of Malawi exporters' for imported inputs without recourse to an infusion of PERF resources.

## Demand Estimation Procedures

In presenting the procedures we used to estimate demand for PERF in Malawi, we have consolidated our information into a set of 12 export products/commodities, or groups of products/commodities. We have also excluded any presentation of total (rather than incremental) export targets or input requirements for a product/commodity or groups of products/commodities. This approach has been adopted in order to preserve confidentiality of survey respondents' data, given the fact that in the context Malawi's quite limited export community, a more detailed breakdown of information would permit relatively easy identification of performance targets and input needs for individual firms.

The procedure we employed to estimate PERF demand on an incremental basis (US\$3.1 million in 1989 and US\$7.2 million in 1993) is as follows:

- \* First we asked the 14 firms in our sample and those 5 firms later interviewed to project their export turnover, by export product, for the period 1989 through 1993 assuming a continuation of roughly present conditions of foreign exchange availability. We emphasized that this projection should assume no existence of the proposed Malawi Export Revolving Fund for imported inputs. The result is our "Base Case" projection of export revenues.

We next asked these firms to project their export turnover for the same period, but assuming a situation of full access to as much foreign exchange as they might require when and as needed to purchase imported inputs for their export production. This we term the "Best Case" projection of export revenues. We then computed the net differences between the two cases. The results can be considered the net increases in export revenue targets among sample firms that the introduction of MERF or PERF resources would generate, assuming no change in existing levels of foreign exchange available to exporters.

- \* Second, we sought to extrapolate from the "Best Case" net increases in export revenues projected for sample firms to "Best Case" net increases in export revenues for all enterprises exporting the same products/commodities. For several classes of products/commodities our knowledge of the industries concerned leads us to believe that our sample firms include virtually all existing or potential exporters for that item. Hence, sample responses represent total Malawi responses.

EXHIBIT III - 11

PROJECTED NET INCREASE IN MALAWI EXPORT TURNOVER FOR  
12 PRODUCTS/COMMODITIES WITH FREELY AVAILABLE FOREIGN EXCHANGE  
TO PURCHASE IMPORTED INPUTS, 1989 AND 1993  
(US\$ '000)

<u>PRODUCT/COMMODITY</u>	<u>1989</u>	<u>1993</u>
Sugar	-	-
Tobacco	-	-
Tea (Special product)	832	3 330
Coffee	-	-
Pulses	2 470	6 765
Wood products	<u>a/</u>	<u>a/</u>
Textiles	-	-
Metal products	952	952
Other agro-processed products <u>b/</u>	3 089	8 407
Garments	3 528	8 238
Other manufactured products <u>c/</u>	1 556	3 432
Pharmaceuticals	-	-
	<hr/>	<hr/>
Total	12 427	31 124
	=====	=====

a/ Included with "Other agro-processed products"

b/ Includes tinned products (jams, fruits, etc.) and wood products.

c/ Includes sporting goods and nerring products.

Source: DH&S based on Malawi PERF survey data.

EXHIBIT III - 12

PROJECTED VALUE OF IMPORT CONTENT OF INCREASED  
MALAWI EXPORT TURNOVER, 12 PRODUCTS/COMMODITIES, 1989 AND 1993  
(US\$000)

<u>PRODUCT/COMMODITY</u>	<u>1989</u>	<u>1993</u>	<u>IMPORT CONTENT (%)</u>
Sugar	-	-	15
Tobacco	-	-	3
Tea (Special product.)	100	400	12
Coffee	-	-	5
Pulses	124	338	5
Wood products	<u>a/</u>	<u>a/</u>	8-25
Textiles	-	-	5
Metal Products	238	238	25
Other agro-processed products <u>b/</u>	821	2 161	25-80
Garments	2 646	6 179	75
Other manufactured products <u>c/</u>	1 165	2 554	40-75
Pharmaceuticals	-	-	
	-----	-----	
Total	5 094	11 870	
	=====	=====	

a/ Included with "Other agro-processed products".

b/ Includes tinned products (jams, fruits, etc.) and wood products.

c/ Includes sporting goods and netting products.

Source: DH&S based on Malawi PERF survey data.

## MALAWI CYCLE TIMES BY MAJOR EXPORT PRODUCT/COMMODITY

(Months)

<u>PRODUCT</u>	<u>CYCLE</u>
Sugar	6
Tobacco	6
Tea	6
Coffee	6
Pulses	6
Wood products	6
Textiles	6
Metal products	6
Other agro-processed products	8
Garments	6
Other manufactured products	6 - 12
Pharmaceuticals	6

Source: DH&S based on Malawi PERF survey data.

EXHIBIT III - 14

PROJECTED NET VALUE OF MALAWI'S DEMAND FOR AN  
EXPORT REVOLVING FUND BY EXPORTERS OF 12 MAJOR PRODUCTS/COMMODITIES  
1989 AND 1993 a/  
(US\$000)

<u>PRODUCT/COMMODITY</u>	<u>1989</u>	<u>1993</u>
Sugar	-	-
Tobacco	-	-
Tea (special product.)	50	200
Coffee	-	-
Pulses	62	169
Wood products <u>b/</u>	<u>b/</u>	<u>b/</u>
Textiles	-	-
Merch. products	119	119
Other agro-processed products <u>c/</u>	411	1 081
Garments	1 323	3 090
Other Manufactured products <u>d/</u>	1 165	2 554
Pharmaceuticals	-	-
Total	3 130 *****	7 213 *****

a/ Assumes existing amounts of foreign exchange to purchase imported inputs for export production continue to be available to exporters.

b/ Included with "Other agro-processed products"

c/ Includes tinned products (jams, fruits, etc.) and wood products.

d/ Includes sporting goods and netting products

Source: DH&S based on Malawi PERF survey data.

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This is the case for example, with sugar, wood products, light engineering, pharmaceuticals and several other assorted agricultural or manufactured products (sporting goods, netting, confectionery, footwear, macadamia nuts, rubber). For other products -- coffee, tea and tobacco processing -- we feel the responses of our survey firms encompass the situation of all firms involved with that product or commodity without further adjustment. Finally for two classes of products/commodities -- garments and pulses -- our sample firms represent one of five or six recognized Malawi exporting companies for that item. Here we arithmetically extrapolated from sample firms' projected "Best Case" net increases in export revenues to "Best Case" net increases in export revenues for all the respective groups of exporters. We used the sample firm's estimated share of total garment or pulse exports as a basis for the calculations. The details of extrapolations performed are provided in Section E below.

- \* Third, we summarised the total extrapolated net increases in export revenues by product/commodity for 1989 and 1993. The results are presented in Exhibit III - 11. It is notable that for five export products/commodities, the survey reveals that access to a mechanism like PERF or MERF would have no effect on Malawi's export turnover. These products are sugar, tobacco processing, coffee, textiles and pharmaceuticals.
- \* Fourth, using the import content proportions cited by firms participating in the survey, we computed the value of the import content of the total "Best Case" net increases in export turnover. The outcome of these computations is presented in Exhibit III - 12. These figures represent DH&S' estimate of the total incremental demand for foreign exchange for imported inputs arising from "Best Case" circumstances for each of the 12 export products/commodities for the years 1989 and 1993.
- \* Fifth, to reflect the cycling of resources that a MERF or PERF would feature, we needed to reduce the demand for foreign exchange computed above by the cycle times firms say they experience for imported inputs. These cycle times are represented in Exhibit III- 13. For each export commodity or product we divided the import content-generated foreign exchange demand of Exhibit III - 12 by the cycle times of Exhibit III - 13. The results are presented in Exhibit III - 14: US\$3.1 million in 1989 increasing to US\$7.2 million by 1993. Again, we emphasise that these figures represent, for the 12 specified export commodities/products, our estimate of Malawi's incremental demand for foreign exchange resources from a new export revolving fund for imported inputs, assuming no decrease in present foreign exchange amounts already available for this purpose from other sources.

Our estimates of US\$5.2 million (1989) and US\$10.6 million (1993) in total (not incremental) demand for foreign exchange for imported inputs among exporters of products/commodities represented in our survey are based on the same data set as above. In this instance, our estimation procedure was as follows:

- \* First, we identified the total (not incremental) "Best Case" projections of export revenues for all respondents in our survey by product/commodity. (This contrasts with our use of "net increase" export revenue projections under "Best Case" circumstances in estimating incremental demand above). Recall that these "Best Case" projections represent what exporters felt their performance could be if foreign exchange for their imported input needs were freely available. We excluded however, the export projections for tobacco processors and sugar and tea-related enterprises, on the grounds that if Malawi's import liberalization leads to new foreign exchange constraints, meeting the needs of these major strategic agricultural crops is likely to be handled outside of MERF.
- \* Second, we converted these "Best Case" export revenue figures to their required imported input content values for 1989 and 1993. To do so we applied the estimated imported input content proportions cited by exporters for each of the products/commodities in our survey.
- \* Third, we extrapolated from the "Best Case" imported input requirement for sample respondents to the equivalent requirements for all Malawi exporters handling the same products. This included in particular increasing the sample-estimated requirements for coffee, garments and pulses by factors representing the approximate Malawi export market shares of the exporters involved. On this basis, we estimated that the total foreign exchange value of the imported inputs for the export commodities/products concerned would be US\$10.5 million in 1989 and US\$21.3 million in 1993.
- \* Finally, we reduced these values by an average cycle time for all products of 6 months. This results in a halving of above figures to a net, after-cycle demand for foreign exchange for imported inputs of US\$5.2 million in 1989 and US\$10.6 million in 1993.

These figures contrast with the incremental demand for a PERF we estimated earlier. We emphasize that here they represent, for the 9 specified export commodities/products or groups of commodities/products (excluding tobacco, sugar and tea), exporters' maximum total projected demand for foreign exchange for imported inputs in 1989 and 1993, from all available foreign exchange sources.

## Possible Over-estimation of Demand

Both the incremental and total foreign exchange demand estimates presented above may be somewhat overstated. We introduce this caution on two grounds. Firstly, our analysis of demand for a PERF-like fund incorporates significant demand in sectors dominated by non -- Malawians, e.g. pulses. Given the Government's declared intention to promote indigenous small scale manufacturing enterprise, it is possible that non-Malawians may not be granted access to foreign exchange for inputs in the amounts envisaged in our results, and consequently actual demand for PERF-like resources may fall short of projected demand.

Secondly, we suspect that the export turnover projected by many survey respondents under "Best Case" circumstances are very optimistic. In particular, in certain cases existing and potential exporters have assumed that orders will materialize in PTA Member States in considerably larger quantities than at present, partly as a result of easing of import restrictions in favour of other PTA countries, and partly as a result of increases in overall availability of foreign exchange in the region. There may not be any realistic basis for this assumption.

## 2. Import Content and Cycle Times

As noted above, import content proportions and cycle times have been estimated for some of the principal export products of Malawi through the PERF survey. Import content proportions range from a low of 3% (tobacco processors' spares and packaging) to a high of 80% (metal containers and other consumables in the canning industry). Cycle times are estimated at about 6 months for nearly every export commodity or product. These are detailed in Exhibits III - 12 and III - 13.

## 3. Important Qualitative Findings for Malawi

### Current sources of foreign exchange

From our survey we have noted the following sources of foreign exchange allocations for imports by exporters:-

- o Monthly allocations denominated by Malawi Kwacha from the Reserve Bank of Malawi, for non-liberalised goods;
- o Monthly allocations denominated in Malawi Kwacha for liberalised raw materials and spare parts, approved by the commercial banks;
- o Monthly allocations denominated in Malawi Kwacha from the Reserve Bank of Malawi for raw material inputs for exporters, and
- o Letters of credit approved by the Reserve Bank of Malawi for bulk purchases.

### Constraints to exporting

The results of our survey indicate a low level of demand for a PERF. The agricultural sector appears to be adequately catered for in terms of foreign exchange allocations, while the manufacturing sector is generally oriented towards the local market and less concerned with exporting.

For those manufacturers actively seeking export markets the following constraints to exporting were cited:-

- \* High transport costs for import and exports;
- \* Export incentives offered in competing countries;
- \* Lack of foreign exchange for imports amongst clients in potential export markets.

### Need for Capital Investment Foreign Exchange

Many companies surveyed indicated that foreign exchange approvals for capital equipment are vital in order that export values be maintained or enhanced and have indicated that PERF or MERF should be extended to include capital items.

## E. REVIEW OF FACTORS AFFECTING DEMAND FOR PERF BY PRODUCT GROUP

### 1. Sugar Industry

In 1986 sugar industry exports totalled some MK 39.9 million or 9% of Malawi's total export revenues (Exhibit III - 2).

The industry key inputs are chemicals and fertilizers which are acquired through annual tenders. In 1987 this resulted in 75% of inputs being imported directly and 25% being purchased locally. To date, apart from some delays in receiving Reserve Bank approvals to import, particularly with regard to spare parts, the activities of the sugar industry cannot be considered to have been hampered by a shortage of foreign exchange for imported inputs. The key inputs of chemicals and fertilizer are included on the liberalized raw materials list which should ensure the industry's access to imported raw materials remains relatively unfettered.

In response to our questionnaire the industry indicated that sales proceeds including export proceeds are being maximised and while easier access to foreign exchange in particular for spare parts would make for a reduction in the administrative burden on management it would not actually enhance export proceeds.

In conclusion, therefore, we can assume the sugar industry will continue to have priority access to foreign exchange for its key inputs.

2. Tobacco Industry

All tobacco grown in Malawi is sold through the auction floors in either Blantyre or Lilongwe. The vast bulk of Malawi's tobacco is exported in a processed form but is still regarded as unmanufactured. The processing entails drying, stripping and packing of the green leaf.

A limited amount of tobacco is purchased for manufacture into cigarettes for the local market and some is flavoured for export to the West Coast of Africa.

There are three major processing factories in Malawi only one of which exports on its own account, the others process to order and do not actually own the crop they are processing.

The imported inputs for these factories consist of spare parts for machinery and packaging materials. We estimate the total industry annual demand for spare parts and packaging materials to be in the region of MK1.0 million. As stated earlier only one company which directly generates export proceeds and could therefore qualify to access the revolving fund.

From our survey we noted that factories are experiencing difficulties in obtaining rapid RBM approval to import spare parts. This is vital during the season if customer orders are to be met. As a result of these delays companies are resorting to requesting spares on a no-charge basis from affiliated overseas companies. This must be regarded as a stop-gap measure which cannot continue in the long term.

As in the case of sugar it is apparent that although more rapid access to foreign exchange would make for smoother operations this would not actually enhance export volumes or values. As spare parts are included on the liberalised list the situation may be alleviated in the forthcoming season.

In conclusion the tobacco industry would appear to be adequately catered for under the liberalised importation procedures and access to PERF would not lead to enhanced export proceeds.

3. Tea

Tea exports in 1986 amounted to MK68.4 million or 15% of Malawi's total export proceeds in that year (Exhibit III - 2). Private sector estates dominate the tea industry although there is a smallholder scheme operating in the Thyolo and Mulanje districts and ADMARC has one estate in the Northern Region.

Tea sales are made primarily sold through the Limbe (Malawi) or London auctions. Other than spare parts and packing materials, the major inputs (fertilizer, chemicals and fuel) are being sourced locally.

Apart from spare parts our respondents have been able to obtain the major inputs without major difficulty. Approval delays for spare parts have hampered production and one company surveyed estimated lost production to be significant as a result. The difficulty in procuring spare parts was confirmed by our other surveyed tea factory.

The second tea factory surveyed is the only factory in Malawi which subjects certain of its teas to a non-traditional process. This process requires the use of chemicals which cannot be sourced locally. The firm has projected significant export sales of this product over the next six years and, as the chemicals cannot be met from their existing foreign exchange approvals, we have concluded they would take advantage of access to an export revolving fund to meet demand.

#### 4. Coffee

Malawi is a participating member of the International Coffee Agreement and as such is subject to annual sales quotas.

Export sales for the year to 30th September 1987 totalled 91,500 bags. The quota system was suspended in this year due to a world shortage of coffee.

However quotas have been reimposed for 1987/88 and Malawi's quota has been set at 40,000 bags or 44% of 1986/87 exports levels. The extent to which sales in 1987/88 will have to be made off-quota is of major concern to Malawi's growers.

Malawi's coffee is mainly sold privately either in Malawi or in the United Kingdom, with a small percentage being sold through the Limbe Auctions.

The key imported inputs of fertilizer and chemicals are purchased locally. No problems have been encountered to date in procuring these inputs although complaints about the escalating prices may eventually lead the Coffee Association to import direct on behalf of its members. The major item which is imported direct by -- which accounted for about 5% of total Malawi coffee export in 1988 -- producers is machinery spare parts. Our survey company indicated that delays in approvals to import spare parts have hampered production and they have reduced production by an estimated 5 - 10%. Under the liberalised importation procedures these problems should be alleviated.

We have concluded therefore that the establishment of a PERP would not significantly enhance the value of Malawi's export coffee crop and consequently have not recorded the coffee industry as potential user of the mechanism.

5. Pulses

This export category essentially comprises peas, beans and sunflower seeds. The products are grown by smallholders, and up until 1987 surpluses could only be purchased by ADMARC. In 1987 the licensing of purchases was been extended to include Malawian citizens.

The bulk of the export crop is dispatched in a raw form due to the limited foreign exchange allocations granted to the five main factories in Malawi, their inability to finance the crop through a production cycle and the lack of necessary capital equipment, for example a bean colour sorter.

The indigenous exporters have recently formed an export association which is aimed at providing a forum for small scale exporters to discuss their problems including those set out above, and to enable them to make representation to Government for assistance.

We selected one of the five factories to survey and established with them their imported raw material inputs for their present level of production. They have indicated that production of processed pulses would be substantially enhanced given more liberal access to foreign exchange.

We have taken the additional foreign exchange import requirements of the factory selected and multiplied this requirement by a factor of five to estimate national foreign exchange demand for this industry. This has formed the basis for the figures in section D above. We have confirmed that the factory selected handles approximately 20% of the Malawi processed crop.

It is apparent that Malawi could greatly enhance the export proceeds generated from pulses if finance was made available to assist in capital projects and provide for working capital finance. This would enable a higher proportion of the crop to be exported in a processed or semi-processed form which greatly enhances export revenues. Our estimates do not however assume firms would draw on PERF for foreign exchange to finance capital expenditure.

6. Wood Products

Two mills in Blantyre presently produce Malawi's requirements for poles, plywood, laminated timber, tea and tobacco chests, and a certain amount of wooden furniture. Government forestry department sawmills also provide sawn timber.

To date neither mill has exported to any significant extent, the major constraint being the availability of pine logs.

However, in common with other Malawian industries, high transport costs, particularly to the European markets are adversely affecting the competitiveness of Malawi's wood products.

Neither of the companies we spoke to indicated that foreign exchange difficulties were constraining exports. One company indicated that it was experiencing delays in procuring approvals, particularly for glue, and had received support in emergencies from related overseas companies.

A new mill complex is presently being constructed in the Northern Region of Malawi to exploit the extensive eucalyptus reserves in that area. As the company has not commenced production it is difficult to project its progress and export potential with any accuracy. However it plans to export significant amounts of its production and assuming foreign exchange is not diverted from present allocations its foreign exchange requirements would need to be met through some form of revolving fund.

We have included this company in our demand for PERF sources at its maximum demand level for imported inputs over the next six years.

In order to protect confidentiality of this firm's data we have included its demand for PERF with demand arising from "Other Agro-processed Products".

7.

#### Textiles

Exports of textiles in 1986 amounted to K11.9 million. The bulk of this is cloth in its basic form.

We surveyed the major textile company in Malawi (representing virtually all of total exports) who indicated that the foreign exchange constraints of 1986 and 1987 had restrained the ability to produce for the local market. They indicated further that given freer access to foreign exchange they anticipate exports would decline, as they would produce more for the more profitable (higher priced) local market. To do so would help absorb the overheads of their dyeing and printing machines which are not used for export production, and are thus presently under-utilised.

We can conclude therefore that there would be no demand for PERF from the textile industry in Malawi.

8.

#### Metal Products

In the main, light engineering firms are involved in supporting local industry, particularly construction, tobacco and tea. Only two firms, one producing agricultural implements and the other domestic utensils are involved in exporting. One firm specializing in manufacturing machinery, particularly for the tea industry and maize mills, has made single sales in the recent past but has no established export patterns.

We surveyed two companies and spoke in general terms to the third about export potential.

The firm producing agricultural implements was one of the most aggressively export-oriented entities we encountered. The firm has established a foreign exchange facility with the Reserve Bank specifically to enable them to import raw materials for export products.

With this allocation and the importation of spares through the liberalised system this firm is not having exports constrained by lack of foreign exchange for inputs. Instead the general manager listed other reasons why export sales are limited:-

- \* Export incentives available to Zimbabwean and Kenyan exporters through their governments give them a competitive edge.
- \* High transport costs for moving key raw materials into and out of Malawi.
- \* Lack of foreign exchange in PTA countries to import (most of his PTA sales are through aid donor agencies).

Finally he emphasised that whatever form the revolving fund takes it should be extended to cover capital goods, should be as simple as possible and should entail minimum turnaround times for approvals.

The more specialised engineering firm found it difficult to estimate the export market potential. However they believe their products are of the right quality to win orders in the PTA region with active marketing.

Given the assumptions of foreign exchange allocation in order to actively market their product, and the availability of foreign exchange in the PTA region to import they believe their export sales could be enhanced by approximately US\$400,000 per annum. This increase in turnover could not be met from their current foreign exchange allocation and they would require access to a revolving fund. We have included this firm as a potential user of a PERF.

The third firm contacted indicated that they are presently exporting domestic utensils to Zimbabwe under the PTA scheme. They indicated that they have reached capacity and without embarking on a major capital expenditure programme they are unable to increase exports. We have noted the firm's request that the export revolving fund encompass capital equipment but have not included the firm as a potential PERF user.

We have discussed the potential for other Malawian engineering firms to export, but conclude that apart from the three firms covered above none has a potentially marketable product.

9. Other Agro Processed Products

Under this heading we have considered and surveyed the three firms involved with rubber, macadamia nuts and tinned products

Rubber

There is only one rubber estate in Malawi which is situated in the north of the country. It is estimated that some MK2 million of natural rubber will be exported to Zimbabwe and Zambia in 1988. At present the estate's demand for imported consumables is being satisfied. However the company is concerned about receiving RBM approval to import capital goods for the project and recommends PERF or MERF encompasses capital goods. Except for capital goods the rubber industry does not require access to PERF.

Macadamia nuts

At present all macadamia nuts grown in Malawi are processed through one factory which also markets the whole of the crop. Proceeds are pooled and distributed according to weight delivered and quality. From the survey returns our conclusion is identical to that of rubber.

Tinned produce

We surveyed the company involved in this business. Exports in 1988 are estimated at less than US\$100,000. The company has indicated that export sales are difficult to generate due to high transport costs affecting the competitiveness of the product and secondly to lack of import approvals for tins. By increasing its allocation for inputs the company believes it could increase exports to just over US\$200,000 within three years, and we have used this as the basis for our demand for PERF.

10. Garments

There are six garment factories in Malawi which generate about 90% of domestic and export production. Only one of these has significant exports amounting to approximately MK1 million in 1987.

Due to foreign exchange constraints this factory is manufacturing for the U.S. market on a C.M.T. basis (cut, make, trim). Under this arrangement all raw materials are airfreighted into Malawi, handled under a special duty-free status arranged for the firm, and, after manufacture, the products are again airfreighted out of Malawi. This manufacturer has indicated that there is enormous potential for Malawi export garments into the US market, which he estimates at up to MK30 million.

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However, under the C.M.T. basis manufacturers have no flexibility on sourcing inputs, and consequently margins on this type of process are slim. Manufacturers also suffer from the considerable disadvantage of two-way airfreight which also erodes margins.

We have assumed that our surveyed factory has capacity for about 15% of the Malawi market and consequently his foreign exchange requirements can be multiplied by a factor of six to give an estimate of national demand.

With the present productive capacity in the country our estimate of demand will represent a top limit. It is clear that production for the local market is being constrained due to lack of raw material inputs and hence the move of spare capacity to C.M.T. export production. If under the liberalised importation system raw materials are more freely available it is possible there will be a switch of production back to local markets in view of the better margins.

## 11. Other Manufactured Goods

Under this heading we have by questionnaire or by telephone interview surveyed firms involved in footwear, confectionery, glycerine, fishing flies and sporting goods and netting.

### **Footwear**

From our discussion with the major footwear manufacturer in Malawi there appears to be potential in Zimbabwe for maximum exports of approximately MK1 million per annum. Sales of this level would not present capacity problems for this manufacturer.

The major constraint on capitalising on this market appears to be the lack of import approvals in Zimbabwe. If these orders were to materialise a larger import allocation would be necessary in order to fulfil the orders.

### **Confectionery**

As confectionery is regarded as a luxury item, no duty concessions are available into PTA markets. For non-PTA markets high transport costs make the products uncompetitive.

The major confectionery manufacturer in Malawi estimates "Best Case" exports of MK1 million into Zimbabwe and South Africa. Access to the Zimbabwe market is dependent on the granting of import licences which appears to be a major hurdle.

## Glycerine

There is only one soap manufacturer in Malawi. Tallow is imported from South Africa for processing, and the residual glycerine by-product is re-exported back to South Africa.

At present tallow is being imported under a special letter of credit arrangement. The glycerine is sold on open account, payment being received some 60 days after receipt of goods in South Africa.

This manufacturer was selected in our sample and their response indicates that although restricted foreign exchange allocations have meant shifting product mixes for the local market, the importation of tallow has not been affected. We can conclude that there is no scope for boosting exports of glycerine through access to a PERF.

## Fishing Flies and Sporting Goods

In the context of Malawi's total exports, exports of fishing flies and other sporting goods constitute a very small percentage. Even with a larger foreign exchange allocation total export sales are only projected to increase to around US\$300,000 in 1993.

Malawi is able to compete in this market because of its extremely low labour costs, which counter the very high cost of airfreight for imports and subsequent exports. The present cycle time in this business is at least one year and if this industry is to participate in MERF or PERF their standard terms of business will have to be revised.

We have included the unsatisfied demand for imported inputs in the fishing flies and sporting goods industry in estimating the demand for PERF.

## Netting

We surveyed the major manufacturer of these products, who is presently a significant exporter. The firm stated that their present limited import allocation is considerably curtailing their ability to export. Given freer access to foreign exchange, the firm believe exports of all their products in substantially increased amounts would be feasible.

We have included this firm's additional foreign exchange demand as a demand on PERF. This firm's demand is virtually identical to the industry demand.

## 12. Pharmaceuticals

Of the three major pharmaceutical companies in Malawi only one is involved in exporting. These exports feature shipment of pre-mixed powder or tablets to an affiliated company in Zambia.

The general manager of the exporting firm indicated that approvals from Zambia have been erratic and realistically he does not foresee any expansion in this trade.

Both other firms indicated that they are actively pursuing export markets, inside and outside the PTA region but with no concrete results to date. We have concluded that the pharmaceutical industry is unlikely to increase export revenues in the foreseeable future, and hence, would probably have little requirement for PERF resources.

CHAPTER IV  
MOZAMBIQUE COUNTRY SURVEY

MOZAMBIQUE COUNTRY SURVEY

A. EXPORT SECTOR OVERVIEW

1. Macroeconomic Context

Mozambique's economy is struggling to turn around several years of sharp decline. During the first half of the 1980's the national economic conditions deteriorated rapidly, including a precipitous drop in production in all sectors, contraction in both exports and imports, and sharp increases in Government deficits. Despite extensive price controls, strong inflationary pressures emerged, and economic shortages and a parallel market developed. The cause of this deterioration was a combination of depressed world economic conditions, continuous security disruptions and inappropriate domestic policies. But the result was that by 1986 Mozambique suffered from severe imbalances both internally (fiscal deficit : 9.5% of GDP) and externally (current account deficit : 19.9% of GDP). Exhibit IV - 1 provides indicators of this situation.

Recognizing the gravity of its economic circumstances, in the mid 1980's Government undertook a range of measures to reverse the trends. These included, initially, debt rescheduling, increases in controlled prices and introduction of an export earnings retention scheme. Subsequently, with World Bank assistance Government introduced a comprehensive Economic Recovery Program (ERP). This plan, which went into effect in January 1987, featured two substantial Metical devaluations in 1987 and a continuing policy of flexible exchange rate management; further increases in controlled prices and wages, and decontrol of some items; a fiscal policy aimed at increasing public revenues and at containing public expenditures generally and imposing fiscal discipline on parastatals in particular. It also called for a monetary policy to restrain the growth of the money supply and enhance the efficiency of credit utilization.

There are indications that the ERP has had positive effect already -- modest rises in agricultural production and light industry output have been recorded -- but the overall situation will remain critical for some time. Government is reportedly determined to press on with the structural reforms of the ERP. Some of these reforms will now begin to address directly the problems of the export sector. In addition to measures aimed at general fiscal and monetary reform that will help the export enterprise, several planned ERP initiatives are designed specifically to improve the operating environment for exporters, among them increasing the efficiency of the foreign exchange allocation system and strengthening the export earnings retention scheme. In sum, while Mozambique's exporting sector is still in considerable disarray as a result of years of economic mismanagement, and subject to continuing severe pressures and disruptions arising from the poor internal security situation, there are reasons to believe that future export growth and diversification may be possible.

EXHIBIT IV-1

SELECTED ECONOMIC PERFORMANCE INDICATORS FOR MOZAMBIQUE

(Percent)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u> (a)
GDP (rate of change)	4.7	0.9	-3.3	-12.9	-2.2	-10.4	-2.0	1.2
GDP per capita	n/a	-1.7	-5.7	-15.1	-4.7	-12.6	-4.5	-1.3
Government deficit/GDP	-9.4	-11.0	-10.5	-16.1	-15.1	-7.9	-9.5	-20.3
Current account/GDP	-17.5	-20.1	-23.5	-22.2	-18.5	-12.9	-14.9	-34.2
Debit service/GDP	6.0	15.0	15.9	16.9	16.3	11.6	11.7	24.4
Debit service/exports	32.1	75.1	97.3	129.4	195.9	215.5	247.5	237.7
Exports (rate of change)	n/a	-1.0	-14.6	-34.1	-29.5	-8.8	3.6	14.2
Exports/GDP	16.5	17.1	13.7	9.8	6.1	4.2	3.5	8.2
Imports (rate of change)	n/a	1.3	4.0	-22.2	-16.0	-17.5	23.1	20.2
Imports/GDP	35.0	37.2	36.4	30.5	22.7	14.1	14.2	34.7
Gross foreign reserves (months of imports, CIF)	n/a	3.1	1.0	0.9	1.7	1.2	1.5	1.6

(a) ITP projection

Source : World Bank Data

EXHIBIT IV - 2

MOZAMBIQUE'S PRINCIPAL DOMESTIC EXPORTS AND EXPORT EARNINGS 1980 - 1986

(US\$ Million)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Drawns	31.9	52.4	38.5	31.2	28.3	33.4	38.3
Cashews							
- kernels	64.8	53.5	43.6	16.1	15.3	11.6	16.8
- CISO	1.8	1.8	0.8	0.4	0.1	0.3	0.3
Cotton	8.2	24.9	17.3	17.0	8.0	5.3	0.6
Tea	28.9	14.2	25.7	14.7	10.8	2.4	1.3
Sugar	24.6	25.1	8.8	8.6	5.8	6.8	8.1
Copra	9.2	4.9	2.9	2.2	1.9	5.1	2.1
Sisal	4.0	2.9	2.6	0.9	0.8	0.1	(a)
Citrus	2.6	4.9	2.6	2.0	3.2	3.1	2.2
Subtotal	175.9	184.6	142.8	9.31	74.2	68.1	69.6
Other	104.9	96.2	86.4	37.9	21.5	8.5	10.0
- Petroleum	63.4	52.3	37.6	21.8	5.4	3.9	4.0
- Coal	3.7	9.7	4.2	0.5	0.5	0.3	0.3
- Tannaline	5.0	3.9	0.9	1.7	1.4	-	0.3
- Molasses	3.5	4.3	1.7	0.4	0.5	0.5	(a)
- Coconut oil	2.7	2.7	1.2	-	-	0.4	0.2
- Timber/wood products	5.6	7.4	3.3	0.6	1.2	0.9	1.0
- Cement	4.0	3.1	3.2	-	0.8	-	(a)
- Clinker	0.6	0.7	0.9	-	0.2	-	-
- Tires and tubes	-	1.7	6.9	-	-	-	-
- Miscellaneous	16.4	10.4	26.5	12.9	11.5	2.5	4.2
Total	280.8	280.0	229.2	131.0	95.7	76.6	76.6

(a) Less than US \$ 100 000.

Source : National Directorate of Statistics and World Bank Data.

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EXHIBIT IV - 3

COMPOSITION OF MOZAMBIQUE'S IMPORTS 1981, 1983 AND 1985

(US\$ Million)

	1981	1983	1985
<u>Total Imports (CIF)</u>	<u>801.1</u>	<u>636.4</u>	<u>423.7</u>
Consumer goods	178.3	177.5	166.0
Intermediate goods (of which oil)	367.1 (167.1)	231.7 (96.7)	162.3 (69.1)
Spare parts	104.4	105.4	46.8
Equipment	151.3	121.8	48.7

Source : World Bank Data.

## 2. Export Production

Agricultural commodities account for the bulk of Mozambique's export earnings. A set of five commodities -- prawns, cashew (kernels and cashew nut shell oil "CNSO"), cotton, tea and sugar are the most important export items among agricultural products (Exhibit IV - 2). At present these five together represent over 80% of total export earnings, and even in 1980, when Mozambique's export base was somewhat more diversified, the five commodities still generated nearly 60% of total export value. It is notable that since 1980 the export earnings have declined for nearly all of Mozambique's export commodities. The sole exception is prawns, now Mozambique's leading export product, though the level of sustainable prawn yield is now believed to have been reached. It is also striking that cashew exports, once Mozambique's largest export earner, have dwindled considerably, though a modest reversal is evident in 1986. Most other agricultural commodities -- sugar, tea, cotton -- are presently a fraction of 1980 export values.

Non-agricultural exports have also suffered sharp drops in earnings (Exhibit IV - 2). Petroleum exports, which were composed of excess output from a domestic facility's refining of imported crude oil, have decreased due to Government's closing of the refinery in 1984 (residual export values are from stocks or re-exports). Coal and tantalite, timber and wood products, cement, clinker and other items were marginal export earners by 1986. An assortment of manufactured products and other items make up the category of "miscellaneous" exports: watches, copper concentrate, sisal twine, crabs and lobster, sea cucumbers, marble and others.

The pattern of export decline derives from several factors. For agricultural and non-agricultural commodities, the damage to plant and equipment and transportation infrastructure inflicted by Mozambique's ongoing internal conflict have been a major constraint for exporters. Tea, sugar, cotton and timber suffered in particular in this regard. Poor world prices and pressing domestic market requirements also account for cotton's decline. By contrast tea and sugar exports dropped in the 1980's despite favourable price trends (tea) and/or guaranteed markets (EEC for sugar). However, war damage and other reasons aside, throughout the 1980's the lack of foreign exchange to maintain plant and equipment and to obtain needed production inputs has been a serious limitation for exporting firms across the board. This limitation is reflected in the decrease in Mozambique's imports in which equipment, spare parts and intermediate goods (used as inputs to agriculture and industry) had dropped off significantly by the mid 1980's (Exhibit IV - 3).

### 3. Public/Private Sector Roles in Exporting

Government-owned companies are found in virtually all actual or potential export sub-sector activities. Parastatal enterprises dominate several of Mozambique's key export commodities and products. These include the five major export items : prawns, cashew, cotton, tea and sugar. Parastatal enterprises also presently account for the bulk of production in other potentially important export items, for example : citrus (most of output), sisal fibre (more than half of output). Parastatal enterprises also operate in the industrial sector, manufacturing and occasionally exporting certain items (rubber products, glass). Additionally, government corporations or marketing agencies have controlled much of Mozambique's exporting and importing operations. Notable examples in this regard are ENACOMO, the agricultural marketing organization, and EQUIPESCA, which handles imports of fishing equipment. Finally, throughout a whole range of possible export industries, government-owned enterprises exist in the form of "empresa intervencionada", one-time private companies abandoned by their Portuguese owners at Independence, and then taken over by default by Government to try to operate.

Nevertheless, with the introduction of ERP, a modest shift in the balance of public and private sector roles relative to exporting is perceptible, in favor of greater opportunity for the latter. For example, as part of its effort to introduce reform into the trading system, Government has reportedly agreed to reduce the number of items which must be traded through a public monopoly corporation from 11 imports and 3 exports to 5 imports and 1 export (sugar). Similarly, in 1986, Government entered into a joint venture agreement with LONRHO, with the two parties as equal shareholders in a company to revitalize the cotton sector, and develop other potential export items (tomato paste, citrus). Finally, Government is also making an effort to persuade the former owners of various "empresa intervencionada" to return, either in an ownership and/or management capacity to rehabilitate and reactivate their firms.

### 4. Sources of Foreign Exchange for Exporters

At present Mozambique's exporting firms appear to have two channels to obtain foreign exchange to purchase imported inputs and capital equipment. These are Government's formal foreign exchange allocation system run by the Bank of Mozambique, but substantially fueled by donor-provided foreign exchange through import support programs; and the export earnings retention scheme operated by the Ministry of Trade and the Bank of Mozambique. These systems are discussed in detail below.

B. EXPORT TRANSACTIONS ; MOZAMBIQUE POLICIES AND PROCEDURES

1. Allocation of Foreign Exchange : The Macro System

Because Mozambique suffers from chronic foreign exchange shortages, Government attempts to ration its meager resources through a comprehensive allocation system. The process centers on an import plan, prepared each year by Government as part of its budgetary process. This plan details the allocation of all available foreign exchange among economic sectors, industries, ministries, parastatals and essential commodities. The plan incorporates all foreign exchange supplies, including those made available by the international aid agencies, as well as foreign exchange generated by Mozambican exports.

After the plan has been established, Ministerial level meetings are held every three months to amend plan provisions to reflect more recent foreign exchange conditions and availability. Allocations of foreign exchange are also dealt with at monthly meetings between the Ministries of Trade and Finance and the Bank of Mozambique. These changes impact the allocation of foreign exchange to private sector enterprises. As a result, importers continually monitor the level of foreign exchange allocated to them and tend to use their allocations as soon as possible for fear that pressing national needs will arise and reduce or delay the amounts promised to them.

Once adopted, the import plan is passed onto the Ministry of Trade and further detailed planning is performed to allocate available foreign exchange, in accordance with plan directives, among the individual registered importers. <sup>1/</sup> The latter are then to obtain access to the foreign exchange allocated to them by applying for import permits, as described in detail below. The issue of import permits by the Ministry of Trade is theoretically guaranteed, providing the foreign exchange amount and intended use proposed by the applicant enterprise are consistent with the import plan.

In reality, despite the allocation plans, due to the critical national shortage of foreign exchange many private sector enterprises are only able to obtain foreign exchange through the export retention scheme described below. Since most major exporting industries were nationalised after Independence, the export incentive scheme allocates relatively small quantities of total foreign exchange for private sector use.

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<sup>1/</sup> There are at present 209 registered importers, of which approximately 50 are private sector enterprises.

Government has indicated its intention to increase the number of registered private importers from 50 to approximately 150 firms. This would be achieved through reduced government participation in commercial enterprises and policies to stimulate the private sector growth.

For the current fiscal year the "Paris Club" of donors generated aid commitments to Mozambique of approximately US\$1 billion. In anticipation of delays between commitment of these funds and their becoming available, Government's import plan for FY 1988 assumed total available foreign exchange of approximately US\$ 750 million. Included in this amount is US\$107m that Government anticipates will be generated by Mozambique's exports. After national debt servicing and other commitments, approximately US \$27 million of locally-generated foreign exchange is left to be allocated by the import plan. The plan treats this amount primarily as a contingency fund for unforeseen national emergency requirements. In practice, much of this contingency is likely to be used up in response to economic disruptions caused by RENAMO activities.

In recent years the foreign exchange planning process has been hampered by poor communication between the Mozambique Government and the donor agencies. In many cases donor foreign exchange has been available but restricted to specific uses, while from Mozambique's perspective foreign exchange needs of greater national economic importance have remained unfulfilled. This situation appears to be improving with increasing levels of aid and enhanced cooperation between both Government and the donor community and among the donors themselves.

## 2. Export Licensing

Before an enterprise is permitted to export it must become a registered exporter. 2/ There is no application form and the accepted practice is to submit the following information, in writing, to the Ministry of Trade:

- \* A written presentation of the proposed export activity, including products, markets, price structures, financial forecasts and mode of transport.
- \* Written approval from the relevant government ministry. For example, if the proposed export involves cotton fibre then the approval of the Ministry of Agriculture must be obtained. In addition, if the product to be exported is manufactured or produced outside Maputo, written approval of the appropriate provincial government officials should be submitted.
- \* Certificate of incorporation, known as "Cerridao de Conservatoria", or other appropriate document, depending on the legal nature of the applicant entity.

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2/ The current legal requirement for the registration of all importers and exporters and the import/export permit procedures are based closely upon the pre-Independence Portuguese laws. These laws were adopted after Independence by the People's Republic of Mozambique but do not appear to have been amended. However, this legislation cannot presently be relied upon verbatim as many of the official structures referred to in the texts either no longer exist or have been taken over by other Ministries. As a result, the detailed procedures in effect today differ significantly from those originally envisaged by the legislation.

- \* Written proof from the Ministry of Finance that the enterprise is up to date in its income tax payments.
- \* A "Fischa de Escricao" submitted to the Ministry of Trade. This is an index card, which on approval of the application will be added to the Ministry of Trade's file of registered exporters. This card should be signed by the owner or a director of the enterprise.
- \* Payment of 5000 Metical application fee must be enclosed.

Government's attitude towards exporters is extremely positive and unless the proposed export activity will necessitate the import of similar products to meet local demand, or will result in local shortages of the product concerned, a firm's application for registration as an exporter will probably meet with a positive response. Firms proposing export activities involving significant value-added for Mozambique through local processing or manufacturing -- a major concern for Government -- will receive especially rapid approval.

Once registered as an exporter, an enterprise must obtain additional approvals for each export transaction it undertakes. Such approval is requested from the Ministry of Trade, and takes place during the negotiation process between the exporting enterprise and the foreign buyer, but prior to contractual commitment. To do so the exporter first completes for the Ministry of Trade a "Declaracao de Venda" or declaration of intention to sell. This is a one-page document which requires: a description of the goods to be exported, the quantity involved; the unit price; the time and method of shipment; the buyer; the agent and the conditions of payment. This document should be submitted in quadruplicate together with a telex, letter, draft contract or other documentary evidence of the information included in the application. About 48 hours are typically required to obtain the approval of the Ministry of Trade, at which time the exporting enterprise is free to enter into a contract with the buyer.

All payments for exports must be effected through the Bank of Mozambique directly from the external purchaser. All documents pertaining to an export shipment should be sent to the purchaser via the Bank of Mozambique. In the case of goods exported CIF or FOB, the accepted method of payment is a documentary letter on sight, or an irrevocable letter of credit. In certain instances, primarily in the case of payments in advance, the Bank of Mozambique may authorize the exporter to receive a check or money order. Hence, when the contract or agreement between exporter and foreign buyer is completed, the exporting enterprise should obtain a letter of credit from the buyer to be sent by the latter directly to the Bank of Mozambique. Upon receipt of the letter of credit notification, the Bank informs the exporting enterprise.

At this point the exporting enterprise then obtains from the Bank of Mozambique a copy of the letter of credit and submits it with a completed Export License application form to the Ministry of Trade. The application is a relatively simple one page document (in nine copies) which calls for the same information as the declaration of intention to sell, but in more detail with respect to the types of goods and terms of the sale. This same application form is used whether the goods represent exports or re-exports.

The nine copies of the completed Export License application form are distributed by the Ministry of Trade as follows :-

<u>Page</u>	<u>Distribution</u>
E	Bank of Mozambique
F1	Bank of Mozambique
A	Customs
B	Customs
C	Chamber of Commerce
D	ADENA (State customs clearing agents)
F2	Ministry of Trade - active copy
F3	Ministry of Trade - archive copy
Receipt	Exporters copy.

(With the exception of the Receipt and F3, all copies are eventually returned to the Ministry of Trade).

From 48 hours to one week are required to obtain the signed and stamped receipt copy from the Ministry of Trade. The processed application serves as the Export License. After the license has been issued, the exporter has 21 days within which to obtain a bill of lading and any other documents specified in the letter of credit, and then submit them to the Bank of Mozambique. The latter forwards the documents to the buyer's bankers and completes the transaction. In practice the process is likely to take longer than 21 days due to delays in clearing the goods through ADENA, the government's monopoly customs clearing agents.

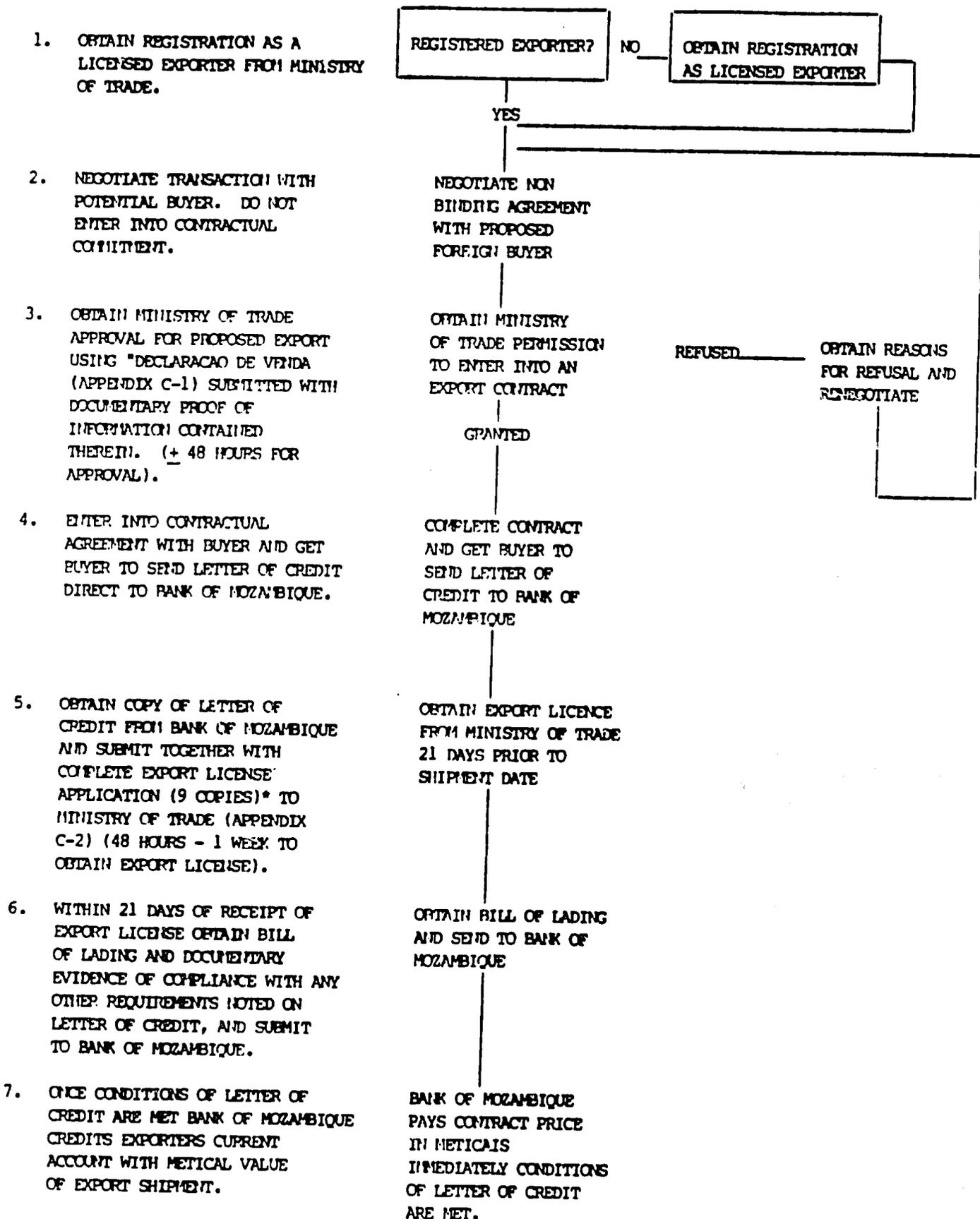
The export licensing procedures are outlined in Exhibit IV - 4.

Once all the conditions of the letter of credit are met, the Bank of Mozambique pays the exporter the contract price in Meticals, regardless of the length of time taken to obtain the funds from the buyer's bank. At this time any export retention due the exporter is calculated and recorded in the exporter's retention memorandum account by the Bank of Mozambique.

A sales tax of 5% is levied against all sales, including export sales. It is possible to apply for exemption from the tax in the case of export sales. However, discussions with several of the larger private sector exporters indicated that their applications for sales tax exemption had not been approved for various reasons. Additionally the government's customs clearing agency, ADENA, charges 2% to 4% of the value of export shipments, depending upon the nature of the export commodity. ADENA is notoriously slow in clearing goods through customs, which results in increased storage costs payable to the port authorities. These factors are significant disincentives to exporters.

In cases where exporters find it necessary to insure their shipments they are supposed to do so through EMOSE, the state-owned monopoly insurance enterprise. Generally, however, EMOSE provides insurance only in Meticals, although it is possible to negotiate insurance in foreign currency denominations provided the premiums are paid in foreign exchange. Where such insurance is necessary and cannot be negotiated with EMOSE, exporters may arrange insurance with an international firm.

EXPORT LICENSING FLOWCHART



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### 3. Import licensing

To effect an import transaction a firm must be registered as an authorised importer with the Ministry of Trade. The registration process is similar to the procedures required to become a registered exporter. In practice most enterprises initiate both applications simultaneously.

As discussed above, foreign exchange is annually allocated to registered importers in the annual import plan. Allocations are made on the basis of the relative importance of the products being imported in relation to the needs of the economy, and, where foreign exchange is provided by a donor, on the basis of conditions imposed by the donor agency. Where an enterprise requires foreign exchange is but no allocation has been made in the import plan, a presentation to the Ministry of Trade will be necessary.

Once a foreign exchange allocation is available, the conventional tender procedures should be applied and a proforma invoice obtained from the supplier selected. In some instances there are conditions attached to the use of the foreign exchange, such as a requirement that the imports be sourced from a particular nation or corporation. In addition there is an increasing tendency for donors to review tender procedures before making foreign exchange available.

All sea or air import shipments are subject to the condition that the transport contract must be referred to MOCAPGO, the state-owned shipping agency which, if it is able to negotiate more favourable terms, has the right to take over responsibility for the shipment.

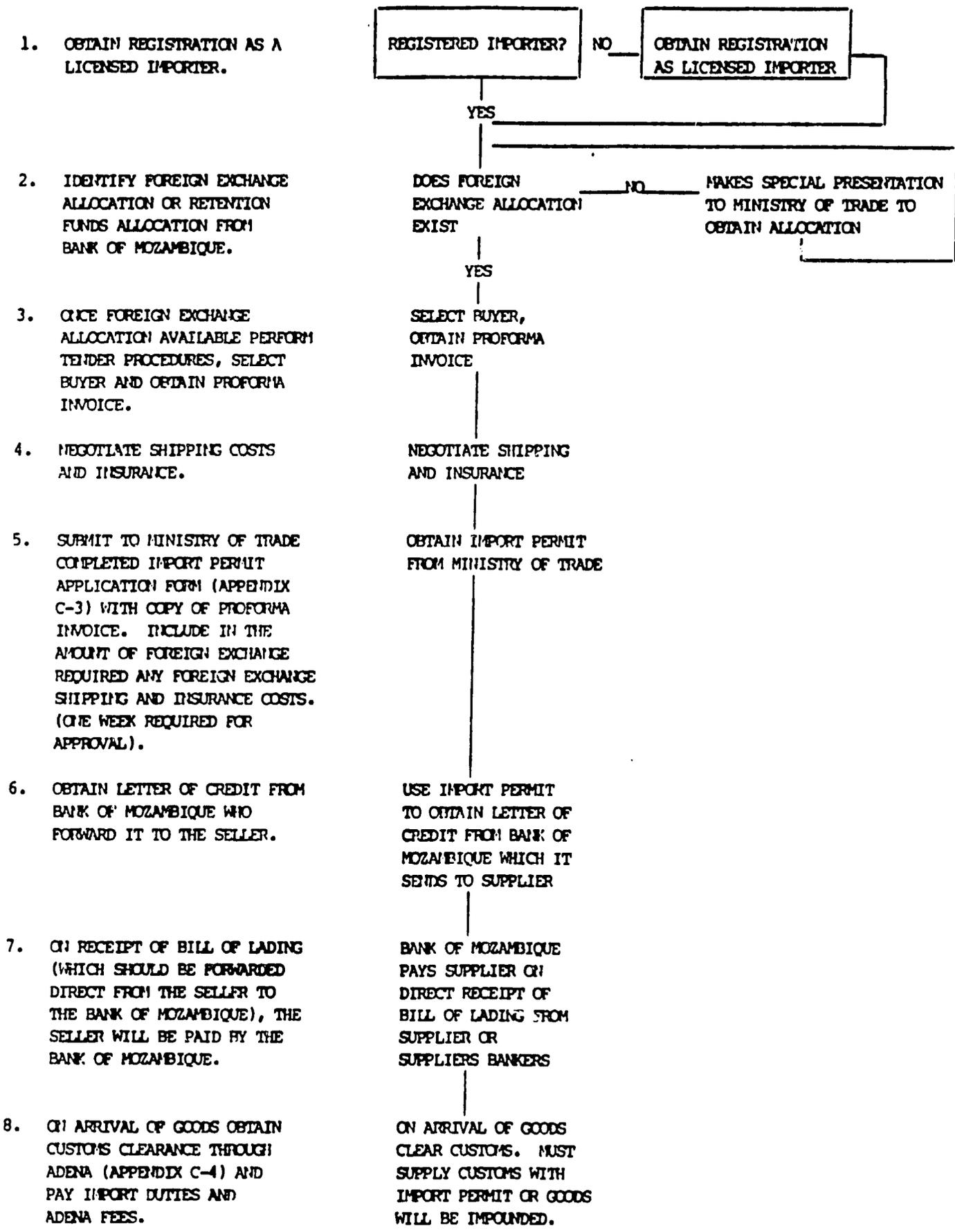
Once the terms of the proposed import transaction are set, the importer should complete a Ministry of Trade application with a copy of the supplier's proforma invoice. The import receipt is a simple form calling for the importers name, the supplier, the mode of transport to be used, the estimated arrival date of the goods, the port of entry, the form of payment, the type of contract (eg FOB or CIF) and the value in local and foreign currency. An application for an import license also requires the payment of a nominal fee.

There are five copies of the Import License application form which, once approved by the Ministry of Trade, are distributed 3/ as follows:

- \* One copy retained by the Ministry of Trade.
- 

3/ In general, any government form which requires distribution in the manner indicated above, if submitted in Maputo, will be distributed by the Ministry concerned. However where such applications are submitted to the more remote provincial government offices, the applicant enterprise may be required to arrange the distribution of the forms. This situation has resulted from the breakdown of lines of communication and transport as a result of RENAMO activity within the country.

IMPORT LICENSING FLOWCHART



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- \* One copy forwarded by the Ministry of Trade directly to the Bank of Mozambique and used by the Bank to authorise eventual payment.
- \* One copy forwarded by the Ministry of Trade directly to the customs authorities.
- \* One copy retained by the importer.
- \* One copy forwarded, in some cases by the importer, to the relevant Ministry, e.g. in the case of import of agricultural suppliers, the Ministry of Agriculture.

On average the Ministry of Trade takes one week to process the import license application. Once the Ministry of Trade has delivered the Import License the Bank of Mozambique issues an irrevocable letter of credit. At this point the importer must pay the bank the local currency cover of the L/C counterpart foreign exchange.

During the last two years Government has devalued the Metical from 40 to 450 Meticals to the US dollar. While this enhances competitiveness of local products on the world market, many importers who have foreign exchange allocated to them now find that they are unable to afford to pay the required local currency (Meticais) cover to obtain their allocations. This situation is compounded by high domestic interest rates (approximately 19% in June 1988).

There are several rules governing payments for imports:

- \* All external payments are made by the Bank of Mozambique through the banking system by bank transfer or money order. Importers overseas exporters are not permitted to make external payments to overseas exporters by check.
- \* Payment can only be made on presentation of documentary proof of shipment of the goods. Exceptions may be made where the supplier requires otherwise, or where international commercial practice dictates payment in advance. In such cases it is necessary to obtain special authorisation from the Ministry of Trade.
- \* In order to obtain authorisation for external payments the importer must ensure that the foreign supplier forwards, directly to the Bank of Mozambique, the shipment documents including the bill of lading. The Bank compares these to the import permit before authorising payment.

On arrival of the goods it will be necessary to clear them through customs utilising ADEHA. Customs clearing costs and import duties must be paid before the goods are released. Import duties are based on the value and type of commodity imported and can be ascertained in advance from the customs authorities.

Mozambique's import licensing procedures are outlined in Exhibit III - 5.

Where an enterprise is seeking to import services or other intangibles which cannot be linked to the import/export of a commodity, it is not necessary to apply for an import license. In such cases the enterprise should apply for a "BAP" or "Buletim de Autoridade para Fazer Pagamento", or certificate of authority to make payment. The application form is available from the Ministry of Trade and should be completed and presented to that Ministry for approval. An external contractual commitment should not be entered into without having obtained the "BAP" in advance. In practice a proforma invoice is necessary, and should be submitted with the application form to obtain the BAP.

The number of parties involved in authorising and processing an intangible import transaction are reduced and the procedures involved in making application and subsequently in making payment are simpler than those for obtaining an import license.

#### 4. Foreign Exchange Transactions

The Bank of Mozambique, (the central bank), also functions as a commercial bank, particularly in the area of foreign exchange transactions where it alone has government permission to trade. Although there is one other commercial bank in Mozambique, the majority of commercial enterprises find it expedient to maintain a current account with the Bank of Mozambique.

There are indications that the Mozambican banking laws will be changed in the future to increase the role of commercial banks in an effort to revitalize the banking industry and to give the nation greater flexibility in international trade, investment and financial markets.

About 18 hard currencies and a few soft currencies (Zambia, Zimbabwe, Malawi) are all regularly traded by the Bank of Mozambique.

#### 5. Export Retention Scheme

The Mozambique government, through the offices of the Bank of Mozambique and the Ministry of Trade, operates an export retention scheme, known as "Fundos Consignados". Under this scheme, exporters are allocated future access to a percentage of their net foreign exchange earnings. This foreign exchange allocation is then purchased and utilised via the conventional import permit procedures. The scheme was established to provide an incentive to export and to allow exporters access to foreign exchange with which to fund imported inputs for export production. There does not appear to be any limitation in the use of these funds providing an import permit can be obtained.

Since most major export activities are controlled by public sector or parastatal enterprises, retention funds generate in total relatively small foreign exchange allowances for the private sector. Nevertheless at this time export retentions are effectively the only source of foreign exchange for most private sector enterprises.

Because the export retention scheme memorandum accounts are maintained by the Bank of Mozambique in foreign currency, the devaluations of the Metical over the past 2 years have significantly increased the cost of purchasing any accumulated retention foreign exchange allocations.

The export retention rate which an export enterprise is permitted appears to result from a negotiation with the Ministry of Trade. The negotiation is reported to hinge on financial forecasts of export earnings and import requirements the enterprise presents to the Ministry of Trade. The Ministry decides upon a retention rate in relation to national economic priorities. The rates of retention permitted range from 0 to 100% of net foreign exchange earnings. For traditional exports the range is from 30% to 100%. In situations where the exports are generated through entirely foreign aid-funded projects, 100% retentions are common. In the private sector the median retention percentage appears to be in the range of 20% to 30%. The Ministry of Trade is reported to be particularly flexible in negotiating retention rates with new enterprises involving foreign investment in Mozambique.

Once an enterprise's retention rate has been settled, a contract between the exporter firm, the Ministry of Trade and the Bank of Mozambique is drawn up. The contract generally has a tenure of one year and contains provisions for renegotiation.

As export receipts are received by the Bank of Mozambique, it automatically converts the foreign exchange amount into Meticals at the prevailing official exchange rate. The counterpart amount is then deposited into the exporter's current account (net of bank transaction fees). At the same time the Bank of Mozambique calculates the percentage of foreign exchange to be retained in accordance with the provisions of the retention contract, and records the amount in a memorandum account denominated in foreign exchange in the name of the exporter.

The Metical amount deposited in the exporter's current account is not restricted and may be disbursed or invested in the normal course of business as with any other local funds held by the exporter.

When the exporter makes an application to the Ministry of Trade for an import permit utilizing all or part of his export retention foreign exchange, equivalent Meticals must be deposited in a Bank of Mozambique current account to cover the purchase of these retention funds. Hence, the foreign-exchange-denominated memorandum account of retention funds maintained by the Bank of Mozambique for a given exporter represents only a right to apply to purchase these funds from the Bank in the future through the import permit process, and is not an actual monetary value in foreign exchange which belongs to the exporter. All amounts recorded in an exporter's memorandum export retention account are values which the exporter earned in foreign exchange but for which the Bank has already paid counterpart funds into the exporter's current account in local currency.

EXHIBIT IV - 6

THE MOZAMBIQUE SAMPLE OF EXPORTING FIRMS

FIRM CODE	INDUSTRY	PRINCIPLE PRODUCTS	OWNERSHIP	SIZE		
				total	export	Employees
MO 1	Manufacturing	Batteries	(% Private)			
MO 2 (b)	Agro-processing	Tea	100% (100% foreign)	4 440	1 083 (a)	350
MO 3	Manufacturing	Rubber shoes, bicycle tires, Rubber automotive parts	parastatal	3 000	2 700	1 800
MO 4	Agro-processing	Cotton, citrus, tomato paste	100%	1 910	350 (a)	400
MO 5	Manufacturing	Sisal twine	50% (50% foreign)	2 130	1 160 (a)	3 300
MO 6	Manufacturing	Scrap iron	100%	2 490	1 530	292
MO 7 (c)	Agro-processing	Cashew kernels, CNSO	100%	220	190	110
MO 8	Manufacturing	Railroad sleepers, posts	parastatal	48 840	37 800	n/a
MO 9	Agro-processing	Copra, margarine, salt	100%	240	50	252
MO10	Manufacturing	Cotton yarn, fabrics	100% (100% foreign)	4 270	1 370	4 000
MO11	Agro-processing	Cotton, sisal	100% (100% foreign)	12 500	2 550 (a)	4 200
MO12	Manufacturing	Galvanized iron sheets, pipes	100%	4 300	1 230	6 300
MO13	Manufacturing	Railway cars, lifting equipment, containers	100% (50% foreign)	5 500	800 (a)	320
MO14 (d)	Manufacturing	Electrical wires and cables	empresa intervencionada parastatal	8 500 2 270	6 600 -	850 160

(a) Includes sales in the domestic market transacted in US dollars.

(b) ENOCMA

(c) Caju de Mocambique

(d) CELMOQUE

Source : DNSIS based on Mozambique PERF data.

Applications for import licenses utilising export retention foreign exchange follow exactly the same procedures as applications involving allocated foreign exchange. There are no restrictions against applying for import licenses which seek to use both allocated and export retention-sourced foreign exchange.

Although there is no fee for participation in the export retention scheme, the differences between the buying and selling rates of exchange, the transaction costs involved in the currency conversion processes and each devaluation of the Metical effectively result in a participation cost.

Exporters typically maintain their own export retention memorandum accounts and periodically check the total against the Bank of Mozambique. Also, participants in the export retention scheme recognise that due to foreign exchange shortages, Government may have a tendency to reduce the import plan amounts of foreign exchange allocated to enterprises which accumulate significant quantities of retention funds.

### C. MOZAMBIQUE SURVEY APPROACH

#### 1. The Mozambique Sample

In Mozambique, a total of 14 firms participated in the PERF survey. Five other firms also agreed to participate and took part in initial discussions with DMS survey staff, but ultimately did not complete survey questionnaires. These included two parastatals and three private firms.

The principal characteristics of the Mozambique sample of PERF survey firms are presented in Exhibit IV - 6. In summary :-

- \* Ten of the 14 sample firms are privately owned; of the balance, three parastatal enterprises (Emocha, Caju de Mocambique and Celmoque) were certified by the Center for Privatization for inclusion in the sample; the sample also contains an "empresa intervencionada" which counts itself as a private entity but in fact is operated by government.
- \* Sample firms are drawn from a range of sectors, including agriculture/agro-processing (5 firms); and both light manufacturing (6 firms) and heavy industry (3 firms).
- \* The sample covers producer-exporters of about 25 different products, including two items (cashew, tea) counted among Mozambique's major strategic (traditional) exports, as well as several items which are relatively new and still modest export earners (galvanized pipe and sheets, automobile batteries, tomato paste).

- \* In terms of employment, the sample represents a spectrum of large, small and medium-size firms as follows :-
  - 100 to 500 employees : 7 firms
  - 500 to 1000 employees : 1 firm
  - over 1000 employees : 6 firms
  
- \* Eleven of the 14 firms are actual exporters, although several are still fairly marginal operators who have begun exporting only in 1988.

For logistical reasons all of the firms involved in the survey are located in the Maputo area.

While we recognize that the PERF survey in Mozambique has certain limitations (noted below) DH&S believes that the sample firms are reasonably representative of the kinds enterprises likely to account for a substantial share of the nation's export earnings over the next few years. Firstly, there are at present a rather limited group of firms in Mozambique which now export or which have exported in the last few years. Their number is estimated at about 75 to 90 enterprises, of which half might be private-sector owned or operated. Hence the sample as a group captures a significant proportion (18%) of the probable total number of exporters. Secondly, based on 1986 export statistics, the value of the export earnings reported by the 14 sample firms was about 25% of total recorded national export earnings for the year as a group.

This derives from the fact that two sample firms handle exclusively or a substantial share of exports of their respective products (cashews and tea) for Mozambique. And even for non-traditional exports, sample firms indicate that in 1986 they generated about one third of total non-traditional national export earnings for the year. Therefore the sample encompasses a significant share of total export performance.

## 2. Mozambique Sample Selection Methodology

To select our sample, we firstly attempted to define the total universe of current exporters. For this, a list of firms that were granted export licenses in 1987 and in 1988 was acquired from the Ministry of Trade. A second list of actual current exporters was obtained from the Bank of Mozambique. These lists were supplemented by a third list of firms which were exporting in 1980 to try to identify former exporters (this latter was of some use, but limited, since it turned out that many of the private firms on the 1980 list no longer exist). DH&S also examined a recent World Bank-sponsored consultant's Report (Arthur D Little "Enterprise Review" of capital rehabilitation requirements among Mozambique firms) in a further effort to identify private sector exporters -- actual, potential and former.

Next, DH&S compiled data on Mozambique export products by value, for recent years. These data were obtained from World Bank and IMF reports and from the information compiled by Mozambique's Directorate of National Statistics. These figures provided an indication of the composition of Mozambique's commodity exports and of the relative importance of individual items. An effort was made to identify those products whose export was dominated by parastatal enterprises. A composite list of exporters was then drawn up and compared to these commodity export statistics to try to ensure that our sample of exporter firms would be representative of the range of products exported by Mozambique's private sector.

Using this comparison of exporters to export commodities, a tentative sample of private sector exporter firms was devised. To this was added the set of five parastatal enterprises certified by the Center for Privatization as eligible for participation in PERF. The sample was then shown to officials of a range of Government agencies (Ministry of Trade; Office of Foreign Investment Promotion (GPIE) and donor agencies (USAID, World Bank and SIDA Industry Rehabilitation Project) for advice and suggestions. The Maputo Chamber of Commerce was also contacted, but was not particularly helpful.

### 3. Conduct of the Mozambique Survey

With the assistance of the USAID Program Operations Officer, initial appointments were made with Directors of all chosen sample firms. These appointments typically resulted in a meeting with a Director for approximately one and a half to two hours, at which the PERF project and objectives were briefly discussed, followed by a longer discussion of the particulars of the firm. DH&S collected some quantitative information during the interviews, but also solicited qualitative information on the business environment faced by the firm, and its overall foreign exchange uses and constraints. Then DH&S explained the questionnaire, page by page. Most of the interviewees asked that the questionnaire be left with them for several days and that DH&S survey staff return for a second meeting.

The survey team periodically made follow-up calls to the interviewees, asking if there were any problems with the questionnaire, and reminding firms of the time constraints of the survey.

Often second meetings were set up to collect the questionnaire, and to clarify any immediate questions DH&S identified in sample firm's responses, as well as any confusion on the part of the firms. When immediate meetings were not possible, the survey team attempted to make several follow-up calls to complete the questionnaire.

In some instances, it was necessary to apply considerable pressure to obtain the questionnaire. Communication with firms by telephone was often very difficult since much construction work is under way around the city (sewage and telephone systems). This meant that it was often necessary to personally visit a sample firm's office or factory to make appointments -- a very time-consuming process. Ultimately, a total of five questionnaires were never returned despite the team's persistence, and that of the USAID Program Operations Officer.

#### 4. Limitations of the Mozambique Survey

Given the constraints of the survey schedule and logistics, DII&S believes that the sample gives a reasonably accurate insight into export sector conditions, particularly for private exporters. However several points should be emphasized :-

- \* The sample is limited to Maputo firms alone, as it was impractical to try to travel elsewhere in the country to interview firms. Broadening the geographical spread to Beira may have produced some additional variations on the pattern of responses received. It is notable however, that approximately 50% of Mozambique's industrial sector establishments are to be found in Maputo.
  
- \* The proposed PERF eligibility criteria -- especially exclusion of firms with majority public sector ownership and those who are indirect exporters -- eliminate from the sample (and the PERF universe) a range of firms whose performance is critical to the success of Mozambique's export sector. These include :-
  - PESCO International, the prawn exporting parastatal, the nation's most important exporter;
  - CITRINOS, the citrus exporting parastatal, a significant exporter;
  - EXTRASAL the salt producing parastatal, an important potential exporter;
  - Metal Box a private producer of tin cans, a key indirect exporter; and
  - CARMOG, a private producer of corrugated cartons, another key indirect exporter.

The survey's lack of contact with these firms thus neglects an important dimension of activity in the relatively small export sector of Mozambique.

The mechanics of the survey proved to be quite challenging in the Mozambique context. Many interviewees, for example, had considerable difficulty completing the questionnaire :-

- \* Many firms had to struggle to provide the information requested because of the lack of experience in thinking in these terms. Recordkeeping is poor and at times non-existent.

EXHIBIT IV - 7

MOZAMBIQUE SAMPLE OF FIRMS : PROJECTED NET INCREASE IN EXPORT TARGETS  
 ASSUMING CONDITIONS OF FREELY AVAILABLE FOREIGN EXCHANGE FOR PURCHASE OF IMPORTED INPUTS

PRODUCT	SITC	NAME	FIRM CODE	REPORTED EXPORT EARNINGS (US\$000)			EXPORT TARGETS (US\$000)					
				1986	1989	1988(d)	Base Case(a)		Best Case(b)		Net Increase(c)	
						1989	1993	1989	1993	1989	1993	
Major Agriculture												
0577		Cashews	MO 7	15 263	28 334	36 720	48 960	81 600	48 960	81 600	-0-	-0-
0579		Citrus	MO 4	-0-	30	300	500	1 500	500	1 500	-0-	-0-
0741		Tea	MO 2	1 280	446	2 700	4 860	16 200	4 860	19 440	-0-	3 240
2231		Copra	MO 9	-0-	-0-	1 000	1 000	1 000	3 300	11 000	2 300	10 000
2631		Cotton	MO 4, MO 11	1 515	3 632	7 770	8 500	11 500	10 500	18 500	2 000	7 000
2654		Sisal	MO 5, MO 11	1 784	1 727	2 144	2 189	3 295	3 105	6 210	916	2 925
		Sub total		19 842	34 169	50 634	66 009	115 085	71 225	138 250	5 216	23 165
Other Commodities												
0565		Tomato paste	MO 4	-0-	80	750	750	2 000	750	2 000	-0-	-0-
2481		Railroad sleepers	MO 8	-0-	-0-	203	203	203	236	372	33	169
2820		Scrap metal	MO 6	19	100	190	190	190	600	600	410	410
4249		Cashew nut shell oil	MO 7	128	1 026	1 080	1 440	2 400	1 440	2 400	-0-	-0-
6254		Rubber bicycle tires	MO 3	-0-	-0-	-0-	-0-	-0-	50	100	50	100
6289		Rubber auto parts	MO 3	-0-	-0-	-0-	-0-	-0-	400	450	400	450
6291		Metal containers	MO 13	-0-	-0-	-0-	-0-	-0-	700	700	700	700
6513		Cotton yarn	MO 10	-0-	-0-	-0-	-0-	-0-	400	450	400	450
6521		Textiles	MO 10	-0-	-0-	1 500	1 500	567	2 055	3 726	555	3 159
6749		Galvanized steel sheets	MO 12	-0-	-0-	500	500	189	685	1 242	185	1 053
6783		Galvanized pipes	MO 12	-0-	250	400	570	1 200	1 900	3 600	1 330	2 400
7441		Cranes, lifting machinery	MO 13	-0-	190	300	380	2 300	600	6 400	1 220	4 100
7731		Electrical wires, cables	MO 14	-0-	-0-	-0-	-0-	-0-	-0-	500	-0-	500
7781		Dry cell batteries	MO 1	-0-	-0-	-0-	-0-	-0-	-0-	4 059	-0-	4 059
7781		Auto batteries	MO 1	-0-	-0-	-0-	-0-	-0-	-0-	1 500	90	1 500
7941		Railway cars	MO 1	-0-	-0-	150	165	242	300	2 000	135	1 750
8510		Rubber-soled shoes	MO 13	-0-	-0-	2 075	2 075	2 075	9 000	9 000	6 925	6 925
		Sub total	MO 3	-0-	-0-	-0-	-0-	-0-	100	100	100	100
				147	1 646	7 148	7 773	11 366	19 896	38 749	12 123	27 383
TOTAL				19 989	35 815	57 782	73 782	126 451	91 121	176 999	17 339	50 548

(a) "Base Case" assumes a continuation of present conditions of availability of foreign exchange for imported inputs.  
 (b) "Best Case" assumes conditions of freely available foreign exchange for imported inputs.  
 (c) "Net Increase" equals "Best Case" minus "Base Case".  
 A Projected.  
 : DHS based on Mozambique PERF Survey Data.

- \* Mozambique is in the midst of a war, resulting in so much uncertainty that most firms find it futile to plan and to set goals/targets. Conditions are so speculative in the wartime economy that it is hard to make reliable estimates. Many firms are challenged simply to survive day to day.
- \* Many of the firms are new exporters, or are just starting to export again after years of inactivity or production exclusively for the domestic market. Hence, their views of future requirements and opportunities may often be unrealistic.
- \* Some firms' factories or farms have been, and continue to be, damaged by the RENAMO attacks.
- \* The concept of "free availability of foreign exchange" to meet imported input needs, a central assumption underlying the survey estimation of PERF demand, is so remote from current experience that firms found the concept difficult to comprehend.

For all these reasons, the quantitative survey responses need to be interpreted as crude indicators of targets and needs, rather than precise numbers.

#### D. MOZAMBIQUE SURVEY RESULTS

##### 1. Estimate of Demand for PERF in Mozambique

###### Sample Firms' Nominal Demand

Based on the Mozambique survey, DIT+S estimates that the export sector's demand for PERF could be about US\$13 million in 1989, rising to US\$30 million by 1993. Given the fluidity of the situation in Mozambique and the general absence and weakness of data on the activities of the export sector as a whole, these figures should be considered rough orders of magnitude of PERF demand. We arrived at these estimates as follows :

- \* Firstly, for the 14 companies participating in the Mozambique survey, we arranged firm responses regarding recent export earnings (1986 through 1988, projected) and future export targets (for 1989 and 1993) according to the 23 commodities/products the firms' export or plan to export. The results of this data organization are presented in Exhibit IV - 7 below.
- \* Secondly, we computed the "Net Increase" in export targets that firms would anticipate should they find themselves in a situation where foreign exchange for imported inputs was freely accessible (i.e. in the presence of PERF). This net increase was computed as the difference between a "Base Case" foreign exchange situation which assumes a continuation of present conditions of foreign exchange for imported inputs in 1989 and 1993, and a "Best Case" situation, in which foreign exchange for imported inputs would be freely available. Comparing these two scenarios, the net increase in firms' export targets amounted to over US\$17 million in 1989 and over US\$50 million in 1993 (Exhibit IV - 7).

*AK*

It is notable however, that for two firms, the "Best Case" presents no improvement over the present. These firms, the parastatal handling cashews and cashew nut shell oil and a private/Government joint venture exporting cotton, citrus and tomato paste, report no difficulties in meeting their present foreign exchange needs for importing inputs. Both are obviously engaged in strategic export activities given priority treatment by Government.

- \* Thirdly, for those twelve firms projecting a net increase in export earnings with freely available foreign exchange, we converted this net increase into a projected annual value of imported input requirements. To do so, we identified first of all, what firms estimated as the import content for each of their various export products or commodities. Where two firms cited different import content proportions for the same product, we used the higher of the two. These import content proportions and the nature of the inputs they represent are detailed in Exhibit IV - 8. Next, using these import content shares we computed the US dollar values of the import content of the Net Increase in export targets for 1989 and 1993. These values represent the annual foreign exchange requirement for imported inputs among Mozambique sample firms; they are equivalent to the projected gross demand for PERF on an annual basis.

The projected gross annual demand is presented in Exhibit VI -8 for the years 1989 and 1993, and amounts to over US\$ 8 million and over US\$ 22 million respectively.

- \* Fourthly, we converted the projected gross annual demand for PERF to a net value of PERF demand. PERF would be a revolving pool of resources. To the extent that PERF foreign exchange funds can cycle more than once in a year, the net amount of foreign exchange firms would call upon from PERF annually would be less than the gross levels of annual projected demand arrived at above. Consequently we used the cycle times that sample firms report they experience in exporting their various commodities and products to reduce the gross demand for PERF to a net value. Although some firms cited cycle times of well over 12 months, we assumed that in the context of a streamlined (PERF) operating environment, no cycle time would exceed one year.

This net value, the last two columns in Exhibit IV-8, represents an estimate of the total amount of foreign exchange that would have to be available in PERF to meet what Mozambique sample firms project would be their requirements on the Fund. These requirements come to over US\$7 million in 1989 and nearly US\$17 million in 1993.

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EXHIBIT IV - 8

MOZAMBIQUE SUPPLY OF FIBRE : PROJECTED NOMINAL DEMAND FOR PERF RESOURCES

PRODUCT		FDM CODE	EXPORT TARGET		Share %	IMPORT CONTENT PURPOSE	PROJECTED DEMAND FOR PERF (\$US'000)				
SITC	NAME		Net Increase (a)				Gross Value (b)	Cycle Time (months)	Net Value (c)		
			1989	1993					1989	1993	
<b>Major Agriculture</b>											
0741	Tea	MD 2	-0-	3 240	35	Consumables, spares	-0-	1 134	18	-0-	1 134
2231	Copra	MD 9	2 300	10 000	8	Consumables, spares	184	800	12	184	800
2631	Cotton	MD 4, MD 11	2 000	7 000	30	Consumables, spares	600	2 100	18	600	2 100
2654	Sisal	MD 5, MD 11	916	2 925	30	Consumables, spares	274	878	6	137	439
Sub total			5 216	23 165			1 058	4 912		921	4 473
<b>Other Commodities</b>											
2481	Railroad sleepers	MD 8	33	169	15	Consumables, spares	5	25	8	3	17
2820	Scrap metal	MD 6	410	410	40	Raw materials	164	164	8	109	109
6254	Rubber bicycle tires	MD 3	50	100	40	Raw materials, consumables, spares	20	40	13	20	40
6289	Rubber auto parts	MD 3	400	450	75	Raw materials, consumables, spares	300	338	15	300	338
6291	Metal containers	MD 13	700	700	60	Raw materials, consumables, spares	420	420	12	420	420
6531	Cotton yarn	MD 10	555	3 159	20	Consumables, spares	111	632	6	55	316
6521	Textiles	MD 10	185	1 053	35	Consumables, spares	65	369	8	43	246
6749	Galvanized steel sheets	MD 12	1 330	2 400	70	Raw materials, spares	931	1 680	6	465	840
6783	Galvanized pipes	MD 12	1 220	4 100	70	Raw materials, spares	654	2 870	6	427	1 435
7441	Cranes, lifting machinery	MD 13	-0-	500	70	Raw materials, spares	-0-	350	12	-0-	350
7731	Electrical wires and cables	MD 14	-0-	4 059	94	Raw materials, spares	-0-	3 815	6	-0-	1 908
7781	Dry cell batteries	MD 1	80	1 500	65	Raw materials, spares	52	975	12	52	975
7781	Auto batteries	MD 1	135	1 758	85	Raw materials, spares	115	1 495	9	86	1 121
7941	Railway cars	MD 13	6 925	6 925	60	Raw materials, spares	4 155	4 155	12	4 155	4 155
8510	Rubber-soled shoes	MD 3	100	100	60	Raw materials, consumables, spares	60	60	11	55	55
Sub total			12 123	27 383			7 252	17 388		6 190	12 325
TOTAL			17 339	50 548			6 310	22 300		7 111	16 798

- (a) From Exhibit IV - 7.
- (b) Import Content Share times Net Increase in Export Target.
- (c) Gross Projected Demand for PERF divided by Cycle Time, assuming under PERF no Cycle Time would exceed 12 months.

Source : DHS based on Mozambique PERF Survey Data

EXHIBIT IV - 9

ESTIMATED 1987 MOZAMBIQUE EXPORT EARNINGS AND REPORTED EXPORT  
EARNINGS OF MOZAMBIQUE SAMPLE FIRMS AS PROPORTION OF TOTAL  
EXPORTS EXCLUDING CASHEW, PRAWN AND SUGAR EXPORTS

(US\$ Million)

<u>Export</u>	<u>Earnings</u>
Prawn	31.6
Cashew kernel	33.3
Cashew nut shell oil	0.5
Sugar	4.5
Citrus	3.7
Cotton	3.6 (a)
Tea	2.4
Sisal	1.7 (a)
Copra	0.4
Other	
- Bunker	1.1
- Coal	0.3
- Tantalite	0.4
- Molasses	0.2
- Coconut oil	0.9
- Timber	1.8
- Miscellaneous	<u>3.7</u>
<b>Total</b>	<b>90.1</b>
<b>Total excluding prawns, cashew, sugar</b>	<b>20.2</b>
<b>Sample firms' 1987 exports excluding cashews</b>	<b>6.5</b>
	<b>(32.2%)</b>

(a) Reported sample firm exports exceed DEN totals; sample firm export earnings substituted for DEN estimates.

Source : Direcao Estatistica Nacional and DH&S Survey Team

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EXHIBIT IV - 10

DISTRIBUTION OF PROJECTED TOTAL EFFECTIVE DEMAND FOR PERF  
IN MOZAMBIQUE BY SECTOR, OWNERSHIP AND FIRM SIZE

(US\$ Million)

SECTOR			OWNERSHIP		FIRM SIZE			
	1989	1993	1989	1993	Employees	1989	1993	
Agro-processing	1.7	8.1	Private Sector	13.0	24.6	less than 100	-	-
Manufacturing	11.3	21.9	Public Sector	-	5.4	101 - 500	2.8	12.2
						50 - 1000	8.4	8.8
						over 1000	<u>1.8</u>	<u>10.0</u>
	<u>13.0</u>	<u>30.0</u>		<u>13.0</u>	<u>30.0</u>		13.0	30.0

Source : DHS based on Exhibits IV - 6 and IV - 8.

### Sample Firms' "Effective" Demand

As emphasized earlier, the DH+S survey team perceived that due to the present environment of extreme uncertainty in which Mozambique firms operate, the notion of projecting future performance over a five year horizon was foreign to many of the sample companies. Similarly, the concept of circumstances "freely available foreign exchange" for imported inputs is very removed from current experience. Although we believe that given present trends, there has been and will continue to be increases in exporting from Mozambique, we suspect that on balance, sample firms were quite optimistic in setting their stated export targets for the PERF survey. To the extent that stated export targets are likely to outstrip actual performance, requirements of the sample firms for imported inputs are overstated as well.

Accordingly, we choose to treat the net value of demand for PERF estimated above as a "nominal" demand. To adjust for possible excessive optimism among sample firms, we propose to reduce nominal demand by a factor of 40% to estimate the "effective" net value of demand for PERF --i.e. to assume firms will actually achieve only 60% of their projected targets. While this number is arbitrary, it is roughly consistent with experience in Tanzania's Seed Capital Revolving Scheme in which to date about 55% of firms entering into SCRS contracts have actually performed (exported) on those contracts. On this basis, the net effective demand for PERF resources among sample firms may be computed as US\$4.3 million in 1989 and US\$10.1 million in 1993.

### Estimated Total Effective PERF Demand

Because data on Mozambique's export sector as a whole are so fragmentary, extrapolating from the sample firms to derive an estimate of the effective net value of demand for PERF among the universe of potential users in Mozambique is at best a tenuous exercise. DH+S has approached the problem as follows. According to the Directorate of National Statistics' preliminary figures for 1987 and DH+S survey team estimates, total Mozambique export earnings may have been about US\$90 million in that year. Excluding prawn and sugar exports (handled by parastatals ineligible for PERF) and cashew kernel and CNSO exports (handled by a Mozambique sample parastatal with apparently little need for PERF), remaining national export earnings in 1987 may have totalled about US\$20.2 million. Firms in our sample (excluding the cashew/CNSO parastatal) report that they generated export earnings of about US\$6.5 million in 1987, or about one third of the national total without cashews/CNSO, prawns and sugar (Exhibit IV-9).

We assume therefore that sample firms in the future would continue to produce about one-third of total Mozambique export values excluding prawns, cashews (kernel and CNSO) and sugar. Hence we assume and that their requirements for PERF resources would be about one third of the total requirement. Under these assumptions Mozambique's overall effective net demand for PERF might be about US\$13 million in 1989 and US\$30 million in 1993. Furthermore, assuming that the distribution of requirements among all users approximates the pattern prevailing among sample firms, demand by sector, type of firm ownership and firm size would be as outlined in Exhibit IV-10.

## A Cautionary Note

The demand-estimating procedures we have employed above are reasonable. Nevertheless, we emphasize that the results they yield must be approached with caution, as rough order-of-magnitude numbers. We note, for example, that one firm alone (railway wagon/lifting equipment/metal containers) accounts for two-thirds of sample firms' total demand in 1989 and over a quarter of sample firms' demand in 1993. Consequently, any significant deviation in this firm's export performance from that projected would substantially alter the estimate of demand for the total population.

## 2. Import Content and Cycle Times

### Import Content

Estimated import content proportions of export commodities/products have been presented in Exhibit IV-8 above. Among agricultural products, these imported inputs are reported to range from about 8% to 35% of the unit value (FOB price) of export items. Among manufacturing products, these proportions are reported to range from a low of 15% of export value (railroad sleepers) to as much as 94% of export value (electric cables and wires). It is important to underline that spare parts are considered to be an important imported input among nearly all survey firms.

### Cycle Times

Cycle times reported by survey firms are also detailed in Exhibit IV - 8 above. They vary from a low of 6 months (sisal industry, cotton yarn) to as high as 18 months reported for tea and cotton exports. These latter estimates appear to include long lead times for ordering agricultural inputs (eg. fertilizer) for crop production, and adding to this a long cycle of harvest, processing, transport and export shipping and payment. Compared to responses in other survey countries, Mozambique experiences relatively protracted cycle times. This arises no doubt from the country's unsettled situation, but may well be subject to rapid improvement with a strengthening of the transport network, and a re-establishment of more efficient shipping and administrative systems to accommodate the expansion of the export sector.

## 3. Important Qualitative Findings for Mozambique

### Increased Exports

Consistent with preliminary overall indicators for 1987, and with continuing trends since then, it appears that recovery in Mozambique's export sector is underway. Among sample firms this recovery affects both agro-processors and manufacturing enterprises. Growth in export values that mark this recovery is evident between 1986 and 1987 and quite dramatically between 1987 and 1988 (although figures for the latter year represent sample firms' projection for the 12 month period). Moreover, even under the a Base Case -- an assumed continuation of roughly present circumstances of foreign exchange availability -- most firms project sustained rises in export production. The only exception is the cotton yarn/textile manufacturer who believes that Government will not be able to provide foreign exchange on a continuing basis. These responses suggest that the ERP is having an impact in both real and psychological terms. And in a situation of "freely available foreign exchange", companies project that as a group they would be able to begin to sell seven new products in export markets (30% of all products of sample firms).

### **Local Sales in Foreign Currency**

The DH+S survey team was interested to observe that local sales in foreign currency are an important source of foreign exchange for many firms. These sales are not classified as export production, but perhaps should be so for the purpose of PERF, since typically the foreign exchange purchasers of local production in the domestic market (eg. World Food Program, Lojas Francas) bring their foreign exchange resources from sources outside the domestic economy.

### **Competitiveness**

Many firms believe they lack competitiveness internationally, and are therefore forced to seek export markets within the Southern African region. However:

- \* Government's barter agreements with neighboring countries are viewed as an important disincentive to export activity, as they do not generate foreign exchange for firms.
- \* Even within the region, some firms believe they are losing markets to Asian and other exporters.
- \* A major export sector problem is that potential importers for Mozambique's goods in neighboring nations themselves lack hard currency to make purchases.

### **South Africa**

Mozambique is heavily dependent on South Africa for imports of raw materials and spare parts. Many firms strongly feel that they would be seriously hurt if restrictions concerning origin of imports or destination of exports were imposed in PERF. Because of proximity, and therefore lower transport costs, and often because of subsidized raw materials, South Africa is the most attractive supplier of imports. Other sample firms felt that they would not be seriously affected by such a policy, with the exception of losing convenient access to minor spare parts. A common view was that it is not only undesirable but ridiculous to order certain spare parts from Europe, waiting a longer period of time and paying more, when the part is available next door in South Africa. (Note that 10% of Mozambique's total imports come from South Africa).

### **Imported Inputs for Labour Payment**

Many firms need foreign exchange to buy consumer goods to provide their workers, not only as incentives to work, but also to help maintain or increase productivity by ensuring certain levels of nutrition. Example: family sector cashew pickers will not pick unless there are goods in the local stores for them to purchase with their cashew earnings. Many firms have their own vegetable farms and raise cows and pigs for their workers. Import of production-related consumer goods is critical need, yet one which perhaps cannot be met by PERF, as it would fall very much in the category of "indirect" imported inputs.

## Privileged Access to Foreign Exchange

Several firms interviewed do not face severe foreign exchange constraints. For example, one has a special agreement with the Government of Mozambique to obtain its inputs. Another, the cashew parastatal, is also a strategic exporter and is provided with the necessary foreign exchange for its operations. For these firms, and others, the most serious problems faced relate to the security situation and difficulty of transporting goods from the countryside to overseas shipping points.

## Need for Capital Rehabilitation

Many firms expressed real enthusiasm for a pre-export revolving fund, but emphasized that rehabilitation needs and capital investment requirements should be met first. Some firms recognize that they are in such great need of rehabilitation and technical assistance that in their present conditions, they could not efficiently make use of a pre-export revolving fund.

## Design Advice for PERF

The principle recommendations for the design of PERF dealt with efficiency of operations, especially regarding mobilization of funds. Firms suggested, for example, a practice of issuing a letter of credit or cash "against documents". Funds should be made available in a fast and efficient manner. Firms felt strongly about reducing bureaucratic delays. Interviewees felt that beneficiary firms should be able to work directly with the financial institution involved in PERF, and many cautioned that the Bank of Mozambique should not be the financial institution to channel PERF requests. The Bank of Mozambique is generally regarded as inexperienced and inefficient. Many firms complain of considerable delays when dealing with the Bank.

As an export incentive, firms advise that a certain percentage of net export proceeds should revert to the firm to be applied to whatever needs it faces including the requirements for imported foodstuffs to improve diet and productivity of workers. Also, those firms which heavily depend on South Africa for imports and/or exports, or firms which have had previous experience with tied aid programs, felt strongly that the PERF should be unrestricted. Frustration was expressed over having to import goods at considerably higher prices because of conditions imposed by donor financing.

Finally, firms urged that PERF should be coordinated with sectoral programs already in place (for example, the export retention scheme). PERF should complement, rather than replace or compete with existing schemes.

REPORT ON A SURVEY TO ESTIMATE  
FIRM LEVEL DEMAND  
FOR A PRE-EXPORT REVOLVING FUND (PERF)  
IN MALAWI, MOZAMBIQUE, TANZANIA AND ZIMBABWE

(Contract No 690-0510-C-00-8017-00)

submitted to

US AGENCY FOR INTERNATIONAL DEVELOPMENT  
Harare, Zimbabwe

by

DELOITTE HASKINS AND SELLS

June 28, 1988

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CHAPTER V

TANZANIA COUNTRY SURVEY

92.

TANZANIA COUNTRY SURVEY

A. EXPORT SECTOR OVERVIEW

1. Macroeconomic Context

Tanzania's economy has suffered a state of crisis for several years. This crisis has been characterised by negative real rates of per capita GDP for the period 1975 through 1985, and years of foreign exchange shortages arising from continuous balance of payments difficulties. In real terms, agriculture has experienced only modest growth in the 1980's, while real industrial production actually fell every year between 1980 and 1985. Because of balance of payments pressures, real merchandise imports dropped precipitously in the early 1980's, including a 22% decline in 1983, and real merchandise exports also decreased in the period 1982 through 1985 (Exhibit V - 1).

Since 1986 the Government of Tanzania and the World Bank Group designed and put in place an Economic Recovery Program aimed at stimulating economic growth through fiscal reform, trade liberalization, flexible exchange rate management and other macro-economic and sectoral policy measures. The ERP has apparently begun to have some effect in stimulating Tanzania's output of goods and services, but the impact of years of economic decline are still felt heavily in Tanzania's export sector, in terms of foreign exchange constraints, state of disrepair of plant and equipment and disruption or loss of previously established markets and marketing channels.

2. Export Production

Traditional agricultural commodities account for an overwhelming share -- about three quarters in 1986 -- of Tanzania's export revenues (Exhibit V - 2). Coffee, an auction sale commodity, dominates export production, followed by cotton, tea, tobacco, cashew nuts and sisal. While coffee exports in volume terms have remained relatively stable (except for 1985), in value terms coffee revenues increased substantially in 1986 due to sharply rising prices. Performance of other agricultural export commodities has been less satisfactory: cotton, tobacco and tea have all declined in value and volume terms, with production reportedly dropping as a result of lack of production inputs, poor pricing policies and low producer returns, and transport bottlenecks. Cashew exports have been inconsistent as a consequence of changing government pricing and processing policies. Sisal, largely a private estate crop, has declined significantly as an export revenue earner. Its poor performance derives from lack of production incentives, and lack of production inputs.

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EXHIBIT V - 1

SELECTED ECONOMIC PERFORMANCE INDICATORS FOR TANZANIA 1980 - 1986

	Annual Real Growth Rates (%)						
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986 (a)</u>
Gross Domestic Product	0.6	-1.3	0.9	-0.4	2.5	2.5	3.0
Agriculture	2.8	2.3	2.6	1.1	2.6	3.5	4.8
Industry	-10.8	-13.8	-7.2	-8.5	-11.5	-15.0	2.0
Services	3.3	-0.4	3.0	-0.7	4.3	3.5	1.4
Merchandise Exports	-1.8	15.7	-12.7	-14.1	-10.7	-0.9	5.3
Major primary products	-8.5	33.5	-16.3	-18.7	-14.6	-4.2	7.8
Others	9.9	-36.7	9.8	7.6	3.3	3.9	1.0
Merchandise Imports	-2.3	-6.3	9.8	-21.8	1.0	12.9	20.4
Foodgrains	286.3	-7.9	31.9	-28.0	-8.3	0.1	-36.0
Petroleum	27.1	-15.9	-2.8	3.5	1.0	4.9	55.2
Machinery/equipment	-25.5	10.4	-12.5	-35.3	-0.9	10.1	14.7
Others	7.7	-17.2	12.6	-19.5	6.9	26.6	23.6

	1975 - 1982	1982 - 1985
GPD Per Capita	-0.5	-1.2

	1983	1984	1985	1986
Gross official Reserves (weeks/imports)	4.0	1.6	0.3	2.4

(a) Estimated

Source : World Bank Data

EXHIBIT V - 3

TANZANIA'S PRINCIPAL DOMESTIC EXPORTS AND EXPORT EARNINGS 1982 - 1986

(US\$ Million)

<u>Export:</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<b>Coffee</b>					
value	133.5	130.1	153.6	118.5	184.7
volume (MT 000)	54.8	50.7	55.0	44.0	50.4
<b>Cotton</b>					
value	56.4	61.8	49.5	29.6	30.4
volume (MT 000)	38.9	39.0	28.9	22.1	31.7
<b>Sisal</b>					
value	24.1	13.1	10.5	5.9	5.2
volume (MT 000)	50.7	26.8	21.5	15.5	15.1
<b>Tea</b>					
value	18.6	21.8	23.5	17.0	13.6
volume (MT 000)	12.0	16.6	11.1	11.7	9.5
<b>Tobacco</b>					
value	19.2	11.4	9.0	13.6	12.7
volume (MT 000)	10.1	5.3	4.6	7.7	7.2
<b>Cashew Nuts</b>					
Value	9.9	6.5	21.9	11.5	15.0
Volume (MT 000)	<u>17.2</u>	<u>10.5</u>	<u>33.5</u>	<u>23.6</u>	<u>17.8</u>
Subtotal (value)	261.7	244.7	268.0	196.1	241.6
Petroleum Products	13.6	13.0	22.7	13.7	4.6
Minerals	43.7	43.6	33.9	21.6	13.0
Manufactured Goods	32.7	44.2	33.1	32.8	39.1
Other Products	<u>51.4</u>	<u>33.2</u>	<u>30.5</u>	<u>21.4</u>	<u>29.3</u>
<b>TOTAL</b>	<b>403.1</b>	<b>378.7</b>	<b>388.2</b>	<b>285.6</b>	<b>347.6</b>

Source : World Bank Data

VALUE OF TANZANIA'S DOMESTIC EXPORTS BY COMMODITY, SELECTED YEARS (a)

(US\$ Million)

<u>Products</u>	<u>1983</u>	<u>1986</u>	<u>1987</u>
Coffee-Arabica and Robusta Hulled	127.9	161.8	98.9
Cotton	61.8	31.6	41.4
Tea	21.8	13.9	12.7
Sisal Fibre	13.0	4.9	5.1
Sisal Twine	0.1	-	7.9
Cashewnut Raw	6.5	16.0	10.0
Cashew Kernels	6.9	-	-
Tobacco	11.4	13.7	11.0
Cloves	7.8	15.6	4.1
Cardamoms	3.0	0.7	1.0
Seedbeans	3.9	3.5	8.6
Flower Seeds	(b)	0.1	(b)
Sinchona Park	(b)	0.2	0.1
Pyrethrum Products	0.9	1.8	1.5
Wattle (Mimoso Extract)	2.4	2.6	3.9
Cocoa Beans	2.9	2.3	5.1
Salt	1.0	0.4	0.3
Diamond	42.5	12.2	4.8
Cement	2.5	0.8	0.7
Crude Hecogonin (dry composition)	0.1	0.2	(b)
Manufactured Tobacco	2.9	1.8	2.1
Manufactured Coffee	2.1	1.4	1.5
Other Fish Product	1.0	0.3	3.1
Textiles	1.5	3.4	9.2
Live Birds and Animals	0.4	0.5	0.5
Gum Arabic	(b)	0.3	0.3
Batteries	2.5	1.0	(b)
Aluminium Circles	1.5	1.4	1.8
Bees Wax	0.2	0.2	0.2
Timber	0.6	1.1	2.8
Cotton Seed Cake	2.4	1.8	1.1
Hides and Skins	1.5	1.6	3.0
Cut Flowers and Buds	(b)	(b)	(b)
Cotton Yarn and Thread Grey	1.0	11.9	2.6
Of-Sisal	0.3	0.4	(b)
Molasses	<u>0.3</u>	<u>0.5</u>	<u>0.2</u>
<b>TOTAL</b>	<b>342.6</b>	<b>309.9</b>	<b>245.8</b>

(a) Excludes petroleum exports

(b) Less than US\$ 100 000

Source : Government of Tanzania, Board of External Trade

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The balance of Tanzania's exports is made up of major commodity groups : petroleum products, minerals , manufactured products and miscellaneous other items. Petroleum exports are made up entirely of residual fuel oil, a by-product of a local refinery that processes imported crude oil. Mineral exports are made up of diamonds, salt and gold. Export earnings from these items have dropped substantially since 1982/83 largely because of declining diamond exports. A broad range of products account for 'manufactured and other item' exports : sisal twine/rope, textiles, cashew kernels, cottonseed cake, leather, sugar and instant coffee and blended tea among agricultural-based commodities; and radiators, batteries, chemicals and aluminum circles among non-agricultural manufactures. It is notable that manufactured/other item exports have decreased significantly over the 1980's. Such declines are reported to be due to overall reductions in Tanzania's industrial production. Industrial sector capacity utilization may have been as low as 20% - 30% in 1985, in a large part arising from foreign exchange constraints preventing the import of required capital equipment, and industrial inputs.

A breakdown of Tanzania's export earnings by 36 major commodities was provided, for selected years, by Tanzania's Board of External Trade to the DHS study team and is reproduced in Exhibit V - 3.

With the advent of the Economic Recovery Program, the Government of Tanzania is anxious to encourage development of non-traditional exports and has established various incentive schemes as part of the ERP, focussing in particular on minerals, marine and forestry products. Observers believe, moreover, that there may be considerable scope for rehabilitation of several industries with export potential. These would include textiles, timber products, sisal ropes, pyrethrum products and the leather industry. Other industries with export potential have been suggested to include canned fruits and juices, aluminum products, domestic holloware and electrical equipment. A rehabilitation program for the export sector would feature provision of foreign exchange for capital goods and spares, and for build-up inventories of raw material input.

### 3. Public/Private Sector Roles in Exporting

The production and/or export of many of Tanzania's major and minor export products and commodities is handled by the government sector, either exclusively or in large part. Among the export commodities/products listed by the Board of External Trade where government-owned organizations dominate are : coffee, cotton, cashews, tobacco, pyrethrum, cocoa, cloves, cement, diamonds, hides and skins, and aluminum products. The public sector role in this respect is exercised in a variety of forms including : parastatal producer/exporters (eg cement); marketing agencies (cotton, coffee); or majority ownership in companies managed by private parties (aluminum). In addition, public and private sector enterprises are simultaneously active in several export commodity areas, notably tea. Private sector enterprises dominate export of certain commodities : principally textiles and textile products and sisal twine, although parastatals are nevertheless still present in production and export of these items to some degree.

EXHIBIT V - 4

EXPORT AND IMPORT LICENSING PROCEDURES FROM THE USER'S PERSPECTIVE

<u>Step</u>	<u>Export Licensing</u>	<u>Sec</u>	<u>Import Licensing</u>
	<u>Action</u>		<u>Action</u>
1	Manufacture export item	1	Apply to Bank of Tanzania for license, specifying <ul style="list-style-type: none"> <li>• exact input requirement</li> <li>• pro-forma invoice with FOB and CIF values</li> </ul>
2	Complete CDJ Form (3 copies)	2	BOT studies application and approves/disapproves
3	Submit CDJ Form to National Bank of Commerce (NBC)	3	BOT issues import license for approval import transaction
4	NBC checks and certifies all three copies	4	Apply to National Bank of Commerce submitting :- <ul style="list-style-type: none"> <li>• Import license</li> <li>• pro-forma invoice</li> <li>• letter of credit application</li> <li>• export license (if relevant)</li> </ul>
5	NBC transmits CDJ Form :- <ul style="list-style-type: none"> <li>• Blue copy to Bank of Tanzania (control copy)</li> <li>• White copy to Board of External Trade (BET)</li> <li>• Pink copy held by NBC</li> </ul>	5	NBC issues letter of credit
6	BET issues export license and returns CDJ (white copy) to exporter.	6	Pay NBC local currency (Tsh) cover for letter of credit
7	Submit license, CDJ (white copy) and export item to customs	7	Place order
8	Customs performs physical check on item	8	Receive goods
9	Customs releases item for export shipment.	9	NBC pays supplier (a)
10	Customs transmits CDJ (white copy) to BOT and other documents to NBC		
11	NBC pays exporter in Tsh		(a) In case of a donor-funded import support program, payment may be made directly by an overseas bank on instruction from the donor agency (eg MORD) after notification by BOT. In the case of "own funds" imports, importer's off-shore bank pays expenses.
12	NBC receives forex payment		
13	NBC sends CDJ (pink copy) to BOT		
14	BOT closes file on transaction		

Source : DHS

#### 4. Sources of Foreign Exchange

Exporters face a patchwork of channels through which to obtain foreign exchange for capital or recurrent expenditures on essential imports. These include :-

- \* Foreign exchange allocation through the Bank of Tanzania's Import Licensing System (which includes control over donor-funded import support programs).
- \* "Own-funds" import scheme, through which the importer provides his own foreign exchange for imports.
- \* Export Retention Scheme -- one of the export incentive mechanisms set up by Government -- which allows exporters to keep part of their foreign exchange earnings.
- \* Seed Capital Revolving Scheme, a foreign exchange financing arrangement for imported manufacturing inputs.

These mechanisms are described in greater detail in section B below.

#### B. EXPORT TRANSACTIONS : TANZANIA POLICIES AND PROCEDURES

##### 1. Export Licensing

Tanzania has a system of rigid controls in an attempt to capture all foreign exchange earnings generated by export transactions. All exporters must be registered with the Bank of Tanzania. Each exporting firm is given a registration number to be used in all correspondence relating to export transactions. The system is based on control of the CD3 Form, which reports every export transaction, and involves the Bank of Tanzania, the Board of External Trade, and the exporter's commercial bank (ie National Bank of Commerce). Exhibit V - 4 outlines the procedures.

All exports from Tanzania are to be effected only upon a confirmed letter of credit denominated in a fully convertible currency. All export earnings are to be repatriated in 90 days. Export Retention Incentive Schemes (see below) are the exception to this rule.

##### 2. Import Licensing

Owing to the severe foreign exchange constraints facing Tanzania, exporters requiring foreign exchange for imports report that these resources are made available on an ad-hoc basis, and only for priority requirements. The Government's import licensing system serves as the framework for administrative allocation of foreign exchange. The system involves both the Bank of Tanzania (BOT) and the National Bank of Commerce (NBC). The former examines and approves/disapproves all import license applications. BOT approval constitutes authority for the NBC to establish a letter of credit on behalf of the applicant. The import licensing procedures are presented in Exhibit V - 4.

The Ministry of Finance requires that all duties be paid on imports, including those to be used in the manufacture of export products. Customs duties are calculated on a CIF Tanzanian Port basis. There are now, with the introduction of the PTA reduced tariffs, two levels of import duty and sales tax. Qualifying imports on the "Common List" from PTA member countries will enjoy preferential import duty and sales tax. Use is now being made of the PTA Clearing House although not to any great extent, as the Tanzanian authorities want to ensure the country does not end up in a debtor situation in the PTA area.

Import licensing procedures serve purposes of foreign exchange allocation at two levels : initially, through the Bank of Tanzania's approval of an import license application, and later at the point of the National Bank of Commerce's establishment of a letter of credit. Given the gravity of Tanzania's foreign exchange situation it is not unusual for the holder of a BOT import license to wait up to two or more years before the counterpart foreign exchange funds are made available in the form of NBC's letter of credit. In principle, priority access to foreign exchange is given to companies which require imported raw materials to meet a guaranteed export order. It is unclear how consistently this principle has been applied in practice.

To alleviate its foreign exchange shortages, in 1984 Tanzania introduced an "own funds" foreign exchange scheme, under which firms are granted licenses to import any of a fairly broad range of machinery and equipment, building materials and selected consumer goods, the latter for incentive purposes. Applications for import licenses with own-exchange are reported to be approved fairly rapidly, and no questions are asked of the importer as to the source of the foreign exchange. Own-funds imports are also excluded from price control. In 1985 own-funds imports were estimated to be as much as US\$ 300 million, or nearly one third of that year's total import bill. Businessmen, however, indicate that the own-exchange scheme has not led to increases in manufacturing production or improved capacity utilization. This is no doubt due to the fact that an own-funds importer can be expected to compute the profitability of his import-based transaction at the opportunity cost of this foreign exchange -- the parallel market rate -- rather than official exchange rate. Projects to import and sell high markup items (eg consumer goods) are likely to be sufficiently profitable and relatively low risk to be attractive on these terms. But typically projects featuring own-funds to finance imports of capital goods and industrial inputs are likely to be financially less worthwhile.

Recently, (February 1988) the Bank of Tanzania established a "New Open General License (OGL)" scheme designed to accelerate the import licensing and foreign exchange allocation process. The OGL covers a range of 41 BTN categories of imports, all of them representing selected machinery and equipment, spare parts and production inputs (see Appendix D - 1). The scheme limits prospective importers to applications of no more than US\$ 100 000 each and to a total of US\$ 200 000 for all applications. However, it guarantees "automatic" issue of import licenses for valid applications, and specifies a maximum of two months delay for establishment of NBC letters of credit.

The new OGL scheme also requires standard local currency cover provisions. It is too soon to determine if the OGL system can in practice be supported by Tanzania's foreign exchange reserves, or will be an effective foreign exchange source for the export sector.

3 **Foreign Exchange Retention System**

In mid 1984 Tanzania instituted a retention mechanism to give incentive to exports. Under this system exporters are able to retain a portion of their foreign exchange earnings in order to import any commodity permissible under the "own-funds" scheme, so long as the imported items are needed for export production. The scheme now features three categories of retention rates, as follows :-

- \* **Category A** - covering the six traditional exports (coffee, tea, cotton, cashew, sisal, tobacco) for which exporters may retain up to 10% of their export earnings to finance imported inputs, with no transferability to second parties;
- \* **Category B** - covering non-traditional industrial products and permitting 50% retention of foreign exchange earnings, with transferability to second parties allowed to procure imported production inputs and spares;
- \* **Category C** - covering farm, marine and mineral products, for which exporters are permitted to retain 50% of foreign exchange earnings to import any item allowable under the "own-funds" scheme, with transferability of foreign exchange to other producers to obtain spares and raw materials.

At the discretion of the Bank of Tanzania, exporters in all three categories have occasionally been given authority to retain up to 100% of their foreign exchange export earnings.

Lists of the commodities to be exported and imported under each retention category are presented in Appendix D - 2.

4. **Seed Capital Revolving Scheme (SCRS)**

The SCRS was set up in January 1985 to assist in the foreign exchange financing of imported inputs for export production, especially for the non-traditional sector. The scheme was based on foreign exchange grants provided by the Swedish International Development Authority (SIDA), the Norwegian Agency for International Development (NORAD) and the Netherlands Government. SCRS now (March 1983) counts a total of 47 companies formally involved in the scheme, including both public sector and private sector firms.

In brief, SCRS features the following operating system :-

- \* A company signs an annual contract with SCRS specifying yearly export performance commitments in return for access to the amount of foreign exchange required to import the raw materials and spare parts necessary to meet those yearly export targets.

- \* The company then provides full local currency (Tsh) cover equivalent to one quarter (25%) of the projected foreign exchange requirement associated with its annual export commitment. At that point the Board of External Trade deposits the counterpart foreign exchange for that amount -- the "Seed Capital" -- in a sub-account established for the company within an external SCRS account supervised by BET. Hence SCRS assumes the participating firms can cycle their Seed Capital four times per year.
- \* The company next imports the inputs it requires using its seed capital, going first to the BET which confirms the company's sub-account holds sufficient funds to meet its import requirement, and then to the Bank of Tanzania for an import license.
- \* Upon obtaining an import license approval, BET sets up a letter of credit in the overseas bank holding the SCRS external account. The procedure is guaranteed to take no more than three days from initial request to establishment of an L/C, providing the firm has adequate funds in its sub-account.
- \* The exporter receives its imported inputs, manufactures and exports according to standard exporting procedures. However at the point of export licensing he specifies that his export proceeds should be paid into his sub-account in BET's external account for SCRS.
- \* When the foreign exchange proceeds from the exporters overseas sale are received, they are then distributed according to a formula which channels :-
  - the full Seed Capital amount back to the company sub-account, to replace the funds used for imported inputs and to be revolved in the firm's next export production cycle;
  - 35% of the surplus foreign exchange earnings (total proceeds less Seed Capital) to the company's sub-account as a retained amount, to be used for import of inputs for domestic market production, if the firm so desires;
  - 25% of the surplus foreign exchange earnings to the overall BET external account to be used as Seed Capital by new entrants to SCRS (the contributing company is refunded in Tsh);
  - 40% of the surplus foreign exchange earnings to the Bank of Tanzania's general foreign exchange pool (the contributing company is refunded in Tsh).

EXHIBIT V - 5

THE TANZANIA SAMPLE OF EXPORTING FIRMS

FIRM NO.	SECTOR	PRINCIPLE PRODUCTS	OWNERSHIP (% Private)	SIZE PRESENT TURNOVER (US\$ '000)		EMPLOYEES
				Total	Export	
T1	Mining	Rock salt	100%	230	-	65
T2	Manufacturing	Duplex board, sisal, matches	100% (28% foreign)	7 350	1 200	1 570
T3 (a)	Manufacturing	Table ware, sanitary ware, wall tiles	parastatal	5 250	-	1A
T4	Manufacturing	Dry-cell batteries, radio cassettes	100% (100% foreign)	2 800	-	500
T5	Agro-processing	Cottonseed cake and oil, cereals	100%	3 150	1 000	450
T6 (b)	Manufacturing	Plastic piping, packaging, containers	parastatal	2 150	-	200
T7	Manufacturing	Textiles, cotton yarn	100%	840	315	280
T8	Manufacturing	Wattle extract	100% (67% foreign)	4 000	3 800	1 500
T9	Agro-processing	Sesame seeds, beeswax, seedbeans	100% (33% foreign)	1 050	380	50
T10	Agro-processing	Prawns, lobster	100%	330	330	15
T11	Agro-processing	Coconut oil, & fibre, copra cake; dairy cheese	100%	370	-	300
T12	Agro-processing	Parquet flooring	100%	440	220	10
T13	Agro-processing	Tea, cinchona	100% (100% foreign)	8 400	7 000	5 000
T14	Manufacturing	Vehicle radiators	100%	880	770	215
T15	Manufacturing	Bed linen, kitchen linen	100% (92% foreign)	2 350	250	400
T16	Agro-processing	Sisal fibre, tea	100%	960	300	1 700
T17	Manufacturing	Grey cloth, terry toweling, cotton drill, T-shirts	100%	4 200	2 000	700

(a) Morogoro Ceramic Ware

(b) Tanganika Tegry Plastics

Source : Tanzania PERF Survey Data

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month cycle time, and its 35% retention amount, the latter designed to be an incentive for exporters. By earning retention foreign exchange through SCRS, the exporter can import raw materials for manufacture of products to sell in the domestic market where prices are higher, thus enabling him to achieve higher profits to compensate for the lower margins at which he must sell in the more competitive export market.

The 47 current member companies of SCRS have in total accounted for about US\$ 3.3 million in Seed Capital. However, it is notable that overall, SCRS performance has been somewhat uneven; between SCRS inception and March 1988 :-

- \* 26 companies have been allocated US\$ 2.3 million in Seed Capital and have generated US\$ 7.3 million in export proceeds (ratio of 1 : 3.2);

- \* 21 companies have been allocated US\$ 1.0 million in Seed Capital and have generated no export proceeds.

Additionally, it appears that firms' SCRS export targets generally exceed export performance by a wide margin. Reasons for this shortfall in performance are unclear. It has been suggested that the IMF in World Bank fiscal and credit control measures for Tanzania under ERP have given rise to severe local currency liquidity problems for many firms, and have boosted overdraft investment rates as high as 31%. As a result, virtually all SCRS companies are reported to have encountered serious financial difficulties, including inability to pay the required cash cover in Tsh for seed capital. Also performance targets have often simultaneously depended on separate additional foreign exchange allocations for capital equipment, allocations which may not have been forthcoming. Finally, export targets may simply also assume unrealistic export market penetration.

## C. TANZANIA SURVEY APPROACH

### 1. The Tanzania Sample

In Tanzania a total of 17 firms participated in the PERF survey. Two additional firms also agreed to participate and received questionnaires and initial briefing interviews, but to date have not returned information solicited.

The principal characteristics of the sample of firms are outlined in Exhibit V - 5.

It is notable that :-

- \* Fifteen of the 17 sample companies are privately owned; the two parastatal firms (Morogoro Ceramic Ware and Tanganyika Tegry Plastics) were identified by the Center for Privatization for inclusion in the sample.

- \* The sample represents all three exporting sectors of manufacturing funds, mining, agricultural/agro-processing exporters.
- \* The companies of the sample export or plan to export 27 different commodities or products, a coverage which represents nearly all the major classes of items exported by Tanzania's private sector.
- \* The sample firms present a significant spread in size (measured by employment and turnover) based on intra-sample comparisons (however, the firms may be among the larger and more recognized companies in their respective commodity/product areas).
- \* The sample is made up largely of Dar es Salaam based firms with exception of one firm in Tanga (two additional firms contacted which ultimately failed to return questionnaires were also located in Tanga).
- \* The sample includes 5 potential exporters as well as 12 actual exporters.

Given the importance of the Seed Capital Revolving Scheme experience for Tanzania, the sample was also designed to include five firms which participate in that scheme. Of these four have actually exported using SCRS resources to finance inputs, while one (Morogoro Ceramics) has failed to do so.

## 2. Tanzania Sample Selection Methodology

According to the Board of External Trade (BET), there are over 4 000 registered exporter firms in Tanzania both, producer-exporters and trader-exporters. This number may be an overstatement, certainly with regard to currently active exporters. However, there is no accessible list of present exporter firms. BET is now in the process of preparing a directory of major exporters, but it is not yet complete. Hence, in the absence of an opportunity to adopt a more objective method (eg random drawing of names of exporter firms from a master register), the following procedure was used to identify a representative cross-section of the universe of potential PERF users :-

- \* Firstly, the DHS survey team consulted with the Boards of both External Trade and Internal Trade, the National Bank of Commerce, the Bank of Tanzania, the Chamber of Commerce and the Tanzania Customs and Tax authorities in an effort to draw up lists of :-
  - the major export commodities and products of Tanzania; and
  - recognised producer/exporters and trader exporters representative of the range of export commodities and export sector circumstances of Tanzania;

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Information from all these sources was reviewed in conjunction with a list of 39 manufacturing firms reported by our subcontractor IANI Development (Pvt) Ltd to have been enrolled in the Seed Capital Revolving Scheme as of mid 1987.

- \* Secondly, a worksheet was developed ranking, by export value, the 36 different commodities and products identified by the BET as accounting for Tanzania's revenues from domestic exports for the years 1983, 1986 and 1987 (see Exhibit V - 3 above). In consultation with officials of the Boards of Internal and External Trade, this worksheet was then reviewed to identify those commodities and products whose exports are largely handled by parastatal enterprises or through government marketing agencies (eg coffee, pyrethum). Next, for the remaining major "private-sector-dominated" commodities or products, the previously developed lists of exporters were once again examined to try to pair "representative" exporter firms with major export items.
- \* Thirdly, within this general list of firms and private sector export commodities, a more narrow list of sample firms was constructed, by selecting a minimum of at least one priority company to be interviewed for each recorded major export commodity or product. In view of time constraints and for ease of interviewing, all sample companies selected were located in the greater Dar es Salaam area, with the exception of those concerned with sisal enterprise, which were based in Tanga. The "representativeness" of this final sample was confirmed initially with BET officials, and was discussed later several times with various senior executives interviewed in the survey for further insights.

Ultimately, we believe that the Tanzania sample selection process, yields a reasonable cross-section of the type of firms which might be expected to be potential PEPF users. Moreover, in the selection process we consciously tried to represent the widest variety of conditions in Tanzania's export sector. Particular attention was accorded to selecting certain firms associated with commodity/products showing relative growth in recent years (eg textiles, wood products, fish products, seedbeans) on the theory that these represented expanding export opportunities where an infusion of foreign exchange might reinforce momentum. Care was also taken to select firms associated with commodities/products whose export value had shown serious decline (eg barteries, cotton and seedcake) on the theory that these might represent areas where foreign exchange constraints were responsible for poor performance. Also, a representation of the SCRS experience was also expressly included, as noted earlier. Finally, firms were also selected to represent categories of manufacturing, agro-processing or mining operations, believed to have export potential, but not specifically identified in the BET statistics of existing major commodities. Firms representing radiator manufacture, coconut oil processing and salt production are examples in this regard.

3. Conduct of the Tanzania Survey

The survey questionnaire was delivered to each of the companies in the sample list, and discussed with a senior executive. In some cases the questionnaire was left with the company to complete, and collected at a later date. In other cases it was completed at the time of the DE&S team's first visit.

In all cases the results of the questionnaire were reviewed with the companies and additional information and explanations were solicited.

In some instances, it emerged in the initial encounter with the proposed firm that, contrary to DET/BIT advice, the company in question was a private/public sector joint venture, with a majority shareholding by Government. The firm was therefore dropped from the sample. This was the case with regard to an aluminum products manufacture. Similarly, although export of live birds was identified as a potentially important future export activity, in preliminary meetings with a proposed sample firm it became clear that no foreign exchange financed-inputs were required for the operation. The firm and the export commodity were therefore dropped from the sample.

4. Limitations of the Tanzania Survey

The Tanzania survey was conducted in an informal interview-based manner, despite the use of a formal questionnaire. This approach enabled us to gather important qualitative information which may not have been forthcoming in a more rigid format. Nevertheless, we underline that the survey has certain inherent limitations :-

- \* The survey exercise is impressionistic. For example, the export targets cited are generally the opinions of persons interviewed, and are not necessarily based on carefully considered analysis of company prospects. Nevertheless, each interviewee was a senior executive of his company and presumably able to provide a reasonably authoritative perspective.
- \* It turned out to be extremely difficult to define the overall universe of private sector exporters in Tanzania, even with assistance from knowledgeable officials and businessmen. Hence, quantitative extrapolation from sample firm-data to the export sector as a whole is problematic.
- \* Due to the nature of our approach to sample selection, we may have captured relatively larger, more established firms in our survey. Additional time and resources would have been required to first define and then identify relatively newer smaller firms in the context of respective export commodities.

EXHIBIT V - 6

TANZANIA SAMPLE OF FIRMS : PROJECTED NET INCREASE IN EXPORT TARGETS ASSUMING CONDITIONS OF FREELY AVAILABLE FOREIGN EXCHANGE FOR PURCHASE OF IMPORTED INPUTS

EXPORT TARGETS (US\$ '000)

SITC	PRODUCT Product Name	FIRM Code	Base Case (a)		Best Case (b)		Net Increase (c)	
			1989	1993	1989	1993	1989	1993
0240	Dairy cheese	T11	-	20	-	20	-	-
0360	Prawns, lobster	T10	390	490	432	1 700	42	1 210
0542	Seedbeans, pulses	T09	450	450	450	450	0	0
		T05	300	300	2 000	2 000	1 700	1 700
0741	Tea	T16	370	570	400	1 150	30	580
		T13	6 300	7 600	6 300	7 600	-	-
0813	Oilcake	T05	700	700	3 000	3 000	2 300	2 300
		T09	50	50	50	50	-	-
2483	Parquet flooring	T12	1 300	5 100	1 300	5 100	-	-
2654	Sisal fibre/pulp	T16	129	437	129	874	-	437
		T02	1 000	3 000	1 000	3 000	-	-
2659	Coir fibre	T11	-	-	60	150	60	150
2783	Rock salt	T01	220	255	500	732	280	512
2929	Gum arabic	T09	50	50	50	50	-	-
420X	Vegetable oils	T11	35	35	35	100	-	65
4314	Beeswax	T09	150	150	150	150	-	-
5322	Wattle	T08	4 375	4 375	4 375	4 375	-	-
541X	Cinchona	T13	150	150	150	150	-	-
6417	Duplex (pulp) board	T12	1 500	1 500	2 000	2 000	500	500
65XX	Textiles, fabrics	T07	315	315	900	1 350	585	1 035
		T17	2 000	4 000	2 000	4 000	-	-
6513	Cotton yarn	T15	263	319	600	729	337	410
66XX	Ceramic ware	T03	225MT	650MT	500MT	900MT	275MT	400MT
6624	Wall tiles	T03	41 000 Units		52 000 Units		11 000 Units	
7621	Radios	T04	5 000 Units		5 000 Units		-	
7781	Batteries	T04	2.88 mm Units		23 mm Units		20 mm Units	
8121	Radiators	T14	825	1 250	825	1 250	0	0
893X	Plastic products (PVC/HDEP)	T06	-	-	1 175	1 720	1 175	1 720

- (a) "Base Case" assumes a continuation of present conditions of foreign exchange availability for imported inputs.  
 (b) "Best Case" assumes conditions of freely available foreign exchange for imported inputs.  
 (c) "Net Increase" equals "Best Case" minus "Base Case".

Source : DHS based on Tanzania PERF survey data.

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EXHIBIT V - 7

**BERBERA SAMPLE OF FIRMS : PROJECTED NOMINAL DEMAND FOR PERP RESOURCES**

FIRM Code	PRODUCT		EXPORT TARGET		IMPORT CONTENT		PROJECTED DEMAND FOR PERP				
	SIC	NAME	Net Increase (a)		t	Purpose	Gross Value(b)		Cycle Time (Months)	Net Value (c)	
			1989	1993			(US\$'000)	1989		1993	(US\$'000)
T01	2787	Rock salt	280	512	10	spares	28	51	4	10	17
T02	6417	Duplex board	500	500	55	raw material (chm pulp) spares	275	275	7	160	160
T03	66XX	Ceramic ware	275MT	400MT	\$115/MT	raw materials (glaze) spares	32	46	5	14	20
	6624	Wall tiles	11 000	Units	US\$0.74/m <sup>2</sup>	raw materials (glaze) spares	8	8	5	4	4
T04	7781	Batteries	20 MVA	Units	US\$0.88/un	raw materials, spares	1 600	1 600	3	400	400
T05	0542	Seedbeans/pulses	1 700	1 700	20	spares (including transport)	340	340	9	255	255
	0813	Oilcote	1 400	1 400	20	spares	280	280	9	210	210
T06	893X	Plastic products	1 175	1 720	80	raw materials spares	940	1 376	6	470	688
T07	65XX	Textiles, fabrics	505	1 035	12	packaging, spares	70	125	4	24	42
T10	0360	Prawns, lobster	42	1 210	US\$10,000/yr	spares	10	10	3	4	4
T11	0240	Dairy cheese			30	raw materials, spares	-	20	6	-	10
	2859	Coir fibres	60	150	10	spares	6	15	6	3	8
	42XX	Vegetable oil	-	65	29	raw materials, spares	-	19	6	-	9
T15	6513	Cotton yarn	377	410	31	raw materials, spares	105	127	8	70	85
T16	0741	Tea	30	580	17	packaging, spares	5	100	6	3	50
	2854	Steel fibre	-	437	10	spares	-	44	6	-	22
										1 627	1 984

(a) From Exhibit V - 6

(b) Export Content times net Increase in Export Target

(c) Gross Projected Demand for PERP divided by Cycle Time

Source : DRES based on Tanzania survey data

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Finally, among sample firms interviewed it should be emphasized that we encountered a fair degree of uncertainty and caution regarding future business conditions in Tanzania. In this climate it was often difficult for businessmen to try to think in practical terms of their needs from a perspective of "freely available foreign-exchange". To the extent that they were unable to do so weakens the reliability of their survey responses.

**D. TANZANIA OF SURVEY RESULTS**

**1. Estimate of Demand for PERF in Tanzania**

Based on the results of our survey, DM&S believes that the effective demand for a PERF may be prudently estimated at about US\$ 3 million initially (1989), rising to about US\$ 12 million in its fifth year of operation (1993). This estimate derives from both our survey data and reflection on the experience of Tanzania's Seed Capital Revolving Scheme. The estimating procedure we employed to arrive at this result involves several stages :-

- \* Firstly, we summarized the "Base Case" and "Best Case" export targets cited by the Tanzania sample firms for the 27 commodities and products they export. The "Base Case" targets assume exporting under roughly a continuation of the present conditions and sources of foreign exchange for imported inputs, while the "Best Case" targets assume a new PERF-like situation of "freely available foreign exchange" for imported inputs (Exhibit IV - 6).
- \* Secondly, we computed the "Net Increase" between the two cases (Exhibit IV - 6). These figures represent the net increases in future export revenue targets among sample firms given the assumption of conditions of "freely available foreign exchange". It is notable that several firms indicated that conditions of freely available foreign-exchange-for-inputs would have no impact on their future export targets for a given product, suggesting that other factors in addition to shortages of foreign exchange for recurrent inputs constrain Tanzania's export sector.
- \* Thirdly, where survey respondents projected a "Net Increase" in export targets under conditions of freely available foreign exchange, we rearranged the products concerned by the firms which export them. Next, from the survey data we identified the estimated import content for each "Net Increase" product or commodity and highlighted the nature of this import content (Exhibit V - 7).
- \* Fourthly, using these import content proportion factors, we computed the value of the imported component of the "Net Increase" in export targets under conditions of freely available foreign exchange for inputs. This we consider to be projected gross demand for PERF among sample firms on an annual basis. Note that this gross demand is computed for the initial year (1989) and final year (1993) of the projection period (Exhibit V - 7).

\* Finally, we recall that in a year the gross demand for PERF foreign exchange will be met by a cycling of PERF resources one or more times. During the year. To reflect this, we identify the cycle times cited by sample firms for the respective products in the survey, and divided the annual gross demand for PERF by these cycle time factors. The results are shown in the "Net Value" column under the Projected Demand for PERF of Exhibit V - 7. These figures represent the nominal net demand, after the effects of cycling, that sample firms would have for PERF resources as a supplement to their existing channels of foreign exchange to purchase imported inputs for export production.

In sum, in the initial year of the projection period (1989), we compute a nominal net demand of US\$ 1.6 million for PERF on the part of sample firms, while in the terminal year (1993) this demand rises to US\$ 2.0 million.

#### Sample Firms' "Effective" Demand for PERF

Reflecting on the Tanzania Seed Capital Revolving Scheme experience, we assume that in any one year the effective demand for PERF foreign exchange -- firms actually drawing down foreign exchange for imported inputs and using them for export production rather than simply stating they wish do so without acting -- will be at the SCRS norm. At present, a bit more than half (55%) of SCRS firms are actually drawing upon SCRS and exporting, and the balance (45%) are not, despite the export targets specified in their SCRS contracts. Our estimate of "effective" demand for PERF among sample firms is therefore a rounded-off 60% of the stated nominal demand for the fund in each year. On this basis sample firms' effective demand for PERF will be about US\$ 1 million in 1989 and US 1.2 million in 1993.

#### Estimated Total Effective PERF Demand

The size of the universe of potential PERF user-firms in Tanzania is unknown. It is therefore difficult to extrapolate the effective demand for PERF estimated among sample firms to an overall figure representing the effective demand of all users. We have nevertheless estimated the total effective demand for PERF in Tanzania to be about US\$ 3 million in 1989, and about US\$ 12 million in 1993.

We arrive at these figures based on two assumptions. Firstly, we assume that initially (1989) the size of total PERF demand will be about three times the effective demand estimated for the Tanzania sample in 1989 (3 x US\$ 1 million or US\$ 3 million). Assuming a tripling of the survey sample, this would mean a total of about 33 firms participating in PERF in its first year of operations. Given the SCRS experience (about 10 firms enrolled in its initial year), this would seem to be a reasonable standard to expect for PERF participation, especially in view of the latter's longer cycle times than SCRS, which would mean the ability to attract a wider range of firms. Also, a PERF startup in 1989 would benefit from somewhat more favourable economic circumstances than did SCRS in 1985.

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EXHIBIT V - 8

DISTRIBUTION OF PROJECTED TOTAL EFFECTIVE DEMAND FOR PERF  
IN TANZANIA BY SECTOR, OWNERSHIP AND FIRM SIZE

(US\$ Million)

	SECTOR			OWNERSHIP		FIRM SIZE		
	<u>1989</u>	<u>1983</u>		<u>1989</u>	<u>1993</u>	<u>Employees</u>	<u>1989</u>	<u>1993</u>
Agro-processing	0.9	3.6	Private Sector	2.1	7.7	less than 100	minimal	minimal
Manufacturing	2.1	6.4	Public Sector	0.9	4.3	101 - 500	2.7	10.6
Mining	<u>minimal</u>	<u>minimal</u>				501 - 1000	-	-
	3.0	12.0		<u>3.0</u>	<u>12.0</u>	<u>over 1000</u>	<u>0.3</u>	<u>1.4</u>
							3.0	12.0

Source : DF&S based on Exhibit V - 5 and V - 7

Secondly, we assume that over the five years to 1993, total effective demand for PERF would increase to a level equivalent to 10 times the amount of our sample firms' combined effective demand in that year (10 x US\$ 1.2 million or US\$ 12 million). Considering the pattern of increase in demand projected for 1989 through 1993 for firms within the Tanzania sample -- modest rise over time -- this growth path would appear realistic. Such growth implicitly assumes that general economic conditions allow more and more firms to become active in the export sector, rather than relying on expansion from existing exporters alone to generate increases in demand for PERF.

#### **Total Effective Demand by Sector-Owned and Firm-Size**

We assume that the overall demand pattern for PERF on a sectoral, public/private ownership and firm-size basis will reflect the distribution of these characteristics among the firms generating a demand for PERF in our Tanzania sample. The major elements of this distribution are outlined in Exhibit V - 8. Note that, like our own sample, the bulk of effective demand for PERF resources are likely to arise from manufacturing firms, privately owned firms, and firms in the range of 100 to 500 employees.

We recognize that the Center for Privatization has certified two parastatal firms for immediate participation in PERF. We assume, however, with future privatization activities in Tanzania, additional public sector firms will emerge which would be eligible for PERF and which would have a need for PERF resources. Hence in our extrapolation from sample to total user population we assume a constant public sector share in PERF demand to represent these future additional eligible firms.

#### **A Cautionary Note**

The estimation procedure employed above is reasonable. Nevertheless, we emphasize that its results should be treated with caution, as rough, order-of magnitude numbers. We note, for example, that two firms (auto batteries and plastic products) account for over 50% of the sample's effective demand, and that one of these firms has never exported before. Hence, if one or both companies were to deviate significantly from the levels of effective demand we have projected for them, our estimates of total effective demand for the sample and for the population would be altered substantially.

## **2. Import Content and Cycle Times**

### **Import Content**

According to our survey data, the total range of import content proportions of exports to be granted under a PERF facility runs from about 10% in sisal fibre and coil fibre production, (mainly for spares), to as high as 80% (raw materials and spares) in plastics manufacture. Exhibit V - 7 presents these proportions for survey products. Estimates of import content in the agro-processing sector run in the range of 10% and 30%, again largely for spare parts, packaging or raw materials. In the manufacturing sector the range runs from as low as 12% to as high as 80%.

The importance of spare parts as an imported input must be underlined. Spares were emphasized by every firm in our sample as a key element of import content for export production.

## Cycle Times

Estimates of cycle times vary from a low of 3 months (manufacture of batteries) to a high of 9 months (seed bean and oilcake export).

Exhibit V - 7 provides details. We encountered some difficulties with our sample firms in measuring the concept of cycle time. Several firms -- especially those for which spare parts form the major imported input items -- found it hard to relate cycle periods to use of a spare part, which is consumed slowly and possibly only fully "used up" in a period longer than a year.

### 3. Important Qualitative Findings for Tanzania

This section summarizes important qualitative information produced by interviews. Under each heading, findings are listed in order of importance, as measured by the number of companies offering given comment.

#### Current sources of foreign exchange

Firms draw upon four sources of foreign exchange for imported inputs :-

- \* the various parts of the Export Retention Schemes;
- \* the SCRS;
- \* the Bank of Tanzania;
- \* aid money provided by donors (import support programs).

No firm cited the "own funds" program as a source of foreign exchange.

#### Constraints to exporting

The firms surveyed cited eight factors constraining exports :-

- \* The length of time taken to approve foreign exchange applications. Protracted delays sometimes lead to the deadline date for an export order expiring before the raw materials are obtained. This is particularly a problem for companies who have not exported in the past. Such firms often have to produce a confirmed export order before foreign exchange will be granted.
- \* The high level of transport costs within Tanzania, which undermine export competitiveness.
- \* The need for new capital equipment, to replace current worn out plant and machinery equipment so as to be able to compete effectively in the world market and to increase production.

- \* The difference between the official and parallel market exchange rates. Exporters frequently have to pay for raw materials and labour at the parallel rate, and receive payment for exported goods at the official rate. This makes them non-competitive on the world market.
- \* Poor local liquidity conditions, compounded by the Bank of Tanzania's decision to not give working capital loans to companies which import raw materials under the various retention schemes.
- \* Exporters' lack of knowledge about potential export markets.
- \* The shortage of skilled and unskilled labour willing to work. Often companies need foreign exchange to be able to import essential commodities and transport to provide compensation incentives to their workers.

**Other significant factors also cited are :-**

- \* The need for exporters to satisfy the domestic market. In many cases domestic market profits are used to subsidize prices in the more competitive export markets. Imported raw materials and spare parts are therefore needed for domestic market production.
- \* The current interest rate in Tanzania is in excess of 25%, and many companies cannot or do not borrow money at this price to increase production.
- \* The exchange risk of borrowing foreign currency is a great obstacle for Tanzania firms. The problem is particularly important where a company is importing and exporting using different currencies, for example especially where imports are paid for in hard currencies and exports in PTA currencies.

The following recommendations for operation of PERF were offered by companies interviewed.

- \* Fund operations should be simple and quick-moving.
- \* Funds should be made available for the import of capital items.
- \* Financing under PERF should be available at a concessional rate of interest.

- \* Foreign exchange should be available for indirect exporters. Currently only direct exporters are allowed to earn retention currency for use in purchasing imports. Firms that produce goods for the internal market sale for processing and export by a different company are not allowed to retain a share of any foreign exchange eventually earned by their outputs (eg sisal fibre for sisal spinning, or packaging for export products). Such companies also have a need for foreign exchange for the purchase of raw materials and spare parts. The result is that such companies may be forced to export their production in unprocessed form to obtain foreign exchange, thus starving the domestic processing market of raw materials and denying Tanzania value-added.
- \* Foreign exchange should be available for travel to potential foreign markets for client "prospection".
- \* PPRF should provide for a larger foreign exchange retention than is currently allowed, to make participation attractive to the companies who currently meet their foreign exchange requirements from other sources.

#### 4. Summary of Selected Industry Findings

##### Tea

Tea producers are forced to sell 30% of their output to the Tea Marketing Board (a parastatal). They can sell the remainder privately. All fertiliser and fuel must be purchased locally. The main requirement for foreign exchange is for purchase of spare parts and new capital equipment.

##### Wattle

The trees from which wattle extract is obtained are grown locally. The extract is refined, either to a solid form or to a powder. For the production of powder, certain imported chemicals are required. Other than this, the important requirement is for spare parts.

##### Textiles and Cotton Yarn

Cotton is grown locally, and is purchased from the Cotton Marketing Board (a parastatal). The requirement for foreign exchange is to purchase spare parts, new capital equipment, packaging materials and dyes. More value added could be generated if new machinery and other capital equipment could be purchased.

##### Sisal Twine and Fibre

Sisal plants are grown locally and processed initially to produce sisal fibre, and subsequently to produce twine. The import requirements for the production of the fibre is for spare parts for farm machinery. Spare parts for the sisal fibre production machinery are available locally. Fertilisers are also available locally.

##### Sisal Pulp

Some of the chemicals used in the production of sisal pulp are imported. The spare parts for the machinery can all be manufactured locally.

**Salt**

Foreign exchange is required for the purchase of spare parts for the machinery which extracts salt from the sea. In order to increase production beyond the present capacity, more capital equipment would have to be purchased. This would require foreign exchange.

**Fish Products**

Fish products are usually exported without further processing, except freezing. The main requirement for foreign exchange is for the purchase of new capital equipment (eg trawlers and refrigerated lorries) and spare parts for this equipment.

**Cotton Seed Cake**

Cotton seed cake is a by-product of edible oil extraction which is produced for the local market. The requirement for foreign exchange is for new capital equipment and spare parts for the oil pressing machinery.

**Seedbeans, Beeswax and Gum Arabic**

The raw materials are grown locally, and are purchased either from cooperatives or from farmers. In many cases they are exported without further processing and thus have no requirement for foreign exchange. If seedbeans are processed further (shelled and split) the requirement is for the purchase of spare parts for the machinery.

**Batteries**

Many of the raw materials for the production of batteries are imported. There is a shortage of foreign exchange for this.

**Radios**

Radios are imported in kit form and assembled locally. Foreign exchange is required for the import of these kits.

**Radiators**

Foreign exchange requirements are for raw materials and spare parts. The firm interviewed (a member of SCPS) says it has no problems getting foreign exchange.

**Plastics**

Chemicals required for the manufacture of plastic products are imported. There is also a requirement for the purchase of spare parts and new machinery.

**Ceramics**

The chemicals for producing the glaze are all imported. There is also a requirement for foreign exchange for the purchase of spare parts.

**Duplex Board**

The chemical pulp used in the production of duplex board is imported. There has been an attempt to produce the pulp locally from sisal, to eliminate this foreign exchange cost. However it was found that the sisal pulp produced fetched a higher price on the export market than the cost of the chemical pulp. Hence the sisal pulp is exported and the chemical pulp imported. There is also a requirement for spare parts.

**Coconut Products**

The requirement for foreign exchange is for spare parts.

**Wood Products**

The company interviewed hires all its capital equipment from a parastatal company. It therefore has no requirement for foreign exchange. However, to increase production, the company would have to purchase its own machinery, and thus has a foreign exchange requirement for capital goods and spare parts.

CHAPTER VI  
ZIMBAWE COUNTRY SURVEY

ZIMBABWE COUNTRY SURVEY

A. EXPORT SECTOR OVERVIEW

1. Macroeconomic Context

With the exception of South Africa, Zimbabwe is the largest, most diversified and sophisticated economy in sub-Saharan Africa. Gross domestic product (GDP) totalled US\$5 320 million (Z\$2 200 million) in 1986, or US\$700 in per capita terms. Manufacturing constitutes the largest sectoral component of the economy (30% of total GDP) followed by public administration including health and education (15%); trade, hotels and restaurants (13%); agriculture (11%) and mining (7%).

The main manufacturing industries are iron, steel and metal fabrication (23%); food processing (21%); textiles, clothing and footwear (18%); chemicals and petrochemicals (15%); beverages and tobacco (7%). Mineral products include asbestos (15%); coal and nickel (9% each); copper (7%) and chrome ore (6%). Zimbabwe is essentially self-sufficient in its food production, with the major agricultural products being tobacco (26% of total value of agricultural production marketed); beef (20%); sugar (13%); cotton (12%); maize (10%) and dairy production (8%). Tea, coffee, wheat and soya beans are other significant crops, while a wide range of horticultural produce is also grown.

The manufacturing sector is noteworthy for its range and diversity, with a significant production of intermediate and capital goods. There is a predominance of private ownership, estimated to account for 86% of manufacturing turnover. It is a government policy objective to reduce the level of foreign control. Estimates of the extent of foreign ownership vary widely. Legally, any firm with more than 15% equity in foreign hands is defined as "foreign owned", which definition would encompass some 30% of industrial firms. Based on actual shareholdings, the Confederation of Zimbabwe Industries (CZI) estimates foreign ownership to be in the region of 30% to 60%.

Industrial activity is highly concentrated in terms of both product and location. In 1982, some 80% of 6 000 identifiable products were being manufactured under monopoly/oligopoly conditions (at most, three firms). Geographically, production is concentrated around the main urban centres with the capital city, Harare, accounting for 50% and Bulawayo, the second largest city, accounting for 25% of output and employment.

Investment levels in manufacturing last peaked in 1974/75. In recent years the level of investment has been low; 40% below that in 1980/81 when government increased the foreign exchange allocations for investment purposes. Much of the manufacturing sector's plant and equipment has outlived its economic usefulness and is therefore, inefficient.

EXHIBIT VI - 1

ZIMBABWE : GROSS DOMESTIC PRODUCT, IMPORTS AND EXPORTS (1984-1987)(a)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u> (est)(b)
Gross Domestic Product				
expressed in Z\$ m	5 952	7 303	8 232	8 640
expressed in US\$ m	4 672	4 717	4 800	5 109
Imports				
expressed in Z\$ m	1 201	1 447	1 640	1 660
expressed in US\$ m	943	935	956	981
total relative to GDP	20.2%	19.8%	19.9%	19.2%
Exports, excluding gold sales and re-exports				
expressed in Z\$ m	1 271	1 545	1 700	2 106
expressed in US\$ m	998	939	991	1 245
total relative to GDP	21.4%	21.2%	20.7%	24.4%
Gold sales				
expressed in Z\$ m	160	199	413	n/a
expressed in US\$ m	126	129	241	n/a
Re-exports				
expressed in Z\$ m	22	51	57	36
expressed in US\$ m	17	33	33	21

(a) All values expressed in terms of current prices.

(b) GDP growth in 1988 is forecast to be 5% (Reserve Bank of Zimbabwe Quarterly Economic and Statistical Review, September/December 1987). Import and export value projections for 1987 based on ten months' statistics.

n/a not available

Source : Central Statistical Office, Quarterly Digest of Statistics

## ZIMBABWE DOLLAR (Z\$) EXCHANGE RATES

Mid-Year (July)	Foreign Currency Units per Z\$ (Z\$ for Spot Transactions)				Index of Forex Values (1986 = 100)			
	US\$	£	DM	Rand	US\$	£	DM	Rand
1980	1,5781	0,6704	2,7717	1,2164	100	100	100	100
1981	1,3833	0,7427	3,4000	1,3173	89	111	123	108
1982	1,3072	0,7545	3,2249	1,4982	83	113	116	123
1983(a)	0,9844	0,6455	2,6008	1,0801	62	96	94	89
1984	0,7850	0,6000	2,2720	1,2090	50	89	98	99
1985	0,6459	0,4534	1,8130	1,3276	41	68	65	109
1986	0,5831	0,3911	1,2318	1,5177	37	58	44	125
1987	0,5911	0,3711	1,0965	1,2260	37	55	40	101
1988 (May)	0,5700	0,3000	0,9600	1,2500	36	45	35	103

(a) Zimbabwe dollar was last officially devalued in December 1982 by 20%

Source : Reserve Bank of Zimbabwe (RBZ)

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EXHIBIT VI - 3

**ZIMBABWE DIRECTION OF TRADE**

	Destination of Exports			Origin of Imports		
	1985 <u>Z\$ m</u>	1986 <u>Z\$ m</u>	1987(a) <u>Z\$ m</u>	1985 <u>Z\$ m</u>	1986 <u>Z\$ m</u>	1987(a) <u>Z\$ m</u>
United Kingdom	200	210	230	151	180	144
United States	126	97	131	147	136	247
West Germany	153	146	226	100	163	144
Italy	<u>91</u>	<u>100</u>	<u>81</u>	<u>44</u>	<u>70</u>	<u>59</u>
Sub Total	570	553	677	442	549	594
South Africa	166	211	176	273	351	354
PTA/SADCC Trade: (b)						
PTA/non-SADCC (1)	18	27	36	2	4	10
PTA and SADCC (2)	81	70	78	41	51	41
SADCC/non-PTA (3)	<u>99</u>	<u>135</u>	<u>187</u>	<u>39</u>	<u>78</u>	<u>93</u>
Sub Total	198	232	301	82	133	144
Other	611	704	723	650	607	570
Total Z\$ m	1545	1700	1907	1447	1640	1662
Total US\$ equivalent	998	991	1110	925	956	982

(a) Estimate; basis on 10 months trade statistics.

(b) Note:

- (1) PTA/non-SADCC member states : Burundi, Comoros, Djibouti, Echoria, Kenya, Mauritius, Rwanda, Somalia, Uganda.
- (2) PTA and SADCC member states : Lesotho, Malawi, Swaziland, Zambia.
- (3) SADCC member states which are not members of the PTA : Botswana, Mozambique, Angola, Tanzania.

Those countries listed above which are underlined denote Zimbabwe's major trading partners within the PTA/SADCC region.

Source : Central Statistical Office, Quarterly Bulletin of Statistics.

Utilisation of plant capacity varies tremendously, depending on the availability of raw materials and spares for maintenance. A recent World Bank review of the industrial sector estimated that, on average, capacity utilisation was 80%. From this it was concluded that "with the sector working close to full capacity, any prolonged export drive would soon fizzle out unless sustained with near term investment." (World Bank Industrial Sector Memorandum, May 1987). Sectors which have exhibited a sharp, upward turn in exports have, or are planning to expand (e.g. textiles and garment trade, furniture manufacture, railway equipment).

National imports and exports relative to GDP over the past four years are detailed in Exhibit VI - 1. Total imports for 1987 are estimated to be about US\$ 1 billion or less than 20% of GDP, compared to 25% GDP at Independence (1980) and 34% GDP prior to UDI (1965). Over the period considered (1984 - 1987) the local currency value of imports rose 38% but, when expressed in US dollar terms, imports rose by only 4% or 1% per annum, illustrating the tight control exercised over imports and the effects of devaluations.

Domestic exports, excluding gold sales and re-exports, are estimated to have totalled US\$ 1.2 billion in 1987, or 24% of GDP; compared to 24% at Independence. Expressed in Zimbabwe dollars, the value of exports increased 66% during the four years presented; expressed in US dollar terms, exports rose by 24% or an average rate of 6% per annum.

During the 1984 - 1986 period, the increased volume of exports was insufficient to offset the effects of a weakening Zimbabwe dollar (Z\$), and the slump in the major commodity markets. This is illustrated by the decline and partial recovery of the US dollar values. Recently, the Zimbabwe dollar has been more closely linked to the US dollar and exports, expressed in both currencies, increased 14% to 15% in 1987. However, the growth in exports did not fully compensate for the devaluation against the other major currencies (pounds Sterling and Deutsche marks). The movement of the Zimbabwe dollar since 1980 against major trading currencies is given in Exhibit VI - 2.

Since Independence (1980) Zimbabwe has officially devalued only once, by 20% in December 1982. However, the currency has been allowed to float and at present is 55% - 65% weaker against the US dollar, pound Sterling and Deutsche mark. The Zimbabwe dollar has fluctuated against the South African rand, and is currently marginally stronger than the rand compared to 1980.

The direction of Zimbabwe trade, both imports and exports, is summarised in Exhibit VI - 3. South Africa is the major source of imports, accounting for 21% of total imports in 1987. The United Kingdom, United States, West Germany and Italy together account for 35% of imports and the PTA/SADCC group of countries for a further 9%.

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EXHIBIT VI - 4

ZIMBABWE : DOMESTIC EXPORTS BY PRINCIPAL COMMODITY GROUPS (1985 - 1987)

SITC Commodity Group	<u>1985</u>	<u>1986</u>	<u>1987(b)</u>	<u>1985</u>	<u>1986</u>	<u>1987(b)</u>
Domestic Exports : Excl. Gold and Re-Exports		Z\$ Million			Percent	
Food products (0)	254	322	365	16	19	19
Beverages and tobacco (1)	366	424	425	24	25	22
Crude materials, except fuels (2)	288	278	346	19	16	18
Mineral fuels, related products and electricity (3)	16	19	7	1	1	1
Animal, vegetable oils and fats (4)	2	4	6	...	...	...
Chemicals and related products (5)	27	21	26	2	1	1
Manufactured goods classified by materials (6)	501	538	639	32	32	33
Machinery, transport, radio/tv electrical equip (7)	25	26	25	2	2	1
Miscellaneous manufactured articles nes (8 & 9)	<u>66</u>	<u>68</u>	<u>94</u>	<u>4</u>	<u>4</u>	<u>5</u>
<b>TOTAL</b>	<u>1 545</u>	<u>1 700</u>	<u>1 933</u>	<u>100</u>	<u>100</u>	<u>100</u>
Index of Domestic Exports (1984 = 100)		Valued in Zimbabwe \$			Valued in US\$	
Food products (0)	152	192	218	125	143	164
Beverages and tobacco (1)	127	147	148	105	110	111
Crude material, except fuels (2)	114	142	174	97	85	107
Mineral fuels, related products and electricity (3)	96	113	45	79	84	34
Animal, vegetable oils and fats (4)	77	182	268	64	135	202
Chemicals and related products (5)	114	90	109	93	67	82
Manufactured goods class by materials (6)	117	126	149	96	93	112
Machinery, transport radio/tv, electricity equip (7)	111	117	111	91	87	83
Miscellaneous manufactured goods (8 & 9)	<u>75</u>	<u>77</u>	<u>107</u>	<u>62</u>	<u>57</u>	<u>81</u>
<b>TOTAL</b>	<u>122</u>	<u>134</u>	<u>152</u>	<u>100</u>	<u>99</u>	<u>114</u>

(a) SITC grouping of commodities given in parenthesis.

(b) Estimate based on 10 months' actual figures.

... Less than 0,5.

In recent years, the United Kingdom has surpassed South Africa's position as the major market for Zimbabwe exports. In 1987, sales to West Germany increased markedly to place that country in second position. In 1987, the United Kingdom, United States, West Germany and Italy together account for 36% of exports, South Africa for 9% and the PTA/SADCC group of countries for a further 16%.

Exhibit V - 3 highlights two major regional imbalances. On the one hand, imports from South Africa consistently exceed exports to that market. On the other, exports to the PTA/SADCC countries exceed the level of imports from them by a factor of two.

## 2. Export Production

Zimbabwe exports for the past three years are given Exhibit VI - 4 by principal commodity groups. (These figures exclude gold and re-exports). Manufactured goods account for a third of Zimbabwe's exports, rising to about 40% when industrial products included under other groupings are taken into account. Included under manufacturing are products such as ferro-alloys, iron and steel, copper, tin and nickel .

The value indices of exports are also given in Exhibit VI - 4 with values expressed in both Zimbabwe and US dollar terms (1984 = 100). As to be expected, with its dominant role, exports of manufactured goods match the general trend. The major factor influencing the growth in food products is the increased value beef exports to the EEC under the ACP-Lome convention. Although exhibiting the highest export growth factor, animal/vegetable oils and fats make only a minor contribution to total exports (less than 0.5%).

Exhibit VI - 4 again illustrates that while exports have expanded in Zimbabwe dollar terms, it is only in the past year that this has been sufficient to offset the effects of the currency devaluation and other negative market factors. Expressing the hard currency values in US dollar terms, against which the Zimbabwe dollar has remained relatively stable in recent years (Exhibit VI - 2), understates the situation.

To establish recent trends in both the volume and value of exports, the 1987 statistics were indexed against performance in 1984, with values expressed in US dollar terms. (Values exclude gold sales and re-exports.) An index number over 100 indicates an increase in exports relative to those achieved in 1984, while a figure below 100 indicates a contraction. The data were grouped in five categories :-

EXHIBIT VI - 5

ZIMBABWE EXPORTS : 1987 PERFORMANCE RELATIVE TO 1984 EXPORTS

Category	Number of Commodities No	1987 Export Value (a)	
		Total US\$	Proportion %
A Total value up (no volume data)	24	116	9
B Volumes up, sufficient to offset the effect of devaluation and/or weakened market	7	222	18
C Increased volumes insufficient to offset devaluation and/or other negative market trends	14	341	27
D Decreased volume of trade 1987 relative to 1984	19	258	21
E Decreased total US\$ value (no volume data) in 1987 against 1984	14	297	24

(a) Excludes migrants' effects, include elsewhere in domestic exports.

Source : Central Statistical Office, Quarterly Digest of Statistics.

## EXHIBIT VI - 6

## VALUE/VOLUME EXPORT INDICES OF MANUFACTURED GOODS (1984 = 100) (a)

Manufactured Goods Class by Materials	Total Value Index (US\$)			Total Volume Index		
	1985	1986	1987	1985	1986	1987
Ferro-alloys (39%)	98	101	122	89	101	121
Nickel metal (13%)	105	98	98	96	127	135
Ingots & billets (7%)	144	77	113	132	86	131
Copper metal (7%)	96	110	109	82	101	98
Iron & steel bar, rods & sections (5%)	120	146	129	123	180	108
Yarns & threads (5%)	90	110	158	77	99	99
Fabrics (4%)	109	138	217	148	231	297
Leather in the piece (2%)	228	233	467	250	269	415
Tin metal (1%)	93	53	46	109	126	44
Linen, furnishing material (1%)	139	139	274	not available		
Paper & board (1%)	78	52	82	75	44	98
Cement (1%) (b)	39	48	72	45	47	67
Gemstones (0,9%)	45	83	118	not available		
Wire (0,7%)	54	49	53	64	57	32
Tyres & tubes (0,7%)	75	58	127	33	61	29
Domestic hardware (0,6%)	66	98	123	not available		
Railway construction material (0,6%)	105	313	600	110	391	710
Bed sheets (0,5%)	51	26	45	not available		
Glass (0,5%)	175	293	386	not available		
Plywood & boards (0,2%)	36	12	45	not available		
Other (Group 6) (7,4%)	87	63	78	not available		
<b>SITC Group 6</b>	<b>117</b>	<b>126</b>	<b>149</b>			

Miscellaneous Manufactured Articles and Commodities	Total Value Index (US\$)			
	1985	1986	1987	
Suits, jackets, trousers (19%)	136	167	334	volume statistics indices not available
Dresses, blouses skirts (18%)	124	134	214	
Footwear (15%)	53	91	144	
Other clothing (10%)	116	112	153	
Curios (11%)	140	149	202	
Travel goods (8%)	118	146	132	
Furniture & fixtures (8%)	59	69	92	
Printed matter (3%)	92	184	444	
Other miscellaneous (8%)	46	37	55	
<b>SITC Groups 8 + 9</b>	<b>75</b>	<b>77</b>	<b>107</b>	

- (a) Categories of goods given in order of importance within the SITC Groups 6, 8 and 9 expressed in terms of the value of 1987 exports as indicated by the percentage figures given. (In the case of the SITC Groups 8 and 9, migrants' effects have been excluded).
- (b) Cement exports in 1984 were exceptionally high (164 415 tonnes); compared to an average 63 850 tonnes per annum the previous four years.

Source : Central Statistical Office, Quarterly Digest of Statistics.

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- Category A: Commodities for which no volume data are available and which increased in US\$ value terms in 1987 relative to 1984: 24 commodities fall into this category and, together, accounted for 9% of total export value in 1987.
- Category B: Commodities for which the volume of trade increased and for which the US\$ value indices were complementary i.e. the increase in volumes was at least sufficient to compensate for the weakening Z\$ or any other negative market factors: 7 commodities accounting for 18% of the total export value in 1987.
- Category C: Commodities which increased in volume terms but not to the same extent in value terms - the increase in volume was insufficient to compensate for a weakening Z\$ or other negative market trends: 14 commodities accounting for 27% of total export value in 1987.
- Category D: Commodities which decreased in volume over the period considered: 19 commodities accounting for 21% of total export value in 1987.
- Category E: Commodities for which no data on volumes are given and which declined in value in 1987 against 1984: 14 commodities which accounted for 24% of total exports in 1987.

The above information is summarised in Exhibit VI - 5. In 1987, nearly three-quarters of total export revenue was earned by commodities which recorded lower US dollar export earnings than in 1984. Major commodities that increased their export earnings (relative to 1984) include ferro-alloys, copper, iron and steel products, processed foods, clothing and textiles - all classed as manufactured products, with the exception of coffee. The details for the manufacturing sector, listing the sectoral categories in order of importance in terms of export earnings, are given in Exhibit VI - 6.

Within the group of metals, movements in volume and prices/value have been variable e.g. the small decrease in the volume of copper exports was offset by an increase in prices, whereas the benefit of a 35% increase in nickel exports was nullified by adverse prices. Within textiles, the increased value of yarn exports was entirely due to improved prices while the exports of fabrics were tempered by negative price movements.

EXHIBIT VI - 7

ZIMBABWE COMMODITY EXPORTS IN EXCESS Z\$10m IN 1987  
AND ESTIMATED PUBLIC SECTOR INVOLVEMENT IN THESE EXPORTS

Rank	Commodity	Export Value		Public Sector Involvement	
		Z\$m	US\$m(a)	%	Organisation
1	Tobacco - unmanufactured	418	247		
2	Ferro-alloys	251	148		
3	Cotton lint	113	67	100%	Cotton Marketing Board (CMB)
4	Asbestos	104	61	100%	Minerals Marketing Corporation (MMCZ)
5	Sugar - raw and refined	84	50		
6	Nickel metal	82	48	100%	Minerals Marketing Corporation (MMCZ)
7	Coffee - green	61	36	100%	Grain Marketing Board (GMB)
8	Maize	59	35	100%	Grain Marketing Board (GMB)
9	Meat - fresh, frozen, chilled	59	35	100%	Cold Storage Commission (CSC)
10	Copper metal and slines	58	34	100%	Minerals Marketing Corporation (MMCZ)
11	Manufactured goods - other(b)	47	28		
12	Ingots and billets	47	28	100%	Zimbabwe Iron and Steel Corporation (ZISCO)
13	Clothing - total	35	21	10%	IDC Subsidiary/Associate Companies (c)
14	Food products - other	34	20		
15	Iron and steel bar, rod and sections	31	18	100%	Zimbabwe Iron and Steel Corporation (ZISCO)
16	Yarns and threads	30	18		
17	Fabrics	25	15		
18	Crude materials, except fuels - other	25	15		
19	Other meats	23	13		
20	Animal feeds	22	13		
21	Tea - bulk	19	11	15%	Agricultural Rural Development Authority (ARDA)
22	Leather in the piece	16	9		
23	Footwear	11	7		
<b>TOTAL</b>		<b>1 654</b>	<b>977</b>		
Proportion of total domestic exports		78%		(Total Public Sector exports account for +/- Z\$620m or US\$366m; equivalent to +/- 28% total domestic exports)	

(a) Converted at the mid-year rate of Z\$1 = US\$0,5911

(b) Group 6 - classified by material

(c) IDC = Industrial Development Corporation

### 3. Public/Private Sector Roles in Exporting

Overall, about a third of domestic exports are accounted for by the public sector. Commodity exports which exceeded Z\$10 million (US\$6 million) in 1987 are listed in Exhibit VI - 7. Numbering 23, together these totalled Z\$1 654 million (or US\$977 million) and accounted for 78% of total domestic exports this past year. Within the list of commodities given, public sector exports amounted to about Z\$620 million (US\$366 million) or some 30% of total domestic exports. This is largely confined to the marketing of agricultural and mining products. The agricultural commodities listed in Exhibit VI - 7 are all purchased and marketed by the relevant parastatals, who take title to the commodities they handle. In the case of the mining sector, the Minerals Marketing Corporation (MMCZ) is essentially a marketing agent for the mining houses, which are private sector organisations.

The balance of domestic exports (Z\$466m or US\$275m in 1987) are largely accounted for by a multitude of private sector concerns. Public sector involvement, either through parastatals or via government investment in joint ventures with the private sector, probably accounts for less than 10% of total exports. Government's involvement with the private sector has been to purchase shareholdings in major firms or holding companies (rather than outright nationalisation). To date, this change in ownership has not influenced the management strategy and operations of these concerns. Examples of this are government's majority buy-out (85%) of Astra Holdings Limited and purchase of a significant stock (30%) of Delta Corporation Limited, both holding companies for a wide range of industrial concerns.

### 4. Sources of Foreign Exchange for Exporters

The Zimbabwe authorities maintain a tight control on the usage of foreign exchange and, to this end, a complex system of currency allocation has evolved. Currency requirements for investment capital are processed differently to those for raw materials.

#### Capital Formation

All investments requiring a foreign currency input are scrutinised by the Industrial Projects Committee (IPC) within the Ministry of Industry and Technology (MIT). This includes new entrants into the market and those wishing to expand existing operations.

Major factors influencing the IPC's deliberations are whether the new investment will:-

- \* generate foreign exchange; or
- \* save foreign exchange, through input substitution; and
- \* to what extent the investment will be reliant on imports for its continued operation.

The first of these takes precedence, with projects forecasted to recoup the foreign currency element within the first year of operation given priority. The major problem faced by investors, particularly for new projects, is the ability to obtain advance orders to support an application to IPC.

Once approved, the IPC issues the necessary approval for both the capital equipment and working stock of raw materials and spare parts. The currency may be drawn from a number of sources e.g. the country's own reserves; commodity input programmes (CIP's); "no currency involved" (NCI) arrangements when a concern makes use of its own source of external funding e.g. donation of plant by an offshore parent company; and barter deals.

The investor finances the purchase in local currency (Z\$) through normal financial institutions.

#### Raw Materials

Sources of currency for raw materials and spare parts may be classified into three major groups: direct local market allocation (DLMA), direct external market allocation or the Export Revolving Fund (ERF) and "alternative foreign currency allocations (AA)".

#### Direct Local Market allocations (DLMA)

The Ministry of Finance, Economic Planning and Development (MFEPD) operates a 6-month quota system to allocate currency from the general reserve to industry and commerce. The global quota is variable, depending on the balance of payment projections over the six month period within a four year horizon. After deductions have been made for legally committed uses (i.e. external debt, profit remittances), and priority uses (imports of fuel, medicines, etc), the task of allocating foreign exchange to individual enterprises is left to various ministries depending on the type of import item:-

<u>Ministry</u>	<u>Items</u>
Industry	Raw materials, components, machinery equipment
Trade	Manufactured products for re-sale
Agriculture	Essential requirements for horticulture, crop chemicals, fertilisers, dips, stockfeed ingredients, machinery and spares
Mines	Mining consumables and spares
Finance	Public Sector Investment Programme (PSIP) needs of both government ministries and parastatal organisations.

Applicants lobby their ministry in advance of the quota allocation with their bids. Allocations are normally made on the basis of historical shares, adjusted for variations on the global quota. The needs of new applicants are also taken into consideration.

The DLMA is used almost exclusively for domestic market production. Since 1980, the value of the DLMA has fluctuated about a general downward trends. At present, based on the First Quota for 1988, the absolute amount of funds allocated is about 40% less than the amount allocated in 1980. The CZI estimates that the purchasing power of these funds is about 37% of that of 1980. The cumulative effect is that, in real terms, the DLMA is now about 22% of its 1980 value.

#### The Export Revolving Fund (ERF)

An integral part of the Export Promotion Programme (EPP), the ERF was initiated in April 1983 with a loan of US\$70,6 million (Z\$72 million) from the World Bank. This was to benefit exporters from the manufacturing sector, providing finance for raw material inputs used in the manufacture of export products. Over time, the fund has expanded to include indirect exports, spares and balancing equipment.

ERF may be utilised as either a post - or pre-export revolving fund. In the former situation, the fund replenishes proven drawdowns of stock utilised in a export order. The latter situation accommodates the acquisition or the expansion of working stocks in advance of performing an export order.

The fund works under a tripartite arrangement involving the Reserve Bank (RBZ), which manages the fund through a nominal account; the Ministry of Industry and Technology (MIT), which administers the allocation of currency through the Industrial Import Control (IIC); and the Ministry of Trade and Commerce (MTC), which issues import licences through its licensing department. Commercial banks provide the necessary banking services to facilitate payments for imports and receipt of export proceeds. For the individual exporter, all banking transactions take place in Zimbabwe dollars and all bank charges are incurred in the same currency. Exporters may protect themselves against currency fluctuations by buying forward for a period of up to 180 days.

The ERF is available to all private sector manufacturers, including processors of mining and agricultural products e.g. metal refineries and sugar refining. Parascatalysts involved in "manufacturing" (e.g. the ginning of seed cotton by the CMB) obtain their currency requirements via an allocation from the general reserves through their respective ministries.

The ERF was extended in 1987 to include the agricultural and mining sectors. The major sectors of the economy which are excluded in the ERF, although significant in generating foreign currency either in their own right or by facilitating exports, are tourism and the service industries (e.g. transport).

As administrators of ERF, the government gave a guarantee to the World Bank that no potential exporter who qualified for the fund would be turned down. Reports from both the public and private sector indicate that the ERF has in fact been able to meet all demands placed on it.

Drawdown of the facility began in July, 1983 and was completed by the end of 1985. Early allocations accommodated a relatively high proportion of applications for funds to be spent on spares for the refurbishment of plant and machinery. More recently, the emphasis has been placed on raw materials and consumables necessary for the performance of export orders.

Initially, half the export proceeds over and above the initial import allocation (limited to a maximum of 60% of export value) were to be retained in the fund as a growth factor. This has subsequently been reduced to 20% (RBZ). The balance of the export earnings are transferred to the general reserve. At the rate of exchange pertaining in 1983, the initial capitalisation of the fund US\$70,5, less about US\$1 million channelled to export promotion, was equivalent to about Z\$70 million. In 1987, total allocation from the fund for exporters' purchase of imports were estimated to be over Z\$330 million (RBZ), equivalent to US\$200 million.

#### Agriculture and Mining EPP

In September 1987, the EPP was extended to include the primary sectors of mining and agriculture. This was facilitated through a commercial loan from a consortium of British banks of £70 million (Z\$230 million or US\$125 million). The fund is to be drawdown in four equal tranches at six monthly intervals. To date, half the funds have been allocated equally to the two sectors. The currency may be used to fund replacement equipment in addition to spares. In the case of the mining sector, the rationale for extending the EPP is that virtually all mining production is exported. (The only major exception to this generalisation being Hwange Colliery.) The importance of the agricultural sector in providing inputs to manufacturing exporters and as a foreign currency earner in its own right is recognised. However, the import/export linkages are tenuous for many enterprises e.g. an allocation for ingredients to a stockfeed manufacturer cannot be directly related to an increase in beef exports by the CSC.

An export revolving fund specifically aimed at the horticultural industry has been proposed. Negotiations are underway between Government, the Horticultural Promotion Council (HPC) and the Netherlands Government regarding the operation of such a fund. It is understood that the Dutch are in favour of providing Z\$10 million (US\$6 million) to capitalise the fund and also to finance technical assistance to this fledging export sector.

EXHIBIT VI - 8

ESTIMATED SOURCES OF FOREIGN EXCHANGE

	1985		1986	
	%	US\$m	%	US\$
Total Import Bill				
Export Revolving Fund (ERF)	11,2	105	13,5	129
Commodity Import Prog.(CIP)	9,2	86	7,8	75
Barter Deals	<u>4,5</u>	<u>42</u>	<u>2,9</u>	<u>28</u>
Sub Total	24,9	233	24,2	232
No Currency Involved (NCI)	(incl. below)		0,3	3
General Reserves:	75,1	701	75,5	722
DLMA				
PSIF				
Debt servicing and other legal commitments				
	<u>100,0%</u>	<u>\$934</u>	<u>100,0%</u>	<u>\$957</u>

Source : Confederation of Zimbabwe Industries (CZI).

## Alternative Foreign Exchange Allocations

Several sources are involved:-

- **Commodity Import Programmes (CIP):** Bilateral agreements with a variety of conditions and allocation arrangements, CIP's tend to cover a broad spectrum of imports (raw materials, consumer goods and capital equipment).
- **PTA Allocations:** Government, through the Commercial Import Control (CIC) makes available Z\$40 million per annum (US\$25 million) to local importers for purchases from other countries within the Preferential Trade Area (PTA). Allocations are in two equal instalments, coinciding with the DLMA quotal periods.
- **Barter Trade:** As a general rule, this form of trade is confined to trade with the Eastern Block. In the past, Zimbabwe has exchanged bulk agricultural and mining commodities (e.g. tobacco and chrome) for a wide range of goods, including foodstuffs (e.g. rice) machinery (e.g. tractors), spares and components.
- **No Currency Involved (NCI) Transactions:** As the name implies, this is the use of a company's own source of funds. This is generally confined to "donations" by international organisations to their Zimbabwean subsidiaries. Local companies must prove the availability (and legality) of external funds before they are issued with an import permit.

### Relative Importance of Alternative Sources of Foreign Exchange

CZI have made the following estimates of the relative importance of ERF, CIP's and Barter deals in financing imports during 1985 and 1986 (Exhibit VI - 8). In total, these financing arrangements accounted for about a quarter of the total import bill.

## B. EXPORT TRANSACTIONS : ZIMBABWE POLICIES AND PROCEDURES

### 1. Investment Project Control

At the most fundamental level, the size and shape of the Zimbabwean export sector is controlled by the Industrial Projects Committee (IPC). Any new or expansion investment project, either for the export or domestic market, which requires foreign exchange for capital equipment or recurrent inputs must first be approved by the IPC. Chaired by the Ministry of Industry and Technology (MIT), it also has representatives from the Reserve Bank (RBZ), the Ministry of Finance Economic Planning and Development (MFEPD) and the Ministry of Trade and Commerce (MTC). The IPC is assisted by a working Committee known as the Strategic Planning Committee which serves as the first screening layer to ensure that project application transmitted to IPC are within the broad policy guidelines stipulated by government. IPC then appraises projects in more detail. The IPC sits once a week.

To obtain IPC approval the project must inter alia satisfy all or some of the following criteria :-

- \* either generate exports and hence foreign exchange, or give rise to import substitution thereby saving foreign exchange;
- \* recoup the initial foreign exchange outlay within twelve months;
- \* not duplicate local production; and
- \* give rise to additional employment.

The IPC is primarily concerned with whether or not a project is a net foreign exchange earner. The first criteria on the above list is therefore the most critical.

To apply for approval, companies must complete a form supplied by the Ministry, attaching all the relevant details pertaining to the project (nature of business, foreign exchange requirement and detailed cashflow projections). If all the information has been supplied, it takes the IPC a fortnight to make a decision. However, problems in providing all the data requested and, particularly, sufficiently firm export orders to support the proposed investment can result in many months of delay. If the project is approved, MIT issues the enterprise a "letter of approval". If the project requires foreign loans in excess of Z\$ 2.5 million, additional approval of the External Loans Coordinating Committee (ELCC) is required. Chaired by the Governor of RBZ it consists of representatives from MIT, MTC and MFEDD.

Projects involving foreign ownership of more than 15% of total equity must be approved by the Foreign Investments Committee (FIC). This body is supervised by (MFEPD) and assisted by a working party comprised of the Permanent Secretaries of MIT, MTC, the Treasury and a representative from RBZ.

## 2. Export and Import Licensing

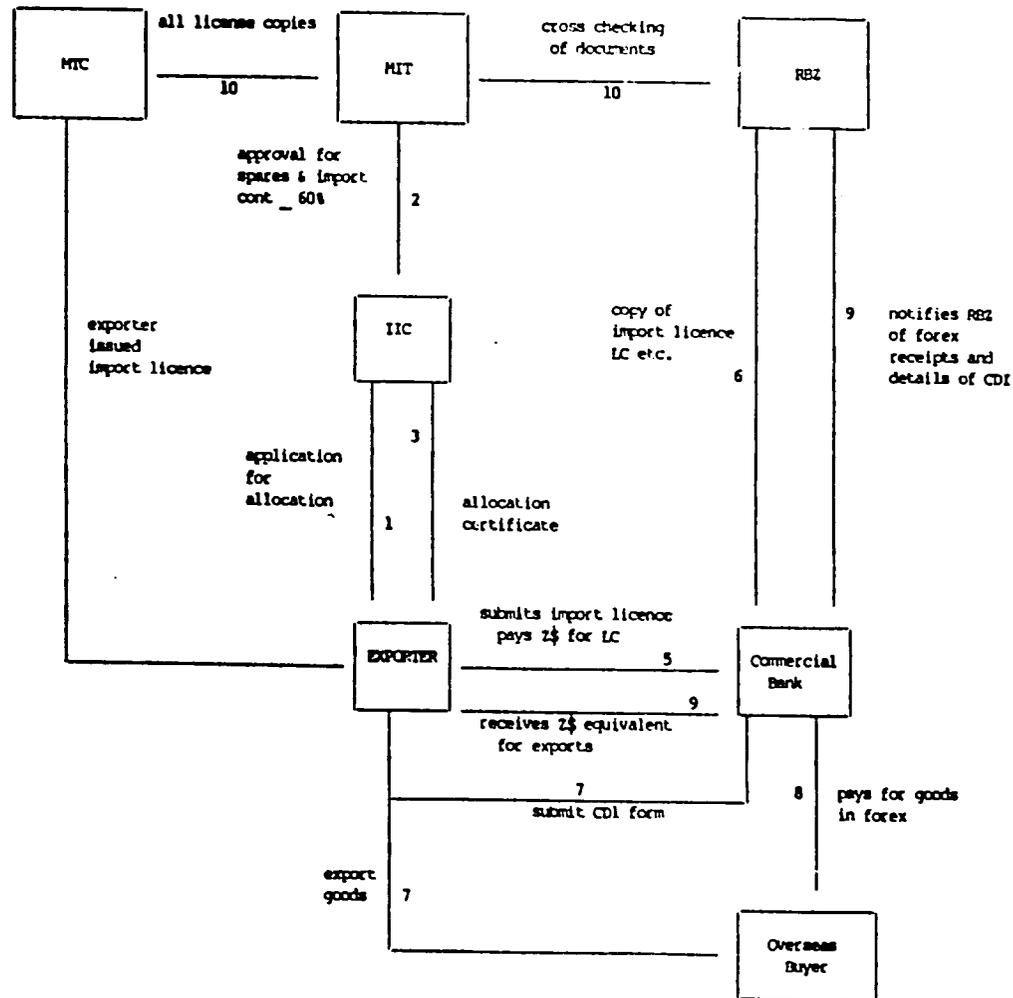
### Exports

Almost all exports originating from Zimbabwe (20% or more local content) do not require a specific export license as they are covered by the Open General Export License (OGEL). The major exceptions are scrap metals and ammunition. For other commodities a license is required only if an export permit has not been obtained from an appropriate department and these are :-

- \* pedigree livestock (Veterinary Services) within the Ministry of Lands Agricultural and Rural Resettlement (MLARR);
- \* precious metals and precious or semi-precious stones or pearls (Minerals Marketing Corporation of Zimbabwe, MMCZ);
- \* bulk commodities, both agricultural and minerals (MLARR and Ministry of Mines, MMCZ).

EXHIBIT VI - 9

DIAGRAM OF ERP OPERATING PROCEDURES



MTC - Ministry of Trade & Commerce  
 MIT - Ministry of Industry and Technology  
 IIC - Industrial Import Control  
 RBZ - Reserve Bank of Zimbabwe  
 LC - Letter of Credit

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Both export and import licences are issued by the Licensing Department of MTC.

For all exports in excess of Z\$50, a RBZ form CD1 must be completed in triplicate, for exchange control purposes. CD1 forms ensure that goods are exported in accordance with exchange control regulations and that payment has been or will be received for the goods. One copy (green) is for the exporters' commercial bank, one copy (white) is for Customs and Excise and the last copy (pink) is for NECI (National Economic Conduct Inspectorate) for record purposes. Once payment has been received for an export, the commercial bank returns the acquitted CD1 form to the exporter and notifies RBZ as soon as possible.

#### Imports by Exporters

Any exporting or other enterprise requiring to import consumer, capital or intermediate goods must be licensed to do so by the Licensing Department of MTC. Before obtaining import licenses, an enterprise must be in possession of certificates of allocation from either Industrial Import Control (IIC) of MIT (to import raw materials, spares or other inputs for manufacture), or Commercial Import Control (CIC) (to import manufactured products for resale). This certificate of allocation lists tariff heads of items that may be imported under the license. An exchange control Form E must be completed for all import transactions to effect the payment of suppliers by RBZ.

#### Preferential Trade Area Arrangements

The above import/export regulations also apply to PTA trade. However, PTA procedures minimise the use of convertible currencies in the settlement of intra-regional payments.

### 3. ERF Operational Procedures

Detailed below are the procedural steps for utilising the Export Revolving Fund (ERF). The steps are illustrated in the attached flowchart in Exhibit VI - 9.

#### STEP

#### ACTION

1. All applications are submitted by the exporter, or agents thereof, to Industrial Import Control (IIC), for raw materials either on a "top-up" basis or in advance to provide manufacturers with additional raw materials (supplementary allocations) where an export order cannot be met from existing stocks. Exporters may also apply for a currency allocation for spares and balancing equipment.

Applications for top-up allocations should be submitted together with the following documents :-

- (i) copies (in duplicate) of evidence of despatch of orders i.e. Bills of Entry/Export showing number, date and F.O.B. values, CD1 numbers and country of destination;
- (ii) replacement value of the import content utilised in performing the order must be stated, specifying main raw material inputs.

Application for supplementary or pre-export allocations must be submitted together with the following documents :-

- (i) two copies of the original export order;
  - (ii) F.O.B. value of export order;
  - (iii) F.O.B. imported content of the order;
  - (iv) expected date for the repatriation of export proceeds.
2. Top-up allocation and supplementary allocations are automatically granted by Industrial Import Control provided that the F.O.B. value of imports is less than 60% of the foreign value of the export price. There may be delays for exporters without an existing allocation and, therefore, a track record of exports. If the value of the raw materials inputs exceeds 60% the application is forwarded to MIT to determine whether an allocation is to be made.
3. IIC gives the exporter a "certificate of allocation" listing the tariff headings of the items to be imported plus the total value of the items.
4. The exporter takes the certificate of allocation to the Licensing Department within MTC, which then issues an import license. A copy of the license is also sent to MIT. Licences for goods intended for eventual export should be drawn separately from licenses for goods required for manufacture for the local market.
5. The import license enables the exporter to obtain a Letter of Credit (LC) from a commercial bank, (paying for it in local currency) and to import the raw material inputs using the LC.
6. On payment and clearance of items imported under the above import license, the exporter is obliged to submit to RBZ via their commercial bank, copies of the following :-
- (i) import license;
  - (ii) invoice from raw material supplier;
  - (iii) evidence of despatch or arrival (ie Bill of Lading, Customs Bill of Entry/Import, Rail Consignment Note);
  - (iv) evidence of payment for the raw material, showing value in foreign currency (eg Bank Debit, Bill of Exchange, or Letter of Credit).

This information will enable the Reserve Bank to draw-down on the ERF.

7. The exporter manufacturers and exports the finished product. The exporter notifies his commercial bank of export performance by means of a CDI Form, which has all the information pertaining to the export consignment. Under the ERF an exporter is allowed to grant credit terms of up to 6 months (180 days) from the day of shipment.
8. The external buyer pays the exporter's commercial bank in foreign currency for the exported goods.
9. The commercial bank notifies RBZ of the foreign currency receipts and, at the same time, pays the local exporter the equivalent of the proceeds in local currency.
10. RBZ then replenishes the ERF by deducting from the export proceeds the initial amount drawdown to finance imports plus a growth factor (originally 50% of net proceeds, this has subsequently been reduced to 20%). The balance goes into the country's general pool of foreign exchange.

#### 4. Incentives to Zimbabwean Exporters

Several incentives are available to enterprises currently exporting from Zimbabwe and those wishing to export:-

##### Export Revolving Fund (ERF)

Relatively easy and timely access to currency to either acquire or replenish stocks of inputs required for export production has proved a strong incentive to exporters. This is borne out by the fact that the majority of exports which exhibited a positive growth in 1987 relative to 1984 were manufactured products, which benefit from the Export Revolving Fund (ERF) introduced in 1983.

##### Export Incentive Scheme

Introduction in August 1984, the incentive rate has been at 9% of the F.O.B. value of the exports. The rate of the export incentive payment and the list of export commodities eligible for the incentive payment is determined by the MFEPD. All additions or deletions are at the discretion of the Secretary to the Treasury, applications for the inclusion of non-qualifying commodities may be submitted to the Secretary. A list of approved and excluded goods is available from the Department of Customs and Excise.

To be eligible, export goods must be of Zimbabwean manufacture with a minimum local content of 25%. Goods which are merely repacked or are assembled from components, are excluded from the scheme. The minimum value of qualifying goods within any one consignment is Z\$100 (US\$60).

All exporters need to be registered with the Export Incentive Department of Customs and Excise before they may claim. This is done by means of filling in a registration form, obtainable from Customs in Harare, Bulawayo, Gweru and Mutare.

The registered exporter claims by means of a claim form (obtained from the Department of Printing and Stationery), filled in in triplicate with two copies being sent to the Incentive of Officer of Customs and Excise. Claims must be submitted within six months of an export transaction. The claim forms must be accompanied by:-

- \* all documents needed for any export; and
- \* Certificate of Proof of Payment obtaining from Customs and to be filled in by the exporter and the exporter's commercial bank.

#### Supplementary Forex Allocation Scheme based on Incremental Exports

In November 1987 the RBZ announced a supplementary allocation of foreign exchange to all industrial exporters based on incremental export performance. Set at 25%, this allocation was based on the incremental F.O.B. value of manufactured exports of the calendar year 1986 over 1985. Subsequent allocations will continue to be made on an annual basis. The RBZ's estimates that Z\$11 million was allocated based on increased export turnovers of 1986 over 1985. The figure is expected to rise substantially in future.

The scheme is limited to exporting manufacturers and the allocations may either be used to promote further exports or for the domestic market. The RBZ administers the allocations and IIC issues the licences, listing the tariff items that may be imported against the above supplementary allocation.

#### Customs Drawback Duty

The Department of Customs and Excise operates a scheme whereby exports may claim back the duty and 20% Import Surtax paid on imported inputs of an export commodity. Payment on rebate claims is normally effected three months from date of application. There are two types of drawback duties.

- \* Industrial Drawback: for those items which were imported as raw materials and then processed into finished products for export. The rebate is only applicable if the processed goods are exported within two years of the raw material being imported into Zimbabwe. Customs determine the amount of duty to be rebated, based on the percentage of imported materials used. Exporters must submit evidence (e.g. stock cards) together with their claims to satisfy customs that the imported raw materials were utilised in the manufacture of the export product. Customs officers may visit the premises of the exporter for a physical inspection.

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EXHIBIT VI - 10

ZIMBABWE TOTAL SURVEY

SIZE	FIRM NO.	FIRM	LOCATION	INDUSTRY	QUESTIONNAIRE RETURNED	QUESTIONNAIRE NOT RETURNED	QUESTIONNAIRE REFUSED
L	2 1		Harare	Clothing	*		
L	2 2		Harare	Industrial Cables	*		
L	2 3		Harare	Packaging	*		
M	2 4		Bulawayo	Agro-processing	*		
L	2 5		Harare	Packaging	*		
L	2 6		Harare	Agro-processing	*		
L	2 7		Harare	Agro-processing	*		
M	2 8		Harare	Engineering	*		
S	2 9		Harare	Footwear	*		
L	210		Bulawayo	Domestic Hardware and Appliances	*		
M	211		Harare	Travel Goods	*		
M	212		Harare	Agro-processing	*		
M	213		Harare	Paints and Coatings	*		
L	214	Apex Corporation	Harare	Light Engineering		*	
L	15	PG Group	Harare	Timber, Parquet, Doors, Glass		*	
L	16	Aberfoyle	Harare	Agricultural Produce		*	
M	17	GSD Shoes	Bulawayo	Footwear, Leatherwear		*	
M	18	Baringa Exporters	Harare	Stationery		*	
L	19	Hubert Davies	Harare	Engineering		*	
L	20	Circle Cement	Harare	Cement		*	
S	21	Field Furniture	Harare	Furniture		*	
S	22	Futurama	Harare	Furniture		*	
S	23	David Whitehead	Harare	Yarn and Printed Fabrics		*	
M	24	Bakke	Harare	Furniture		*	
L	25	Tanganda Tea	Harare	Bulk Tea & Processed Tea, Coffee		*	
L	26	Archer	Bulawayo	Clothing			*
L	27	Blue Ribbons	Harare	Food Processing			*
M	28	Willards	Harare	Food Processing			*
L	29	J W Wilson	Harare	Furniture			*
L	30	ZPC	Harare	Fertiliser			*
L	31	Anglo American Corp.	Harare	Head Office : interests include :- Sugar Production & Refining Mining Mineral Refining Transport			*
	32	Oryco	Harare	Potential Exporter : Gases			*
	33	Clem Enterprises	Bulawayo	Potential Exporter : Engineering			*
	34	Coronet	Bulawayo	Potential Indirect Exporter : Packaging			*

Source : DHS Zimbabwe PERP Survey Data.

To benefit from the drawback, importers endorse the Form 21/Bill of Entry at the time of importing the relevant goods to the effect that they will be claiming the drawback. On exporting the completed goods, Form 34/Bill of Exit is similarly endorsed. Within 30 days of exporting, the exporter submits a drawback claim form (Form 44) to which is attached:-

- Form 21 plus the import invoices and store cards;
- Form 34 plus the export invoices and copy of the corresponding CDI Form.

- \* Same-State Drawback: applicable to items that have been imported and exported without undergoing any manufacturing process. With no fixed time limit between the date of importation of the product and date of exportation, the duty rebate is normally 100%.

### C. ZIMBABWE SURVEY APPROACH

#### 1. The Zimbabwe Sample

For Zimbabwe, DH&S contacted a total of 34 firms with a request to participate in our survey of firm-level foreign exchange demand. A total of 13 filled in the survey questionnaire. A further 12 firms retained the questionnaire but, despite follow-up enquiries, had not returned these by the time of finalising this report. The other 9 companies did not consider it would serve any useful purpose to formally participate in the survey. All firms contacted were willing to discuss the PERF concept with us, as well as their overall foreign exchange needs and their experience in meeting those needs through Zimbabwe's present foreign exchange allocation system.

Broadly speaking, the 34 firms contacted represent a reasonable cross-section of the kinds of exporting companies that PERF would aim to serve in Zimbabwe. More specifically this "sample" of firms exhibits the following characteristics :-

- \* it is private sector in ownership and control, although some sample firms involve government shareholdings;
- \* it is drawn from a set of 16 different agricultural agro-processing and manufacturing industries;
- \* it produces a range of 35 or more different products;
- \* it is generally made up of the larger private export firms in Zimbabwe, both in terms of employees and level of export turnover;
- \* it incorporates private exporters in both Harare and Bulawayo, Zimbabwe's two major manufacturing centers; and
- \* it incorporates 3 potential exporters.

Exhibit IV - 10 summarizes these characteristics by firm.

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EXHIBIT VI - 11

THE ZIMBABWEAN SAMPLE OF EXPORTING FIRMS

FIRM NO.	INDUSTRY	PRINCIPAL PRODUCTS (EXPORTED)	OWNERSHIP (PRIVATE)		TURNOVER (US\$'000)		EMPLOYEES
			LOCAL	FOREIGN	TOTAL EXPORT (%)		
Z 1	Manufacturing	Clothing	100%		22 000	7 526 (32)	2 200
Z 2	Manufacturing	Industrial Cables		80%	23 650	5 376 (17)	360
Z 3	Manufacturing	Packaging	96%	0,03%	33 000	3 245 (2)	733
Z 4	Agro-processing	Processed Foods		100%	13 750	3 300 (24)	600
Z 5	Manufacturing	Packaging		100%	17 202	300 (6)	500
Z 6	Agro-processing	Stockfeeds	100%		16 500	550 (2)	314
Z 7	Agro-processing	Vegetable oil and by-products		100%	110 000	5 720 (5)	1 200
Z 8	Engineering	Grinding Media		30%	11 000	1 430 (13)	760
Z 9	Manufacturing	Footwear & Leatherware	100%		1 000	400 (40)	38
Z10	Manufacturing	Domestic Hardware & Appliances	100%		35 330	5 300 (15)	1 534
Z11	Manufacturing	Travel Goods & Buildersware	100%		57 100	8 000 (14)	3 000
Z12	Agro-processing	Foodstuffs & Beverages			11 200	13 (1)	1 000
Z13 (a)	Manufacturing	Paints and Coatings		15%	16 500	550 (3)	314

(a) Due to a mis-interpretation of terminology, this firm was included in the sample as a private enterprise, but it was subsequently established that Government is its major shareholder (85%). However, while ownership has altered, management has remained unchanged and the company enjoys no preferential treatment from Government.

To protect the confidentiality of those 13 firms who responded to the questionnaire, they have been prescribed a code number Z1 - Z13. Due to a misinterpretation of the term "public", which in Zimbabwe normally refers to a company whose shares are traded publically rather than government involvement in a company, a firm with a minority private shareholding was included in the sample. However, since the change in shareholdings has not influenced the commercial management of the concern, it has been retained in the sample; denoted Z13.

The classification small, medium and large in Exhibit VI - 10 is indicative of total turnover :-

small	= less than Z\$2 million	(US\$1.5 million)
medium	= Z\$2 - Z\$ 13 million	(US\$1.5 - US\$10 million)
large	= over Z\$13 million	(US\$10 million)

Details of the 13 respondent firms (Z1 - Z13) are given in Exhibit VI - 11. Four firms have foreign majority share holders and another three has foreign minority shareholders. Included in this latter group is the public company Z13. All 13 firms may be described as "non-traditional" exporters in that less than half their total turnover is derived from exports. The most export orientated concern was a garment manufacture, with exports accounting for a third of its turnover.

## 2. Zimbabwe Sample Selection Methodology

The sample of 34 firms contacted for the present survey were intended to represent the universe of Zimbabwe exporting companies which might be expected to (1) need foreign exchange financing for imported inputs and (2) qualify for participation in PERF according to USAID's probable eligibility criteria. The sample was drawn in a four-step process.

Firstly, lists of major private exporting firms were compiled. A list of ERF participants was obtained from the Ministry of Industry and Technology (MIT) and another from our subcontractor IMANI Development (Pvt) Ltd. This latter was broken down by sub-sector and size (turnover/employment). Companies which were public sector-owned (eg CAPS) and/or believed to be moving toward greater public sector shareholding (eg Hunyani Pulp and Paper, Delta Corporation) were excluded from the list. (One organisation which should have been excluded was included in error.)

Secondly, a detailed schedule of Zimbabwe's exports was prepared, featuring a set of 84 different commodities/products, ranked according to 1985 value of export proceeds. Each of these agricultural, mining or manufactured items were reviewed by DH&S and IMANI staff to consider whether production and export of that item was predominantly in parastatal or other government agency hands and, if not, which private firm could be considered a significant operator in the production and export of that item. Where the parastatal role in production/export of given commodities was uncertain appropriate industry bodies were contacted for clarification (eg the Chamber of Mines for various minerals and mineral products).

Thirdly, a master list of approximately forty potential sample companies were distilled from the IMANI exporter list and the set of firms identified through the above export commodity analysis.

Fourthly, the final 34 companies to be contacted were selected from the master list. The selection was made so as to have as broad a dispersion of sample companies as possible among industries and export products.

### 3. Conduct of the Zimbabwe Survey

Senior executives of the 34 firms in our Zimbabwe sample were contacted directly by telephone or in person. During the initial contact the purposes of our survey were explained, and a few introductory questions were posed about the firm's requirements and access to foreign exchange for imported inputs to supply export production. The questionnaire was then described and the firm's assistance in filling it out was solicited. For those firms willing to respond, the questionnaire was then typically reviewed by the respondent with a DH&S staff person, and arrangement made to retrieve it at a later time. Normally, upon receipt of the questionnaire, DH&S contacted the responding firm again for clarification of data provided on a brief discussion of the results of the questionnaire.

Prior to and during conduct of the survey, DH&S also met with representatives of various organizations concerned with exporting in Zimbabwe. Among these were the Reserve Bank of Zimbabwe (RBZ), the Confederation of Zimbabwe Industry (CZI), the Minerals Marketing Corporation (MMCZ), the Commercial Farmers' Union (CFU) and the Horticultural Promotion Council (HPC) within the CFU. These meetings were intended to explain the objectives of PERF and our survey effort, to obtain information on conditions in the exporting sector and, ultimately, to confirm the pattern of responses we were obtaining and to test the conclusions we have drawn.

### 4. Limitations of the Zimbabwe Survey

In general, we believe that the information generated by the survey represents a fair picture of the foreign exchange requirements and PERF-related opinions of a class of private exporters across a broad array of items whose export PERF would hope to promote. While this industry and product/commodity coverage is reasonably good, there are of course certain significant export items (e.g. wattle extract, copper metal and slime) unrepresented among the product lines in our sample. Additionally, due to the constraints of time, we have concentrated on the larger private export firms. However, industry organization representatives have emphasized to us that, once "in the system" of the present Export Promotion Programme, small exporters have no disadvantage relative to large exporters with regard to access to foreign exchange. The small firms contacted during the course of the survey confirmed this opinion.

D. ZIMBABWE SURVEY RESULTS

1. Summary of Responses to the Questionnaire

Demand for PERF in Zimbabwe

The outcome of the survey of 34 firms is that there is no firm-level demand for a PERF facility at this time in Zimbabwe. Potential demand for PERF was approached from the angle of establishing whether or not the procurement of the import content of exported goods was a constraint to developing or expanding export production. All 34 firms contacted were unanimous in stating that these requirements were adequately met by the existing Export Revolving Fund (ERF). Respondents emphasized that this is particularly the case since this fund makes provision for both pre- and post-export procurement of the import content of exports.

Those that responded to the questionnaire did not foresee any change in their forecast of exports should PERF become available. A few firms initially stated an interest in PERF and were contacted again to explore this apparent contradiction of the general trend. In all cases, the assumption of "foreign exchange being more freely available" had been misconstrued to include areas outside the parameters of PERF. When it was explained that the question only referred to the currency that could be made available through PERF, all respondents revised their initial statement and concurred with the general conclusion cited above.

The potential exporters interviewed also concurred with this conclusion. The problem(s) they face is to obtain investment approval for plant and machinery - in the case of Oxyco this is required to increase its capacity to accommodate export orders while the other two potential exporters intend introducing new production lines/technology. Although all three consider that they have good export prospects, they have been unable to convince the Industrial Project Committee (IPC). Without assurance of being able to import the necessary capital equipment, they are unable to secure firm orders in support of their application(s) to IPC. (In one case, the project was originally submitted two years ago.) Similar reasons were cited by the small footwear manufacturer (Firm 79) for not being able to develop a sustainable export market, rather than relying on ad hoc contracts.

The requirements for pre-export credit was not mentioned by any of those contacted. From this it may be presumed that the financing of export production does not pose as a constraint to expanding exports. When asked specifically about financing arrangements proposed in the PERF concept, interviewees express concern about the cost of the proposed finance and that it would be payable in foreign exchange (and, therefore, would reduce the net foreign exchange receipts of the exporter).

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EXHIBIT VI - 12

RESULTS OF THE ZIMBABWE SURVEY

FIRM NO.	PRODUCTS	EXPORT TURNOVER		DIRECT	AVE. CYCLE	AVERAGE ANNUAL EXPORT GROWTH (c)	
		US\$ m	% Total	IMPORT CONTENT %	TIME (a) (months)		
Z 1	Clothing	7,5	32	53	6	30	10
Z 2	Industrial Cables	5,4	17	15	5	168	34
Z 3 (b)	Packaging	3,2	2	80	1.5	162	10
Z 4	Processed Foods	3,3	24	30	6	366	11
Z 5 (b)	Packaging	0,6	2	34	7.8	1	8
Z 6	Stockfeeds	0,7	3	2	1	66 (1987/88)	20
Z 7	Vegetable Oils and Products	5,7	5	5-35	6	21	15
Z 8	Light Engineering	1,4	13	38	6	0	-13
Z 9	Footwear & Leather	0,5	8	46	4	(AD-HOC CONTRACTS)	
Z10	Domestic Hardware and Appliances	5,3	15	47	7	10	-12
Z11	Travel Goods	8,0	14	40-59	2.5	4	7
Z12	Foodstuffs & Beverages	0,2	1	9	6	18	15
Z13 (b)	Paints and Coatings	0,6	3	30	4	-5	20

(a) With the exception of clothing manufacture, all other industries generally operate on a system of drawing-down their existing stocks and replenishing as required through ERP, therefore, cycle times are only indicative.

(b) Significant indirect manufacturing exporters.

(c) Assuming unchanged situation with respect to sources of foreign exchange.

Source : DHS Zimbabwe PERF Survey Data.

In this context, it is relevant to note that a proposed capital funding package for the mining sector is apparently in some doubt. This is partly a question of finance charges, which would amount to 14% - 15% to the end user. Although this cost is below that of locally available finance (which range between 15% and 20% per annum depending on the term and financing agreement), the borrower does not carry any currency risk as would be the case with external loans. The other factor which may prevent Zimbabwe availing itself of further offers of medium term finance is that MFEFD is unwilling to enter into future loan agreements; at least until such time as the "hump" in the present loan servicing cycle is past, forecasted to be in 1989 or 1980.

## 2. Other PERF Parameters

By way of comparison with other surveys in the present PERF demand study, we offer data on import content, cycle times and projected export growth. Data for the 13 respondents to the questionnaire are given in Exhibit VI - 12.

### Import Content

The import content of the products exported by respondents varied from a low 2% for agro-processing (stockfeeds) to a high 80% for manufactured exports (packaging). On balance, the import content (which includes raw materials, consumables and spares) of these exports is about 40% with up to a quarter of the currency (ie +/- 10% of FOB values) utilised for spares.

### Cycle Time

The majority of firms on the Zimbabwe survey reported cycle times of between 3 to 6 months. The exceptions are agro-processing (manufacture of stockfeed) with 1 month cycle period and manufacturing of packaging, with a cycle period of approximately 8 months. The main determining factors cited, apart from the manufacturing process itself, were the sources of raw material inputs and distance to export markets.

These periods should, however, be viewed with some circumspection. Firstly, raw materials are generally drawn from stock which is often replenished at irregular intervals (exporters consolidate import licences financed through ERP and other currency sources into economic order lots) and, therefore, there is no direct time link between raw material purchases and exports. Secondly, some respondents cited the credit period they allowed their customers; which would understate the 'cycle' time as conceived within the context of a PERF.

### Export Growth

Average annual export growth rates for the three years 1985 - 1988 and those projected for the next five years to 1993 are also presented in Exhibit VI - 12. Eight respondents reported a rapid expansion in exports (more than 20% per annum) during the past three years. In many cases this was as a result of an expansion in plant capacity; particularly clothing, industrial cables and food processing (Firms Z1, Z2 and Z4). Future export growth is projected to slow down as these firms enter a phase of consolidation.

Two firms project a contraction in exports (light engineering, domestic hardware and appliances), two reasons were offered for this :-

- \* capacity constraints, in the absence of major capital investment for rehabilitation or expansion of plant; and
- \* market constraints in the Region, (neighboring markets unable to pay for goods imported from Zimbabwe.)

### 3. Important Qualitative Findings for Zimbabwe

Our survey data yields a pattern of interesting insights into the condition of the Zimbabwean export sector. By order of frequency with which points were made in our questionnaire and interview responses, these include the following :-

- \* Enterprises in Zimbabwe have traditionally viewed the export market as secondary to the domestic market.
- \* To remain competitive on the export market, many concerns are operating at marginal cost, relying on the government export incentive (9% FOB value) and their domestic market to cover overheads. For these enterprises, a strong domestic base is a prerequisite for continued viability on the export market. This domestic/export balance has been upset by the substantial cutbacks on foreign currency allocations through DLMA which has led to an erosion of the domestic base. If this erosion continues, it will ultimately place severe restrictions on the export performance of many Zimbabwean enterprises and, consequently, threaten the longterm future of ERF or any similar revolving funds.
- \* Equipment operating beyond its economic life has led to high maintenance costs. Consequently, Zimbabwean enterprises are burdened with high cost structures, compounded by the authority's decision to introduce the GATT system of CIF valuation of imports (previously import duties were based on FOB values). This change has increased importers' preference to source from South Africa, thereby reduced transport costs and consequential import duties.
- \* Old capital equipment, subject to frequent breakdowns, adversely affects export performance. A continuing program of refurbishment or replacement of plant and machinery was repeatedly cited as necessary to sustain export growth.
- \* The weakening Zimbabwe dollar has benefited exports, at least to the extent that local currency receipts have increased and, therefore, enabled exports to make a greater contribution towards overheads. However, this has been partially offset by the concomittant rise in import costs which, on the domestic market, producers are constrained (by legislation) from passing on and which, therefore, erode their viability.
- \* Companies have only a limited cover against foreign exchange risk, in that they are unable to buy inputs forward to beyond six months. Companies are also reluctant to borrow external loans for capital expansion (which are available from the Zimbabwe Development Bank) because of the absence of long term cover against currency fluctuations.

- \* The Industrial Projects Committee (IPC) requirement that investment projects recoup the foreign exchange outlay within 12 months restricts the breadth and scope of any capital expansion by exporting enterprises.
- \* While exporters welcome the intentions behind the 25% incremental payments ("bonus scheme") based on greater export performance, they complain that this incentive scheme does not reward the consistent, mainstream exporter. The absence of any retention factor also mitigates against medium to long-term future planning.
- \* Onerous procedural requirements were criticised, both for the importation of goods and to take advantage of the various exports incentive schemes. In certain cases, delays in the granting of import licenses have led to the loss of export orders, these have largely been restricted to applications falling outside the normal ERF parameters. The administrative burden has also discouraged exporters from making full use of the incentives available to them.
- \* The Reserve Bank concedes that the ERF is not revolving as fast as originally projected; the multiplier effect has been dampened by the inclusion of spares within the scheme, and its extension to cover the needs of agriculture and mining.

The RBZ has expressed concern that, should spares be withdrawn from the scope of ERF, the export momentum would be adversely affected. If not funded by ERF, with its relatively quick and simple procedures for providing currency, applications for spares they would become subject to ministerial scrutiny before inclusion in the six-monthly DLMA. The resultant delays would aggravate an already difficult situation of maintaining plant and machinery.

- \* Transport has also been cited as a problem, particularly in view of the fact that Zimbabwe is landlocked and distant from many of her external markets. Generally, although it plays a vital role in the overall (export) performance of the country, the transport sector has suffered the most from cutbacks in foreign exchange allocations. This is particularly relevant to road transport. In the case of air-cargo transport, northbound cargo capacity (for exports) is constrained by limited southbound traffic.

#### 4. Industry-Specific Findings

Constraints to export development mainly relate to regional problems and Zimbabwe's distance from its overseas markets :-

- \* Zimbabwe exports to the PTA/SADCC countries are constrained by the general currency shortage in the Region. This has led to delays in recovering payments and, in some cases, the abandonment of markets. All respondents cited this as a problem, or a reason for not exploring the Regional market.
- \* These same exporters also have to contend with administrative problems and shortcomings within the Region -- further deterrents to developing regional exports -- including an inadequate communication infrastructure, a lack of standardisation in clearance procedures and, at times, a shortage of documents.
- \* Exporters of high bulk and low value products are constrained by high transport costs. This mainly affects the agro-processing industry (e.g. stockfeeds).
- \* The current ERF does not include the indirect exporter in so far as the incremental incentive payments are concerned and the allocation for spares. This has particularly affected the packaging and paint industries and their ability to support direct exporters.
- \* The clothing industry has cited the shortage of skilled manpower as a constraint to exports destined to highly competitive markets overseas. This industry has also suffered from the shortage of air cargo capacity out of Zimbabwe to foreign destinations; the nature of the fashion market does not allow for use of more time consuming rail and sea routes.

#### 5. Recommendation for PERF

In Zimbabwe, the areas that would be addressed by PERF appear to be adequately catered for and, consequently, no demand for PERF has been found. However, there are critical currency constraints to developing exports which could be addressed if the concept of PERF were to be expanded. If such a course of action is in line with USAID thinking, it is further recommended that such assistance be made available to exporters through the existing procedural framework (i.e. ERF). The advantage of this is that workable procedures have been established which could benefit other assistance programs. Furthermore, to establish separate mechanisms increases the administrative burden placed on both the authorities and private enterprise.

The following areas of support may be considered:-

- \* Expansion of the ERF to allow a more direct participation of indirect exporters so that they may become more quickly responsive to the needs of those direct exporters who are their customers.
- \* Set up an export promotion facility, capitalised with foreign exchange funds specifically earmarked for import of spare parts.

Provide a capital finance fund to support the expansion of export-orientated plant capacity -- by the nature of the expenditure, this fund would revolve at a slower rate than one provided for raw materials.

Unfortunately, these aspects were not specifically addressed by the PERF demand survey. Therefore, the magnitude of the demand for such assistance cannot be forecasted.

APPENDICES

APPENDIX A  
SURVEY QUESTIONNAIRE

Proposed Survey Questionnaire

---

1. Name of firm

---

2. Address

---

3. Year established

---

4. Chief Executive

---

5. Interviewee (name/title)

---

6. Ownership structure (%):

- \* public
- \* private

- local
- foreign

---

7. Sector/Industry

---

8. Firm size:

- \* total turnover (annual)
  - \* employment
  - \* assets
-

---

9. Current Products (see attachment A)

---

10. Current Turnover (see attachment B)

---

11. Import Content (see attachment C)

\* was your 1986 foreign exchange usage roughly :

- the same level as 1987  
(if not, what level)

- the same pattern as 1987  
(if not, what pattern)

\* specify major indirect imports you use (eg imported packaging products you purchase from local suppliers and which you pay in local currency)

---

12. Cycle Period (see attachment D)

---

13. Current sources of foreign exchange (describe)

---

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14. Projected export turnover targets 1989  
1989-1983 :

\* assume continuation of present forex  
situation (see attachment E1)

- list assumptions underlying  
projections

-- capacity expansion/contraction

-- market volume trends

-- other plans/factors influencing  
targets

\* assume freely available forex situation  
(see attachment E2)

- list assumptions as above

---

15. For above targets, can we assume that :

\* import content proportions estimated  
in No. 11 above will remain constant?  
(if not specify changes and insert in  
attachments E3 and E4 below)

\* cycle period estimated in No 12 above  
will remain constant (if not, specify  
changes)

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16. Projected foreign exchange requirements

\* assume continuation of present forex  
(see attachment E3)

\* assume freely available forex situation  
(see attachment E4)

---

17. Describe major constraints/  
disincentives to exporting

---

18. What recommendations can be offered  
to make the PERF responsive to  
exporters' needs (eg organizational  
arrangements, operating polices  
and procedures etc)

---

PERF DESIGN SURVEY : ATTACHMENT A

Product Lines

<u>Product Type</u>	<u>Present Production</u> <u>(Units/Year)</u>	<u>Rated Capacity</u> <u>(Units/Year)</u>	<u>Export (E)</u> <u>or Domestic (D)</u>
#1			
#2			
#3			
etc			

PERF DESIGN SURVEY : ATTACHMENT B

Turnover by Product and Market (1) (2)

<u>Production</u>	Product Type			Total
	#1	#2	#3	
<u>Domestic Market</u>				
turnover 1986 (est)				
turnover 1987 (est.)				
turnover 1988 (est) (3)				
<hr/>				
<u>Export Market(s)</u>				
Market A (1)				
turnover 1986 (est)				
turnover 1987 (est)				
turnover 1988 (est) (3)				
transaction currency				
-----				
Market B (1)				
turnover 1986 (est.)				
turnover 1987 (est.)				
turnover 1988 (est.) (3)				
transaction currency				
-----				
Market C (1)				
turnover 1986 (est.)				
turnover 1987 (est.)				
turnover 1988 (est)(3)				
transaction currency				
-----				

(1) Market denotes domestic or export destination country, or if country breakdown unavailable specify by hard currency markets excluding South Africa market (Market A); by soft currency markets (Market B) and Republic of South Africa (Market C).

(2) For export market estimate turnover preferably in foreign exchange values; alternatively estimate in local currency with approximate average annual exchange rate for US dollars

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PERP DESIGN SURVEY : ATTACHMENT C

Import Content and Source

<u>Import (1)</u>	Product Type			Total
	#1	#2	#3	
raw materials				
total value 1987 (est) (2)				
% FOB price (3)				
source				
transaction currency				
other consumables				
total value 1987 (est.) (2)				
% FOB price (3)				
source				
transaction currency				
components				
Total value 1987 (est.) (2)				
% FOB price (3)				
source				
transaction currency				
spare parts and other (4)				
total value 1987 (est)				
% FOB price (3)				
source				
transaction currency				
total 1987 foreign exchange usage (4)				

- (1) only items directly imported by exporter
- (2) foreign exchange value
- (3) FOB price in foreign exchange value terms
- (4) excludes capital goods imports

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PERF DESIGN SURVEY : ATTACHMENT D

Average Cycle Period (1)

<u>Product Type</u>	<u>Months</u>	<u>Principal Determinants Of Period Length</u>
#1		
#2		
#3		
etc		

(1) months between drawn-down of foreign exchange pre-export credit and receipt of foreign exchange proceeds of export sale

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PERP DESIGN SURVEY : ATTACHMENT E1

Projected Export Targets - Base Case (1)

(Assume present forex situation continues)

<u>Product/Market</u>	Target Export Turnover/Year (1)					
	1988	1989	1990	1991	1992	1993
<hr/>						
Product #1 (total)						
Market A						
Market B						
Market C						
Market D						
<hr/>						
Product #2 (total)						
Market A						
Market B						
Market C						
Market D						
<hr/>						
Product #3 (total)						
Market A						
Market B						
Market C						
Market D						
<hr/>						
Product #4 (total)						
Market A						
Market B						
Market C						
Market D						
<hr/>						

(1) state targets in foreign exchange terms and at constant prices

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PERF DESIGN SURVEY : ATTACHMENT E2

Projected Export Targets - Best Case (1)

(Assume foreign exchange freely available)

<u>Product/Market</u>	<u>Target Export Turnover/Year</u>					
	1988	1989	1990	1991	1992	1993
<hr/>						
<b>Product #1 (total)</b>						
Market A						
Market B						
Market C						
Market D						
<hr/>						
<b>Product #2 (total)</b>						
Market A						
Market B						
Market C						
Market D						
<hr/>						
<b>Product #3 (total)</b>						
Market A						
Market B						
Market C						
Market D						
<hr/>						
<b>Product #4 (total)</b>						
Market A						
Market B						
Market C						
Market D						
<hr/>						

(1) state targets in foreign exchange terms and at constant prices

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PERF DESIGN SURVEY : ATTACHMENT E3

Projected Export Targets - Base Case (1)

(Assume present forex situation continues)

	Year					
	1988	1989	1990	1991	1992	1993
<hr/>						
Product #1						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Product #2						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Product #3						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Product #4						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Total X Turnover						
Total M Requirement						

(1) state export turnover and import requirements in foreign exchange values and at constant prices; separate currencies if necessary

Projected Export Targets - Best Case (1)

(Assume foreign exchange freely available)

	Year					
	1988	1989	1990	1991	1992	1993
<hr/>						
Product #1						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Product #2						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Product #3						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Product #4						
Target X turnover						
M Content %						
M Forex Requirement						
<hr/>						
Total X Turnover						
Total M Requirement						

(1) state export turnover and import requirements in foreign exchange

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APPENDIX B

MALAWI DOCUMENTS

- B-1 Export Licencing Requirements
- B-2 Malawi's Duty Rates and Means of Payment
- B-3 Import Licencing Requirements
- B-4 Malawi's Liberalised Imports

APPENDIX B-1

EXPORT LICENSING REQUIREMENTS

Goods Requiring Export Licences

The following goods may not be exported without a licence:

1. Implements of war, (other than arms and ammunition), atomic energy materials of strategic value, and items of primary strategic significance used in the production of arms and ammunition and other implements of war:

Beryllium  
Cobalt  
Tantalum  
Uranium  
Lithium  
Columbite  
Niobium (Columbium)  
Thorium  
Germanium  
Titanium  
Nickel and nickel alloy

2. Petroleum products.
3. Wild animals, wild animal trophies and wild animal products (including birds and reptiles and any eggs produced by such birds or reptiles).
4. Bean meal.
5. Beans or peas
6. Groundnuts.
7. Sorghums, sorghum meal, sorghum salt.
8. Maize, including:
  - (a) dried maize, on or off the cob;
  - (b) crushed maize, or
  - (c) stamp; but excluding green maize on the cob.
9. Maize meal, including:-
  - (a) maize grits;
  - (b) maize cones;
  - (c) maize offals;
  - (d) hominy chop

10. Munga, munga meal (millets).
11. Oil seeds, oil meals, oil cake.
12. Rice in the grain.
13. Rupoko, rupoko meal (finger millets, gram or dhal)
14. Seeds for planting, in quantities of more than 90 kgs.
15. Unmanufactured tobacco.
16. Live fish, including eggs and spawn thereof.
17. Crocodile skins.
18. Gemstones, unmanufactured.
19. Tea (including tea seeds).
20. Cement.
21. Scrap metal of the following kinds:
  - (a) Steel;
  - (b) Stainless steel;
  - (c) Cast iron;
  - (d) Malleable iron;
  - (e) Copper;
  - (f) Brass;
  - (g) Bronze;
  - (h) Nickel and nickel alloy;
  - (i) Aluminium alloy.

APPENDIX B-2

Malawi's Duty Rates and Means of Payment

<u>Item</u>	<u>Import Duty</u>	<u>Surtax</u>	<u>Effective Total Rate</u>
Raw materials	20%	10%	32%
Finished goods:			
(i) basic	45%	35%	80%
(ii) Luxury (eg cars 2lts)	45%	55%	125%
(iii) Luxury (eg cars 2lts videos)	45%	85%	160%
Payment is by	(a) cash	(b) bank certified cheque	(c) bank guarantee

## APPENDIX B-3

### IMPORT LICENSING REQUIREMENTS

#### A. Goods from any source not requiring Import Licences

The following goods, unless otherwise restricted, originated in any country, may be imported without the authority of an import licence:-

1. Antifriction and lubricating greases.
2. Motor spirit, including aviation fuels.
3. Lubricating oils.
4. Oils and fuels, illuminating, transformer and insulating types, power and illuminating paraffin.
5. Exposed cinematography film.
6. Goods in transit through Malawi.
7. Used personal and household effects, imported by a person arriving in Malawi to take up residence or employment therein.
8. Goods, including motor vehicles, temporarily imported into Malawi by a bona fide tourist for his own use.
9. Goods accompanying a person entering Malawi and intended for private use by such person or his family.
10. Any bona fide unsolicited gift not exceeding MK50 in value.
11. Samples and advertising materials intended solely for use in the taking of orders and not for sale.
12. Any goods exported from Malawi for repair and return, and in respect of which a certificate to that effect has been issued by an officer of the Department of Customs and Excise.
13. Goods imported by any person who whose privileges are extended by virtue of any enactment in force in Malawi relating to diplomatic consular or other privileges, if such goods are imported for his own use and consumption or that of his household or for the purpose of his office.

#### B. Goods requiring Import Licences from all sources

The following goods, whatever their origin, require the authority of an import licence for their importation into Malawi:-

1. Clothing and uniforms designed for military, naval, airforce or police use.
2. Clothing used, other than personal effects of an individual, but excluding such articles when manufactured in Botswana.
3. Gold including:-
  - (a) unmanufactured gold in any form whatsoever; or
  - (b) any article or substance containing such unmanufactured gold which is, as such, not a gold coin, an article of commerce, a work of art, or of archeological interest; or
  - (c) any article consisting of, or containing gold which although manufactured is, as such not a gold coin, an article of commerce, a work of art, or archeological interest; or

- (d) gold derived from the smelting or treatment of any manufactured article containing gold.
4. Sugar.
  5. Wheat flour.
  6. Cement.
  7. Any knife having a blade which, either:-
    - (a) opens automatically by hand pressure applied to a button, spring or other device in or attached to the handle of the knife sometimes known as "flick-knife" or "flick-gun", or
    - (b) is released from the handle or sheath thereof by the force of gravity or the application of centrifugal force and which is released and locked in place by means of a button, spring, lever, or other device, sometimes known as "gravity knife".
  8. Radioactive substance.
  9. Game traps (metal).
  10. Mist nets for the capture of wild birds.
  11. Animals, wild animal products, (including birds and reptiles) and any egg produced by such birds or reptiles.
  12. Live fish, including the eggs and spawn thereof.
  13. Bees, honey unmanufactured beeswax, foundation comb, used bee-keeping accessories and appliances are subject to an import permit, from countries other than certain specified countries in Africa.
  14. Beans but excluding the following:-
    - (a) Seed beans in quantities of less than 90 kgs.
    - (b) Beans which are tinned, bottled or otherwise preserved.
  15. Ghee

16. Compound products containing flour, meal residues and other preparations of a kind suitable only for use as animal foodstuffs but excluding the following:-
  - (a) Chemical additions to animal foodstuffs;
  - (b) Antibiotic growth stimulants;
  - (c) Inert filler;
  - (d) Trace elements;
  - (e) Synthetic animal foodstuffs;
  - (f) Salt lick for cattle.
17. Eggs of poultry, whether in shell, pulp or dried form; eggs of wild birds.
18. Gram, dhal.
19. Groundnuts.
20. Maize, including:
  - (a) maize grits;
  - (b) maize cones;
  - (c) hominy chop;
  - (d) maize offals;
  - (e) processed maize meals with or without additives.
21. Oil seeds, oil meal, oil cake, offals and residue from oil seeds.
22. Potatoes.
23. Live poultry, including day old chicks.
24. Rice, in the grain.
25. Rupoko, rupoko meal (finger millets).
26. Vegetable oil, but excluding almond oil, castor oil, coconut oil, linseed oil and olive oil.
27. Bananas.
28. Meat.

The importation of all meat including dressed poultry is prohibited without permission in writing from the Minister of Trade, Industry and Tourism. The minister has, however, exempted the following from import control:

All tinned meat  
 All potted meat  
 Meat soups  
 Meat pastries  
 Edible meat fats  
 Tallow

All cooked meats other than cooked pork  
 All cooked ham and cooked bacon

The importation of all animals and other animal products require to be certified as free from diseases before importation.

29. Stationery.
30. Fertilisers.
31. Dieldrin.
32. Aldrin (insecticides).
33. Corrugated iron sheets of 30 gauge and above.
34. Coarse salt.

C. Imports originating in Sterling territories

Subject to the above provisions, goods originating in Sterling territories do not require import licences. The Sterling territories are:-

Dominions other than Canada  
 Any other Commonwealth country  
 The Republic of South Africa  
 Hashemite Kingdom of the Jordan  
 Iceland  
 Republic of Ireland  
 The State of Kuwait  
 People's Republic of Libya  
 Western Samoa

D. Imports from countries which qualify for Open General Licence Treatment

Except where specifically restricted goods originating in the following countries may be imported under Open General Licence:-

Algeria	Indonesia
Angola	Israel
Argentina	Luxembourg
Australia	Madagascar
Austria	Mauritius
Belgium	Mali
Brazil	Monaco: Principality of
Burma	Morocco: Sherifian Empire of
Burundi	Mozambique
Kampuchea	Netherlands
Cameroun	Nicaragua
Canada	Niger
Central African Republic	Norway
Chad	Peru
Chile	Philippines, The
Congo, The	Portugal
Dahomey	Rwanda
Denmark	San Marino

Dominion Republic	Senegal
Ethiopia	Somali
Finland	Spain
France	Sudan
Gabon	Sweden
Germany, Federal Republic of	Switzerland
Greece	Taiwan
Guinea	Togo
Haiti	Korea, Republic of
Tunisia	Liberia
Turkey	Liechtenstein: Principality of
United Arab Republic	Upper Volta
United States of America	Uruguay
Italy	Vatican City
Ivory Coast	Zaire

E. Countries from which goods must be licensed in every case

Goods originating in countries listed below also in these countries' dependencies require import licence in every case.

Application for licences will be considered on their merits before orders are placed.

Afghanistan	Mexico
Albania	Mongolia
Andorra	Muscat and Oman
Bhutan	Nepal
Bolivia	Panama (including Canal Zone)
Bulgaria	Paraguay
Cuba	Peoples Republic of China (Peking China)
Columbia	Saudi Arabia
Costa Rica	Thailand
Eastern Germany	Tibet
El Salvador	USSR (Russia)
Guatemala	Venezuela
Honduras	Vietnam (North and South)
Hungary	Yemen
Iran	Yugoslavia
Korea (South)	Czechoslovakia
Korea (North)	Poland
Laos	Romania
Lebanon	Iraq

APPENDIX B-4

MALAWI'S LIBERALISED IMPORTS

A. RAW MATERIALS

Major items on the approved list:-

Agricultural chemicals  
Chemical products for industrial use  
Fertilizer in bulk  
Fuel including diesel fuel  
Lubricating oils in bulk  
Medicaments  
Oil, petroleum refined  
Spirit, aviation for jet and jet turbine engines  
Universal plates unworked, of iron or steel.

B. SPARE PARTS

Major items on the approved list:-

Bearings  
Conduit  
Nuts, bolts, screws  
Electric motors  
Agricultural tractor parts  
Pumps, water, industrialized or specialized  
Industrial refrigeration equipment  
Springs  
Valves, tubes for industry  
Industrial water filters, centrifuges  
Insulated wire, cables

APPENDIX C

MOZAMBIQUE DOCUMENTS

- C-1 Declaracao De Venda
- C-2 Export License Application
- C-3 Import Permit Application
- C-4 Customs Clearance Form

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APPENDIX  
C-1

REPÚBLICA POPULAR DE MOÇAMBIQUE

MINISTÉRIO DO COMÉRCIO

DIRECÇÃO NACIONAL DE OPERAÇÕES COMERCIAIS

Declaração de Venda para efeitos de registo  
a preencher em quadruplicado

REFERENCIA DO DECLARANTE

N.º .....

que deverá ser mencionado no pedido de exportação

O EXPORTADOR

domiciliado em

solicita à D. N. O. C. o registo

da seguinte venda, efectuada nos termos da regulamentação em vigor:

DESCRIÇÃO DA MERCADORIA

QUANTIDADE		Quiles
		Outra medida

PREÇO POR UNIDADE

PREÇO TOTAL

PORTO DE EMBARQUE

MÊS DE EMBARQUE

PAÍS DE DESTINO

COMPRADOR

AGENTE

CONDIÇÕES DE PAGAMENTO:

OBS.:

Deve ser anexado documento comprovativo da transacção (telex, contrato, carta ou outro documento) relativo à venda acima descrita.

..... de ..... de 198

.....  
(Assinatura e carimbo do exportador)

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IMPORTANTES Instruções no verso do exemplar. Este formulário deve ser preenchido em português.

INSTRUÇÕES

BOLETIM DE REGISTO DE EXPORTAÇÃO E REEXPORTAÇÃO  
REPUBLICA POPULAR DE MOÇAMBIQUE  
MINISTERIO DO COMERCIO EXTERNO

RECEITA ORDEM DEL. DA D. S.C. (1) NÚMERO (1) DATA (1) VÁLIDO ATÉ

(a) ORGANISMO

(a)

PAÍS DE DESTINO (1) PAÍS DE ORIGEM (1) PAÍS DE PROCEDÊNCIA (1) PORTAÇÃO NATAL (1)

Table with columns: DENOMINAÇÃO (1), TIPO, QUANTIDADE (KILOS (1), OUTRA MEDIDA (1)), VALOR (1), VALOR DO FRETE, VALOR DO CEBEHO, VALOR CÂMBIAL, COMISSÃO (1), VALOR (1), N.º DE ENTRADA

ESTADÍSTICA FISCAL A UTILIZAR (1)  
CONVENIÊNCIA - VALOR (1)  
CLASSIFICAÇÃO (1)  
CLASSO - EST. LE. (1)

EMITIDO EM / / (d)  
D: em várias unidades do sistema métrico. Não são admitidas outras, nem denominações em língua estrangeira.

THIS IS APPLICATION FORM  
NEEDS MIN OF COM STAMP.



MINISTERIO DO COMERCIO  
LICENÇA DE IMPORTAÇÃO

Nº 5574 A

COD IMPORTADOR N.º [ ][ ][ ][ ]  
NOME DE ORDEM [ ][ ][ ][ ][ ][ ][ ][ ][ ]

DATA DE EMISSÃO: [ ][ ][ ][ ][ ][ ][ ][ ][ ][ ]  
DIA MES ANO

EXAMPLE FORM (2)

PARA DESPACHO E PAGAMENTO  1  
SO PARA DESPACHO  2

APPENDIX C-3

1. IMPORTADOR  
EDUARDA MARIA RODRIGUES RIBEIRO

2. FORNECEDOR NOME DA EMPRESA  
COMPUTRONICS (SWD) LTD.  
PAIS CODIGO NOME  
3 7 7 SWAZILÂNDIA

3. TRANSPORTE  
LOCAL DE EMBARQUE EMBARQUES PARCIAIS  
3 7 7 SWAZILÂNDIA  1 SIM  2 NAO  
CODIGO NOME DO PAIS  
 1 MARITIMO  2 AEREO  3 FERROV.  4 RODOV.

4. DESEMBARQUE/DESCARGA  
 1 MAPUTO  2 BEIRA  3 NACALA  4 OUTROS  
DATA PREVISTA DE CHEGADA 2 8 0 4 8 8  
DIA MES ANO

5. CONDIÇÕES DE COMPRA  
 1 CIF  2 C&F  3 FOR  4 FOR/COT  
 5 CIP  6 DCP  7 OUTRAS

6. FORMA DE PAGAMENTO  
 1 ABERTURA DE CREDITO  2 CONTRA DOC. A PRAZO  3 CONTRA ENTREGA DA MERCADORIA  4 OUTRAS

OBSERVAÇÕES  
CONDIÇÕES DE COMPRA = F R C  
PARA USO

OBSERVAÇÕES  
PAGO NA ORIGEM POR FUNDOS PRÓPRIOS

7. VALOR DECOMPOSIÇÃO DO VALOR CIF/C&F EM MOEDA ESTRANGEIRA  
MOEDA 5 3 RANDES CAMBIO 2 4 3 9 3 3 0  
CÓDIGO DESIGNAÇÃO DA MOEDA VALOR DA MERCADORIA 0 0 0 0 0 0 0 0 0 0 0 0 8 5 1 0 0 0  
EM MOEDA ESTRANG. VALOR DO SEGURO 0  
C/VALOR EM MOEDA NACIONAL VALOR DO FRETE 0

8. LICENCIAMENTO  
PLANO DE 19 80 OBSERVAÇÕES  
ASSINATURA E CARIMBO DA ENTIDADE LICENCIADORA  
VAIDADE EM CAIO ESPECIAL [ ] MESES DATA DE ELABORAÇÃO DO IMPRESSO 0 3 0 5 6 8

Agência Nacional de Despacho "Adena" E. E.



REQUISIÇÃO DE SERVIÇO - ENTRADA DE MERCADORIA

0) Para todo o material originário da África do Sul. (2) Para todo o material originário da Índia. (3) Para mercadorias a ser importadas e ser importadas de Amázon. (5) Para importação de alimentos. (6) Para animais vivos e produtos de origem animal. (7) Para produtos Marítimos, Funcionários, Insecticidas, Talhoes, etc. (8) Para produtos alimentares de origem vegetal. (9) Para aparelhos emissores/receptores de radiotelevisão, suas partes e peças separadas. (10) Para aparelhos e artigos de plástico, borracha, metal e madeira.

NOTA: Agradecer ao o lavor de mencionar o numero desta instrução sempre que descreverem talor o andamento do despacho

Processo n.º \_\_\_\_\_ Crédito n.º \_\_\_\_\_ Instrução n.º \_\_\_\_\_

EMPRESA DO COMÉRCIO EXTERNO \_\_\_\_\_

CONSIGNATÁRIO \_\_\_\_\_

RAMO DE ACTIVIDADE COMÉRCIO INDÚSTRIA

PAGAMENTO A EFECTUAR POR: \_\_\_\_\_ Tel. \_\_\_\_\_

LEVANTAMENTO A EFECTUAR POR: \_\_\_\_\_ Tel. \_\_\_\_\_

OBSERVAÇÕES: \_\_\_\_\_

- IMPORTAÇÃO -	IMPORTAÇÃO DE ARMAZEM	IMPORTAÇÃO TEMPORÁRIA
ENTRADA PARA ARMAZEM	REIMPORTAÇÃO	TRANSFERENCIA ARMAZEM

DESIGNAÇÃO GÉNÉRICA DA MERCADORIA: \_\_\_\_\_

MEIO DE TRANSPORTE

Navio: \_\_\_\_\_ Avião  C. Ferro  Via Terrestre

C/Marca \_\_\_\_\_ Zona \_\_\_\_\_

DOCUMENTOS ENTREGUES

Factura(s) n.º \_\_\_\_\_

B. R. Importação n.º \_\_\_\_\_

Conhecimento de Embarque n.º \_\_\_\_\_ Porto de: \_\_\_\_\_

Aviso de Chegada C. Ferro/Avião/E. Postais n.º \_\_\_\_\_

Carta de Porte Aéreo n.º \_\_\_\_\_

Lista de Embalagem n.º \_\_\_\_\_

Apólice de Seguro n.º \_\_\_\_\_

Bill of Entry no. (1) \_\_\_\_\_

Consignment Note no. (2) \_\_\_\_\_

Triplicado do Despacho de Exportação Temporária n.º (3) \_\_\_\_\_

Triplicado do Despacho de Entrada em Armazém n.º (4) \_\_\_\_\_

Boletim do Exercício Farmacéutico n.º (5) \_\_\_\_\_

Licença da Veterinária n.º (6) \_\_\_\_\_

Licença da Agricultura n.º (7) \_\_\_\_\_

Certificado de Sanidade Vegetal n.º (8) \_\_\_\_\_

Nota de conformidade dos C. T. T. n.º (9) \_\_\_\_\_

Licença de Importação da Polícia n.º (10) \_\_\_\_\_

Outros documentos \_\_\_\_\_

REQUISITADO POR: \_\_\_\_\_ RECEBIDO POR: \_\_\_\_\_

Data \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_ Data \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_ Hora: \_\_\_\_\_

DESPACHO N.º \_\_\_\_\_ N/FACTURA N.º \_\_\_\_\_

BOLETIM DE MERCADORIAS N.º \_\_\_\_\_ N/FACTURA ADICIONAL N.º \_\_\_\_\_

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CONFÉRENCIA DE CARGA  
**REQUISITO DE SERVIÇO - ENTRADA DE MERCADORIA**



EMPRESA DE COMÉRCIO EXTERNO  
 COMERCIAL  
 RAMO DE ATIVIDADES  
 PAGAMENTO A RECEBER  
 TITULO A RECEBER

GOVERNAMENTO FEDERAL DO BRASIL

Transporte _____	c/Marca _____	Zona _____
Data da atracção _____		data do termo de descarga _____
<b>CONTROLO</b>	<b>PRESTADO</b>	<b>SERVIÇOS PRESTADOS</b>
Entrada no sector _____	_____	B. R. L - Obtenção _____
Exame prévio _____	_____	Certificados _____
Despacho feito em _____	_____	Licenças _____
Facturado em _____	_____	Visos _____
Entrado na Tesouraria _____	_____	Períodos de Exame de 1/2 hora _____
Despacho pago em _____	_____	<input type="checkbox"/> Pedido de Vistoria e Seguro _____
Submeuido à verificação _____	_____	Requerimentos avulso _____
Pronto em _____	_____	Cartas diversas _____
Nota pronta em _____	_____	Imposto de Consumo _____
Entregue ao cliente em _____	_____	Registos _____
Baixa no controlo _____	_____	Boletins de mercadorias _____
Arquivado em _____	_____	Outros Serviços _____
<b>OBSERVAÇÕES</b>	<b>IMPORTÂNCIAS DISPENDIDAS</b>	
	GUIAS DE EMOLUMENTOS: Extraordinário _____	
	Local _____	
	Exame Prévio _____	
	Acomp. Fiscal _____	
	SELOS COLADOS: No despacho _____	
	Nos documentos _____	
	FRETES: Caminho de Ferro _____	
	Marítimo _____	
	Camião _____	
	TAXAS DE CAIS _____	
	GUINDASTE/MAQUINA _____	
	EXAMES PRÉVIOS: Depósito de seguro _____	
	Personal _____	
	DIREITOS E OUTRAS IMPOSIÇÕES _____	
	OUTRAS DESPESAS _____	

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APPENDIX D

TANZANIA DOCUMENTS

D-1 New Open General License

D-2 Export Retention Scheme Data

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## Notice to All Importers.

### The New Open General Licence (OGL)

Importers and the General Public are hereby notified that the Bank of Tanzania is inviting applications for foreign exchange allocations to procure from abroad various goods contained in the list which appears below under the New Open General Licence. (OGL). All Importers are requested to submit to the Director of Import Licence, application forms accompanied by a fee of one hundred shillings and clearly marked on top "Import Licence under OGL"

All applications under OGL have to comply to the following conditions:-

1. The only items which are eligible for importation under the new OGL scheme are as listed below:-

BTN NO.	DESCRIPTION
1.05	Poultry Chicks
11.07	Malt
21.07	Beverage Concentrates
28.01	Chemical Elements, Inorganic
29.01A	Organic Compounds for Manuf. Agric., Pharmac. Products.
30.03	Medicaments, Drugs.
32.01	Tanning Extract of vegetables
32.02	Tanning Substance.
32.03	Synthetic organic substances for tanneries
32.04	Colouring matter of vegetable for tanneries
32.05	Synthetic substances for tanning
32.06	Colour lakes for tanning
35.05	Dextrines and glues
35.06	Prepared glues not elsewhere
38.11C	Weed Killers
48.10	Cigarette Paper
82.01	Hoes
82.09	Knives (Agric. & Industries)
84.06D	Internal Combustion (parts)
84.10	Pumps for irrigation
84.11	Airpumps: Industrial & Agric.
84.18	Filtering and Purifying Parts
84.19	Machinery parts for cleaning bottles
84.20	Weighing Machines
84.22	Lifting, handling and unloading machinery.
84.24	Agric. & Horticultural machinery
84.25	Harvesting & Threshing machinery
84.26	Dairy Machinery
84.28	Other Agric. & Horticultural machinery.
84.38	Auxiliary Machinery & Spare parts for textiles
84.48	Accessories & Parts for machine tools
84.49	Tools for working in the hand.
84.59	Machinery parts of cigarette
84.61	Taps, Corks, Valves, etc.
84.62	Ball, roller, or needle roller
84.63	Transmission shafts, cranks for industries & agric.
84.64	Gaskets and similar joints
84.65	Machinery parts
85.05	Electrical tools for working in the hand.
87.06	Parts & Accessories — Tractors
87.14	Other Vehicles: Agric. Wagons.

2. Each application submitted by a bona-fide importer will be subject to a maximum value equivalent to US \$100,000.
3. Each bona-fide importer, who is a legal entity, will be entitled to submit applications for an aggregate not exceeding the equivalent of US \$200,000.
4. Issuance of Import Licences will be automatic, provided that the application conforms to the eligibility and quantitative ceilings specified above.
5. Time limit between issuance of Import Licences and establishment of letters of credit is two months, within which the letters of credit should be established. Failure to observe this time limit will render the Import licence null and void and there will be no provision for its extension. However, the applicant who is so time barred may choose to re-apply for the second round, provided he (she) complies with the conditions governing the importation under the OGL System.
6. On the basis of the Import licenses issued by the Bank, letters of credit will be immediately established by National Bank of Commerce (NBC) in accordance with its usual banking practices concerning local currency cover.
7. The importation of goods under the new OGL facility will be subject to all current import procedures as stipulated in the Import Control Ordinance. The Exchange Control Regulations including SOS inspection will also apply to all goods imported under the new OGL.
8. Any application under the new OGL system which is not submitted in accordance with the conditions and terms specified above will not be eligible for consideration.

BANK OF TANZANIA  
DIRECTORATE OF IMPORT LICENSING

DAILY NEWS DAR ES SALAAM

8 FEBRUARY 1988

# APPENDIX D-2

## EXPORT COMMODITIES FOR NEW RETENTION SCHEME

### A: MAJOR TRADITIONAL COMMODITIES

1. Coffee (Raw)
2. Cotton Lint
3. Sisal Fibre
4. Tea (Bulk)
5. Tobacco (Raw)
6. Cashewnuts
7. Diamonds
8. Residual Fuel Oil
9. Pyrethrum
10. Cloves
11. Organized Gold
12. Sugar
13. Hides and Skins
14. General Utilities (e.g. P&T, Road Transport, Harbours, Air Transport, Railway Transport, Electricity, Water).
15. Wild life products - ivory, ivory carvings, animal skins etc.
16. Instant Coffee
17. Blended tea
18. Salt
19. Cocoa and cocoa beans
20. Wattle bark extract
21. Sisal twine
22. Tanned Leather
23. Cotton yarn
24. Cotton Seed cake.

**B: NON TRADITIONAL INDUSTRIAL PRODUCTS**

**EXAMPLES: (Products from installed manufacturing and processing capacities),**

**B1: INDUSTRIAL PRODUCTS TO BE EXPORTED WITHOUT SPECIAL CLEARANCE.**

1. Textiles (including cotton yarn, towels, blankets and Canvas Products).
2. Aluminium Products (including Galvanised sheets, Circles etc.
3. Metal products
4. Leather products/shoes, bags and components
5. Chemicals
6. Fishnets
7. Radio and Radio Cassettes
8. Bottles and Glassware
9. Foam mattress
10. Plastic products (pipes, containers etc.)
11. Radiators
12. Steel drums
13. Utensils/Enamelware
14. Electric Cables, motors and conductors
15. Transformers and Switch gears
16. Fridges & deep freezers
17. Glue and Paints
18. Nails, screw (Industrial Fasteners)
19. Spectacle frames
20. Canned beef, fish and fruits
21. Pulp and Paper products
22. Thermos Flasks
23. Cutlery
24. Phosphates
25. Meerschaum Products (Smoking pipes etc.)
26. Timber and Timber products
27. Ceramics
28. Sheet glass
29. Scrap metal - subject to approval by sectoral Ministry
30. Enamelware

31. Battery caps and bottom discs
32. Kitchen and bush knives
33. Shoe eyelets
34. Any other items not specified to be approved by The Ministry of Industries and Trade.

B2: THE SPECIAL PRODUCTS TO BE EXPORTED AFTER SPECIAL CLEARANCE

1. Cigarettes
2. Cement
3. Tyres and Tubes
4. Batteries, drycells and battery components  
Soap and detergents
6. Cooking Oil  
Beer, spirits and wine
8. Electrical fittings

C: OTHER NON TRADITIONAL PRODUCTS/SERVICES

EXAMPLES: (Products not coming from installed Manufacturing/  
Processing Capacities):-

- |   |   |
|---|---|
| <ol style="list-style-type: none"><li>1. Small Scale Gold</li><li>2. Gemstones</li><li>3. Tin</li><li>4. Mica</li><li>5. Fish (Prawns, Lobsters etc.)</li><li>6. Handicrafts</li><li>7. Live Animals (e.g. Cattle, etc)</li><li>8. Live Birds</li><li>9. Horticultural produce (vegetables, onions, flowers, fruits)</li><li>10. Pepper</li><li>11. Cardamon</li><li>12. Beeswax</li><li>13. Honey</li><li>14. Kapok Fibres and Seeds</li></ol> | } But these items are subject to detailing by the Ministry of Water, Energy and Minerals. |
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16. Pigeon Peas
17. Fresh Meat
18. Tourism
19. Palm Kernels
20. Groundnuts
- 21. Simsim Seeds
22. Private Transporters
23. Any other items not specified to be approved by  
The Ministry of Industries and Trade.

GOODS TO BE IMPORTED UNDER THE RETENTION  
SCHEME TO CATER FOR AGRICULTURAL, MARINE  
AND MINING REQUIREMENTS

1. Agricultural tools and implements
2. Tractors and tractor spare parts
3. Load carrying vehicles and their spare parts
4. Gunny bags
5. Industrial machinery and spares for cotton ginning, curing of tobacco and coffee and processing of cashewnuts, sugar, tea and sisal.
6. Fishing gear and equipment including nets, hooks, outboard and inboard engines, pressure lamps etc.
7. Hammer mills.
8. Fertilizers
9. Insecticides, pesticides and fungicides
10. Spare parts and accessories for mining equipment.

GOODS TO BE IMPORTED UNDER THE RETENTION SCHEME  
TO ENHANCE INDUSTRIAL PRODUCTION

1. Industrial Machinery and Spares
2. Chemical Elements and compounds
3. Dyeing, tanning and colouring materials
4. Packing materials (including plastic, metal and paper containers).
5. Heat insulating bricks
6. Iron and steel (including ingots, bars, angles, sheet piling etc.)
7. Non-ferrous metals (including copper, zinc, aluminium etc.)
8. Carpentry tools
9. Other proven raw materials and inputs for industry not otherwise specified.

GOODS TO BE IMPORTED UNDER THE RETENTION SCHEME  
FOR INCENTIVE PURPOSES INCLUDING FOOD, TOURIST  
AND EDUCATIONAL SECTOR REQUIREMENTS

1. Bicycles, motor cycles, spares and accessories.
2. Tourist sector requirements (except beer and soft drinks)
3. Baby foods )
4. Sugar ) To be imported subject
5. Rice ) to approval by sectoral
6. Maize ) ministries
7. wheat and wheat flour )
8. Beans )
9. Sports gear
10. Stationery, educational materials and text books
11. Photographic and photo copying equipment and accessories
12. Second hand clothing (to be imported with fumigation chemicals)
13. Gents, ladies, children garments
14. Piece goods (continuous)
15. Piece goods (dis-continuous)
16. Blankets
17. Cooking oils
18. Salt
19. Yeast
20. Shoes
21. Shoe polish
22. Socks and stockings
23. Parafin wax
24. Stainless steel cutlery and ceramic crockery
25. Radios and radio batteries
26. Hurricane lamps and lanterns
27. Refrigerators and Deep Freezers

GOODS TO BE IMPORTED UNDER THE RETENTION SCHEME  
TO MEET REQUIREMENTS FOR COMMUNICATIONS, TRANSPORT  
AND CONSTRUCTION INDUSTRY

1. Load carrying vehicles (lorries etc.)
2. Passenger carrying vehicles (buses)
3. Tyres and tubes
4. Motor vehicles spare parts and accessories
5. Accessories and spares for repair of telephone and telex systems
6. Loading and unloading equipment, spares and accessories and other port facilities.
7. Accessories and spares for locomotive engines and aircraft.
8. Building materials:
  - (a) Roofing materials, including corrugated iron sheets
  - (b) White cements
  - (c) Sanitary and lavatory appliances (e.g. basins, sinks and similar sanitary ware).
  - (d) Water tubes/pipes fittings
  - (e) Hinges, locks and door handles
  - (f) Tiles (walls and floor) and other ceramic products
  - (g) Louvre glass
  - (h) Steel plates and bars
9. Electrical goods:
  - (a) Electrical fittings for buildings e.g. (plugs sockets)
  - (b) Electrical cables
  - (c) Electrical bulbs
  - (d) Electric lighting fittings
  - (e) Power generation and transmission requirements.

GOODS TO BE IMPORTED UNDER THE RETENTION SCHEME TO  
CATER FOR HUMAN HEALTH AND VETERINARY-REQUIREMENTS

1. Non-prescription (over the counter) drugs
2. Prescription drugs ) Subjects to
3. Animal and poultry feeds and premixes ) approval by
4. Day old chicks ) Sectoral
5. Veterinary medicines ) Ministry
6. Foam mattresses for Hospitals and schools )
7. Toilet and laundry soap
8. Tooth brush
9. Tooth paste
10. Spectacle frames and lenses
11. Ambulances
12. Mobile clinics

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NOTE THAT IMPORTERS UNDER THE IMPORT RELAXATION  
POLICY SHOULD ALSO ABIDE BY THIS IMPORT LIST  
DISIGNATED .

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