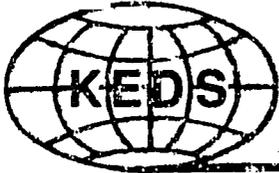


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KENYA EXPORT DEVELOPMENT SUPPORT

EXPORT PROMOTION PROGRAMMES OFFICE

NEEDS ASSESSMENT

Final Report

Development Alternatives, Inc.
USAID Contract No. 623-0249-C-00-2021-00
KEDS Project P.O. Box 40312 Nairobi, Kenya

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**EXPORT PROMOTION PROGRAMMES OFFICE
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October 1992

Prepared by The Services Group as part of the Kenya Export Development Support (KEDS) project, under a contract held by Development Alternatives Inc. with USAID/Kenya and with the assistance of subcontractor Deloitte & Touche.

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ABBREVIATIONS

| | |
|---------|--|
| AU | Audit Unit |
| AVDU | Approvals, Verification & Documentation Unit |
| CBK | Central Bank of Kenya |
| DMU | Database Management Unit |
| DVR | Duty/VAT Remission |
| EC | Export Compensation |
| EPPO | Export Promotion Programmes Office |
| EPA | Export Promotion Adviser (KEDS) |
| EPC | Export Promotion Council |
| EPZA | Export Processing Zones Authority |
| FEAL | Foreign Exchange Allocation Licence |
| GoK | Government of Kenya |
| ILU | Import Licensing Unit |
| IPC | Investment Promotion Centre |
| KEAS | Kenya Exporter Assistance Scheme |
| KEDS | Kenya Export Development Support project |
| LAN | Local Area Network |
| MUB | Manufacturing Under Bond |
| MoC | Ministry of Commerce |
| OSS | One-Stop-Shop |
| OVP&MoF | Office of the Vice President & Ministry of Finance |
| PAU | Policy Analysis Unit |
| PEMU | Private Enterprise Management Unit |
| PIU | Public Information Unit |
| SFM | Standard Formulae of Manufacture |

INTRODUCTION

1. The Project Grant Agreement between the Republic of Kenya and the United States of America which set up the Kenya Export Development Support (KEDS) Project was signed on July 12, 1991 (USAID Project No. 615-0249, Dollar Appropriation No. 72-111/21014, Budget Plan Code GSS1-91-21615-KG13). The project, which is financed on a grant basis by USAID, is designed to enhance the provision of export development support to both the public and private sectors. The Technical Assistance Program of KEDS is being carried out under the overall supervision of the Office of the Vice President and Ministry of Finance (OVP & MoF) of the Government of Kenya (GoK) and USAID/Kenya. The present Study has been carried out by The Services Group as a subcontractor to Development Alternatives Inc. under the Public Sector Component of the KEDS project. Deloitte & Touche, another KEDS subcontractor, provided technical input into the Study.

2. The present Study is a diagnostic study which focusses on identifying gaps in the present resources available to the Export Promotion Programmes Office (EPPO) and in the policy/regulatory environment which currently inhibits its development into a true One-Stop-Shop (OSS) for the processing of import-for-export documents on the one hand and into an effective and influential export policy analysis agency on the other. After examining the gaps in relation to the tasks which need to be performed, the Study draws up a time bound framework for policy and administrative action to achieve both goals in the shortest possible time. The speed of the development is very important, not only because the demand for the OSS services of the EPPO is likely to increase dramatically in the near future and the lack of EPPO processing resources will delay these changes. It is also important because the major effort within the Public Sector Component in the later stages of the KEDS project will be to mount detailed policy studies and for these the availability of advanced analytical competence within the EPPO will be crucial. The rapid development of the EPPO is also a precondition for continued USAID assistance.

3. The investigations and analysis on which the Report was based were carried out in August 1992 but production was delayed because of the priority need to supply the data requirements of the Second Tranche World Bank Review Mission which was visiting Kenya during that month. Extended discussions were carried out within the OVP&MoF, Ministry of Commerce (MoC), Customs, the Central Bank of Kenya (CBK), the Investment Promotion Centre (IPC) and the Export Processing Zones Authority (EPZA). Information on exporters was obtained from various sources. The KEDS team carried out a small survey of exporters to supplement and crosscheck the findings of a larger survey which was carried out recently by a group of consultants. In addition the KEDS/EPA had available to him the EPPO database of companies receiving duty/VAT remission, together with the Customs audit reports. Various in-house studies on EPPO effectiveness were also consulted.

4. The Report is set out in 3 parts, with an Executive Summary. After a review of the general organisational background and present functions of the EPPO, an overview is given in

Part One of the relationships between the EPPO and the exporting community on the one hand and other GoK agencies on the other. This examines the effectiveness of the EPPO in the performance of its OSS and reconciliation functions and discusses the desirability of establishing the EPPO as the coordinating agency for export policy changes. In Part Two, recommendations are given for the organisational design of an expanded EPPO, together with the personnel and office accommodation requirements, and for each of the administrative units priority tasks are identified and a time bound action programme is presented to address immediate deficiencies and to promote the development of the EPPO in the near term. This programme is designed to facilitate the development of the EPPO from its present Division Designate status into a full Division within the Department of Fiscal & Monetary Affairs. This should be largely accomplished by January 1993 to allow the costs to be included in the Financial Estimates exercise in March so that the EPPO could be formally constituted into a full Division with its own vote by the time of the Budget Statement in June. In Part Three, the implications of these changes for the training, equipment and technical assistance resources to be provided by USAID are set out.

5. A Draft Final Report was distributed for comments to the OVP&MoF after which this Final Report was prepared for distribution also to USAID which reflects this input and which can form the basis for continued USAID support during the KEDS project.

EXECUTIVE SUMMARY

General Background of the EPPO

1. The EPPO was set up at the end of 1990 as a unit within the Division of Fiscal Affairs in the Dept. of Fiscal & Monetary Affairs in the OVP&MoF primarily to administer the Duty/VAT Remission (DVR) facility. This allows exporters to claim remission of import duty and value added tax on their imports-for-exports at the time of import subject only to opening a corresponding bond in favour of the Customs and undertaking to make a reconciliation of the imports with the exports within a specified period. The EPPO is expected to provide a rapid OSS service both for the approval of the remission application and for the processing of the documents required to obtain an import licence issued by the MoC and where necessary a foreign exchange allocation licence (FEAL) issued by the CBK. The DVR regulations have recently been liberalised and even with the relaxation of import controls under the concurrent introduction of the 100% forex retention facility it is anticipated that larger numbers of exporters will now take advantage of the DVR facility and thereby increase the EPPO workload.
2. The present size of the EPPO is still small although there have been significant additions just recently. While the Chief of the Fiscal Affairs Division currently exercises overall supervision of the EPPO in addition to his other Divisional duties, the immediate administration is carried out by an Under Secretary. Recent additions have increased the establishment from 1 to 3 Economists in addition to an Assistant Secretary and 2 Clerical Officers and further the relevant audit unit in Customs (4 officers) has been transferred directly under EPPO control along with an officer from the MoC to sign import licences on the spot. A fifth Customs official has also been assigned to assist the EPPO in document verification work.
3. The EPPO is designated to have a wider function, however, namely the monitoring and coordination of the entire export policy matrix and of the export environment generally. At present the senior EPPO officials do exercise some influence over the administration of the other 3 tax based export incentives, that is, export compensation (EC), manufacturing under bond (MUB) and coincidental to their EPPO roles. The MUB and EFZ companies have their own OSS agencies in the Investment Promotion Centre (IPC) and the Export Processing Zones Authority (EPZA) respectively and the relationship of the EPPO as such to these organisations is left undefined at present. Again, while the senior officials in the EPPO do have major roles to play in the supervision of the EC facility, this is incidental also to their EPPO functions. For the EPPO to have a wider role as the focal point for the coordination of the entire export oriented development strategy, there is a need for these monitoring relationships to be made explicit.

EPPO Relations with the Exporting Community

4. The evidence at hand confirms that the EPPO is generally regarded favourably by the exporters who deal with it. The speed with which the EPPO has been able to obtain import licence approvals and foreign currency allocations has been regarded by many exporters as at least as much importance to their competitiveness as the remission of duty and VAT itself.

5. These praises for the EPPO, however, must be tempered by two observations. There is little doubt that the close working relationships which the EPPO has built up with its clientele depend to a large extent on the small numbers of companies presently involved. If these numbers are to expand dramatically as is now expected, the intimacy of these relationships may well deteriorate unless their maintenance is specifically planned for. A second factor which has contributed to the present intimacy is the slow progress made with the processing of the C57 reconciliation forms and especially with the subsequent audits. The EPPO has been much more effective as an OSS facilitator prior to export than as a control office after the event.

6. Another area where a new approach is required is in relation to publicity and public relations. The EPPO has not paid sufficient attention to this to date and the evidence suggests that there is still a large comprehension gap to be addressed in terms of the information to be provided on both the C56 and C57 forms on the part of the present users of the DVR facility, let alone on the part of new users. As these latter increase, the informational pressures on the EPPO are likely to be overwhelming unless adequate preparations are made now. Furthermore, it is important for the EPPO in its central coordinating role to publish more general information about GoK export development policies and activities.

7. In diagnostic terms then it is quite apparent that without a major increase in its resources and a reorganisation of its activities the EPPO will have severe difficulty in adequately performing its OSS, reconciliation/audit and publicity functions if the numbers of the DVR companies increase much beyond the current level and certainly if they increase by as much as 5 fold over the next year or so as is now expected. It is recommended that for the efficient management of these increased resources the EPPO should be made into a distinct organisational entity of Division status as soon as possible.

EPPO Relations with Other Government Agencies

8. In its short life, the EPPO has built up an efficient network of relations with all the other GoK agencies involved in its DVR related OSS activities, at least as regards pre-export activities. It has always had good relationships with the MoC and the CBK and the previously weak monitoring of the Customs reconciliation/audit activity has now been addressed by the transfer of the relevant audit unit to the EPPO offices under EPPO control. Its relationships with other agencies in respect of the EC, MUB and EPZ facilities have been

coincidental rather than explicit and they have been confined to administration rather than policy dialogue.

9. Export policy formulation by its very nature is an interministerial and interagency affair but it needs strong central coordination to minimise conflicts of interest or interpretation among implementing agencies. The EPPO is well placed in the Treasury to provide this coordinating role but outside the immediate DVR policy area its influence in terms of wider policy coordination has been modest. This modest impact stems both from the recognition by other agencies of the presently limited policy analytic capability of the EPPO and also from their incomplete awareness of the designated role of the EPPO as a central policy coordinating agency. Changing both of these perceptions will once again require a major increase in the status and resources available to the EPPO.

10. In addition to coordinating the development of export incentives policy as such, the EPPO is properly concerned to monitor the impact on exports of the providers of export services. The importance of the clearance delays imposed by the cargo handling and transport agencies is apparent and to some extent these counterbalance the inducement to export provided by tax related incentives. Similarly, the impact of these incentives can be blunted by the inflexibility of the commercial banking system in terms of credit conditions for pre- and postshipment financing. To fulfill its role as the focal point for the development of an export oriented policy matrix, the EPPO should develop a capability for interfacing with these organisations through regular meetings and for bringing performance deficiencies to the attention of top level decision makers along with recommendations for action.

11. The policy analytic capacity of the EPPO should be expanded as soon as possible so that it can make an effective impact on the formulation of an integrated export development policy matrix. At the same time, its security clearance status should be increased to permit greater access for analytical purposes to the restricted export related databases in the Treasury and also to facilitate greater consultation in advance of policy changes.

The Reorganisation of the EPPO into a Division

12. It has been recognised in the decision to upgrade the EPPO to Division Designate status that the scale of the tasks facing it in the immediate and near term can no longer be performed adequately by a small organisational unit. If it is to be efficient and influential in achieving its twin objective of administering the DVR facility and providing a focal point for the coordination of export policy analysis greater resources should be provided as a matter of urgency. A fully developed EPPO Division could contribute substantially to the implementation of the export oriented development strategy which is the cornerstone of GoK economic policy.

13. The first requirement for the successful development of the EPPO along the lines suggested below is the appointment of an officer of Deputy Secretary status to manage the Division Designate. All the organisational tasks facing the EPPO Division Chief are urgent

and the gaps in their sequencing are necessarily small. As in all well run organisations, the various units proposed are interdependent so that inefficiencies or lack of adequate resources in one unit will shortly infect the others. For this reason the EPPO organisational design should be viewed from the very beginning as an integrated system which should be put in place as an entity rather than in piecemeal fashion. That said, the operational programmes for each Unit can be divided into immediate and near term tasks, with the target date for the completion of the former set at January 1993. All the near term tasks should be completed by the end of that year.

14. The EPPO Division which is proposed will contain 6 operational Units in addition to the offices of the Division Chief. These are given below, in order of priority and ease of establishment. Not too much should be made of this ranking, however, as the EPPO development should move forward on a broad front for maximum impact.

- Audit Unit (AU)
- Import Licensing Unit (ILU)
- Public Information Unit (PIU)
- Approvals, Verification & Documentation Unit (AVDU)
- Database Management Unit (DMU)
- Policy Analysis Unit (PAU).

The AU and the ILU are already in place, the PIU and the PAU are completely new and the AVDU and DMU exist in embryonic form only. The additional manpower and office requirements of these units are given in the table on pages 27 & 28. To facilitate administration and the efficient use of office space and secretarial support and to conform with standard GoK administrative procedures, it is proposed that the Units be arranged in 2 groups under the immediate operational supervision of the Division Chief (ILU, AVDU and DMU) and the Deputy Division Chief (AU, PIU, PAU) respectively. The immediate and near term tasks for each unit (except the ILU which is to consist of 1 officer and which is here merged with the AVDU) are given below.

PROGRAMME OF IMMEDIATE AND NEAR TERM EPPO ACTIVITIES

| <u>EPPO ORGANISATIONAL UNIT</u> | <u>Last Qtr. 1992</u> | <u>First Half 1993</u> | <u>Sec'd Half 1993</u> |
|--|-----------------------|------------------------|------------------------|
| <u>Audit Unit</u> | | | |
| Finish audit backlog | ■ | | |
| Set up reporting procedures | ■ | | |
| Devise audit report writing manual | ■ | | |
| Train staff in computing, LN257 and bonding/penalty procedures | ■ | | |
| Computerise integration of C56, C57 and SFM databases | | ■ | |
| Computerise past and current audits | | ■ | |
| Introduce variable audit intervals | | ■ | |
| Introduce standardised bond insurance | | ■ | |
| Provide extra car and audit staff | | | ■ |
| <u>Public Information Unit</u> | | | |
| Train staff in desk top publishing | ■ | | |
| Amend/distribute C56 form and guide | ■ | | |
| Prepare/distribute customised media packages | ■ | | |
| Contact all DVR listed companies | ■ | | |
| Contact all potential DVR companies | | ■ | ■ |
| Provide reception services for new DVR applicants | ■ | | |
| Organise first KEDS policy seminar | ■ | | |
| Organise subsequent policy seminars | | ■ | ■ |
| Prepare/distribute Newsletter | ■ | ■ | ■ |
| <u>Approvals, Verification & Documentation Unit</u> | | | |
| Train staff in computing | ■ | | |
| Expand and computerise the C56/57 data integrity checklist | ■ | | |
| Devise and computerise a C56/57 processing checklist | ■ | | |
| Revise the formfiller's guide for both the C56 and C57 forms | ■ | | |
| Improve the company filing system | ■ | ■ | |
| Initiate company profiling procedure | | ■ | |
| Improve statistical reporting | | ■ | ■ |
| Incorporate Customs entry data into the DVR database | | ■ | ■ |
| <u>Database Management Unit</u> | | | |
| Train staff in computing | ■ | ■ | |
| Programme D-exempt to incorporate both C57 and C56 databases | ■ | ■ | |

| <u>EPPO ORGANISATIONAL UNIT</u> | <u>Last Qtr.</u> <u>1992</u> | <u>First Half</u> <u>1993</u> | <u>Sec'd</u> <u>Half 1993</u> |
|--|---|--|--|
| Develop LAN link with AVDU database | | | |
| Survey usefulness of current software | | | |
| Incorporate SFM data and audit report summaries into the EPPO database | | | |
| Integrate EPPO database with other Treasury export related databases | | | |
| <u>Policy Analysis Unit</u> | | | |
| Train staff in computing | | | |
| Prepare action plan for extending DVR to indirect and other exporters | | | |
| Prepare action plan for export financing and credit insurance policy | | | |
| Study feasibility of multiuser bonded warehouses and prepare action plan | | | |
| Develop routines for the continuous review of the export policy/environment matrix | | | |
| Review import licensing system for open general licence feasibility | | | |
| Review the incidence of export related fees and charges | | | |
| Prepare and start the first of the KEDS policy studies | | | |

Recommendations for USAID Assistance

15. The assistance recommended takes 3 broad forms, namely (a) short term technical assistance, (b) training and (c) provision of computers and other equipment. To start with short term technical assistance, particular areas where this could make an important contribution have been identified in respect of auditing and database management. For the former, it is recommended that a short term customs procedures expert be made available early in 1993 for 2 months to monitor the introduction of a variable audit interval or 2 tier system, should this be accepted by the GoK, with provision for mid and end year check up visits. It is further recommended that an insurance expert should be made available for 1 month also at the beginning of the year to work with Customs on the design of a standardised bond insurance document.

16. Another advisor should be provided for a 2 month period at the beginning of 1993 to assist in the refining and operationalisation of the various data processing systems to be established in the EPPO. These would include the AVDU-DMU LAN linkup, the transfer of compatible data from the PAU, PIJ and AU to the DMU and the design of a schematic system to link up the DMU database with other export related databases in the Treasury. Once again, provision should be made for follow up visits.

17. While the initial training needs of each of the operational Units have been assessed separately, in general every officer in the EPPO from the Division Chief downwards should have a structured computer familiarisation course followed by word processing and spreadsheet training as required, all of which is available locally on short courses. Additional immediate training assistance would include a Study Tour of successful trade policy coordinating agencies in Latin America and the USA.

18. It is recommended that 3 large computers (2 with 200MB of disk space and 1 with 300MB) be made available as soon as possible to supplement the computer resources already available to the EPPO, together with 3 workstations, printers and other items of office equipment.

PART ONE

THE EPPO OPERATING ENVIRONMENT

I. THE GENERAL BACKGROUND OF THE EPPO

The EPPO and the Duty/VAT Remission Facility

1. The Public Sector Component of the KEDS project is designed to support the expansion of the Export Promotion Programmes Office (EPPO) in terms of size, responsibilities and technical competence, ultimately to Department status, within the OVP&MoF as per Section 5 of the Project Agreement. The EPPO was set up in November 1990 as part of the Fiscal Affairs Division within the Department of Fiscal and Monetary Affairs. Its primary task, as set out in various internal documents, was to administer the Duty/VAT Remission (DVR) facility as contained in the Legal Notice 435, which inserted a new regulation 240A in the Customs and Excise Act. The Legal Notice was published on 26/10/90 and its provisions were deemed to have come into operation with effect from 1/9/90. The DVR facility allows bona fide exporters to import the raw materials and components required for export production on a duty and VAT free basis, after approval by the EPPO of their application for remission on a C56 form and subject only to the posting of a bond guaranteeing payment of the sums remitted. After export or after a specified period whichever is sooner, Customs have to verify that the imports have been accounted for satisfactorily, both by examining the C57 reconciliation form and by carrying out a detailed audit at the importer's premises. The DVR facility offers substantial incentives covering a much wider range of export products than are currently embraced by the Export Compensation (EC) scheme and it is expected that it will eventually become more popular than the latter. The EPPO is required to provide a rapid One-Stop-Shop (OSS) service both for the approval of the remission application and for the processing of the documents required to obtain an import licence issued by the MoC and a foreign exchange allocation licence (FEAL) issued by the CBK.

Recent Changes in the DVR Regulations

2. Some changes have just been gazetted (October 1992) to the regulations to liberalise their application for the benefit of participating companies. These provisions are designed to improve the attractiveness of the DVR facility and thereby to increase the number of participants but they will undoubtedly exacerbate the EPPO processing problems discussed below. In summary, these regulatory changes are:

- a) that all export products will be eligible for DVR except those specifically excluded in the new Legal Notice 257 or other legislation (i.e. Ministerial approvals will no longer be required to add eligible export products to a positive list in order to benefit from the Scheme and a processing norm of 7 days will apply for all C56 applications);
- (b) that the EPPO will be specifically authorised to process and approve the C57 reconciliation form and to conduct audits (thus clarifying the grey area of shared responsibility with Customs);

- (c) that bonds taken out against payment of duty remissions will be deemed to have been cancelled within 3 months of the receipt by the EPPO of the C57 form if the EPPO has not approved or rejected the document within that period (i.e. all audits will have to be carried out within this 3 month period).
- (d) that companies will now be given a maximum of 9 months (instead of the previous 6 months) after approval of the C56 form to submit their C57 reconciliation form for a single consignment and for an established export business the maximum import requirements allowance has been raised from 3 to 6 months.

In addition, although not specified in the revised form of the Legal Notice itself, the Commissioner of Customs & Excise has been instructed to reduce the maximum bond percentage requirement from 100% to 75%.

3. The introduction of the forex retention facility announced by the CBK in Exchange Control Notice No. 38 dated 20th August, 1992 also has implications for the development of the EPPO OSS facilities. Under this, exporters of non-traditional products (defined in the Notice) are permitted to retain 100% of their export earnings in external currency accounts in Kenya. More importantly for the EPPO, importers of products listed under Schedules 3B and 3C will no longer be able to acquire the foreign exchange necessary for their imports from the CBK at the official rate of exchange but will have to buy this on the open market at the (higher) parallel rate. Import licences will then be awarded almost automatically (as was done beforehand under the No Domestic Foreign Exchange Required provision) so that their need for a OSS facility such as the one offered by the EPPO will be reduced. However, at the present time, the great bulk of the DVR recipients import their input requirements under Schedule 1 which with Schedules 2 and 3A have their forex needs supplied by the CBK under the usual allocation provisions. For such DVR importers the EPPO OSS facility will become an even more valuable service as it gives them an advantage in terms of acquiring forex speedily at below the (parallel) market rate.

Present Organisation and Functions of the EPPO

4. Some changes have taken place recently in the resources allocated to the EPPO, apart from the recent arrival of the Export Promotion Adviser (KEDS/EPA). The Chief of the Fiscal Affairs Division still exercises overall responsibility for the day to day operations of the EPPO in addition to his other divisional duties and the immediate administration of the EPPO is still conducted by an Under Secretary. However the number of Economists in the EPPO has recently been increased from 1 to 3 and the services of a Consultant/Analyst are also available. Furthermore, steps have now been taken to resolve the old division of

assist in the verification and processing of the C56/57 forms and another officer has been transferred from the MoC to sign on the spot the import licences attached to the approved C56 forms. In addition, the EPPO employs an Assistant Secretary in charge of data entry and 2 Clerical Officers.

5. In addition to administering the DVR facility as far as possible on a OSS basis, the functions of the Under Secretary administering the EPPO at the present time coincidentally include the monitoring of the operation of the the other three export incentive schemes, i.e. the export compensation (EC) scheme, Manufacturing Under Bond (MUB) and the operations of the Export Processing Zones (EPZ's). Other functions which were originally part of the duties of the Under Secretary, such as trade relations policy monitoring, have been transferred to other officers.

6. The Chief of the Fiscal Affairs Division and the Under Secretary in charge of the EPPO are at the same time the Chairman and Secretary respectively of the Committee which vets applications by companies to have their export products qualify for an EC rebate, currently set at 18% of the f.o.b.value of the exports. The EC facility is currently administered by Customs in collaboration with the CBK and the commercial banks. Despite some commercially important difficulties (see page 34 below), the EC facility is presently much more popular as an incentive among exporters than the DVR facility. In part this simply reflects the greater familiarity with the EC scheme, which has been in operation in some form since the mid seventies. The DVR facility is much more general in its impact, however, as it covers all the 5,787 products listed in the Harmonised System tariff codings with very few (published) exceptions, whereas only 1,333 tariff items are eligible for EC.

7. The Head of the EPPO also has formal, if coincidental, links with the IPC as regards the administration of the MUB through membership of the Committee considering applications to join the scheme and making recommendations to the Minister for approval. At the present time, the direct links of the EPPO with the EPZA are less formal as the Governing Board has yet to be appointed but the Dept. of Fiscal & Monetary Affairs will certainly be represented there in some form and probably through the EPPO. Relations with the IPC and the EPZA are conducted on an "ad hoc" basis although it is clear that the EPPO is regarded as a source of advice on policy matters.

8. The monitoring by the EPPO of the other 3 tax related export incentives has not come about by explicit design but simply because taxation in general is the primary concern of the Fiscal Affairs Division in which it is presently incorporated. While the ad hoc nature of this development has not been important hitherto as regards taxation policy, it will constitute a significant constraint on the planned development of the EPPO into the primary focus for the export orientation strategy as a whole. Such a development would require it to have an explicit remit to supervise the regulation and administration of these 3 incentives. Furthermore, to be an effective focal point, the EPPO would have to have a specific role in monitoring all the non-tax policies which directly impact upon the export effort, such as exchange rate management, the forex retention scheme, import licence schedules, pre- and

postshipment export finance and credit insurance, etc. In this wider role, the EPPO would be expected also to supervise firm level support actions such as the Kenya Exporter Assistance Scheme (KEAS) which is financed by the World bank and also the KEDS Private Enterprise Management Unit (PEMU).

9. Such an explicit clarification of the EPPO wide ranging responsibilities would at the same time justify the need and define the opportunity to facilitate the development of a comprehensive export policy analytic capability there. The need for export policy coordination is apparent and it is a major concern of the present study is to provide for its development. This will require a substantial increase and restructuring of the information gathering capacity of the EPPO.

II. EPPO RELATIONS WITH THE EXPORTING COMMUNITY

1. This section will examine the extent to which the OSS service offered by the EPPO to exporters is sufficient for their needs. It examines how efficiently the EPPO is able to deal with its present clientele and what changes in approach would be required to cope with the much larger number of companies expected to utilise the DVR facility in the immediate term.

The Pre-Export One-Stop-Shop Service

2. The development of the DVR facility in terms of exports, imports and remittances is given below.

DEVELOPMENT OF THE DUTY/VAT REMISSION FACILITY (KShs million)

| | <u>Exports</u> <u>f.o.b.</u> | <u>Imports</u> <u>c.i.f.</u> | <u>Duty</u> <u>Remit'd</u> | <u>VAT</u> <u>Remit'd</u> | <u>Total</u> <u>Remit'd</u> |
|--------------|---------------------------------|---------------------------------|-------------------------------|------------------------------|--------------------------------|
| Year 1991 | 584.51 | 176.69 | 100.27 | 11.90 | 112.17 |
| Jan-Sep 1992 | 1,391.66 | 319.85 | 141.13 | 73.15 | 214.28 |

The growth has been encouraging. Even with its present limited resources some 130 DVR applications had been approved by the EPPO by end of September 1992 covering 124 separate tariff headings in the Harmonised System codings and the number of participating companies stood then at 57 as compared with only 19 at the end of 1991. It is worth noting that over this period the import content of exports fell somewhat (from 30.2% to 23.0%) and that this (with the concomitant reductions in tariff rates) was reflected in a reduction in the ratio of duty and VAT remittances to exports from 19.2% to 15.4%.

3. While the EC scheme is presently more popular in terms of company participation, it is much more restricted in terms of commodity coverage that the DVR facility and large numbers of exporters are excluded from its provisions who would be eligible for DVR. While the overall impact on export earnings is broadly comparable (the EC rate is presently set at 18% of the f.o.b. export values), unlike the DVR facility there is no obligation to import at all in order to benefit from the EC facility if the export product is otherwise eligible and for exporters with only minimal import requirements the financial benefits could well recompense them for the liquidity losses involved in tying up cash in duty payments from the time of imports for considerable periods. For exporters with more substantial import requirements the liquidity losses could be significant and the DVR facility consequently more attractive. Nevertheless, the EPPO has not been in a position to publicise the comparative advantages of the DVR facility extensively and continuously, so that many of the large number of exporters excluded from the the EC scheme are unaware or have forgotten that the DVR facility exists as an alternative.

4. The general conclusion from the exporter survey material, however, is that the EPPO is regarded favourably on the whole by the exporters who deal with it. To some extent this opinion undoubtedly reflects a feeling of relief that at least one part of officialdom is dedicated to facilitating their export business at the level of the regulations. For many years there has been inadequate understanding in Kenya between the business community and the various trade related agencies of the GoK, which has often been compounded by perceived inefficiencies and delays in processing documents and the apparent lack of comprehension by officials of the need to limit demands on management time. The speed with which the EPPO has been able to obtain import licence approvals and foreign currency allocations has been regarded by many exporters as at least as much importance to their competitiveness as the remission of the duty/VAT itself. Moreover, the willingness of the EPPO to act as a "friend at court" in smoothing out time consuming difficulties with the regulations has been much appreciated by many companies which have been able to establish a good personal rapport with the EPPO staff.

5. Some evidence of the pre-export effectiveness of the EPPO to date can be obtained from an examination of the time taken to process applications for DVR from the receipt of the C56 forms. Under the Legal Notice 435 as it stands at present, the EPPO is required to take a decision on the approval of properly completed C56 forms within 7 working days. Before the recent revision of the regulations, all new products had to be presented to the Minister of Finance for approval, which had to be given in 30 days for properly completed applications. Naturally, not all C56 forms were completed properly on first submission and with the expansion of the number of companies participating in the DVR scheme the proportion of first time applications increased and with it the number of those which initially required Ministerial approval. It is not surprising, therefore, to note that in several cases the delays actually incurred substantially exceeded the 7 day norm. Nevertheless, in the event, the average delay has not been unreasonable. Over the 18 month period to the end of July 1992 the average processing time has been calculated at 10.28 days and if a small number of obvious outliers are excluded, where the decisions involved significant policy considerations, the average processing time is reduced to 7.45 days. It is worth noting that this average figure conceals a substantial number of applications which required only 1 - 3 days for approval and it also includes several which were approved on the same day that they were submitted. As was to be expected, the average approval period has fluctuated from month to month over this period, and indeed there has been a tendency for it to creep up slightly reflecting the changing composition of the applicants.

6. In general, however, the statistical evidence seems to bear out the consensus among companies in receipt of DVR that the EPPO has indeed been proactive in C56 processing. Furthermore, as approval of the import licence by the MoC follows within 2 or 3 days of EPPO approval of the C56 application, and as the foreign exchange allocation licence (FEAL) is automatically granted by the CBK within 1 day of receipt of the import licence, the additional days required for the completion of the entire OSS function through the EPPO are few.

7. These praises for the EPPO, however, must be tempered by two observations. There is little doubt that the close working relationships which the EPPO has with its clientele depend to a large extent on the small numbers of companies involved. If these numbers are to expand dramatically, as is now envisaged, the intimacy of these relationships may well deteriorate unless their maintenance is specifically planned for. A second factor which has contributed to the present intimacy is the slow progress made with the processing of the C57 reconciliation forms and especially with the subsequent audits. The EPPO has been much more effective as an OSS facilitator prior to export than as a control office after the event.

Post-Export Reconciliation and Audit Activity

8. The documentary requirements for the DVR facility include not only a C56 application form but also a C57 reconciliation form and the probability of an audit on site. These requirements are sometimes regarded as inconvenient if not downright intrusive by non-participating companies and these negative aspects have often been held to counterbalance the financial advantages of the DVR facility, especially when the import content and tariff costs are low.

9. For much the same reasons, however, to date the standard of compliance by most of the participating companies with the reconciliation regulations has been slack if not actually illegal. The permissible delay in making the C57 reconciliations (now raised from 6 to 9 months) often means that management simply forget or choose not to remember their reconciliation obligations, even though these are clearly stated on the C56 form. Furthermore, there is a perception among most of the participating companies (although there are several notable exceptions) that the real cost of the imposition of the standard 100% bond requirement to cover unpaid duties etc. for longer than strictly necessary is not great, especially in conditions of rapid inflation. The Commissioner of Customs and Excise does not call in these bonds automatically after the completion of the maximum period for making reconciliation declarations but only reserves the right to do so if a recommendation to that effect is made by the EPPO after the completion of an unsatisfactory audit. In practice, not a single bond has been called in to date although at least 2 companies have been found to be in serious breach of the regulations. It is not surprising, therefore, to find that most companies have been slow to "volunteer" their C57 forms unless forced to do so by their need for subsequent imports.

10. The lack of an apparent incentive for companies to submit their C57 reconciliation forms on time, especially when as is often the case the company seeks import approval only on an infrequent basis, has been matched by the unwillingness of the EPPO to be forthright in demanding timely submission. While it is standard operating practice for the EPPO to refuse to process additional C56 forms until correctly filled C57 forms have been submitted for the previous approval, it has usually been the case that in order to facilitate exports as much as possible several C56 approvals to individual companies have been given on the evidence of the C57 forms alone, i.e. without an audit. In part this relaxed approach by the EPPO reflects its interpretation of the Legal Notice 435 which only authorises (but does not require) an

auditing exercise to be carried out "at all reasonable times". Such a policy of infrequent audits can be justified once the use of the DVR facility is well established, with large numbers of companies taking full advantage of it. Indeed, with really large numbers of participating companies selective and infrequent auditing will of necessity become the norm, especially if the administration of the C57 forms can be conducted efficiently. But this is not the case at present. While the DVR facility is being established and the number of participating companies is small and their probity untested, it makes sense to conduct audits on almost all of these and at the very minimum to insist that the C57 forms be submitted on time.

11. A more cogent reason why the reconciliation exercises have not been conducted efficiently has been the unsatisfactory organisation of the auditing and reconciliation functions, with the responsible Customs officials being located some distance away at Customs headquarters with resultant communications difficulties. Other difficulties have included lack of transport and secretarial facilities. These have now been rectified but it is worth noting here that the processing of the C57 forms has been regarded in the past by the EPPO as a Customs responsibility, as indeed it is so specified in the original regulations. With this, there has been some confusion as to which organisation was responsible for ensuring that the C57 forms were properly submitted in the first place.

Publicity and Public Relations.

12. One area where a new approach is also required is in relation to publicity and public relations. The EPPO has not paid sufficient attention to this to date, relying only on the fact that the Legal Notice 435 was duly gazetted and that almost all serious businesses take a regular subscription to the Kenya Gazette as a matter of course. That may well be true but the evidence to hand suggests that there is still a large comprehension gap to be addressed in terms of the information to be provided on both the C56 and C57 forms on the part of the present users of the DVR facility, let alone on the part of new users. As these latter increase the informational pressures on the EPPO are likely to be overwhelming unless adequate preparations are made now. Without such provision the smooth transition from EC to DVR will be jeopardised and with it the whole export orientation policy. Furthermore, in accordance with the EPPO's designated role as the focal point for the analysis and coordination of all GoK policies relating to export development, it is important to publicise more general information on GoK policies and activities in such areas as export processing zones, manufacturing under bond, exchange rate management, foreign currency retentions, export financing, foreign investment promotion, firm level technical assistance, institution development etc., not to mention some more up to date information on export trends and achievements. The results of the attempts to date to utilise the media for publishing this information have been disappointing if not misleading, so this is an area where the EPPO needs to make substantial improvements using its own resources.

General Diagnosis

13. In diagnostic terms then it is quite apparent that without an increase in its resources and a reorganisation of its activities the EPPO will have severe difficulty in adequately performing its OSS and more particularly its reconciliation/audit functions if the numbers of the DVR participating companies increase much beyond the present level. In fact the increase in the EPPO company clientele over the next 18 months may be as much as 5 fold as it is GoK policy to engineer a major switch from EC to DVR by then. The the switchover to DVR as the dominant facility may well take place as early as the beginning of next year. Nothing short of an immediate and massive increase in the EPPO resources and a radical overhaul of its organisation will be required for the EPPO not to be overwhelmed with new applicants. The improvements need to be put in place as a matter of urgency if the old adversarial relationship between the GoK and the trading community is not to resurface in a more severe form.

14. It is recommended that for the efficient management of this massive increase in its resources the EPPO should be made into a distinct organisational entity as soon as possible with operational control over its own budget. Only in such a framework can adequate attention be devoted both to the large scale processing of OSS and reconciliation/auditing documents and to intensive publicity and public relations, both of which are of vital importance to widespread utilisation of the DVR facility.

III. EPPO RELATIONS WITH OTHER GOVERNMENT AGENCIES

OSS Relations in Respect of the DVR Facility

1. In its short life, the EPPO has built up an efficient if informal network of relations with all the other GoK agencies involved in its DVR related OSS activities, at least as regards pre-export activities. Prior to the recent transfer from the MoC of an officer empowered to sign import licences, the processing turnaround time in most cases for signing the licences attached to an EPPO C56 approval (all delivered by hand to the MoC) was usually only 2 - 3 days. It has to be noted, however, that there were a few exceptions when the turnaround time was much more than this, mainly because of factors beyond EPPO control. The transfer of an import licence signing officer to work in the EPPO itself is now expected to reduce this turnaround time even further. After signing by the MoC, the EPPO has a system in place whereby the forms are then taken directly (also by hand) to the Exchange Control Dept. in the CBK, where the turnaround time is seldom more than a day and usually a matter of hours. This is because the EPPO approved C56 form and import licence bypass the interministerial Import Monitoring Committee and Foreign Exchange Allocation Committee through which import licences under Schedules 1, 2 and 3A have to be processed. As already noted, most of the EPPO clientele import their export requirements under Schedule 1 so that the OSS service provided by the EPPO is still of great utility.

2. No complaints have been received from the business community regarding the willingness of the Customs to remit duty and VAT at the time of import on evidence of EPPO approval, subject only to the posting of a bond through the completion of a bond declaration form. Business complaints here tend to deal with delays experienced in the clearance of imports through Customs. Such delays are due often simply to administrative inefficiencies, although sometimes too the importer is at fault in terms of inaccurate tariff classifications, misleading valuations and inadequate documentation. In the past the EPPO has intervened successfully in facilitating clearances of imports-for-exports where there have been unusual clearance delays or where speed of clearance is vital for a particular export order. Naturally, such interventions must be made with care to avoid the appearance of condoning irregularities. More frequent complaints on clearances are laid at the door of the Kenya Airfreight Handling Authority, the Kenya Ports Authority and Kenya Railways. To date the EPPO has not intervened in such cases.

3. Until recently, the relationships between the EPPO and the Customs in regard to C57 reconciliations and auditing left much to be desired. The requirements of the auditing process were not clearly defined and there was also a grey area in the regulations as to whether the EPPO or the Customs should receive the C57 forms in the first instance and whether the EPPO or the Customs was responsible for processing them. The unclear division of operational responsibility between the EPPO and the Customs tended to exacerbate the supervisory problems, which were also compounded by poor communications. Steps have now been taken to resolve these problems. The audit staff has been transferred directly under

the EPPO and the responsibility of the EPPO to receive and process the C57 has been clearly stated in the revised regulations.

Relations in Respect of the EC, MUB and EPZ Facilities

4. The EPPO has good working relations with the MoC, CBK and Customs as regards the administration of the EC scheme. As already noted, the EPPO coincidentally provides the Chairman and Secretary of the EC Approvals Committee. Companies apply here for blanket approval to claim EC on all their exports of the product concerned. Thus, the Approvals Committee meets only on an ad hoc basis and at infrequent intervals and its agenda is limited to recommending approvals on the basis of the regulatory guidelines. Policy issues, such as revisions of the eligibility criteria or alterations to the percentage EC rate itself are unlikely to be discussed at these meetings, however. These matters are announced in the annual Budget Statement and the policy issues decided at higher levels in the Treasury.

5. Policy issues are also avoided at the infrequent meetings of the MUB Committee of the IPC which includes coincidentally an EPPO official to represent the Treasury. Here again, the business is mainly approvals of MUB applications according to the regulations. All the administration of the MUB scheme is currently the responsibility of the IPC, although clearly the EPPO could with advantage take over the responsibility for obtaining the approval of import licences for MUB companies, an administrative chore which the senior management of the IPC finds distracts them from their principal function of promoting foreign inward investment. The transfer of a MoC signing officer to the EPPO should facilitate this transfer of responsibility, even though the MUB companies are excluded from participation in the DVR scheme.

6. The formalisation of the links between the EPPO and the EPZA has yet to take place, mainly because the governing Board has still to be appointed. Decisions on the licensing of EPZ sites and the allocation of plots within them are currently taken by the Chairman of the EPZA with approval from higher levels in the Treasury. The EPPO as such is not consulted at present.

Impact of the EPPO on Policy Formulation

7. Export policy formulation by its very nature is an interministerial and interagency affair and there is a need for strong central coordination if progress is not to be prevented by squabbling over the allocation of responsibilities. As the EPPO is the administering agency for the key tax based export incentive and, unlike the Customs, IPC, EPZA and the CBK (all of which report to the OVP&MoF), it is located centrally in the policy making complex of the Treasury, it is well placed and indeed designated to play such a coordinating role over the whole range of export incentive policies. Unfortunately, its performance in this role has been modest outside the immediate DVR policy area. While the EPPO did play a role in the decision to revise the Legal Notice 435 and in initiating the reduction in the bond percentage to 75%, it was not consulted in advance in respect of other areas of export policy formulation

as no such consultation mechanism has yet been established. With the rapid pace of change in export policy regulations (eg the introduction of the 100% forex retention scheme) and the establishment of new institutions (eg the Export Promotion Council - EPC) the need for the speedy creation of such a coordinating/ consulting mechanism based explicitly on the EPPO is apparent, if conflicts of departmental interest and divided responsibilities are to be avoided. This is especially urgent as many other major changes are already in the pipeline.

8. The modest impact of the EPPO on policy making to date stems from a general recognition within the Treasury and among longer established GoK agencies that its analytical capacity and general status is low at present and from a general perception that the policy interest of the EPPO is in any case confined to the DVR facility. While the first consideration is undoubtedly the case at present, the narrow perception of the EPPO's policy role is a matter for concern, especially as there does not seem to be an awareness outside the Treasury that export incentives policy needs to be centrally coordinated in the same way that export market promotion is now expected to be coordinated by the EPC. These considerations are particularly relevant at the present time when the wider ramifications of the forex retention scheme have yet to be explored. For example, it has been indicated by the GoK that there may be a need to extend the coverage of the scheme to include traditional export products, especially as these have now become the main focus of the activities of EPC. Again, as the purpose of import licensing is now clearly protection rather than the husbanding of foreign exchange, it is timely to consider whether the present system should be replaced by one giving open general import licences to certain categories of importers. Another area where the forex retention scheme will impinge upon export development policy concerns the development of pre- and postshipment financial markets in Kenya. As Kenya continues to liberalise its trade regime, the need for the EPPO to coordinate export policy initiatives will become stronger still.

9. While the EPPO clearly needs additional trained manpower to perform this coordination function, it also needs much greater access than at present to the databases provided on a very restricted basis to the Treasury by other GoK agencies, particularly by the CBK and the MoC. It also needs to further develop its own databases and its ability to extract import-for-export information from elsewhere.

EPPO Monitoring of the Export Environment

10. In addition to coordinating the development of export incentives policy as such, the EPPO is properly concerned to monitor the impact on exports of the providers of export services. The importance of the clearance delays imposed by the cargo handling and transport agencies has already been referred to, and to some extent these counterbalance the inducement to export provided by tax related incentives. Similarly, the impact of these incentives can be blunted by the inflexibility of the commercial banking system in terms of credit conditions for

attention of top level decision makers along with recommendations for action. By the same token, the EPPO should be concerned to monitor the export related documentation and fees charged by the various agencies.

11. In addition to generating policy initiatives conducive to the promotion of manufacturing investment by MUB and EPZ companies, the EPPO should be liaising with other GoK agencies to promote the establishment of "export catalyst" companies offering consultancy services to small and medium exporters. To some extent this is already being done through the various firm level assistance schemes financed by foreign aid and the EPPO is directly supervising some of these. However, private sector interest in providing these services is minimal at present as a targeted promotional package has yet to be devised. The EPPO should be in a position to take the lead in convening regular meetings with other GoK agencies specifically to address this promotional problem taking full account of the impact of existing firm level support assistance.

General Diagnosis

12. It is generally acknowledged not least in the Treasury that the ability of the Kenyan economy to survive let alone to develop in the next few years is crucially dependent on its ability to accomplish the switch towards export orientation. Hitherto, GoK policy in this area has been focussed on the need to explore external markets. While this clearly necessary, experience both in Kenya and in other countries has demonstrated conclusively that it is not enough. The ability to supply and to keep supplying those markets once they have been identified is what counts and this ability is a direct function of the extent to which the domestic policy framework is harmoniously conducive to the export effort. A major objective of the EPPO is to contribute in a proactive way towards this export policy harmonisation but its impact so far as been very limited, particularly outside the immediate DR regulatory area.

13. The policy analytic capacity of the EPPO should be expanded as soon as possible so that it can make an effective impact on the formulation of an integrated export development policy matrix. At the same time, its security clearance status should be increased to permit greater access for analytical purposes to the restricted export related databases in the Treasury and also to facilitate greater consultation in advance of policy changes.

PART TWO

THE DIVISIONALISATION OF THE EPPD

IV. REORGANISATION OF THE EPPO INTO A DIVISION

Structure and Integration of the Specialised Units

1. It has been recognised in the decision to upgrade the EPPO to Division Designate status that the scale of the tasks facing it in the immediate and near term can no longer be performed adequately by a small organisational unit. If it is to be efficient and influential in achieving its twin objective of administering the DVR facility and providing a focal point for the coordination of export policy analysis greater resources should be provided as a matter of urgency. A fully developed EPPO Division could contribute substantially to the implementation of the export oriented development strategy which for many years has been the cornerstone of GoK economic policy.
2. The first requirement for the successful development of the EPPO along the lines suggested below is the appointment of an officer of Deputy Secretary status to manage the Division Designate. As all other Divisions within the Treasury are administered by officers of such rank it is difficult to see how the planned expansion of the EPPO from a Unit into one of the largest Divisions can be accomplished without this step. A Division Chief of inferior status would face serious problems in securing the priority allocation of office space and personnel which is required to establish a functioning Division by the target date of January 1993.
3. All the organisational tasks facing the EPPO Division Chief are urgent and the gaps in their sequencing are necessarily small. As in all well run organisations, the various units proposed are interdependent so that inefficiencies or lack of adequate resources in one unit will shortly infect the others. For this reason the EPPO organisation design should be viewed from the very beginning as an integrated system which should be put in place as an entity rather than in piecemeal fashion. That said, the operational programmes for each Unit can be divided into immediate and near term tasks, with the target date for the completion of the former set at January 1993. All the near term tasks should be completed by the end of that year. The prescriptions are detailed as the focus is put on what the EPPO can do to help itself become established as an efficient and influential Division within the designated time frame and the recommendations for short term technical assistance are kept modest with this in mind. Much more short term technical assistance will be available to the expanded EPPO later on in the KEDS project, particularly in respect of the specialist policy studies
4. The EPPO Division which is proposed will contain 6 operational Units in addition to the offices of the Division Chief. These are given below, in order of priority and ease of establishment. Not too much should be made of this ranking, however, as the EPPO development should move forward on a broad front for maximum impact.

- Audit Unit (AU)
- Import Licensing Unit (ILU)
- Public Information Unit (PIU)
- Approvals, Verification & Documentation Unit (AVDU)
- Database Management Unit (DMU)
- Policy Analysis Unit (PAU).

The offices of the Division Chief, apart from secretarial support, should include a Registry, together with a Messenger and a Driver. They should also include the KEDS/EPA, also with secretarial support. Both offices, together with that of the Director of the Fiscal & Monetary Affairs Dept. should be equipped with diskless monitors to access the EPPO DVR database, while all the Units will require their own dedicated computers and printers. To facilitate administration and the efficient use of office space and secretarial support and to conform with standard GoK administrative procedures, it is proposed that the Units be arranged in 2 groups under the immediate operational supervision of the Division Chief (ILU, AVDU and DMU) and the Deputy Division Chief (AU, PIU, PAU) respectively.

5. The AU and the ILU are already in place, the PIU and the PAU are completely new and the AVDU and DMU exist in embryonic form. The urgent need to cope with the large audit backlog and to upgrade the precision and serviceability of the audit reports in advance of the phased contraction of the EC facility has brought about the recent transfer of the 4 audit officers from Customs headquarters (Forodha House) to work in the Treasury under the immediate direction of the EPPO. The ILU consists of a single officer also seconded very recently, this time from the MoC, both to contract even further the delays in the approval of import licences for DVR exporters and to make preparations for the extra work load expected at the end of the year. The C56 forms applying for DR approval and the much smaller number of C57 forms giving reconciliation information are presently processed by 2 officers who could provide the nucleus for the AVDU but the two forms are not being related to each other here and there is much scope for improving document handling procedures. These 2 officers are also in charge of data entry into one of the EPPO computers but this task needs to be separated and given to a specialised DMU. This, with greater resources would be able to improve the utility of the present EPPO database and integrate it as required with other databases in the Treasury. The need for the PIU is apparent. This would not only publicise the availability of the DVR facility and to guide exporters in form filling, but also and importantly provide them with relevant statistical and general policy information. Similarly, there is little dispute over the need to establish the PAU both for KEDS and for general policy work. Because of the all embracing nature of this function the Head of this Unit should become the Deputy Chief of the EPPO.

Staffing and Additional Office Accommodation

6. In what follows the operational areas for each of these Units are examined in detail and their immediate and near term priorities established. Before proceeding, it is worth taking note of the staff and office unit requirements which should be available to the EPPO Division under this plan when it is fully established, that is by March 1993. Including the appointment of a Deputy Secretary as Division Chief (the most urgent priority) the total staff required in this reorganisation comes to 23 of which 8 will be Typists/secretaries. Their office requirements have been calculated at 17½ additional office units. The allocations are summarised below. While it is appreciated that the full staff complement can be attained in stages as the scale of the workload expands it is recommended that the senior officer in each Unit be appointed as early as possible to ensure that the reorganisation can proceed in a coordinated way.

STAFF & ADDITIONAL OFFICE UNIT REQUIREMENTS OF THE EPPD DIVISION

| <u>EPPD Organisational Unit Staffing Needs</u> | <u>Office Needs</u> |
|--|----------------------------|
| <u>Head Office (HQ)</u> | |
| EPPO Division Chief (Deputy Secretary) | |
| 1 Messenger | |
| 1 Driver | |
| Registry | 1 |
| <u>Import Licensing Unit (ILU)</u> | |
| 1 Assistant Trade Officer (already Here) | 1 |
| <u>Approvals Verification & Documentation Unit (AVDU)</u> | |
| 1 Senior Assistant Secretary | 1 |
| 1 Assistant Secretary (already here) | 1 |
| 2 Executive Officers (plus 2 Clerical Officers already here) | 1 |
| <u>Database Management Unit (DMU)</u> | |
| 1 Senior Economist - Computers | 1 |
| 1 Economist/Programmer (Grade 3) | 1 |
| 1 Assistant Secretary | 1 |
| 1 Secure computer & storage room | 1 |
| <u>Group A. Secretarial Pool</u> | |
| 4 Typist/secretaries | 1 |
| <u>Policy Analysis Unit (PAU)</u> | |
| 1 Senior Economist (Deputy Division Chief) | 1 |
| 1 Economist (plus 1 Economist already here) | 1 |
| <u>Public Information Unit (PIU)</u> | |
| 1 Senior Assistant Secretary | 1 |

| | |
|--|---|
| 2 Assistant Secretaries | 1 |
| <u>Audit Unit (AU)</u> | |
| 1 Senior Customs Officer | 1 |
| 3 Audit Officers (already here) | 1 |
| <u>Group B. Secretarial Pool</u> | |
| 4 Typist/secretaries | 1 |
| <u>Kenya Export Development Support Unit (KEDS)</u> | |
| 1 Typist/secretary | ½ |

| | | |
|----------|---------------------|-----|
| | TOTAL STAFF | 23 |
| of which | TYPISTS/SECRETARIES | 8 |
| | TOTAL OFFICE UNITS | 17½ |

V. THE RECONCILIATION/AUDITING OF DUTY/VAT REMISSIONS

Problem Areas

1. The 130 approved applications for DVR submitted on C56 forms by the 57 participating companies have to date generated only 14 C57 forms which in turn have generated only 7 completed audits. Yet at least 60 of the approvals are now due for C57 reconciliation and at least 30 company audits are overdue. Clearly this situation cannot be allowed to continue without the danger of emasculating the entire DVR programme and encouraging abuse. Not only is the removal of the auditing backlog an urgent necessity but provisions should be put in place now to ensure that a similar situation does not arise in future with the dramatic increase expected in the number of DVR companies following any adjustments to the applicability of the EC facility.
2. The lack of compliance in submitting the C57 forms on time has been attributed to 3 principal factors. In the first place, there is much professed ignorance among participating firms as to exactly what the reconciliation requirements entail. There is little real excuse for this as the requirements are set out clearly on the C56 form as a binding undertaking and they are detailed again on the C57 form. Furthermore, a detailed form filling manual has been prepared and this has been given to all DVR participants since the beginning of the scheme. This was extensively revised at the beginning of 1992. Even where ignorance is not the excuse, there is a general perception among the business community in Kenya that filling GoK forms is a waste of management time and a task which should be postponed for as long as possible. This attitude applies to the completion of all non-immediate GoK forms and not especially to the C57 form. As the real cost of the bonding requirement for unpaid duties etc. is low for many companies and as their import requirements are often infrequent, the financial incentive to fill in the C57 forms on time has been outweighed in many cases by perceptions of management inconvenience or simple apathy. So, to the ignorance factor must be added a widespread disregard of programme requirements. The third factor concerns the lack of effective procedures in the EPPO for the timely notification of the due dates for C57 reconciliations. A standard letter exists but the mechanics of issuing it have not been very effective. To some extent this situation has reflected the unclear division of reconciliation responsibilities between the EPPO and the Dept. of Customs & Excise which has now been resolved.
3. Not only is the pace of the present reconciliation/auditing activity unacceptably slow but concern has been expressed as to the quality of the auditing exercises carried out to date. These have been criticised as being inadequately documented and detailed, poorly structured, not rigorous enough in accounting for wastage and rejects, not sufficiently discerning in their conclusions and too vague in their recommendations for action, especially disciplinary action. The need for vigilance has been demonstrated by the eventual discovery of serious breaches of the regulations if not downright fraud in at least 2 of the 7 companies audited so far. While some of the apparent malpractice can be explained on the grounds of unfamiliarity with the operation of the DVR scheme, the degree of permissible latitude is quite small. Some

initial tolerance can be given on the grounds of inadequate management information systems and accounting procedures but it is hard to understand how any serious company could operate without keeping the minimal level of inventory control and general accountability required by Legal Notice 435. A critique of the present audit reporting standards is given in Appendix A along with detailed suggestions for improvements.

4. The problems facing the AU then arrange themselves into both an immediate and near term time frame. In the immediate term (i.e. before the end of November 1992) the current backlog of 30 odd audits should be cleared in preparation for the extra volume of work which is likely to follow both from the imposition of a 3 month maximum auditing period dating from the submission of the C57 forms and from the additional demands on the DVR facility arising out of the switchover from the EC scheme. Secondly, at the latest starting from January 1993, a more general programme of remedial action in terms of organisation and resources should be in place to be completed by the end of 1993.

Recommendations for the Immediate Term

5. As regards the immediate problem, some improvements have been put in place at the time of writing. The AU, with the current USAID Adviser, has been relocated to the same floor in the Treasury Building which houses the EPPO offices. Furthermore, an EPPO vehicle has been acquired, which will be used mainly for audit related company visits. Much remains to be done, however. The mere relocation of the audit staff will not ensure that an adequate volume of high quality auditing is achieved, especially as no-one has been appointed as the administrative head of the AU, a task currently being performed in part by the USAID Adviser. This appointment should be made as soon as possible. In addition, the following represents a crash action programme.

- (a) The auditing staff will have to be supervised much more closely than hitherto, especially as the immediate volume of work arising out of the auditing backlog is high. Accordingly, a detailed timetable should be drawn up with target start and finish dates for each of the 30 odd outstanding audits, with assignments given within this to each of the audit staff. The target should be to clear the current and accruing audit backlog by mid-November 1992. Further, a system of weekly and monthly reporting should be set up with provisions for remedial action.
- (b) More detailed auditing and reporting procedures should be worked out in a matter of weeks and the audit staff should be trained in the implications of these on a priority basis during actual audit operations. The existing audit programme should be upgraded to a detailed report writing manual which would additionally give more specific audit management guidelines, including instructions for initiating audits, the preparation of workpapers and reports, the

the Manual should also include a revised, less repetitive and more informative report format, with more explicit guidance on the identification and write-up of control and record inadequacies and possible violations of the law. Again, the format should specify the detail which should be presented in the workpapers to be attached as appendices. Furthermore, the manual should stress the need for firm conclusions and recommendations for administrative action.

- (c) Again in a matter of weeks, the new audit staff should be made fully aware of the provisions and wording of the Legal Notice (both the revised version LN257 and the old version LN435 which will govern C57 and auditing requirements prior to July 1992). They should also be made aware of the mechanics of accepting and calling in bonds and of imposing such penalties as are laid down. The revised audit manual should also contain this information.
- (d) All 4 of the officers presently assigned to the AU should be given short courses urgently on a rotational basis in spreadsheet programmes and in general keyboarding skills.

Recommendations for the Near Term

6. In the near term action should be taken to prepare the AU for the greater volume of work expected to accrue during 1993 in the wake of the probable amendments to the EC facility. This will coincide with the first audits to take place under the 3 month bond default limitation dating from the submission of the C57 forms. While importers will always remain liable in law for the payment of remitted duties if required, in practice the automatic cancellation of the bond by default after 3 months implies that the audit procedures will have to be completed within that time.

7. If the immediate term action programme is successfully completed by the end of 1992, the audit staff should have a basic computer capability and be implementing a more rigorous approach to their work as detailed in the revised operations manual. They should be in a position, therefore, to start further computer training with a view to computerising their audit information and reports on a dedicated computer. This should be done in a way which permits the ready comparison of this material with both the C56 and the C57 forms on the one hand and with the Eppo database on the standard formulae of manufacture on the other. It should be possible to computerise the current audit work in this way by March 1993 and to have computerised the complete audit record by June 1993. This task will be facilitated to the extent to which a two tier auditing system can be put in place early in 1993, which would permit a larger number of C57 forms to be included in a single audit. To prevent abuse, the introduction of a more relaxed auditing procedure should be introduced under the guidance of a specialist Adviser, who would be available on an intermittent basis throughout 1993, perhaps for one or two months at a time.

8. Consideration should be given before the end of 1992 to the possibility of introducing a standardised bonding financial instrument, so as to prevent the combination of the reduction in the bond percentage of outstanding duties and VAT (to 75%) and the 3 month audit default limit from emasculating the whole DVR programme. The revised document could be introduced in March 1993 to coincide with the adoption of a two tier audit system. While no bonds have yet been called in under the DVR scheme, Customs are aware from their experience of bond collecting in other areas that bonds based on a bank guarantee (for which collateral is required) are much easier to call in than bonds based on insurance policies (for which only a premium equivalent to 1-2% of the insured value is required). The latter tend to be drawn up in a way which clouds the issue of liability. Almost all the bonds taken out by the DVR participants are of the insurance policy type and the low cost of these bonds, together with the non-automaticity of the liability to pay has done much to engender a careless attitude among many companies in the matter of submitting their C57 forms on time. It is recommended that a standardised insurance policy be drawn up in collaboration with Customs, and with the provision of short term technical assistance, and that the regulations be revised to make this policy a requirement for all bonds not backed by a bank guarantee. Such an insurance policy could still make explicit provision for a rollover bond insurance to cover the continuous export situation. The design of the standardised bonding instrument should be based on the experience of other countries.

9. With the continued expansion of the work of the AU it is probable that staff and transport constraints will emerge early in 1993. Accordingly, provision should be made in good time to increase the number of audit officers from the present 4 to 6 during the second quarter of 1993 and to acquire one more vehicle. This expansion, naturally, will entail the provision of more office space. It will also reinforce the need for continued Advisor support.

VI. PUBLIC INFORMATION SERVICES

Problem Areas

1. The importance of the adequate provision of public information services for the successful development of the EPPO and indeed for the success of the national export orientation strategy as a whole cannot be underrated. At the present time there are reckoned to be many hundreds of exporters who do not benefit from any of the tax related export incentives. Even after allowance is made for the exporters of coffee, tea and other traditional products which are subject to separate regulations, for MUB and EPZ exporters, for exporters who do not need to import and for trader/exporters, it is very probable that large numbers of eligible exporters do not benefit from either the EC or DVR facility. For example, horticultural exporters are excluded from EC eligibility but only a handful of the large numbers of such exporters take advantage of the DVR facility to import packaging and other materials necessary to enhance the marketability of their products. Even where companies are able to make use of the EC facility, their appreciation of the benefits to be obtained from the DVR facility is often misinformed. The fact that with EC they have to pay the duties in full at the time of import and that they can make an EC claim only after the goods have been exported, can seriously impair their cash flow as compared with the DVR case if import duties do indeed constitute a major element in their costs. This drain on their liquidity is all the more serious if, as has been the case until very recently, the payments by Customs of the EC claims have been subject to long delays. While many companies with low duty cost components are clearly benefitting substantially from the EC facility despite these drawbacks, it is a matter of grave concern that so few companies have been induced to apply for DVR. This is all the more worrying as the OSS facilities offered by the EPPO in addition to the DVR financial benefits could themselves make a substantial contribution to enhanced competitiveness.

2. The reasons for this low level of usage of the DVR facility are various and often industry specific (e.g. the practice by some horticultural exporters of passing on duty costs to farmers in the form of lower purchase prices) but ignorance of the regulations is certainly a contributory factor. Thus, for example, it is not generally known that companies claiming EC on one export consignment are perfectly at liberty to apply for DVR approval for the imports required for another export consignment of the same products, a feature which obviously facilitates comparisons of the relative financial advantages of the two schemes. Again, to date very few exporters have opted to claim DVR on a continuous export basis rather than for single consignments. The former option allows the exporter to claim DVR on imports required to produce the highest level of quarterly (now amended to half yearly) export production over the last 1 - 3 years, which is usually sufficient to allow him to take advantage of economies of scale in import purchasing.

3. The EPPO has no specific provision at present for a public information service. Companies wishing to obtain approval for DVR have to take the initiative to contact the EPPO, after which the procedures are explained to them. Other than this, information about

the original DVR scheme was published once when the Legal Notice 435 was put in the Kenya Gazette Supplement dated 26 October 1990 and the revisions have also been published only once in the Gazette Supplement dated 9 October 1992. Passing references have been made infrequently in the press but in general little effort has been made so far to market the DVR facility. There is no general publication by the EPPO of the advantages to be obtained by the facility.

4. Clearly this situation should not be allowed to continue, especially as the DVR regulations have now been liberalised. If the competitive impact of the new regulations is not to be blunted and thereby to result in a significant loss of export competitiveness, the PIU should be put in place immediately and it should mount a sustained publicity and DVR promotional campaign as a matter of urgency. This cannot be done without a substantial addition to the present resources of the EPPO.

5. These publicity activities will be required not just in the immediate term but for some years to come and so the opportunity should be taken as soon as possible to extend the publicity to cover the whole complex of GoK export related policy initiatives and regulations such as the 100% forex retention scheme. Furthermore, the availability of recent statistical and other information of general interest to exporters is very limited and the PIU could make a valuable contribution in the provision of such data. Accordingly, a 3 dimensional plan can be drawn up for the development of the PIU in both the immediate and near term, covering respectively the promotion of DVR to new companies, the wider promotion of GoK export incentives policies and the provision of timely and relevant statistical and other information.

Recommendations for the Immediate Term

6. The PIU should be set up within the EPPO in a matter of weeks and be staffed by an officer of at least Senior Assistant Secretary status who would be provided with 2 Assistant Secretaries and his own typist/secretary. If possible, all three officers should have some economics background but it is essential that they have some report writing skills. As soon as possible after appointment, the Senior Assistant Secretary should be enrolled in a local computer training course focussed on desk top publishing, with the other 2 officers enrolling shortly afterwards. Other tasks which should be commenced as soon as possible include the following.

- (a) The C56 form and the form fillers guide should be amended immediately to reflect the new regulations. Sufficient numbers of the amended forms should be duplicated within the EPPO and dispatched without delay with an explanatory letter and form filling guide to each of the companies currently benefitting from the DVR facility, together with the existing c57 form. At the same time, this material should be sent to the Kenya Association of Manufacturers, the Horticultural Crops Development Authority, the Fresh Produce Exporters Association of Kenya and other export oriented associations.

- (b) Again as a matter of urgency and in order to expand the number of companies covered by the DVR facility, several different press release packages on the new DVR regulations should be specially designed for particular media users, that is, not only for the newspapers but also for the business magazines and other export related publications such as those produced by the CBK, the MoC, Ministry of Industry, commercial banks etc. The PIU and/or senior staff from OVP&MoF should appear as often as possible on television business programmes with the same message.
- (c) A company contact programme should be put in place to visit or meet with the managers of all the current DVR companies over the next 2-3 months to explain the new regulations in detail and to receive their comments. These latter should be written down and circulated to senior EPPO officials.
- (d) In a very few weeks the PIU should take over the function of receiving potential newcomers to the DVR scheme and explaining to them the form filling requirements etc.
- (e) Before the end of the year, the PIU should organise the first of a series of 1 day seminars extending throughout 1993 which will be held in Nairobi, Mombasa and other large towns to explain the regulations governing all 4 tax related incentives and other facilities such as the forex retention facility and to stress their positive impact on export competitiveness. These seminars should also provide a vehicle for exporters to convey their concerns to the GoK about the applicability and administration of the various export promotion measures available.
- (f) Also, before the end of the year the PIU should prepare and distribute widely its first Newsletter prepared on a dedicated computer. This should consist of an extensive but simply presented summary of all 4 tax related export incentives and the forex retention scheme and it should include contact addresses and information on eligibility and reporting requirements. It should also contain a modest statistical summary of the latest information available in-house on the main export trends by (non-traditional product) and country markets.

Recommendations for the Near Term

7. By the end of 1992 the PIU should have begun to make a substantial impact on the information gap and a similar programme of activities should be continued as refined by experience throughout the following year. It should be possible by the beginning of 1993 to determine quantitative targets for additional company contacts with the aim of contacting the entire DVR eligible export community by the end of the year. Naturally, details of these contacts should be entered into the PIU computer. A special promotional effort for

expanding the usage of the DVR facility should be made around the time when the EC facility is due for contraction.

8. By the middle of 1993, the PIU should have devised a series of single publications for producing later in the year in addition to its regular Newsletter. These would explain particular areas of GoK export incentives, including such non-tax based incentives as the forex retention scheme, export financing facilities and regulations, foreign (export oriented) investment promotion and firm level and institutional support programmes such as those of the PEMU and KEAS. It would be useful also to produce at this time a compendium of trade documentation, with samples of Customs and other trade related forms (including the C56 and C57 forms of course).

VII. DOCUMENT PROCESSING

Problem Areas

1. The ILU and the AVDU will be required both to process large numbers of company documents and to file these documents accurately and in a way which facilitates their retrieval by other EPPO units (the other units will naturally keep additional files relating to their own particular activities). The task of the ILU is straightforward in that the single officer there at present is required to process only one document, i.e. the import licence attached to the C56 form. As this officer is competent to sign all import-for-export licences, it would be sensible now to explore the advantages if any of transferring responsibility for obtaining MoC signature on MUB licences from the IPC to the EPPO, in which case a separate MUB file should be kept. The task of the AVDU is more complex as it has to process and make recommendations for approval or not of the C56 forms and also to ensure that the C57 forms are completed on time for acceptance or not. It also has to ensure that the data on both forms and on the import licence and all other relevant documentation is cleaned and entered into the EPPO database. The AVDU and the ILU would work very closely together but it is best to retain the separate organisational identity of the ILU officer as he/she for legal reasons will continue to be on secondment from the MoC.
2. The present document processing system in the EPPO is urgently in need of specialised attention. At present the C56 forms are received by or passed to a Clerical Officer for checking against a checklist, i.e. to examine whether or not the document boxes have been filled in legibly with the right kind of information or whether they have been left blank, etc. The forms are then given an EPPO control number. The checklist and the C56 form are then sent to an Assistant Secretary with limited computer training for checking and entering into the EPPO database. Both forms are then attached to the company file and sent to a Senior Economist for deciding whether or not the approval conditions have been complied with. This examination can be done only on an assessment of what imports appear to be "reasonable" in the light of the exports predicted. At present, there is no effective way of crosschecking this assessment of reasonableness against standard formulae of manufacture (SFM) - a limited set of SFM data does exist but it is not yet available in a usable form. The file, along with the recommendation is then sent up to the Under Secretary currently administering the EPPO or to the Chief of the Fiscal Affairs Division in her absence where the decision is taken. The file is then sent back to the Assistant Secretary who enters the approval or rejection into the EPPO database and prints out the complete spreadsheet for all companies and all products once a week or thereabouts. At present, there is no coherent system in place for the processing of the C57 forms, including the comparison of their import/export data with those of the C56 forms. Up to now these have been sent as they are received directly to the AU, which until very recently was located at the Customs Headquarters. Also, until very recently, there has been no effective system of ensuring that the C57 forms are submitted on time.

3. While the system of processing the C56 forms at least appears to be a reasonable one, its operation until very recently has left something to be desired. In particular, keeping track of C56 forms which have been submitted twice or more (because of EPPO referral) for a single consignment has proved to be a significant problem. A recent investigation carried out by a consultant when the number of participating companies was lower than at present revealed major defects in C56 filing procedures which were applicable in some degree to every company file. They were also applicable in general terms to the processing of the C57 forms. While some progress has been made recently, much still remains to be done and with the expected growth in EPPO clientele the system could quickly revert to its former state unless urgent action is taken now to forestall this. As it is, the above deficiencies obviously aggravate the problems of ensuring that the data entered in the EPPO database is both clean and complete.

Recommendations for the Immediate Term

4. The ILU/AVDU unit should be formally constituted in a matter of weeks, under a senior Customs officer and the AVDU as such should also have at least one other officer of Assistant Secretary status to assist in approval/acceptance recommendations and to supervise the cleaning of the data and entering it into the EPPO database to provide weekly reports. A further 2 Executive Officers should also be provided to supplement the 2 Clerical Officers presently available, and provision should be made for adequate secretarial support. The Unit should also have access to a dedicated computer and photocopying machine and its staff should be given adequate training in how to use them. As the AVDU is to be given charge of the filing of all company documents, immediately after the appointment of the senior officers the filing/processing system should be reexamined and detailed written guidelines should be drawn up to address the outstanding filing and processing deficiencies noted above in respect of current and future C56/C57 forms, the import licences and export documents. As part of this review the following actions should be taken without delay.

- (a) Within the next few weeks the existing C56 (data integrity) checklist as used by the Clerical/Executive officers should be revised in the light of experience and a similar checklist drawn up for the C57 form. This checklist should be computerised on a priority basis to highlight inconsistencies and to facilitate second checking and record keeping.
- (b) A second (processing) checklist should be drawn up also within the next month or so and be attached for signing off to each C56 and C57 form as it is received by the EPPO, in addition to the first (data integrity) checklist. Each officer in the processing chain should sign and give his processing comments

- (c) During this period, the formfiller's manual should be revised to include both the C56 and C57 forms. The revised manual should also set out in detail the criteria for the approval of the C56 forms and for the acceptance of the C57 forms. This combined checklist should be given to all EPPO officers and it should be given to the PIU for publication as soon as possible.
- (d) The AVDU should be responsible for maintaining the registry of company files and it should put a control system in place as soon as possible to ensure that no company file is left with an officer for more than a specified period without specific authorisation from the AVDU.

Recommendations for the Near Term

5. By the beginning of 1993, the AVDU should be in a position to expand its document filing system for the benefit of particular EPPO units. For the AU, it should have agreed a procedure with Customs to receive timely copies of import and export entries submitted by every firm in receipt of DVR, as a further check on document veracity. These documents would also be capable of assisting the Division Chief to assess the delays between approvals and imports and between imports and exports. Also for the Division Chief and the AU, the AVDU should initiate a company profiling procedure, to provide a summary of all C56/57 forms received from a particular company together with compliance ratings. Such information would assist the approvals process and help the AU to set up a two tier auditing system. At the same time, for the benefit of the Division Chief, the AVDU should prepare a monthly report of recent, cumulative and quarterly average data on EPPO processing delays for both the C56 and C57 forms.

6. Also by the beginning of 1993, to cope more efficiently with the expected increase in the number of companies seeking C56 approvals and the corresponding increase in C57 processing work, the AVDU should have put in place a more efficient file control system for its company files. The company files should be used primarily for document storage - as most of the current material at least should be being entered into databases by this time, it is anticipated that analytical work will be done mostly by computer. For document storage purposes it is not necessary that related documents be filed together, only that they can be readily accessed as required.

VIII. DATABASE MANAGEMENT

1. At present, the EPPO officers have access to 4 desktop computers and to 2 printers in working order. All of these derive their power from the mains and there are no UPS units to moderate the effects of power surges. The largest of the computers, with a disk space of 130MB is currently assigned to a Consultant Analyst seconded on a part time basis from the Tax Modernisation Unit of the Treasury. This is being used for general programming work. Two other computers of disk space 20MB and 100MB respectively are currently being used, the smaller and older for work which is relevant to the wider interests of the Department of Fiscal & Monetary Affairs and the larger for data entry and word processing applications. The fourth computer with a disk space of 80MB is currently being used to house the entire C56 database. The 80MB and 100MB computers each have their own printers, the former of which is currently used for printing regular updates of the C56 spreadsheets. A fifth computer is available with some 20MB of disk space but this is an old machine and not in good repair. The computer resources presently available are summarised below.

PRESENT COMPUTER RESOURCES OF THE EPPO

| | A. | B. | C. | D. | E. |
|------------|---------|---------|----------|---------|---------|
| Make | IBM XT | IBM XT | ALS | ARC | MIC |
| Monitor | CGA | CGA | VGA | MDA | VGA |
| Processor | 8088 | 8088 | 386/20 | 386/20 | 386/23 |
| RAM | 640K | 640K | 4MB | 4MB | 4MB |
| Screen | Colour | Colour | Colour | Mono | Colour |
| Disk Space | 20MB | 20MB | 80MB | 100MB | 130MB |
| Printer | None | None | LQ1050 | FX-85 | None |
| Purchased | 1985 | 1985 | 1990 | 1991 | 1991 |
| Usage | Limited | Limited | C56Forms | Limited | Progrmg |
| Condition | Poor | OK | OK | OK | OK |

2. The software which has been installed on the computers is summarised below. The D-exempt, EPPO-movement and Export-comp. programmes have been specially designed for EPPO purposes but simplified operating manuals are not available, so that fault diagnosis is made difficult. Most of the other software has been copied from machines elsewhere in the Treasury and again operating manuals are almost entirely absent. Consequently, very little of the commercial software is being used. The copying history also poses considerable danger of virus infection although this has not proved to be a problem so far.

SOFTWARE INSTALLED ON THE EPP0 COMPUTERS

| | A. | B. | C. | D. | E. |
|------------------|--------|--------|-----|-----|-----|
| | IMB-XT | IMB XT | ALS | ARC | MIC |
| Dos 3.2 | X | X | | | |
| Dos 3.3 | | | | X | |
| Dos 3.31 | | | | | X |
| Dos 5.0 | | | | X | |
| DR-Dos 6.0 | | | | | X |
| FOXPRO 1.0 | | | X | | |
| FOXPRO 2.0 | | | | | X |
| Lotus v 2.3 | | | X | | X |
| Lotus v 2.2 | X | X | | X | |
| Supercaic | X | X | | | |
| Amlpro | | | | | X |
| D-exempt | | X | X | | |
| Eppo-movement | | | X | | X |
| Export-comp. | X | | | | |
| Budget system | | X | | | |
| Qpro 4.0 | | | X | | |
| Clipper | | | X | | |
| Report writer | | | | X | X |
| Harvard Utility | | | X | | X |
| Hummer | | X | | | |
| Norton Utilities | | | X | X | X |
| TSP Shazam | | | | X | |
| Word Perfect 5.1 | X | X | X | X | X |

Problem Areas

2. The present EPPO database system is simple but inflexible. Each of the computers is operated independently so that there are no on line enquiry facilities. The only documentary material currently being processed is the C56 Form which is entered on a basic Lotus 123 programme (EPPO-movement) on the 80MB computer. This produces simple spreadsheet reports but the system does not allow for data manipulation and analytical work is therefore restricted. For example, export potentials and import requirements are recorded on different spreadsheets and there seems to be no way of relating the two except manually. Similarly, there is no way to retrieve average processing times or processing stages from the spreadsheets and there is no automatic flagging mechanism to warn when C57 reconciliation forms are due. A further difficulty is that much of the disk space is devoted to unnecessary replication so that processing needs will soon outgrow its capacity as the number of DVR companies to be processed increases in coming months. A more powerful D-exempt programme has been developed from dBase 3+ which is capable of processing much larger numbers of C56 forms (only) but this has never been put into operation as it is too complex for the present level of computer skills. Even with its greater power the level of analytical potential is still limited however in comparison with standard commercial software.

3. The efficiency of the present computer usage could be substantially improved as there is little rationalisation in the usage of disk space. There is a need for specialist coordination of computer operations at the present time and this will become very pressing as the EPPO Units embark on major computer using projects of their own.

4. With the exception of the Consultant Analyst, the level of computer literacy in the EPPO is generally low and almost all the skills have been "picked up" on a learning-by-doing basis from colleagues with similar skill levels and from unsystematic contact with short term expatriate advisers. Such an amateur approach to computer skills can only work, if at all, in an environment where the scale and scope of the computer applications is restricted. This situation has characterised the EPPO up to now but the broadening and deepening of the work envisaged for the expanded EPPO will not be possible without explicit and coordinated provision for systematic training on a classwork course basis.

Recommendations for the Immediate Term

5. As all the operational Units of the EPPO should be fully computerised as soon as possible it will be necessary to have a central coordinating body to provide common services such as materials supply and general computer competence. Although in principle the EPPO is entitled to draw on the resources of the computer services facilities within the Treasury, in practice these are seldom available without delay when required and the EPPO should develop its own facilities so that its OSS functions at least will not be interrupted for any considerable time. Furthermore, with the database systems within the EPPO becoming more

management of the Division and to improve the efficiency of the process of approvals and reconciliation/audit. On a wider front, there will soon be a need to integrate the complexity of EPPO systems with other databases within the Treasury, particularly for PAU work.

6. Within a matter of weeks, it is recommended that a Senior Economist be appointed to the DMU along with an Economist/Programmer and an Assistant Secretary for data entry and the production of routine spreadsheet reports. While awaiting delivery of additional equipment from USAID, the DMU should draw up a detailed plan for an immediate programme of computer training and for the more rational allocation of computer resources along the general lines of the proposals made in Sections XI and XII below. In addition, the following activities should be commenced as soon as possible.

- (a) Work should start immediately on the design of a user friendly menu driven programme incorporating D-exempt to enter the C57 forms into the EPPO database and to permit comparison with the relevant C56 forms. At the same time, the C56 database should be revised to include a flagging mechanism to indicate when a C57 form should be received and to initiate a mailing process.
- (b) Another urgent task to be started should be the development of a local area network (LAN) link with the AVDU database so that AVDU data (including the computerised checklists) could be entered simultaneously into the DMU computers and further that this information could be made available immediately to senior officials through desk top monitors.
- (c) A detailed survey should be made of the usefulness of the large number of (copied) software currently occupying disk space on the 80MB, 100MB and 130MB computers with a view to deleting material which is not considered useful or which is prone to virus infection. The disk space thus cleared could be converted to data storage or analytical use and be ready to receive the new softwares to be made available by USAID.

Recommendations in the Near Term

7. During 1993, in addition to providing the Chief of the EPPO Division with general computer management assistance and facilitating the production of both routine and ad hoc reports, the DMU should concentrate on 2 main tasks, dealing respectively with the further integration of the various EPPO databases into a more efficient system and secondly with the integration of this system into other export relevant systems currently in use in the Treasury.

8. The first of these tasks should include the continued development of both the LAN link with the AVDU and the D-exempt database incorporating the C56/57 forms. To this system should be added as quickly as possible both the SFM data currently available on diskette and the audit report summaries. With this information, the EPPO Division Chief

would be better placed to compare both current with previous company performance and actual with anticipated outturns, information which would materially assist in rationalising and routinising both the OSS and reconciliation functions.

9. The second major task to be commenced if not finished during 1993 would be the integration of the expanded EPPO data system with those collected by other GoK agencies, in order to assist the development of the PAU and to facilitate the progress of the role of the EPPO as the focal point for the development of all tax related export incentives policies and for the improvement of the export environment generally. The databases to be linked to the EPPO system should include the Customs import/export entry and EC databases, the MoC import licence database, and the FEAL database of the CBK, together with any export related databases developed by the Tax Modernisation Unit in the Treasury. The object of this linkup would be to permit definitive research into the relationship of imports to exports and thereby to monitor the effectiveness and development impact of particular policies and of the export orientation strategy as a whole.

IX. POLICY ANALYSIS

Problem Areas

1. The policy analytic capability of the EPPO is low at present as staff inadequacies and the pressure of immediate events with regard to the establishment and general administration of the DVR facility have focussed attention elsewhere. Even with regard to the policy analytic issues relating to the DVR facility itself, the EPPO has had to rely for the most part on outside consultants.
2. The limited impact to date made by the EPPO on export policy making has not yet had serious consequences, but the pace of policy change is accelerating and several additional and far reaching policy initiatives are already in the pipeline for 1993 and beyond, all of which will require thorough analysis. Furthermore the impact of the significant adjustments just made to the DVR regulations and the incidence of new measures such as the forex retention facility also need to be examined continuously. More so than any other section of the Treasury the EPPO is in daily and intimate contact with large numbers of exporters and this feedback if properly channelled could provide a valuable tool for the judicious adjustment of policy details. If this tool is not used effectively there is a danger that the cohesion of the policy framework could be impaired.
3. This would be particularly regrettable at the time when the EPC is in its infancy and seeking guidance from inside and outside the GoK as to where it should focus its attention and how it should address itself both to policy issues and to the improvement of the export infrastructure. It is highly likely that the EPC will turn to the EPPO within the OVP&MoF for secretarial support in data generation and if the EPPO were to be in a position to provide this without delay its influence over the activities of the EPC could be profound. Indeed, policy cohesion requires that there be unity of purpose between the EPC and the EPPO if confusing and potentially conflicting signals are not to be sent to the exporting community.
4. Within the EPPO, there is a need to make policy analysis and its related GoK liason work into a separate function. Hitherto this work has been performed on an ad hoc basis and with limited capability. There is clearly a need to improve this capability but it is also important to ensure that it is to be available on a full time basis. Without such specialisation now there is a serious danger that as the number of DVR companies expands it will be difficult to deliver timely and high quality policy work without endangering the current momentum of the OSS process or impairing the renewed efficacy of the auditing function. A specialised policy unit on the other hand could be proficient in monitoring trends not only in the data generated by the other Units of the expanded EPPO but also and importantly in relating the EPPO activities to other export oriented GoK agencies and cognate policy areas such as transport and foreign investment (particularly by 'export catalyst' companies).

5. While the PAU is the last on the priority list for the establishment of the EPPO Units it is by no means the least important. Indeed, because of the wide range of its responsibilities its Head should act as Deputy to the EPPO Division Chief and be immediately responsible also for the supervision of PIU and AU activity. It is the last to be set in place as the other Units will provide it with much of its data needs but the differences in the time sequencing are very marginal. The PAU also faces immediate tasks which are of crucial importance, not just for the development of the EPPO but for the correct appraisal of the export development strategy as a whole. These include, in addition to continuous liaison with the EPC, the articulation of some policies which should be put in place during 1993. The monitoring and refinement of the policy matrix will need to be continued in high gear throughout 1993 and in addition various KEDS activities are due to be undertaken for which PAU participation is vital.

Recommendations for the Immediate Term

6. Within a matter of weeks the PAU should be set up in the EPPO Division and headed by a Senior Economist with at least 2 Economists as full time staff together with typist/secretary. It should also have a dedicated computer and printer and as soon as possible after appointment the 3 professionals should be given training in computer skills. The immediate task agenda for the PIU should include the following.

- (a) The PAU should take an active part in devising Action Plans by March next year for the implementation of certain policies which have been the subject of detailed reports over the last few months. The first of these Action Plans should focus on the modalities of extending the DVR facility to non-producing exporters, non-importing exporters and indirect exporters. At present a significant proportion of Kenya's non-traditional exports are supplied by such companies and most of them are disqualified under the present regulations from benefitting from DVR. The difficulties of implementing a DVR facility to cover companies in these categories are of a much higher order as the link between the imports and the exports is less easily traced. Various suggestions have been put forward by consultants none of which have been regarded by the GoK as wholly satisfactory. Yet the need remains and the issues deserve priority consideration by the PAU.
- (b) An Action Plan should be drawn up by the first quarter of 1993 to implement the findings of another study on export financing, particularly in regard to the revision of the Banking Act and the PAU should once more take an active part in its development. Other areas which need to be examined and to have detailed modalities worked out for their implementation relate to preshipment guarantees and postshipment export credit insurance.

PART THREE

RECOMMENDATIONS FOR USAID ASSISTANCE

es. Such warehouses would be used primarily by smaller exporters who would be better able to mortgage the goods therein as collateral for pre-shipment financing.

Recommendations for the Near Term

7. By the beginning of 1993, the PAU should be making its influence felt in the consideration of export development policies within the OVP&MoF at least and hopefully also within the EPC. The analytical work on the Action Plans etc. should continue until a final blueprint can be drawn up for their implementation, probably around April/May of that year. Furthermore, it goes without saying that the PAU should develop a routine for the continuous review of the entire export policy/environment position, particularly as a follow up to the Policy Baseline Study which has just been undertaken.

8. Much of the work of the PAU will be conducted of necessity on an ad hoc basis but additional tasks for completion during 1993 can be identified at the present time. At the beginning of the year, the PAU should embark on a study of the implications and modalities of replacing the present import licensing system with a comprehensive system of Open General Licences (OGL). Such a policy is now more acceptable because of the decision to liberalise the forex control system but the ramifications are complex, particularly in so far as the OGL system would be applicable to indirect exporters.

9. Another area which should be examined as a matter of priority is the appropriateness of the number and incidence of the various fees and other charges presently levied by the CBK and other GoK agencies on export related activity. Many of these are justified on the grounds of being facilitation fees but where their magnitude is significant or the arrangements for paying them are time consuming alternative financing methods should be examined.

10. By July 1993 the PAU should be in a position to contribute to the design of the first of the long range policy studies to be undertaken under the KEDS project with a view to commencing these well before the end of the year. These studies would be undertaken with contributions from specialist advisers but it is vital that the PAU participate in the design of these studies from the beginning and that it should become increasingly active as the KEDS programme develops. It is too early to identify the areas of the first of these policy studies as input from the newly constituted KEDS Advisory Committee is awaited. However, it is clear that the active involvement of the PAU in immediate term and near term policy analysis in the interim will be essential to develop the requisite analytical skills. The PAU would then take the lead in collaboration with the PIU in organising the first of the seminar/workshop debates on these issues under the KEDS project.

X. ASSESSMENT OF SHORT TERM TECHNICAL ASSISTANCE NEEDS

1. The EPPO is already in receipt of long term technical assistance under the KEDS project from both the KEDS/EPA and the USAID Customs Adviser and further long term technical assistance inputs are not envisaged at this time. A substantial budget does exist for specialist short term technical assistance in the area of policy analysis and institution development to be made available to the EPPO both now and over the duration of the KEDS project. Most of this will be earmarked for particular components of the Studies Component but some can be allocated to the EPPO immediately to alleviate key institutional development difficulties in the immediate and near terms. Particular areas where short term technical assistance could be important relate to the auditing area and to the database management area.

Implementation of a Two Tier Auditing System.

2. As the AU copes with the larger number of DVR companies following the contraction of the EC there will be a need to develop a methodology for introducing less frequent audits to companies with relatively low risk factors (assessed on a basis of relating the value of duty at risk to the reputation and compliance rating of the company involved). Such a system could easily degenerate into lax work practices unless introduced with care and with good feedback. It is suggested that a short term customs procedures expert be made available early in 1993 for 2 months to monitor the introduction of the system and that he returns at mid year and at end year for some 2 weeks each to ensure that the system continues to work smoothly.

Reform of the Bonding Instrument

3. It might also be useful to have an international bond insurance expert available at the beginning of 1993 for some 4 weeks to work with Customs on the design of a standard insurance policy which would constitute the financial instrument used to back up all bond arrangements in respect of the duty and VAT remitted. Such a standardised policy would clearly identify which party had the responsibility for payment and under what conditions and could make the calling in of insured bonds as potentially simple as in the case when bonds are taken out under bank guarantee.

Development of the Database Management System.

4. The other area where an early short term technical advisory input could be advantageous would be in relation to database management. By the end of 1992 considerable progress should have been made by the DMU Economist Programmer working in

attached to the EPPO for an initial period of 2 months. During the first month he would refine and operationalise the AVDU-DMU LAN linkup and carry out such training as would be required. During this time, he would also devise procedures for the transfer of data on diskettes from the PAU, PIU and AU to the DMU. During the second month he would design a schematic system to link up the DMU database with the other export related databases currently available on a restricted basis within the Treasury, while maintaining restricted access. This analysis and design output would then be used by the DMU Economist/Programmer to operationalise the system. A post-implementation review should then be carried out by the same adviser for 2-3 weeks in July and it would be advantageous for the same adviser to return for a similar period at the beginning of 1994 for a final operationalisation and debugging check up of the entire EPPO system. The adviser would work in closest collaboration with the DMU Economist/Programmer throughout. Close liaison should also be maintained with the Micro Computer Dept. in the Treasury to ensure compatibility of systems.

XI. ASSESSMENT OF TRAINING NEEDS

Computer Training

1. As it is being recommended that the the operations of the EPPO be computerised throughout, it is important that all key officials should attend sufficient computer courses organised locally to meet their operational needs. As the general level of computer literacy is low and as it has been acquired for the most part without the benefit of structured courses, it is recommended that starting immediately all staff, including the Under Secretary currently administering the EPPO, should attend (on a staggered basis) a basic course in Computer Awareness (2 days) which would provide a general understanding of computer technology concepts. This would be followed directly by a course on Computer Operations Management (3 days) in order to make all staff aware of the advantages and limitations of working in a computer oriented environment.

2. Following these basic computer familiarisation courses additional coursework should be undertaken by each Unit more tailored to its individual needs as follows.

AU Audit staff require training in wordprocessing (WP51 for 1 week) to prepare their reports and also in the operation of user friendly spreadsheet systems (Lotus 123 also for 1 week) to analyse company data. In addition, the Consultant Analyst should supervise their training in D-exempt for at least 1 week for each member of the Unit.

PIU All PIU staff should be trained in WP51 (1 week) and also in desktop publishing for document production. This can be done either through an advanced WP51 course concentrating on the desktop publishing capability (1 week) or through other specialised software such as Ventura or Pagemaker, both of which are already in use in the Treasury. The course duration in either case would again be only 1 week.

AVDU AVDU (and ILU) staff would not need any further standard coursework other than the two initial familiarisation courses. However, they would quickly need a thorough understanding of operations in D-exempt which should again be provided in a 1 week course by the Consultant Analyst.

PAU Additional courses for the staff here should cover the detailed uses of SPSS, a popular econometrics and statistical package together with a thorough grounding in Lotus 123. As they would be major users of the extended databases of the DMU, they would also need to have some proficiency in dBase systems (3 weeks in total)

DMU

The Head of the DMU and the Economist Programmer will require to have the broadest and deepest understanding of all the databases used in the EPPO as, in addition to their own Unit work, they will be expected to act as general computer resource personnel for the EPPO as a whole. Accordingly, they should both be proficient in Lotus 123, SPSS and dBASE (1 week each or 3 weeks in all). These officers, together with the Computer Operator would also need to be very familiar with the operations of D-exempt and should be included in these courses.

3. All of this training should be completed before March 1993 to equip the EPPO to react properly to its larger clientele and to enable the Economist/Programmer to collaborate most effectively with the DMU short term Technical Adviser. All these courses are available on a weekly or monthly basis in Nairobi and attendance can be arranged speedily. Precise details of the courses recommended will be provided in Appendix B following consultation with the Micro Computer Department in the Treasury. Additional training, especially in dBase, should be offered to all Units throughout 1993 and the first half of 1994.

Guidelines for the Study Tour

4. As the EPPO is a new agency in terms of its development, it would be worthwhile to arrange for a study tour of public sector export development agencies abroad which have been faced with similar establishment problems. Such a tour should be arranged as soon as possible and in any case before the end of 1992. At least 2 officials from EPPO should participate with the possible addition of a third official from Customs or from elsewhere within the Department of Fiscal & Monetary Affairs. It would be advantageous for the KEDS/EPA to accompany the tour if time permits.

5. Various locations and agencies have been considered. Within Africa, the outstanding success of the Zimbabwe Export Promotion Programme (ZEPP) has become legendary but the Trade Development Organisation administering the Programme is a joint venture between the private sector and Government and its activities are focussed for the most part on the market development aspects of trade promotion (which in Kenya is the responsibility of the MoC) with rather limited attention being paid to the development of the most appropriate policy matrix including the design and administration of tax based incentives which are the particular concern of the EPPO. Similar considerations rule out all other trade promotion organisations in mainland Africa. In Mauritius, where the MEDIA organisation has been successful in export development, the smallness of the country poses problems for the successful transfer of its promotional policies to the Kenyan environment.

6. In Asia, attention is drawn to the Newly Industrialised Countries (NICS) such as Singapore, Hong Kong, S. Korea, Taiwan, Thailand and Malaysia. Here the integration of policy making and market development programmes is well advanced. Unfortunately, the policy environment in most of these countries is characterised by great flexibility at the company level, the degree of company accountability is higher than in Kenya and the level of

import duties are generally much lower or even absent (Hong Kong and Singapore). While most of the relevant agencies do indeed play an active catalyst role in respect of improving the export environment, they have now been doing this for several decades and attention has long since switched to company level interactions. Such an orientation is not likely to be the most appropriate focus for the particular needs of the growing EPPO.

7. Latin America offers both the advantages of innovative agencies implementing export promotion programmes in countries with similar export environments and the possibility of combining a visit to a US Government trade development agency or Customs department. At one level of sophistication in Latin America the El Salvador One-Stop-Shop export document processing system could be relevant while at a higher level of technical sophistication the Brazilian computerised Siscomex document processing system could repay study. The outstanding success of Costa Rica in developing horticultural and other exports to the USA market may warrant its inclusion in the tour.

8. If the destinations and tasks of the study tour can be refined in the next few weeks and it is hoped that the tour can be organised before the end of 1992.

XII. ASSESSMENT OF EQUIPMENT NEEDS

1. It is recommended that the operations of the EPPO be computerised throughout. Each Unit therefore, with the exception of the ILO, should have its own dedicated computer and the DMU with its special functions should have a second one also. Indeed, the entire EPPO data processing system is seen as revolving around the DMU which should also have a one way (inward) LAN link with the AVDU computer and (outward) links to 3 dumb terminals.
2. The Chief of the EPPO Division should have one of the dumb terminals which would provide instant and up to date information on the state of the DVR operations, including spreadsheets and individual company C56 and C57 forms. A second such terminal should be made available to the Director of the Fiscal & Monetary Affairs Dept. and a third terminal would be a useful monitoring tool for the KEDS/EPA. In each case, the data would be supplied continuously by the DMU.
3. It is important to fully integrate the additional equipment to be supplied by USAID with the present computer/printer resources available to the EPPO. With the anticipated expansion of the EPPO data processing requirements, the 2 old 20MB computers (of which one is presently inoperable) will become increasingly of limited utility and so it is recommended that they be removed from database management operations and be reserved for general purpose use. The 3 remaining computers with disk space capacities of 80MB, 100MB and 130MB respectively are all in good condition with an operable life of several years and these should be fully integrated with additional USAID equipment into a unified database system. Within this system, the computer requirements of the AU, PIU and PAU would be relatively self contained with compatible data being transferred to the DMU by diskette, while the links between the DMU and the AVDU should be as close as possible. To allow this system to be put in place it is recommended that USAID supply 3 additional computers, UPS units, printers and other equipment, including an additional 3 UPS units for use with existing computers, together with appropriate software and that these be allocated with the existing equipment to the EPPO Units as detailed below.

AU

It is recommended that the 80MB computer now being used for the C56 database be transferred with its printer for the exclusive use of the AU. This would be used by the audit staff on a rotating basis to analyse and store company data (including the C56 and C57 forms) using Lotus and D-exempt, and to write their reports using WP51. These softwares are currently available on the hard disk in copied form but it may be worthwhile purchasing commercial Lotus and WP51 software in order to access the manuals, to maximise user efficiency and to limit the danger of virus infection. This computer would also need a UPS unit.

PAU

The 100MB computer currently being used by the Senior Economist should be allocated here along with its present printer as this capacity is likely to be adequate for almost all policy analysis work, especially as much of the initial data processing will have been provided by the DMU. Apart from Lotus 123, WP51 and D-exempt, which are already available, albeit in copied form, the PAU would need a sophisticated but general purpose statistical software like SPSS and the latest dBase. In addition to the SPSS and dBase manuals it might be considered desirable once again to purchase commercial copies of Lotus and WP51 in order to access the manuals. The PAU would also need its dedicated UPS unit.

PIU

It is recommended that the PIU be supplied with a new computer (with a UPS unit) with a minimum of 4MB RAM and 200MB disk space. A large disk capacity will be necessary to store and access the large volume of company contact data which the PIU is expected to accumulate in coming years. In addition, the PIU should have adequate capacity for large volumes of desk top publishing work and for this a heavy duty letter quality laser printer will be required. The software to be supplied would include dBase, WP51 and either Advanced WP51 or another desktop publishing software such as Pagemaker or Ventura which are already being used in the Treasury. A binding machine should also be supplied.

AVDU

The AVDU should also be equipped with a new computer of 4MB RAM and 200MB disk space, together with a UPS unit and a large volume matrix printer to enable it to process all the C56/57 documents and their checklists, the SFM data and downloaded material from the AU. In addition, it should have ample disk space to allow for the incorporation of DVR specific Customs import and export entries and to allow it to prepare basic operational reports for the Chief of the EPPO Division. All the AVDU data should be fed automatically to the DMU through a LAN link (although the AVDU would not be able to access DMU data) and for this reason the computer supplied should be of the same make as the new computer to be supplied to the DMU. Because of the large volume of documents expected to pass through the AVDU it is recommended that this Unit be further equipped with a heavy duty photocopier. Apart from D-exempt which will be the most frequently used software, the AVDU should be supplied with commercial copies of WP51 and dBase to access the manuals.

Accordingly it is recommended that this Unit have 2 computers, one of which, the 130MB computer currently in use by the Consultant Analyst, is already available in the EPPO and the second should be supplied by USAID. The 130MB computer would not be used for data storage and manipulation but rather it would be used by the DMU Economist/Programmer and be dedicated to programming research aimed both at the continuous improvement of the usefulness of the EPPO databases and later at the incorporation into these databases of the other export related databases available within the Treasury, particularly the Customs import/export entry and EC databases and the import databases of the MoC and the CBK. Data storage and manipulation would be the function of the second DMU computer (to be supplied by USAID). This would be continuously linked to the reception of AVDU data which it would process for the 3 dumb monitors and it would also receive downloaded data on diskette from all the other Units so as to enable the DMU staff to incorporate it in accurate and timely updates of the whole EPPO system. This computer would eventually receive the trade related data from the other Treasury databases and would need a large disk capacity. It is recommended that USAID supply a computer with at least 4MB RAM and 300MB of disk space to cater to these requirements. A heavy duty matrix printer would also be required and an adequate UPS unit to guard against a disastrous loss of all the data in the EPPO system. With the same security issues in mind, it would be desirable to equip the DMU with a fireproof disk storage safe.

4. In addition to the Unit specific computer related equipment specified above, The EPPO Division Chief should be provided with a fax machine (with an international line) to facilitate communication with exporters. A small capacity photocopying machine would also be a useful addition to this office. It is also recommended that 6 desk calculators (with print rolls) be provided primarily for the use of the audit and verification staff.

5. Detailed equipment specifications will be provided in Appendix C after discussions with the Micro Computer Dept. in the Treasury to comply with standard procurement provisions and to ensure the maximum compatibility with existing equipment.

APPENDIX A
COMMENTS ON CUSTOMS AUDIT AND REPORTS

APPENDICES

APPENDIX A
COMMENTS ON CUSTOMS AUDIT AND REPORTS

An examination of the audit reports prepared to date indicated the following general observations.

- (1) The reports are brief with few comments about information developed during the audit. Much of the material which is reported is non-specific, too limited in scope and permits only non-detailed conclusions and recommendations.

The reports present little or no information about processing losses, valuable or valueless waste material, domestic operations, source and identity of co-products used in processing, record-keeping accuracy, management's cooperativeness and similar matters. For example, 3 of the reports covered operations which seemed clearly to involve losses and wastage, yet they contained no reference to such situations.

The processing relationship of the quantities imported to the quantities exported is not explained and in some cases the quantity of actual exports is not specifically identified.

It is suggested that the reports clearly present all the information obtained, both positive and negative, for each of the items listed separately in the current audit programme.

- (2) The reports contain duplicative and repetitive information and the purpose of separating some report sections is unclear. For example, the report sections on background, audit results and duty/VAT remission often contain similar information.

It is suggested that the report format be re-evaluated to make the contents of the various sections more specific and purposeful.

- (3) The full significance of the auditor's statements is seldom made explicit and in particular they do not direct the reader's attention to the negative aspects of the situation such as possible violations of the law, whether intentional or not. **It is suggested** that the auditor present questionable as well as positive situations in a strong manner and clearly associate the situation to the law or other standards used to measure the exporter's operations.

It is suggested that the auditor always take a firm and clear position in presenting conclusions and recommendations. Where there are questionable situations the reports should present sufficiently detailed information to justify the auditor's conclusions.

- (5) The general information presented about the audit exercise needs to be expanded to include such details as the dates of the audit (e.g. start of desk research, dates of the field work, etc.), together with more details of the personnel interviewed and their cooperativeness. The identity codes of the company records reviewed (e.g. invoice numbers, inventory record sheets, etc.) are seldom given and there are few if any comments on their adequacy for EPPO purposes.

It is suggested that the reports always refer to the availability of the auditor's workpapers so that more detailed information can be extracted as required by the EPPO staff. The aim should be to provide a sufficiently complete summary of the work papers to assist the EPPO in record-keeping and subsequent audit work.

APPENDIX B
RECOMMENDED COMPUTER TRAINING FACILITIES

APPENDIX B

RECOMMENDED COMPUTER TRAINING FACILITIES

| COURSE TITLE/ INSTITUTIONS | Month /Week | November 1992 | | | | December 1992 | | | | January 1993 | | | | February 1993 | | | | March 1993 | | | | |
|--------------------------------|----------------|---------------|---|---|---|---------------|---|---|---|--------------|---|---|---|---------------|---|---|---|------------|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | |
| Computer Awareness | 2 | | | | | | | | | | | | | | | | | | | | | |
| ICL Training Insight IAT | | x | x | | x | x | | | | | x | x | | x | x | | | x | x | | x | x |
| Computer Operation- MSDOS | 3 | | | | | | | | | | | | | | | | | | | | | |
| ICL Training Insight IAT | | x | x | | x | x | | x | | x | x | | x | x | | x | | x | x | | x | x |
| Word Perfect 5.1 | 5 | | | | | | | | | | | | | | | | | | | | | |
| ICL Training Insight IAT | | x | x | | x | x | | | | x | x | | x | x | | x | | | x | | x | x |
| Lotus 1-2-3 | 5 | | | | | | | | | | | | | | | | | | | | | |
| ICL Training Insight IAT | | x | | | | | x | | | x | | | x | | x | | | | | | x | |
| Dbase | 5 | | | | | | | | | | | | | | | | | | | | | |
| ICL Training IAT | | | | x | | | | x | | x | | x | | x | | x | | | | | x | x |

PLEASE NOTE:

- the schedule for 1993 is tentative
- December is generally quiet
- Insight, as many others, offers only half-days.
- Training for DTP and SPSS will be provided by either D & T or supplier.

TRAINING ORGANISATIONS ADDRESSES

- | | | |
|--|--|---|
| <p>1. ICL TRAINING P.O BOX 30293 NAIROBI, KENYA TELEPHONE 221811</p> | <p>2. INSIGHT TRAINING P.O BOX 12815 NAIROBI, KENYA TELEPHONE 710735</p> | <p>3 IAT P.O. BOX NAIROBI, KENYA TELEPHONE 218352</p> |
|--|--|---|

APPENDIX C
RECOMMENDED EQUIPMENT

55A

APPENDIX C
RECOMMENDED EQUIPMENT

Computers

(i) DMU FILE SERVER(1 Unit)

IBM PS/2 Model 95XP-V02 Consisting:

- Intel 80486DX microprocessor
- Running at double-Clutched 25/50MZ
- 4MB of user Memory (RAM)
expandible to 64MB
- 1 x 288 3.5 diskette Drive
- 1 x 300MB hard disk (MINIMUM)
- Built in 32-bit XGA Graphics
- Micro-channel Architecture
- with 6 by 32 bit free slots
- Token Ring 16/4 Adaptor/A
- 8503 VGA Monochrome Monitor
- 102 enhanced keyboard

(ii) COMPUTERS - FOR AVDU AND PIU(2 Units)

IBM PS/2 Model 55 x LTO consisting:

- Intel 80386 Microprocessor
- Running at 16MHZ
- 4MB of User Memory (RAM)
expandible to 16MB
- 1 x 288, 3.5 diskette drive
- 2 x 200MB hard disk (Minimum)
- Built in 32-bit XGA Graphics
- Micro-channel Architecture
- Token Ring 16/4 Adaptor/A
- 8503 VGA Monochrome monitor
- 102 Enhanced keyboard

(iii) TERMINALS (FOR EPP0 CHIEF, DIRECTOR, F & M, KEDS)(3 Units)

IBM PS/2 Model 35LTO consisting:

- Intel 80386 Microprocessor
- 4MB of User Memory
expandible to 64MB
- built in 32-bit XGA Graphics
- with 6 by 32 bit free slot
- Token Ring 16/4 Adaptor/A

Other Equipment:

- 1 Laser Printer 220v
- 2 Dot matrix printer wide carriage 220v
- 3 UPS (for 3 computers 200v)
- 1 Lg volume photocopier 220v
- 1 Sm volume photocopier 220v
- 1 Int'l fax machine 220v
- 1 binder machine
- 3 computer desks (work stations)
- 3 printer tables
- 6 desktop calculators (w/roll) (220v)
- 1 yr supply cartridges, ribbons, photocopy paper, & printer paper (wide and narrow)