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**Folder ID:** C00611

**Project ID:** P001628

**Dates:** 08/01/1986-08/01/1986

**Fonds:** Records of the Africa Regional Vice Presidency

**ISAD Reference Code:** WB IBRD/IDA AFR

**Digitized:** 3/6/2020

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Washington, D.C.

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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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DOC#C00611



C00611

R1990-051 Other #: 884 27823B

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M A L A W I

Structural Adjustment Programme III

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EXPORT PROMOTION, INCENTIVES, AND FINANCING

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Lilongwe 3  
Malawi

August, 1986

## MALAWI : EXPORT PROMOTION PROGRAMME

For the next decade, Malawi's growth would be constrained by the availability of foreign exchange resources. A multiplicity of needs for foreign exchange such as external debt services and the import of capital goods and raw materials to support current economic activity means that special efforts will have to be made to stimulate export earnings.

Traditionally, Malawi has depended on tobacco, tea, sugar and other agricultural crops for export earnings, these commodities accounting for over 80 percent of domestic exports. Manufactured goods, on the other hand, have contributed less than 10 percent to domestic exports, with textiles dominating in this category.

The Government has decided to expand total exports, primarily through diversification in the agricultural sector, and putting in place measures that would stimulate production of non-traditional exports e.g. manufactures. These

Government efforts are being supported by the World Bank through the Structural Adjustment Programme currently in place.

In the agricultural sector, the diversification effort has mainly relied on the pricing policy which seeks, among other things, to influence the crop mix in favour of those export crops best able to continue being competitive in markets abroad under the present transportation difficulties. The pricing policy would also favour the new export crops and those that would substitute imports e.g. wheat.

Efforts to significantly expand non-traditional exports would be made primarily through adoption of export incentives, the strengthening of supporting institutions for export and the provision of financing for both pre- and post-shipment of exports and the offering of export guarantees and insurance against defaults and other risks. As the measures to diversify agricultural exports have been in place for several years now, this paper will concentrate

on current Government thinking on what measures would be put in place in order to stimulate non-traditional exports.

STRENGTHENING SUPPORT SERVICES FOR EXPORTING

The Malawi Export Promotion Council is responsible for disseminating information on export markets, (e.g. tariffs, market size, what goods are needed where), educating exporters about various shipment procedures and requirements, and other non-financial activities relating to export promotion.

The Malawi Government intends to strengthen the Malawi Export Promotion Council with a view to making it more effective. The strengthening of MEPC will involve among other things :

- (a) The restructuring of the MEPC. The Council will be headed by a General Manager who will be the Chief Executive Officer. There will be a technical secretariat to the

Council consisting of two Departments. One Department will deal with promotional activities and will be under the direct supervision of the Deputy General Manager. The other will deal with administrative activities and will be under the Administrative Secretary. The promotional Department will house the following sections : Research, Promotion, Information and support services including training. The Administrative Department will have the following sections : Personnel, Accounting and Finance, Legal and Services.

- (b) A determination of the adequacy of the existing staff with a view to retraining them and recruiting others needed for the initial promotional effort.

(c) A phased approach to recruitment and training of staff as the Council expands its activities.

(d) The increase in the proportion of promotional staff from the present 30 percent to 53 percent of the total at the completion of the phased expansion.

In adopting the restructuring proposal, Government took into account the need to provide specialized promotion and support services to the export community; the availability of a limited number of staff in the present MEPC which has developed significant experience in the export and promotional related matters; and the need to take into account limited absorbing capacity when implementing the restructuring proposals.

Other features of the Government efforts to strengthen the Malawi Export Promotion council are :



- (a) An increase of the Malawi Export Promotion Council budget for promotional activities; such an increase in resources would partly be made possible by raising levies on luxury imports.
  
- (b) A stronger institutional link to the Ministry of Trade, Industry and Tourism than to the Department of Statutory Bodies; and
  
- (c) The selection of relevantly qualified people to the Board of Malawi Export Promotion Council (this has already been done);

The Malawi Export Promotion Council, together with other relevant institutions, will be closely involved in the preparatory work leading to the implementation of the export promotion programme. they will play an even greater role in the programme's implementation (see Coordination below).

The Malawi Export Promotion Council has started reviewing its staffing position in preparation of the initial phase of the restructuring programme. The expansion of the promotional activities are expected to start at the beginning of the new year when the export incentives take effect.

#### SYSTEM OF EXPORT INCENTIVES

In recognition of the role of exports especially those of non-traditional goods as a major source of economic growth and as a means of restoring external balance in the economy, Government intends to provide export incentives comparable to those implemented in other export-oriented countries. The incentives, which will be tempered with the need to seek fiscal balance in the economy, will aim at export expansion and therefore Government would award more incentives on incremental exports. The incentives would apply to both Malawian owned and foreign owned firms.

A consultancy on incentives for export promotion in Malawi has just been completed and some preliminary report has already been commented on by the Government.

Government however appreciates the fact that the proposals made by the consultant are so many and far reaching that there is a need to initiate a careful process of review. Such a process has already begun. In reviewing the proposals Government will ensure that the incentives that it adopts will be simple to implement, few in numbers, administratively manageable and compatible with the tax reform efforts currently under way. Once the review process is complete, some incentives may be implemented administratively while others could be implemented by parliamentary action.

Some of the incentives may be based on a proposed export incentives act which is currently under discussion by Government. For purposes of the proposed act, non-traditional export products shall mean those exportable goods other than tobacco, tea and sugar. The proposed act is aimed

at benefiting existing, new and expanding exporters, export traders and indirect export producers.

Three basic tax incentives have been decided on by the Government. There will be tax and duty free importation of capital goods for new and expanding exporters; full tax credit shall be allocated on the duty, import levy and surtax paid on all raw materials, necessaries, trimmings and packaging materials which form part of the goods exported; and a special export allowance equivalent to some percentage of exports shall be deductible against taxable income. The allowances would be so constructed that an expansion of non-traditional exports would be encouraged.

Aside from the tax incentives, Government will also introduce non-tax incentives. These would include preference in the grant of foreign exchange allocations for all export firms; the introduction of export credit and guarantee scheme for small and medium exporters of non-traditional goods; special assistance to registered export enterprises by the Ministry of Trade, Industry and Tourism, the Ministry charged with the

implementation of the proposed export incentives act; and the promotional activities of the Malawi Export Promotion Council.

#### EXPORT CREDIT AND GUARANTEE SCHEME

At present, commercial banks offer export credit (pre-and post-shipment) on the basis of adequate collateral. However, only large exports can afford this collateral and thus small and medium size exporting firms have been left out. Government has therefore decided to introduce an export credit and guarantee facility to provide different types of financing for small and medium size exporters.

The Reserve Bank of Malawi would administer the scheme and for this purpose, an Export Credit and Guarantee Department would be established. The Department could initially have three sections, the export credit section, export guarantee section and a data section. A section on export insurance may be established some years after the introduction of the scheme. This Department would co-ordinate all the Training relating to the scheme.

The scheme would be funded by the World Bank and the Reserve Bank of Malawi. The foreign funds would be used for the financing of an Export Revolving Fund which would in turn be used to finance imported inputs of the exporters.

Under the scheme, the commercial banks would determine the eligibility of exporters to the credit. Such eligibility would be based on purpose rather than security. The exporters desiring to get pre- or post shipment credit would be required to open special accounts to which the export proceeds would be credited. The granting of credit would be based on firm export orders.

The export guarantee scheme would be introduced, simultaneously with the export credit scheme. This facility would seek to protect the commercial banks in case some of the exporters to whom credit has been extended default for one reason or the other. Any introduction of an export insurance scheme however would be made much later after a thorough assessment as to its necessity given the special circumstances of Malawi.

The funds used under the facility may be disbursed at favourable interest rates. However much would depend on the terms under which the foreign funds would be given to Malawi. It should however be noted that the Reserve Bank would be giving short term loans to the exporters through the commercial banks repayable on receipt of export proceeds.

An interministerial committee comprising the Ministry of Trade, Industry and Tourism, the Ministry of Finance, the Department of Economic Planning and Development, the Malawi Export Promotion Council and the Reserve Bank would be formed to oversee the operations of the scheme. The Export Credit and Guarantee Department in the Reserve Bank of Malawi would serve as the secretariat of the committee.

OVERALL CO-ORDINATION OF THE EXPORT PROMOTION EFFORT

During the period leading to the implementation of the various incentives, export credit and guarantee schemes and institutional strengthening of Malawi Export Promotion Council,

the Department of Economic Planning and Development will co-ordinate all the export promotional activities. Thereafter, however, overall co-ordination would be the responsibility of a Co-ordination Committee comprising senior officials of the Ministries of Finance and Trade, Industry and Tourism, the Department of Economic Planning and Development, the Malawi Export Promotion Council and the Reserve Bank of Malawi. The Committee would be chaired by the Secretary to the President and Cabinet, and would be serviced by a unit specifically established in the Department of Economic Planning and Development for purposes of export promotion co-ordination.

The Unit in the Department of Economic Planning and Development would be headed by an expert recruited preferably under the technical assistance from the World Bank for two years. An appropriately qualified Malawian would be the expert's counterpart. Each of the institutions represented on the Co-ordination Committee would designate a person or persons who would work closely with the Unit in the Department of Economic Planning and Development. This is



particularly relevant for the Malawi Export Promotion Council whose involvement in the overall export promotion efforts would be particularly vital.

#### PLAN OF ACTION

The process of reviewing and adopting the proposed export incentives is expected to be completed by the end of 1986. Further, the consultant's report on the Export Credit and Guarantee scheme will be ready by February, 1987. It is expected that both the export credit and guarantee scheme and the export incentives would start being operational at the beginning of the next fiscal year.

The Interministerial Co-ordination Committee is to be set up by Government by September, 1986 and the Unit in the Department of Economic Planning and Development would be established by October, 1986. The Co-ordinator would be hired by November, 1986. It is the Government's view that the co-ordinator should be in place before the process of reviewing the export incentive proposals is complete.

CONCLUSION

Government believes that the adoption of these incentives, together with the introduction of the export credit and guarantee scheme and the strengthening of the MEPC would significantly increase exports of non-traditional goods.

**ECONOMIC PLANNING AND DEVELOPMENT**

20 AUGUST, 1986