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IMPORT MANAGEMENT POLICIES AND TECHNIQUES

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I. INTRODUCTION

1. The need for import management by African countries has become more important in recent years with the very serious balance of payments problems that many of these countries are experiencing. The scarcity of foreign exchange has made it imperative that apart from adopting policies for promoting exports, African countries should concomitantly adopt policies designed to rationalize the purchase and utilization of imports. Accordingly, import management has become a policy instrument not only for balance of payments management, but more importantly an instrument for making more efficient the utilization of imports. A successful import management policy incorporates various policy measures designed to: reduce the cost of imports; rationalize sources of supply and distribution channels as well as reduce wastage; improve procurement methods and financing procedures.

2. This study is an attempt to analyze import management techniques that have been adopted by African countries, with a view to determining problems they have encountered in implementing such techniques. After the introduction, the second chapter of this paper gives an overview of the type and categories of imports in developing countries; the third chapter then examines import management policies in African countries in the context of balance of payments management. During the 1980s, most African countries experienced serious balance of payments problems and accordingly adopted certain policies aimed at addressing these issues. These policies, in many cases, included implementation of certain import policies as well as foreign exchange and exchange rate policies. The fundamental question is whether these policies were implemented as part and parcel of a conscious import management policy or only as a response to the severe balance of payments situations faced by many of these countries.

3. The fourth chapter of this paper views the extent to which import management policies have been implemented in African countries and evaluates the success of such policies. Indeed, an ideal import management strategy is one that places demand for imports within a country's overall development strategy. Chapter V of this Report, accordingly, lays down an appropriate framework for import management. This framework should invariably contain, an importation plan in the context of overall economic planning within the country; the institutional framework needed for carrying out such an import management policy; measures needed to implement such a policy; and mechanisms for monitoring the effectiveness in the implementation. The final chapter of the paper contains conclusions and recommendations.

II. THE TYPES AND CATEGORIES OF IMPORTS OF AFRICAN COUNTRIES

4. Import management requires a clear understanding of the type and categories of goods imported by African countries. It is necessary to ensure that in the process of rationalizing imports, essential imports are not significantly compressed as to affect production and the overall rate of growth of the economy.

5. The major categories of goods imported by African countries are manufactured goods, fuels inputs and raw materials and food items. These may not be amenable to compression as they are essential products needed for basic sustenance or to support production. The foreign exchange constraints and balance of payments problems experienced by many African countries in the 1980s forced many to compress imports to levels significantly below the basic requirements needed to support production. Accordingly, in many African countries unutilized

industrial capacity emerged as firms were unable to purchase the necessary inputs and industrial equipment and machinery. Maintenance of industrial plant became problematic.

6. Notwithstanding these observations, scope still exists for rationalizing imports in African countries, be it in the public or private sector. At a country level it is necessary to give priority to imports that support production as opposed to luxury goods. The range of imported motor vehicles in many African countries is staggering as is the range of imported consumer goods. Similarly, there is need to strike a balance between imports of military hardware and raw materials needed in the production. This rational decision needs to be made not only at the higher levels of central governments in African countries but also at the levels of ministries and departments as well as public enterprises. Rational management of imports can indeed save many African countries not only the scarce foreign exchange but also tax revenues.

7. At the level of the firm, import management is essential to ensure that the firm purchases from the cheapest sources possible, goods are handled and transported through the most efficient means possible and storage facilities are adequate and appropriate. Furthermore, inventory management of imports is essential if the firm is to minimize the cost of imports. Many firms in South Korea, Taiwan and Japan which are involved in manufacturing attempt to minimize the cost of holding stocks of raw materials through sub-contracting supply of raw materials, usually limiting supplies to the derived within two-day span prior to production. This ensures that the firms do not incur the unnecessary cost of holding excessive inventories of raw materials. Efficient distribution and marketing channels are essential for such a system to operate efficiently.

III. IMPORT MANAGEMENT IN THE CONTEXT OF BALANCE OF PAYMENTS MANAGEMENT

8. The 1980s were a difficult period for many African countries; as many experienced severe balance of payments problems due to a combination of factors which included, a prolonged and precipitous decline in their terms of trade, escalating external debt burdens, a decline in real net resource flows, and restricted market access for their exports as protectionist pressures intensified in many industrialized countries. In this context, Africa lost world market shares in a number of its traditional exports. Given this environment, most African countries implemented trade and exchange policies aimed at reducing the quantity of goods imported and to rationalize their utilization. Simultaneously, and in the framework of implementing structural adjustment programmes (SAPs) supported by the International Monetary Fund (IMF) and the World Bank, other African countries have promoted trade liberalization.

9. The fundamental question one may pose is whether implementation of these measures by African countries could be interpreted as a deliberate import management strategy or a response to the balance of payments pressures that many of these countries were facing or both. Regardless of the answer to this question, the fact remains that in the face of severe foreign exchange constraints many African countries were forced to significantly curtail the levels of their imports and even for essential imports such as medicines, inputs needed for agriculture, as well as machinery and equipment needed to support industry. The majority of African countries experienced significant disinvestment as resources needed to support investment fell and real imports also declined. Evidence shows that the openness of most African economies makes them extremely vulnerable to external shocks. Imported inputs play an important role in African

countries' productions functions, hence, a severe curtailment of imports has a significative impact on output and the rate of economic growth as well.

10. Studies have shown that most Sub-Saharan African economies faced deteriorating terms of trade, with oil exporters as the main exception. Mineral exporters were the hardest hit with their terms of trade falling by around 50 percent between 1970 and 1990. The terms of trade of exporters of agricultural producers fell by 34 percent and 30 percent for those that are more diversified. Oil exporters, by contrast, enjoyed improvements in their terms. As nominal earnings declined, import volumes and real investment levels fell. The income loss from the decline in the terms of trade (excluding Nigeria) was around 10 percent of Gross Domestic Product (GDP) between 1965-73 and 1987-90. The losses were biggest for mineral exporters, around 20 percent of GDP for the whole period, and much more moderate for the agricultural exporters around 4 percent of GDP. The oil-exporting countries gained from higher prices; the gain being in the region of 4 percent of GDP. But even these countries experienced deteriorating commodity prices during the latter half of the 1980s. The decline in terms of trade slowed growth in many African countries, although other factors also had a bearing, such as mismanagement of African economies. For the CFA countries, a combination of the drop in the terms of trade and the appreciation of the real effective exchange rate led to a massive loss of competitiveness and a crisis in these economies. Average real income per capita has fallen by 27 percent since 1985 for the countries of the CFA Zone. As nominal export earnings declined by 30 per cent, import volumes and real investment levels have been reduced accordingly, falling by 18 percent and 37 percent, respectively. These developments have had a serious impact on tax revenues and produced fiscal crises in most of these countries. Poverty has worsened due to the loss of income earning opportunities and inability of governments to provide basic social services because of fiscal constraints.

11. In the face of severe foreign exchange constraints faced by many African countries, many resorted to various measures in order to reduce demand for imports which included: quantitative restrictions, allocation of foreign exchange, increases in tariffs and non-tariff measures and even rationing. Quantitative restrictions have primarily been in the form of quotas and foreign exchange allocation systems. However, many of these measures instead of solving the fundamental imbalances that had emerged in the balance of payments positions of many African countries served not only to produce serious distortions in African economies and also lead to a loss of export competitiveness as inefficient industries were protected by high tariff and non-tariff barriers.

IV. AFRICA'S EXPERIENCE WITH IMPORT MANAGEMENT POLICIES

12. The experience of African countries with import management policies ranges from those countries which have maintained relatively liberal import policy to those which had centrally planned system of managing imports. Many of the oil-exporting African countries have maintained a relatively liberal system of importation of goods. On the other extreme, countries which formerly followed a centralized system of economic management maintained a complex system of procurement, allocation and distribution of imports. The administrative machinery needed to purchase and distribute imports was often complex and cumbersome. Even for those African countries whose economic organization was based on market-oriented forces the scarcity of foreign exchange forced many of them to resort to quantitative restrictions, foreign exchange allocation, and tariff and non-tariff measures. In recent years, however, many African countries have embarked on economic reform programmes which have involved inter-alia implementation

of trade liberalization policies; price decontrols; rationalization of fiscal, monetary and exchange rate policies; and in many cases dismantling of foreign exchange allocation systems.

13. The combination of quantitative restrictions and overvalued exchange rates has been a common feature of trade and monetary policies of many African countries for a number of years. Many of these countries maintained complex systems of import licensing, granting of permits, and foreign exchange allocation. The complexity of these systems resulted in significant distortions in African economies and inefficient utilization of the scarce foreign exchange. For many of them, the system of foreign exchange allocation gave rise to favouritism in the allocation of such resources and bribery. The delays that companies experienced in obtaining licenses and receiving foreign exchange allocation forced many companies to maintain inventories above the normal levels required for production and marketing of products to hedge against possible future restrictions in foreign exchange. These developments increased the cost of doing business in Africa.

14. Many African countries have employed, at one time or another, tariff and non-tariff measures as a way of protecting infant industry and/or raising government revenues. The end result of such measures has often been to raise the cost of imports relative to domestically produced goods. While the reasons for protecting infant industry have been justified on a number of grounds, such as creating employment, reducing external dependency for manufactured goods, and diversifying African economies, nonetheless some of these policies gave rise to the development of industries which are now unable to effectively compete in more liberalized trading systems being adopted by African countries.

15. The severe foreign exchange constraints faced by African countries in the 1980s led a number of them to experiment with multiple exchange rates and/or foreign exchange auctioning systems. The multiple exchange rate system can be used as a means of circumventing the difficulties involved in adjusting customs duties, which often pose problems with regard to domestic legislation and foreign exchange commitment. This system, however, has some advantages when compared to quantitative restrictions of imports. Firstly, the multiple exchange rate system allows a better performance of the price mechanism in the economic system through disguised taxes and subsidies. Furthermore, although the selection of groups of item requires administrative decisions, they are less arbitrary than in the setting of import quotas. The African Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation (AAF-SAP) advocated the implementation of a multiple exchange rate system by African countries in pursuit of the four objectives of, structural transformation, balance-of-payments adjustment, industrial protection and taxation of international transaction . It was argued in AAF-SAP that adoption of a multiple exchange rate system could mitigate the effects of the very high import price increases following devaluation as well as on the production cost structures of African economies. The difficulties of implementing multiple exchange rates in African countries are acknowledged. Nonetheless, if this is the second best solution its relevancy to African countries should be explored.

16. The multiple exchange rate system may have the same effect of distorting investment, production and distribution just like quantitative restrictions and import quotas if the classification of import items corresponding to the different exchange rate is based on how vital the goods are. The domestic prices of non-essential goods will increase while prices of essential goods are kept artificially low because of multiple exchange rates. This, then encourages the local production of non-essential products which are protected by the high exchange rates, unless other forms of indirect taxation are levied to compensate for the favourable exchange rates offered to importers

of essential products. These are some of the shortcomings of a multiple exchange rate system and it is because of this that African countries have used multiple exchange rate system only as a temporary measure.

17. In recent years, many African countries have embraced import liberalization schemes designed to open up their external trading systems. This has invariably consisted of liberalizing import licensing procedures and dismantling of import quota systems; dismantling foreign exchange allocation systems and exchange controls; and movement towards market determined exchange rates for local currencies. The impact of import liberalization programmes on African countries has been rather mixed. These programmes have usually been supported financially by the World Bank, the International Monetary Fund and the donor community. Their success, therefore, has depended significantly on continued external financial support and not on self-financing mechanisms. It is not surprising that many of these import liberalization programmes have been abandoned in the face of renewed foreign exchange pressures. The experiences of Kenya and Cote D'Ivoire with import liberalization programmes provide vivid examples of the difficulties of sustaining such programmes if they are heavily dependent on external financing as opposed to self-financing mechanisms.

18. Cote D'Ivoire is a member of the CFA Zone and also a member of the Monetary Union of the West African States (UMOA). The settlements of Cote D'Ivoire relating to balance of payments transactions are settled through the French Treasury within the framework of the CFA zone arrangements. As long as the overall foreign exchange position of the CFA zone was healthy, Cote D'Ivoire had no problems. However, the worsening terms of trade and the deterioration in the overall balance of payments position of the zone forced Cote D'Ivoire to begin to restrict imports through the issuance of import quotas and licenses during the early 1980s. As economic problems continued, Cote D'Ivoire was forced to seek further assistance from donors and multilateral organizations. Starting with Cote D'Ivoire's Structural Adjustment Programme (SAP) of 1986, quantitative restrictions were replaced by tariff protection, with a protection rate of about 40 percent. Furthermore, a temporary tariff protection surcharge decreasing over five years was applied in 1984 to young industries. This surcharge was used to finance an export bonus for the Ivoirian exporters.

19. Import licensing allocation system in Cote D'Ivoire ended in December 1986 as quantitative restrictions on textiles, clothing, wood and agro-food products were lifted. In 1987, the liberalization was extended to all imports. The export bonus established in 1984 and paid to exporters and manufacturing industries proved extremely profitable to individual export companies. It accounted for 10 percent of the FOB value of the product exported. However, as Cote D'Ivoire's terms of trade continued to deteriorate and competitiveness of the country became progressively eroded by the appreciation of the CFA franc, the import liberalization policy implemented by the country failed to produce economic recovery. The economic crisis deepened. The rising trend of customs duties on products that are freely imported led to generalized fraud which the government has been trying to combat. The whole situation has called into question as to how successful the import liberalization programme has been in Cote D'Ivoire.

20. Similarly, the import liberalization policy of Senegal also appears to have fallen short of expectations of government authorities. The import bans which were supposedly abolished concurrently with the lifting of quantitative import restrictions continued to be used. Furthermore, the fact that during the first phase quantitative restrictions were only converted to equivalent tariffs did not result in reduced protection. During the second phase of the

programme the equivalent tariffs were supposed to be lowered, but by 1984 this had not been done.

21. Kenya, during the 1960s and 1970s was a relatively healthy economy. However, like many African countries the period of rapid economic expansion which followed the coffee boom of the early 1970s was followed in the 1980s by progressive deterioration in the country's terms of trade. The volume of imports fell by 25 percent between 1975 and 1981 and rationing of foreign exchange contributed to the development of unused capacity in manufacturing. The economic difficulties facing the country forced the authorities to negotiate structural adjustment programmes with the World Bank and the IMF. The main elements of these programmes were: to provide balance of payments support to Kenya to ameliorate the foreign exchange constraint; to bring the value of the Kenyan shilling to market equivalent determined exchange rates; to increase producer prices for Kenya's main exports; and to implement a trade liberalization policy whereby quantitative restrictions were to be replaced with tariffs and the foreign exchange allocation system progressively dismantled.[1] Kenya implemented most of the agreed measures, but the import liberalization programme run into serious difficulties when the donor community withdrew financial support to the country on the grounds of "political conditionality". Once more, the events had demonstrated that an import liberalization programme based on "external financing" and not on "self-financing" is a precarious exercise and more importantly not sustainable.

22. These observations would appear to indicate that import liberalization programmes in Africa have not in most cases achieved the intended results partly because they were heavily depended on external financing mechanisms rather than self-financing. Furthermore, the continuing deterioration in the terms of trade of many of these countries, combined with increased protectionism in markets of industrialized countries, escalating external debt service burdens and declining real net resource flows, have made it difficult for African countries to break away from dependency on external resources to finance import liberalization programmes. Many have become locked in the typical dependency syndrome from which they are finding it difficult to extract themselves.

V. AN APPROPRIATE FRAMEWORK FOR IMPORT MANAGEMENT

23. An appropriate framework for import management should invariably contain the following major elements: position the process of import planning and management within the framework of national economic planning; relate demand for imports to availability of foreign exchange within a country; aim to improve import acquisition methods and techniques of both the public and private sectors; aim to identify, evaluate and analyze sources of supply for imports with a view to minimizing costs; compare the various terms and conditions being offered by various suppliers, import financiers and insurances,[1] rationalize management of stocks and inventories as well as warehousing; and improve monitoring of stocks.

24. The need to position import planning within the framework of the overall economic planning process of African countries is dictated by both the scarcity of foreign exchange facing the majority of African countries as well as the need to have integrated sectoral development strategies which clearly identify the possible constraints in the availability of imports. Incidence are numerous in Africa where projects which have been started have had to be abandoned because of lack of foreign exchange to acquire the necessary imports. There are indications of inappropriate planning where the import requirements of the said projects were not positioned

within the overall economic planning process of the country in question and more importantly did not consider the availability of foreign exchange needed to support the activities of the projects.

25. Estimation of demand and supply of foreign exchange is an essential element of import management strategy. This allows a country to determine the amount of foreign exchange that will be available and the competing demands for such foreign exchange. The wide range of products imported by African countries dictates the need to evaluate import needs by carrying out an analysis by type or group of products. Accordingly, demand for each type of import or group of products may need to be estimated. Furthermore, there may also be the need to evaluate the country's demand for services on the basis of an in-depth study of the relevant factors. Transport and insurance expenses could be evaluated mainly on the basis of the expected level of goods that will be traded and trends in freight tariffs and maritime insurance.

26. Import procurement is a management exercise which generally comprises of four phases: specification of needs once they have been identified; selection of sources of supply for imports; evaluation of the offers made by suppliers; and preparation of the contract between buyer and seller. The references used within the framework of international trade, helps importers to ascertain whether deliveries conform to the identified and expected specification requirements of the importer. These reference standards relate to the trade name, the make of the product and its quality. The importer should ensure that all the relevant information is provided as regards to the specification of the product to assist in the decision making process as to whether to buy the product or not. Ignoring final details as regards to specification of the product can prove extremely costly to the importer if afterwards it is discovered that a wrong product has been imported.

27. Identification of import sources may be done through tenders; on the spot negotiations, either by telephone, telex, fax etc.; long-term contracts; and market surveys. African importers should carefully study import tenders in order to buy on the best possible terms. As far as basic products are concerned, a certain number of elements such as the price, payment and credit conditions and the delivery time should all be taken into consideration. Products earmarked for specific use, such as capital equipment, require other elements being considered, including the operating cost, the quality, durability, after sales service and repayment conditions.

28. A contract is signed when two parties agree to a sale. Within the framework of an international transaction, it is customary for the two parties to have recourse to standard contractual or trade terms which enable them to refer to a set of pre-established rules that can be integrated in the contract. "Incoterms" are part of these trade terms. The International Chamber of Commerce uses "Incoterms" to try and resolve problems that arise from the discrepancy between national laws and their divergent interpretations by establishing a set of trade terms which provide neutral rules and practices. These rules and practices were adopted following in-depth discussions between exporters representing traders from all over the world. Incoterms do not provide rules for the interpretation of all trade terms used in world trade, rather, they focus on the main terms used.

29. When any of the other parties hesitates to abide by national law and procedures, it may be appropriate to refer to Incoterms using the following principles as a basis: whether terms were borrowed from the current practice in world trade. If current practices present many discrepancies, Incoterms provide for a minimum of commitment by the vender, while allowing the parties the freedom to provide for more extensive responsibilities in their contracts.

Furthermore, references to the practices of a specific business or to a special part should be reduced to the minimum. It is usually the case that each party will attempt to limit its obligations to a minimum. Accordingly, the seller will try to negotiate a contract which permits him to sell ex-factory, while the buyers will attempt to convince the seller to pay duties and deliver the goods at the buyer's premises. Attempts should be made to avoid transforming functions, costs and risks of one party to another. Furthermore, the parties concerned should be guided by other criteria such as the market situation, transport control and insurance; the intervention of official authorities and the use of exemption clauses.

30. The strategy for import management should also include management of stocks of imported goods, which should include reception and inspection of goods; management of warehouses; and monitoring of stock levels. A rational management of stocks depends to a great extent on the smooth functioning of warehouses, quality of the facilities, and efficiency of staff. Considerable improvements can be made to management of warehouses which should include examining the nature and characteristics of each product and the quantity of imports and exports handled by the warehouse; the structure of warehouses and the value of storage facilities; and handling facilities employed. Furthermore, there is need to develop an efficient system of monitoring levels and quality of stocks. Such a system should include: a card indexing system for stocked articles or alternatively a computerized system which shows, the articles code number, designation of the quantity, certain control parameters, the quantity ordered, buffer stocks and the classification of the article. Furthermore, it should also contain a transaction file of imports and exports; and a card indexing system or computerized system for orders from suppliers. The monitoring system should be used for checking validity of codes; the number, quantity and price of the product; and possible omissions in registration.

31. An attempt could also be made to calculate estimated import requirements by preparing a number of modules and files which could be based on the following modules: provisional calculation module based on a statistical analysis of sales and exports of stocks; module for management of customers' orders; module for management and updating of stocks by goods; module for control of technical data; card index files of manufacture; and card index of the range of articles and station index cards. These principles would indeed assist African countries in ensuring that the scarce foreign exchange is efficiently utilized.

VI. CONCLUSION

32. Adoption of appropriate import management methods and techniques is one way of ensuring that African countries efficiently utilize the scarce foreign exchange expended on imports. This paper has attempted to illustrate Africa' experience with import management techniques and suggest ways of improving such a process in African countries. While many African countries have managed imports within the framework of balance of payments management, the process of integrating these techniques within the overall planning process is undertaken in but few of them.

33. A dynamic import management strategy should invariably contain the following major elements: integrating import planning, within the framework of overall economic planning; rationalization of sources of supply for imports; improving procurement methods as well as sources of financing; rationalizing distribution channels; and reducing wastage of imports because of poor handling and pilferage. Furthermore, implementation of such a strategy would need to carefully consider issues of identification of sources of supply of imports; evaluation of suppliers'

offers; terms and conditions of the contracts to be signed between the supplier and the importer; management of inventories and stocks; management of warehouses; and monitoring and follow-up on stocks. Many African countries stand to gain from adopting appropriate import management methods and techniques both in the public and private sectors.

34. It is acknowledged that within the trade liberalization programmes currently being implemented by African countries import management as a national policy may appear inconsistent, with trade liberalization. Nonetheless, import management techniques can be applied by both the public sector and the private sector. This process involves setting priorities in terms of goods to be imported, ensuring that such goods are obtained at the most favourable terms, and careful handling of transportation and storage of such goods as well as inventory management.