HORTICULTURE TRADE FINANCE:
Zimbabwe examples

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HOW EXPORTERS CAN OBTAIN GOOD ACCESS TO HORTICULTURAL TRADE FINANCE

1.0 EXECUTIVE SUMMARY

The Horticultural Industry in Zimbabwe is one sector that continues to grow both in value and volume. Since its inception in the mid 1980's it has become the third largest agricultural commodity export, after tobacco and livestock.

The sector is now acknowledged as the second largest foreign exchange earner after tobacco, accounting for an estimated 3.5% – 4.5% of Gross Domestic Product (GDP) in 1999. The success of the industry has been based on mainly entrepreneurial flair from producers, however; there are new challenges and problems besetting the industry.

The industry's profit margins are being squeezed relentlessly by the Fixed Foreign Exchange Policy, out of all proportion to spiralling inflation, high interest rates and speculative input costs.

Direct foreign investment has also been stifled due to the artificially stable dollar affecting the industry's ability to reinvest and expand. This applies particularly to technology transfers and value adding activities, thereby eroding Zimbabwe's competitive advantage on the international market.

Indeed, in a rising interest rate scenario, as is the case in a number of countries such as Zimbabwe, the costs incurred are reaching unsustainable levels, virtually reducing prospects for growth in horticultural trade and foreign currency reserves generated from the trade. Apart from Cash Flow costs, there are also costs related with the inconvenience caused by the level of paperwork procedures and cumbersome systems that are in place as proxy for risk management.

Such costs could also be reduced significantly while effectively managing risk. The element of risk management is critical and cannot be over emphasised in the African context. However, there are cases where this element has been exaggerated and generalised causing serious investors to miss golden opportunities in the Industry.

The purpose of this paper is to identify new financial instruments that could be used by the horticulture industry to access cheap financing within a reasonable risk profile.

The Paper seeks to encourage the use of these financial instruments not only in Zimbabwe but also with Africa as a whole in order to promote the growth of international trade in the OECD countries.

2.0 CURRENT FINANCING MECHANISMS

2.1 Introduction

In Zimbabwe, during the 15 years of colonial rule, the foreign owned commercial banks, together with the transnational companies, such as Anglo American Corporation, that owned a major share of the modern sector assets, developed one of the most sophisticated financial systems in Sub-Sahara Africa. Despite United Nations sanctions, they successfully helped to mobilise local savings and direct credit to facilitate investment to finance ten years of relatively high growth rates.

Today 22 years after independence, there are no savings and it has become difficult to direct credit to facilitate growth, largely due to policies being pursued by the government, which investors consider negative for investment. Interest rates and inflation have been at the country's highest 60-70 per annum for the former, while the latter is at 60 per cent, making it almost impossible for productive sector to borrow. Most of the money has been idle sitting on the money market and earning huge interests, but not being used by the productive sector.

This has resulted in difficulties for the exporting and manufacturing sectors accessing cheap financing and as such, the manufacturing industry has almost collapsed, while the exporting sector is threatened, since it is operating on high costs and is now considered uncompetitive in foreign markets.

There are a number of institutions providing both finance and financial services (see Table 1 and 2), but none of them seem to have an answer to both the exporting and manufacturing industries. Even other sectors too continue to be starved of financial resources to develop. For instance, Parastatal organisations such as Agritex, who offer extension and advisory services to farmers now run at low capacities, largely because of lack of financial resources. Their main objective is to offer advises to farmers. In the past 4 years some co-operative Banks such Oma Bank have been set up to provide long-term financing to both farmers and private sector, at affordable interest rates, but these banks are under capitalised. On the other hand agricultural co-operatives have also been formed to provide seed and implements to farmers, through leasing, but they too are under capitalised. The only sources of capital become the development bank, commercial banks and International banks. But both the Development Bank and Commercial Banks are giving loans that are highly securitized and not affordable because of high interest rates. While International Banks are the answer, particularly to exporters, who can access cheap offshore loans, these are not easily accessible, as Zimbabwe's credit rating has gone down to

zero. Insurance companies, structured export financing, stock markets and bonds, become the only cheaper sources of financing. But while many companies in the manufacturing and other industries can access the stock markets, they can only do so for long-term capital and not working capital because of stringent rules on the Zimbabwe Stock exchange. Structured export financing is also limited to exporters, but its products, are not easily understood in the market as they are still under- developed.

While cheap funding can also be obtained from the stock markets, most exporting farmers do not qualify for listing on the Zimbabwe Stock exchange. The market for bonds is also under developed and can not be used to finance the horticulture exporting sector. This has left the Zimbabwe horticulture with no option but to securitize their future export receivables as the only source of cheap funding, instead of using the stock markets and bonds.

Table 1

Types of Credit	Credit Period	Interest per annum
Production loan	30-365 days	70 per cent
Short-term loan	30-365 days	50-70 per cent
Medium loan	365 days - 2 years	45-50 per cent

Table 2

Institution	Type of Credit and Services offered to farmers, exporters, etc.	Constraints
1. Parastatal organizations	Training and advisory services	Lack of funds
2. Cooperative Banks	Long term loans	Not enough liquidity to cover the market.
3. Agriculture Cooperatives	Seed and Agriculture implements	Lack of Funds
4. Development Banks	Long term loans	Heavily collaterized and as such farmers or exporters cannot afford.
5. Commercial Banks	Loans; short ,medium and long term financing	Interest rates too high, as such most exporters cannot afford.
6. International Banks	Offshore financing	Not easily accessible as Zimbabwe considered too risky, because its credit rating is down to Zero. Country risk, therefore, high.
7. Others	- Insurance cover and structured export finance - Stock markets and bonds. Cheaper for farmers, but products not fully understood by the market.	Markets not fully developed for bonds and very few agriculture exporting companies quality for listing on the Zimbabwe stock exchange

2.2 Overdraft

The most common form of financing business is the overdraft.[2] Overdrafts are mainly used to finance working capital in horticultural trade finance. Rates at present are between 70% and 72% (per annum). The interest rate is nominal. The real interest rate is around 10%, since inflation is now around 60-61% and interest rate must be positive. Interest is calculated on the daily overdrawn balance and added to the outstanding overdrawn amount at the end of each month. For instance, if a client overdraws his business account by US$ 10,000 during an operative month, he is charged US$ 600 ((10,000 * 72%) / 12) for the month. In case he does not bring the account back to credit balance during the month, he is charged interest on the sum of US$10,600 for the second month, and so on.

Overdrafts are renewable annually and most bankers expect borrowers to eventually get into the black at some stage, such projections are supposed to be supported by highly accurate cash flows and secured by either movable or immovable property.

Although overdrafts are the most common form of borrowing in Zimbabwe at the moment, due to their variable nature and because long-term funds are not easily available since most depositors only take short-term positions. It must be noted that interest rates are still very high (70-72%) making most business ventures unprofitable. The major reason for the high cost of overdraft facilities is the inflation rate.

2.3 Loan Facilities

Most bankers are at present not excited about offering loans but will do so for projects with high pay-back potentials, in other words well secured low risk investments. Loans are generally 1% above the overdraft rate, mostly over 3 years. The maximum loan period at present is 5 years, however, bankers say they do not like to exceed the 3 year period as they are bordered about the country's long-term economic trends. Generally, there are no penalties for early settlement. As stated, interest rates are higher than overdraft facilities because of the uncertainty banks have on long-term trends. There is no indication that government can control or bring down inflation. So if a bank gives a loan of between 2 to 5 years, they would like to be compensated for the increase in inflation. In

[2] Overdraft: Provision of instant credit by a lending institution, i.e. the amount by which withdrawals exceed deposits, or the extension of credit by a lending institution to allow for such a situation.

general, most developing countries' central banks do not increase Treasury bill rates (the benchmark for local interest rates) in line with inflation rates. This makes it difficult for banks to tie their lending rates to the central bank rediscount rates.

Moreover, loan facilities require tangible security such as Bond over immovable property, security over investments and shareholders guarantees, which most horticultural exporters cannot afford.

2.4 Hire Purchase

Hire purchase (HP) is a method of buying equipment in which the purchaser takes possession of them as soon as he has paid an initial instalment of the price (a deposit) and obtains ownership of the goods when he has paid all the agreed number of subsequent instalments.

Hire Purchase is a fixed cost, fixed period loan for the purchase of equipment. During the repayment period the user is effectively the owner but legally the title does not pass until the loan is fully repaid, often including a final (though nominal) fee for the option to buy.[3]

This type of finance is mainly used for horticultural equipment such as vehicle and refrigeration. Current Rates are approximately 60% PA with a minimum statutory deposit (the client’s contribution) of 25% - 60%. Periods vary from 12 to 36 months.

2.5 Lease Hire/Purchase

Lease Purchase is a term which is used to describe a type of hire purchase which includes a final or "balloon" payments at the end of an agreement, thus reducing monthly rental (repayments).

Most horticultural exporters lease equipment such as refrigeration, vehicles and in some cases, premises. Interest rates are similar to Hire Purchase, that is, 60%, per annum and the minimum deposit is 25% with some finance houses demanding even higher deposits. Most lease contracts also provide for the acquisition of the assets by the client, on full payment of the rentals. This is however subject to the payment of a certain sum known as residual value.

[3] A "hire-purchase agreement" differs from a "credit-sale agreement" and "sale by installments" (or a deferred payment agreement) because in these transactions ownership passes when the contract is signed. It also differs from a "contract of hire", because in this case ownership never passes (i.e. hiring allows a user to have the use, but not the ownership, of the equipment in return for a series of rental payments).

2.6 Offshore Facilities

Offshore loan facilities available accrue interest at rates varying from 10% to 14% with periods from 12 to 48 months. However, post-shipment finance can be for a shorter period. Penalties are charged on early settlement at 5% (on the balance outstanding multiplied by the period that the loan is still outstanding). This penalty, sometimes regarded by bankers as funding breakage cost, is to compensate for the distortion in cash flow suffered by the lender due to early repayment of the facility. The reason for this charge is that the lender may also have obtained the loan from elsewhere and such premature repayment leaves him with the risk of income shortfall to repay expenses associated with obtaining the finance. It is charged on the sum being repaid prematurely.

The facilities normally available for the horticultural sector in Zimbabwe fall under the following categories:

- *Post- and pre-shipment facilities*: working capital, which is normally short term from 30 - 365 days.
- *Project-related financing:* capital investment, which is normally medium-term, 365 days - 3 years. However, because bankers in Zimbabwe are worried about long-term trends, facilities provided are generally short-term in nature (which is also a reflection of the maturity profile of their deposits funds and the general political and economical climate)

Zimbabwe generally lacks foreign investor confidence as its risk profile has gone down enormously. Many international banks are therefore now not prepared to give credit lines to Zimbabwean banks directly. This has made this facility almost difficult to obtain. Besides, the Zimbabwe dollar has remained unstable against major currencies creating a high risk in both the exchange and interest rate. To operate with a foreign loan, the exporter first has to convert the amount to Zimbabwe dollars at one rate and then re-purchase the same money at a different rate, at maturity. The difference between the two rates can be up to 20 per cent.

See examples below; **Example 1** shows an appreciating exchange rate environment, whilst **Example 2** shows a depreciating unstable rate environment similar to that in Zimbabwe.

EXAMPLE 1 under appreciating exchange rate

US$100,000 BORROWED 1.1.98 FOR 6 MONTHS

Exchange RATE on 1.1.98 = 18.61(borrowing date)

Exchange RATE on 30.6.98 = 18.02(repayment date)

* ***On 1.1.98***
US$100.000 would have amounted to *Z$ 1.861.000*

INTEREST RATE AT 8.5% P.A. to be paid at maturity
(For the US$100,000 for 6 months) *US$ 4250*

* ***On 30.6.98***
Repaying US$100.000 AT 18.02 in Z$ = *Z$ 1.802.000*
*ADD INTEREST (4250 * 18.02)* *Z$ 76.585*

Total loan repayment ***Z$ 1.878.585***

TRUE COST OF BORROWING = *Z$ 1.878.585*
LESS = *Z$ 1.861.000*
Z$ 17.585 (for 6 months)

The effective cost of finance EQUATES TO 1.88% PER ANNUM
((17.585 / 1861000) * 100) * 2

EXAMPLE 2 (under depreciating exchange rate)

US$100.000 BORROWED 1.7.98 FOR 4 MONTHS

Exchange RATE 1.7.98 = Z$18.02:US$---borrowing date

Exchange RATE 31.10.98 = Z$36: US$---repayment date

* ***On 1.7.98***
US$100.000 would have amounted to *Z$ 1.802.000*

INTEREST to be paid at maturity at 8.5% P.A. *US$ 2833*

* ***On 31.10.98***
Repaying US$100.000 AT Z$36 =* *Z$ 3.600.000
*ADD INTEREST (2833 * 36)* *Z$ 102.000*

Total loan repayment ***Z$ 3.702.000***

TRUE COST OF BORROWING = *Z$ 3.702.000*
LESS = *Z$ 1.802.000*
Z$ 1.900.000 (for 6 months)

The effective cost of finance EQUATES TO 316.3% PER ANNUM
((190000 / 1802000) * 100) 3

TIMING IS EVERYTHING!

However, depreciating currency is not the only risk that is facing offshore borrowers. Apart from devaluation, offshore borrowers are confronted with other major concerns of undeniable risks in Zimbabwe (e.g., performance risk, handling/transportation risks, etc.). These are explained further in section 3.2.

2.7 Building Society Mortgage Loans

Most horticultural farmers normally prefer to take mortgages over permanent structures such as greenhouses.
This form of loan is the cheapest form of finance. Rates of interest charged depend on the nature of the property.
Examples are: Owner occupied property 20,75%
Commercial 27%

If a farmer has a property in town (or any tangible structure) that is not pledged, it is beneficial to use it as a collateral to obtain financing for any permanent structures at their farms.

Although these offer the cheapest form of finance, the bad news is that such facilities are extremely difficult to obtain due to the large disparities in interest rates between NCDs[4] and Mortgage Loans.

2.8 Schemes of Project Finance Arrangement Involving Financiers

Some clever thinking financiers have come up with certain schemes where financiers will take returns of as low as 26%. Such schemes require that the financial institution takes equity in the farming company and is paid for such equity in the form of dividends, which are tax free in their hands. The farming company has to be of high reputation and/or supply to big chains such as Tesco, Sainsbury's, Asda, Marks and Spencer, and Safeway. They should have a record of supplying these big chains for at least 5 years. Dividends are usually paid in foreign currency. The farming company should also have a marketing partner in Europe.

As stated, these are innovative ways of financing but companies will only be offered such facilities in extreme circumstances as the companies have to be operating in an extremely profitable environment and operators have to be highly reliable. Such

[4] NCDs refers to *Negotiable Certificates of Deposits*. These are short-term certificates of deposit. Such certificates are issued by large banks and bought mainly by corporations and institutional investors. They are payable either to the bearer or to the order of the depositor, and being negotiable, they enjoy an active secondary market. They are also called Jumbo Certificates of Deposit.

schemes are not common in the horticultural industry but are being driven by the struggle for viability.

2.9 Equity Investors

In these trying times, a number of horticultural exporters have been forced to take on partners or investors to carry them through the highly geared times to bring cheap financing to the business. These are usually foreign or local investors who are attracted to take equity. These investors will strengthen the company's balance sheet to allow for further capital borrowing or investment.

This is another cheaper source of funding as companies are asking for private placements or public listings but, as discussed, due to lack of confidence, there are not many investors willing to take this option.

3.0 USD 800 Million World Bank Facility

The small-scale sector is also viewed as vitally important in terms of poverty alleviation and the growth of industry and exports. Meaningful returns are difficult with limited access to finance, as such a World Bank Export Finance Facility has been established. Under the facility the Government and the World Bank have arranged USD 800 million small-to-medium enterprise export facility. This was arranged due to the severe export credit constraints faced by this sector in its effort to penetrate export markets. The facility is designed to finance both pre- and post-shipment working capital requirements of emerging direct exporters. Eligible applicants include individuals, companies and corporates who employ less than 400 people. Their projects must have fixed assets excluding land, which are valued at not less than USD 500,000. Participating financial institutions on the facility include the following; Barclays Bank, Stanbic Bank, First Merchant Bank, Commercial Bank of Zimbabwe, Trust Merchant Bank, Trade and Investment Bank, NNB and Zimbabwe Development Bank, to name a few. Application requirements from prospective exporters vary from one financial institution to another, the application is forwarded by the financial institution to the *Apex Unit*[5] of the Reserve Bank. The interest rate charged to the financial institution by the Apex Unit

[5] The Apex Unit was set up in 1997 to administer the World Bank Finance Facilities for SMEs under the Enterprise Development Project (EDP). The Unit manages two credit lines under this project: the *SME Finance Facility* with lending is in Zimbabwe Dollars and the *Export Finance Facility* where lending is in the United States Dollars for pre- and post shipment finance. Two more facilities were introduced in years 2000 and 2001 to promote the economy of the country and are being managed by Apex unit.

is determined by the ruling LIBOR[6] plus a margin. The financial institution is then free to charge its own lending rate to the exporter.

However, the margin above LIBOR for this facility was set between 1.5 per cent to 2.5 above LIBOR. In practice, the actual margin depended on the lending bank, because it is the one taking the risk. So if the lending bank obtains the facility at about 1.5 to 2.5 per cent, it would also add its margin which take account of the local interest rate scenario, which is generally on the increase in Zimbabwe. That explains why they add margins of between 4 to 6 per cent above the cost of funds.

Experience has shown that perceived non-performance risk of emerging exporters is far greater than the actual risk hence, the banks reluctance to finance this sector, or sometimes the banks' practice of charging a premium interest on the facility. Because of this, a Guarantee called the ***Export Guarantee Fund*** was created. The Fund is administered by the Credit Guarantee Agency, which is an arm of Apex Unit of the Reserve Bank. It covers up to 80% of the value of the export loan against default risk, stemming from non-payment by the exporter. Although this Guarantee has been in place, the situation has still left the horticultural exporters with high interest charges, making it almost impossible for them to be viable. This has been necessitated by the high interest rate scenario currently existing in Zimbabwe. It is for this reason that this Paper will seek to demonstrate how the horticultural exporters can seek cheaper sources of financing through the structuring of alternative financing instruments, using future sales flows as a plank.

3.0 EXPORT RECEIVABLES FINANCING

This is a method of trade finance using future earnings from exports to obtain immediate cash. Such arrangement could adopt any of the following schemes:

- Pre-shipment finance;
- Post-shipment finance; or
- Forfaiting

For the purpose of this paper, we will segment the three and identify the instruments used.

3.1 Trade Finance Mechanisms

3.1.1 *Pre-shipment finance*

[6] LIBOR stands for London Inter Bank Offer Rate. It's the rate of interest at which banks offer to lend money to one another in the so-called wholesale money markets in the City of London.

This system involves paying money to the horticultural exporter before the produce is shipped. The financier takes a risk on the grower and takes security over the crop or any other assets. He is usually secured further by an insurance taken over the crop by the farmer and endorsed to the lender. Other credit enhancements include assignment of sales proceeds, guarantees, use of third party collateral managers, etc.

In the case of Zimbabwe, because of the high risk involved in pre-shipment financing, the cost to the borrower is around 70-71 per cent, plus insurance of about 2 per cent. This brings the total to 72 or 73 per cent. However, it is important to mention that because of Zimbabwe's high country risk, this sort of financing is not being encouraged in Zimbabwe. In fact banks do not offer pre-shipment financing, except in very special circumstances.

3.1.2 *Post-shipment finance*

This involves refinancing the exporter after he has shipped the produce to enable him continue operations pending payment by the buyer. In this case, the lender is taking the risk of the buyer. Normally the buyer has to be acceptable to the lender. The financier takes export receivables as security. However, if the buyer is not acceptable to the lender, security may be taken from the buyer's bank in the form of bonds or guarantees

In the case of Zimbabwe, post-shipment financing is still being done by many banks, because it is not as risky as pre-shipment finance. Some of the funds the banks use for this purpose come from a portion of export proceeds being retained by them at the directives of the Reserve bank (i.e. the statutory reserve), as a way of encouraging banks lending to the export sector. Banks are lending this fund for post-shipment purposes at 30 per cent. This, however, is nominal cost, the real cost would be around 60-70 per cent if you add all hidden costs, such as telegraphic transfers and charges in liquidating foreign currencies into Zimbabwe dollars.

The Banks should lend this fund to exporters at 30 per cent. However there are additional hidden costs which are added to this facility, arrangement fees which are sometimes as high as 10 per cent, telegraphic transfer which is around 0.5 per cent and exchange rates fluctuation margins. Added to the 30 per cent, this would sum up to 50 per cent. Then, there are securities to be taken over property and the borrower has to pay for the security charges to be registered. This adds 10

per cent, thus leading to borrowers paying around 60 per cent charges on this facility.

It should be noted that in a situation of foreign investor apathy to Zimbabwe, only the local banks provide pre- and post-shipment finance, hence the high rates charged.

3.1.3 *Forfaiting*

Forfaiting is a form of debt discounting mechanism in which a forfaiter buys, from the exporter, at a discount, and without recourse, a promissory note, bill of exchange, letter of credit, etc. received from a buyer. The face value of these instruments is usually discounted by the forfaiter at no recourse to the exporter, once the deal is concluded. Thus the exporter receives payment without risk at the cost of the discount. Forfaiting was originally for long-term deals, however, it is now being adopted for short-term commodities deals even as short as 30 days. For example, Forfaiting may consist of 10 promissory notes with a tenor of 3 years repayable in half-yearly instalments. Security is usually in the form of promissory notes with avals issued by the buyer's bank.

These instant repayments are appealing to most horticultural exporters as they turn their receipts into immediate cash to finance both their working capital and medium to long term capital investments.

The cost for forfaiting is much cheaper between 1.75 per cent to 3 per cent above LIBOR. There are also no foreign exchange risks and the exporters are getting the money directly from foreign banks, and not through another intermediary local bank that adds further margins (1.75 or 3 per cent above LIBOR. In forfaiting, the middleman, who is the local bank is eliminated, hence the reason forfaiting is generally cheaper.

3.2 Risks in Horticulture Trade Finance in Zimbabwe

Banks are generally not willing to be involved in horticulture trade finance because of several risks associated with the Industry.

3.2.1 Handling/transportation risk

While Zimbabwe produces one of the best quality products, there have been numerous problems affecting the horticulture industry ranging from product handling to transportation.

By their nature, horticultural products are perishables and unless delivered to the market in time, the quality can deteriorate resulting in rejection or lower prices of the product. The inadequacy of proper air transport and handling facilities constitutes one of the biggest risks in horticulture trade finance.

Most major carriers have either reduced or stopped flying into most African countries, because of poor infrastructure and lack of enough inward cargo. In Zimbabwe, for instance, major carriers such as British Airways and DHL have reduced their flights from 8 to 2 times a week. This means a lot of produce is now not getting to the market on time. Besides, there have been major blackouts, caused by shortages of electricity, as a result, handling facilities are getting poorer, causing some products to get bad before they get to the Market. The alternative is to provide standby generating sets which cost much to maintain, especially with rising fuel prices.

To address this issue, growers in Zimbabwe are working with insurance companies. The growers usually take an insurance over crop and delivery. So if a product was destroyed because a flight was cancelled unexpectedly, the insurance pays the farmer and so there is no loss to the farmer or grower.

The cost of insurance to the growers is as follows;

- 2 per cent to cover the greenhouses.
- 0.5 per cent to cover crop insurance, storage at the farm and transit cover from farm to the airport. (i.e. the 0.5 per cent is to cover all risk factors as a group).

If the airline is delayed or cancels its flight due to circumstances beyond its control, causing product to go bad, the grower's insurance pays. This insurance is normally arranged by the grower's agent and is paid through the grower's export receipts. However, if the flight is delayed or cancelled causing product to go bad, and this is within the airline's control, the Airline's insurance pays. There is normally a contract between the airline and the freight agent which clearly stipulates who is liable and under what terms. However, most growers take an insurance from the time the product is on the farm up to the time it arrives at the airport ready to be shipped. From that time onwards, the agents' insurance take-over. But not all growers do this.

Banks in Zimbabwe are also working with Insurance companies. Banks are requesting that these risks be mitigated by Insurance policies taken by the growers over

deterioration of product quality in transit. Zimnat Insurance company is providing this policy but it is now only for farmers with a track record.

3.2.2 Land acquisition

Another risk to Lenders for Zimbabwean Farmers is the Land acquisition act, where the government has now listed most of the productive farms for resettlement and said it will not compensate farmers for the land. This effectively means that no bank is willing to accept land as security for a loan to any farmer.

So far, none of the horticulture growers have had land taken, but Banks are now not taking Land as security and this will remain so until the policy on Land is clear.

3.2.3 Market/Price risks

This risk could be real, particularly when you deal with a market that has an over supply situation and perishable products. The prices of the horticultural produce could drop drastically during the term of the transaction. In this circumstance, it may be difficult to secure any fixed price contract. Most contracts depend on auction floor for price fixing. This situation causes difficulties amongst exporters to service their loans and is thus deemed too risky for financiers. These risks could be mitigated by the financiers trough appropriate margining (say 120% of the value of the facility they are giving) or through financing 80% of the collateral value (i.e. the value of receivables)

It should be noted that there are two ways of supplying flowers from Zimbabwe to international market:

1. *Indirect supply* - where the exporter appoints his own agency. This agency then sells directly to the auction floor or other direct markets.

2. *Direct supply* - where a buyer in UK say Tesco appoints a primary marketing agent (PMA). The PMA then sources products from around the world. It is this PMA which gives programs to Farmers to grow on their behalf and later sell to Tesco.

It has been noticed that the direct markets offer a 12 to 15 per cent price higher than the auction floor, but the risk is higher on direct marketing as the quality standards requested by the buyers may be very rigid and could lead to rejection of the produce. On the other hand, it is a one-to-one arrangement, unlike auctions where you have an open

market and thus sure the product will be sold, but at a price determined by demand.

In addition, auction prices are lower because retailers buy from there for onward resell while the supermarkets sell directly to consumers.

3.2.4 *Performance risk*

In a pre-export finance transaction, there is a grave risk of the exporter not being able to meet contract requirements. This could arise from events like; plant diseases and pests, adverse weather conditions and drought, power cuts, labour strike and workers sabotage, inefficiency from poor service providers, and poor management, and sabotage. These events can lead to failure to meet exports schedule and hence loan repayment obligations.

However, some insurance companies have introduced what is now known as "Horticulturists' policy" to insure against hazards affecting price and quality, such as deterioration of product in transit, machinery breakdown (cold room and pre-cooler machinery) fire and allied perils.

Although these insurance products are making receivables-based financing easier, they, however, do not cover market risk. Low prices in the market, caused by an oversupply situation, are not insurable. So do adverse international trends and crooked agents. These factors threaten the use of these new financing instruments, and thus in most cases prevent financing transactions from being concluded.

3.2.5 Payment risk

An uncooperative buyer can pose a stumbling block to the smooth operation of a facility either through a total rejection of supplies on flimsy reasons or delay in payment for deliveries. This is the reason why lenders insist on financing only contracts with reputable buyers who have proven track records.

3.2.6 Interest rate risk

A situation where interest rates move upwards at random, against export receivables, which are based on firm price contracts, there are every possibilities that proceeds of loans may not yield sufficient local currency to undertake operations to meet export contracts. Although this risk can as well be mitigated by the financiers by requesting higher margining or financing only a fraction of contracts, yet, such may discourage the farmers and exporters from seeking financing for their operations.

4.0 CASE STUDIES

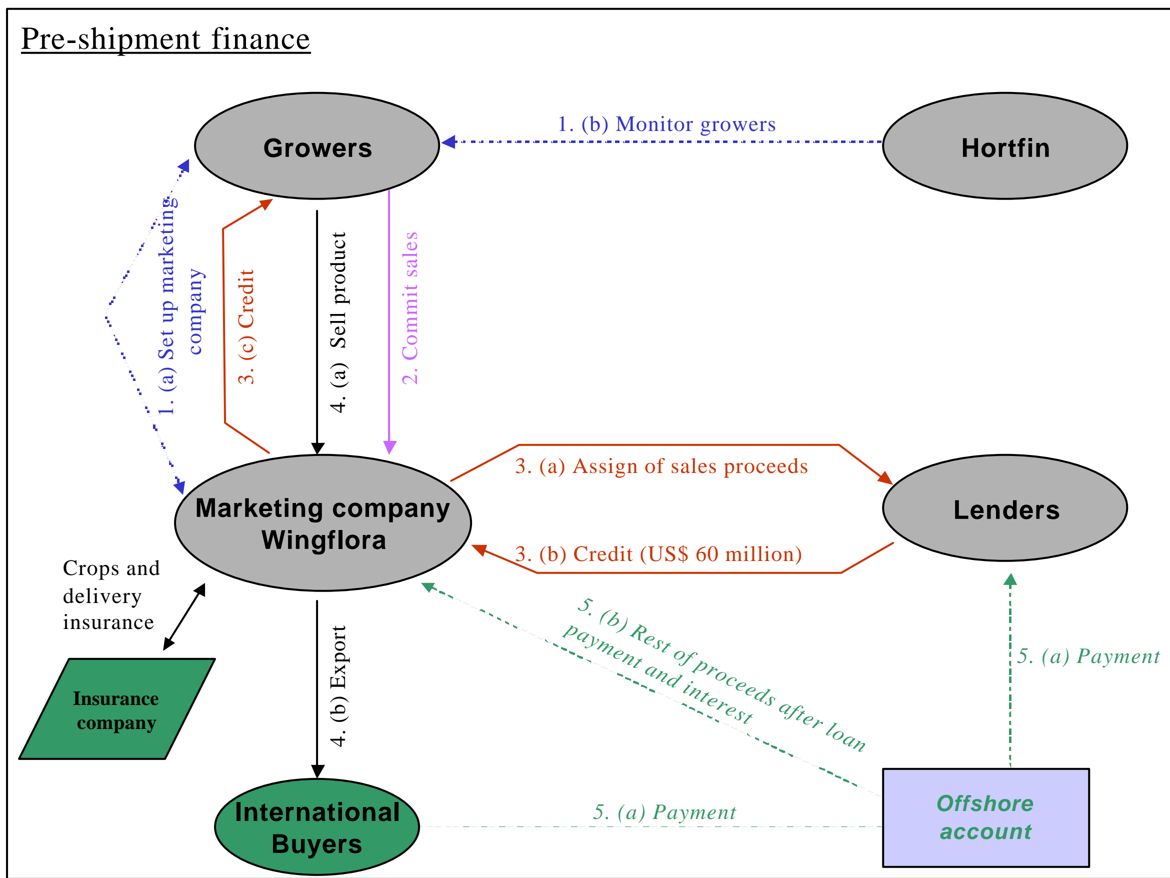
For the purpose of this paper we will use two examples done in Zimbabwe, the first example under a situation of international donor confidence and the second example under a situation of no confidence. These examples are designed to show the flexibility and efficiency of financing based on future sales flows.

4.1 Case Study I

L Our first case study in appendix A and A1 to A9 involves a pre-shipment finance for a *transaction done in Zimbabwe through Singer and Friedlander in 1997, at a time when international donors had confidence in Zimbabwe.*

It involves **grouping of exporters through a marketing agent**. It may be described in the following structure:

1. A group of individual horticultural farmers linked to one marketing company (Wingflora). The marketing agent creates a company, (in this case Hortifin) to monitor growers in order to avoid side marketing. The marketing agent links up with an Insurance company for crop and delivery insurance.
2. The growers commit all sales through the marketing company.
3. The proceeds of all sales are assigned to the lender and payable into an offshore special purpose account pledged to the lender. Thereafter the lender makes funds available to Wingflora for onward disbursement to the growers.
4. The growers sell their products to Wingflora, which in turn export them to international buyers.
5. International buyers pay through the offshore account, charged to and controlled by the lender from which loan repayment and all associated charges and interest is made before the residual sum is remitted to Wingflora.



This method however, depends on the confidence international donors have in a country. Once Donors loose confidence in a country, insurance companies such as, ECGD, Hermes, and NCM, which normally cover country risks, will no longer provide cover. This makes pre-shipment financing difficult and expensive as such, post-shipment finance becomes an alternative cheaper method of horticultural financing as country risks are moved offshore.

4.2 Case Study II

L The second case study (in appendix B) shows a post-shipment finance example of a transaction for the Horticultural Industry done in Zimbabwe in 1999 *at a time when the country's international confidence was at its lowest ebb*.

At the beginning of 1999 Zimbabwe's image abroad took a tumble when the IMF refused to release funding to support the balance of payments. As the year progressed a number of events ranging from land acquisition to pre-election violence undermined the country's confidence resulting in the country's credit rating going down drastically to zero.

As such international donors were no longer willing to take Zimbabwe as good risk. This meant that financing based on future sales flows had to be structured differently by moving payment risk out of Zimbabwe

Most foreign commercial banks have ceased granting or extending credit facilities to Zimbabwe because of its economic crisis. The limited credit coming into the country is short-term, expensive and/or heavily collateralized.

Banks overseas have become cautious about Zimbabwe's credit situation; first because of its economic mismanagement, which is causing payment problems; and secondly the banks' general lack of knowledge about the country.

This risk is not only associated with Zimbabwe but also with some Sub-Sahara African countries and is costing borrowers high risk premiums, as such, the need to come up with structured export financing in the horticultural industry based on future sales flow.

The structure envisages **pooling of horticultural exporters** and raising funds in international markets through a single entity. The exporters will create a *Special Purpose Vehicle (SPV)*, which is domiciled offshore.

This SPV will raise a loan or bonds offshore that are collateralized by future export receipts arising from the exports of the exporters that created the SPV.

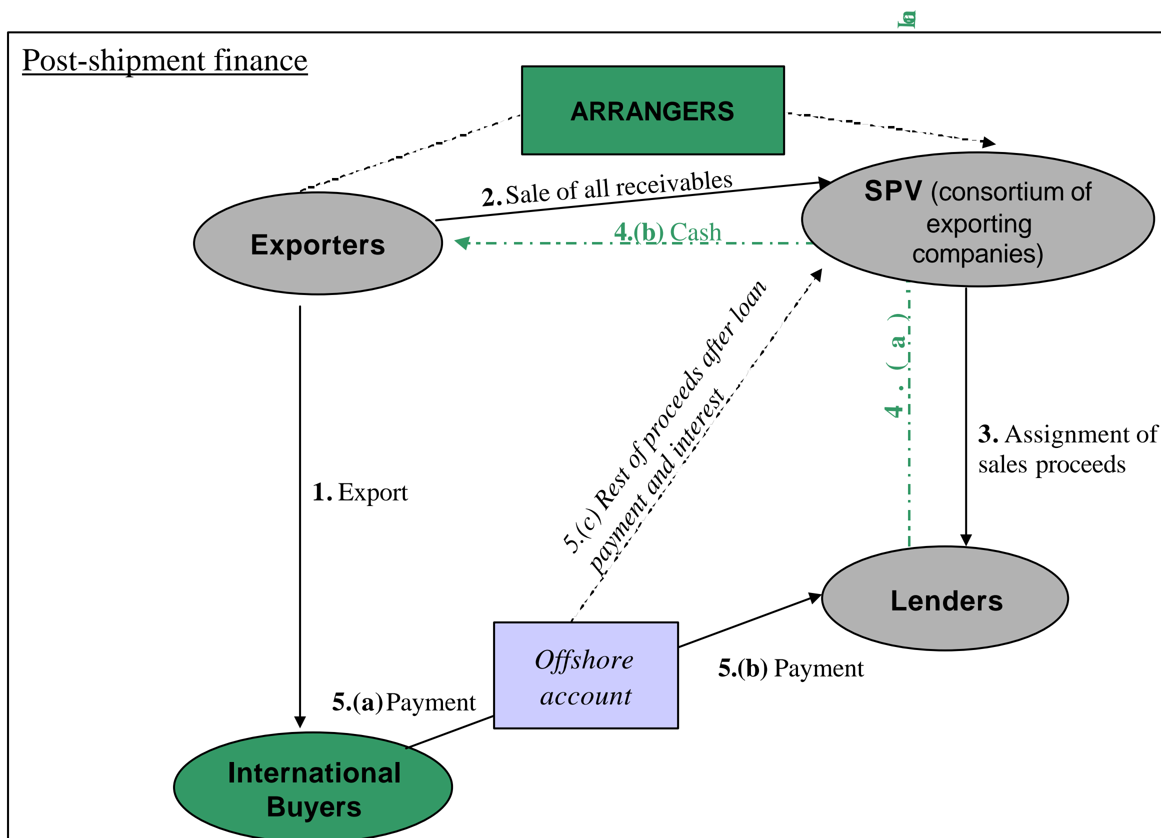
What is an SPV?

The SPV is the focal element in any asset-backed transaction. It is created after an agreement between a producer/exporter and the originator (a bank or other financial institution).

An "SPV" is a special entity to which the ownership of the commodities or other assets that are to serve as a collateral are assigned. The SPV structure provides financiers with protection if the beneficiary of the finance (i.e. the producer) goes bankrupt and makes it easier to classify the transfer of assets as a sale. The SPV is managed and controlled by a non-related bank which ensures that the financial flows resulting from the assets held as collateral are properly distributed.

The borrowing terms, which result from structuring the deal, are thus enhanced by the presence of the SPV.

The other main role of an SPV is to issue securities (marketable asset-backed securities) which will be graded by a rating agency. Although the underlying principle and approach to ratings remain the same, rating agency in many cases, may request further credit enhancement in order to minimize the risk of the deal and to fill the gap between the different links within the transaction (i.e. production, overload transport, shipping, delivery /import procedures, reception by the buyer, payment, etc.). Thus, credit enhancement will provide additional strength to the deal. The extra guarantees can be supplied by either the buyers (e.g. promises for payment) or originator.



See ***appendix B*** for an example of a transaction for the Horticultural industry done in Zimbabwe in 1999.

5.0 CONCLUSION

There can be no doubt that financing based on future sales flows makes developing country exporters' access to financing more efficient, because as already mentioned, it is less restrictive and flexible, suiting in every given situation, as seen in both Appendices A and B.

It also offers the exporter some unique and valuable opportunities services. By assuming all credit and political risks, financiers of future sales flows free exporters to put all their talents to work in building and entering new international export markets.

Among some of the advantages the financing brings to developing country exporters are:

1. All delinquent account receivable risks are eliminated for the exporter and assumed by the financing company or bank.
2. All administrative and accounting expenses are reduced.
3. Exchange risks are eliminated.
4. Developing country exporters are free to concentrate on efforts to increase market share in the international markets.

On the other hand, domestic banks have not played an effective role in developing effective financing mechanisms, because they have approached this market with the same financial products that are provided in OECD countries. Developing country markets have greater risks and as such structuring transactions in these countries requires forecasting and organising the various flows that will make it possible to re-pay the loans granted.

Developing country exporters often need more than money in the export markets. They may be unfamiliar with international marketing as well as regulatory, financial, employment and supply conditions.

Developing country banks must therefore improve their roles by not only providing financial resources but also through offering services. It can be invaluable to an exporter expanding into a particular country to have bankers furnish him with detailed information on that market. Similarly, it can also be invaluable for domestic banks to be more innovative in financing international trade. The need for such financing is usually short-term – up to one year, as these products are generally used up within weeks or months after having arrived at their destinations. The pay out in this type of situation comes from the ultimate consumer in a relatively short period of time. New innovative financial instruments up to the time of consummation of the goods must therefore be a key focus for domestic banks in structuring new financial instruments for the horticultural exporting sector.

To have a better access to finance, exporters may set up offshore sales companies with the legal framework to enter into loan obligations on the back of sales proceeds. Such loans would then be advanced to exporters to pay growers whose deliveries in due course would be used by the offshore companies to meet supply obligations

Although this will entail some costs, but the advantages far out-weigh the cost. The costs of establishing an offshore company (or an SPV) are minimal (could range from US$ 2000 to US$ 3000 in the case of Horticulture). These costs, which are one-off, arise from both legal and other statutory fees associated with company formation. The main reason for this offshore company option is to externalise the inherent country risk to a more stable domicile in view of the risk perception of Zimbabwe

Besides SPVs, co-operation between the growers and exporters could be in the form of loose partnership (association). Nevertheless, it must be effective in ensuring the proper delivery of the value chain. At the moment, this role is being played by Agents who represent the growers in making sure that clearing, packing, forwarding, and handling is done properly. The Agent also handles all disputes on behalf of the growers. The Agent can be a subsidiary or a supplier to the supermarket chain.

In the case of flowers, the Agent takes the product to the Auction floor, where prices are set. However, in cases where there is direct marketing, prices are set between the Agent and buyer who in this case could be the supermarket chain. Direct markets offer higher prices than the Auction, but these are difficult to penetrate unless an exporter has a good agent. The Agent can also source funding for the exporter, but experience has so far shown that agents have not been very successful in this role, particularly given the fact that they have in most cases been separate companies from the growers or exporters and more concerned about their own interests. But, in cases where the agent is owned by a grower, funding has been easier. However, not every horticultural exporter can be both grower and agent because of the high administrative costs involved.

Cooperation, through foreign corporations or loose organs should therefore deliver better value in the chain, thus establishing partnerships with local entities. Their purpose should be, to monitor and to enhance sales and finance facilities. The foreign corporations, which group exporters into SPVs, should also link with foreign insurance companies such as ECGD in the United Kingdom, Hermes in Germany and NCM in Holland to provide political risk insurance. Third party insurance should also be included as additional security. It will also be beneficial for the foreign sales corporations to link up with pre-shipment inspection companies such as SGS to ensure quality of shipments.

APPENDICES AND EXAMPLES

♦ ***APPENDIX A***

An example of a transaction done in Zimbabwe through Singer and Friedlander in 1997 at a time when international donors had confidence in Zimbabwe.

FINANCE PROPOSAL FOR FLORICULTURE INDUSTRY IN ZIMBABWE PRESENTED TO SINGER AND FRIEDLANDER BY WINGFLORA (PVT) LTD, 19 MAY 1997

1. *EXECUTIVE SUMMARY*

   Zimbabwean farmers have been involved in growing and exporting flowers since the early eighties. In the process the farmers have built for themselves a worldwide reputation for the production of high quality flowers. Market shares over the world have continued to be eroded by the Zimbabwean flower exporters who are now a force to be reckoned with.

   As a result of competition on the world market the Zimbabwean farmers have had to update their production techniques in order to employ high yield, low cost production methods. However, the country's macro economic policies have not been particularly helpful in encouraging investment by farmers. High interest rates and inflation have impeded effective and significant growth of the floriculture industry. The liberation of the economy on the other hand has resulted in various offshore lines being made available for reinvestment in Zimbabwe without the need for Reserve Bank approval.

   A company called Hortifin (Pvt) Ltd, has identified investment potential in the floriculture industry in Zimbabwe and it now seeks to raise, through Singer and Friedlander, a loan to be used to assist flower growers to acquire modern facilities and thus boost current yield.

2. *PROFILE OF THE TECHNOLOGY INVOLVED*

   In particular a new high-tech greenhouse concept has been introduced to farmers in the flower industry. The concept involves re-equipping with modern greenhouse facilities and has the advantage of controlling climate as well as spread of diseases. This will lead to improved production yield per hectare per annum.

3. *PURPOSE OF FUNDS*

   The Singer and Friedlander facility is intended to assist farmers to acquire the new high-tech greenhouse equipment. Hortifin has identified Wing Flora (Pvt) Ltd, an established exporter of flowers, as a vehicle to be utilised to ensure that growers of repute are selected as well as to guarantee payment of the sums advanced through revenue earned on

flowers exported. This proposal provides details on how the funding scheme will operate as well as an overview of the flower industry in Zimbabwe.

4. <u>BRIEF HISTORY OF WING FLORA (PVT) LTD</u>

Wing Flora (Pvt) Ltd is freight forwarding company, which was launched in 1985 and is now located at the Harare International Airport. It was established to represent willing growers whom by combining their produce could achieve economies of scale and offer clients a greater range of produce.

Wing Flora was the first marketing agency to be established in Zimbabwe following realisation by some growers that there was strength in numbers. It was also the first company in Zimbabwe to establish clients outside Holland through direct marketing.

To insure control of the "Cold Chain", the company became an IATA registered freight agent. To further strengthen its competitiveness on the market Wing Flora built a dedicated cold storage facility at the Harare International Airport with on-site Quality Control Inspectors resulting in comprehensive integration of Quality issues from producer to client.

4.1 Current Clients

Listed below are some of the major clients that Wing Flora deals with and with whom it has established a proven track record:
The Florimex Group
The Van Duyn Group (Holland)
Zwetsloots and Sons (United Kingdom)
Toscoflora Co-op (Italy)

5. <u>FINANCIAL ANALYSIS</u>

5.1 Background to Zimbabwe Industry

Presently the floriculture industry is being carried on 400 hectares of land with each hectare producing an average 30 tonnes crop. Prices have been stable though low at around USD 4.30 per kilogram. The low prices realised on the market are due to the technology in use as well as the current production mix, which has a higher quantity of low price high volume flowers. Wing Flora, on the other hand, has concentrated on the high quality high price flowers and has, as a result, realised selling prices averaging USD 7.00 per kilogram. With the use of High Tech Greenhouses prices of at least USD 7.00 a kilogram will be realised across the industry. Given at ***Appendix A1*** *is an analysis of export sales of Zimbabwean produce by destination.*

Wing Flora has, over the years, grown considerably in line with the growth of the floriculture industry in Zimbabwe. ***Appendices A2 and A3*** *detail the growth that the industry has experienced in*

Zimbabwe in comparison to Wing Flora's growth pattern. The distribution of net income by percentages is illustrated in ***Appendix A4.***

5.2 Operation of Funds

The funds made available will be used to finance expansion programmes and the financial projections attached are based on new projects only. It is assumed that with the new technology a hectare will produce over 45 tonnes of produce per annum. Further the produce will fetch more on the market because of its higher quality. The total project cost per hectare will be USD 375,000 and it is expected that the hectares under cultivation will increase by 32 hectares per annum. The increase translates to an annual loan requirement of USD 12 million, which will be spread over five years.

More details on the project cost and financial results of the operations are contained in the financial projections attached.

6. RISK ANALYSIS

In order to minimise the risk involved, the investor will be called upon to finance projects with a proven track record with the loan repayments being drawn directly from sales. Wing Flora will offer the one advantage that it represents many growers and therefore the activities of the growers can easily be monitored so that they are in unison with the overall objectives.

6.1. Insurance Cover

Borrowers will be required to carry insurance cover against "loss of profits" risk, and against any potential natural or inadvertent catastrophic damage to crops (such as weed killers). The insurance covers will be obtained through Zimnat Insurance Company of Zimbabwe and Lloyds Bank of London.

7. LOAN PROCEDURE

Singer and Friedlander will have a facility made available to the tune of USD 60 million. Hortifin will process all applications for financing during which Wing Flora will be consulted to provide clients' track records. Once the project is approved, funds will be disbursed to the farmer and repayments will be deducted from the selling point.

This summary seeks to justify and demonstrate the ability of the market to absorb additional investment while guaranteeing good returns.

<u>OFFER FROM SINGER AND FRIEDLANDER DETAILING TERMS AND CONDITIONS</u>

Amount:	*USD 60 million (United States Dollars Sixty Million). At the Borrower's request, the Lender will consider without obligation, and increase to the Amount on Terms and Conditions to be agreed.*
Borrower:	*A group of individual Zimbabwean flower growers namely;* *Valley Growers* *Goodrich (Pvt) Ltd* *Ranchod & Ranchod* *Forres Flowers* *Tiara Flora* *Mitiflora* *V M Schultz (Pvt) Ltd* *Miniflora (Pvt) Ltd* *D E R (Pvt) Ltd* *Chikwepa Estate (Pvt) Ltd* *Constanti Flora* *These growers to form a special entity, Hortifin, to allow for easier monitoring of the facility by the Lender.*
Lender	*Singer & Friedlander Ltd*
Purpose:	*Upgrading equipment used in the growing and despatch of flowers.*
Interest Rate:	*2,75% p.a. over 6 month Libor fixed two business days prior to each interest period and payable 6 monthly in arrears. Such Interest Rate to be calculated on an actual over a 360-day year.*
Management Fee:	*1% flat calculated on the Total Amount and payable upon signature of this Offer Letter. Such Management Fee to be non-refundable.*
Commitment Fee:	*0.875% p.a. calculated on the Total Amount of the Loan and an actual over a 360-day year. Such Commitment Fee to be payable 3 monthly in arrears. This is a fee paid per annum in order for the finance institution to commit the funds.*
Tenor:	*5 years from signature of the Facility Agreement.*

Repayment: *10 equal semi-annual repayments commencing six months after the date of signature of the Facility Agreement.*

Call Option: *At the end of each 12 month period, if in the sole opinion of the Lender there has been a change in the political or financial situation pertaining to the Borrower likely to affect the security under the Loan, the Lender may call for immediate repayment.*

Drawings: *Various drawings with 12 months covering purchases of equipment and working capital by the Borrower in support of horticulture production.*

Security: *Flower Growers to commit all sales through Wingflora.*

Proceeds of all flower sales to be assigned to the Lender and payable to an offshore special purpose account pledged to the Lender.

Percentage of monthly sale proceeds (at the Lender's sole discretion) to be retained in offshore special purpose account to meet future payments of principal and interest.

Documentation: *In form and substance satisfactory to all parties, including but not necessarily limited to:*

Facility Agreement containing clauses normal for this type of loan, including but not necessarily limited to, the following conditions precedent;

a. proper incorporation and constitution of the Borrower,
b. acceptability of growers to the Lender,
c. acceptability of buyers to the Lender,
d. acceptability of sales contracts of the Lender,
e. annual sales must at least equal outstanding loan amount,
f. finalisation of drawdown schedule to the Lender's satisfaction,
g. perfection of all security items to the Lender's satisfaction,
h. completion and signature of all documentation.

Legal charge over the proceeds of the flower sales contracts satisfactory to the Lender.

Legal Charge over the offshore special purpose account satisfactory to the Lender.

Insurance Policies acceptable to the Lender.

All necessary Governmental and other approvals.

Zimbabwean and English legal opinions.

Assignment:	*At its sole discretion, the Lender may assign and or transfer, any of its rights or obligations under the Facility Agreement or any related agreement, without the Borrower's prior approval.*
Governing Law:	*English.*
Taxation:	*All payments under the Loan Agreement are to be made free and clear of all present and future taxes, charges, deductions, liabilities and any other withholdings.*
Legal Costs and Out-of-pocket Expenses:	*For account of the Borrower.*

REMARKS:

- **Wingflora** is a European marketing company and freight forwarding company that the exporters have to market their flowers through and is the institution through which the farmers have borrowed. It is at the Harare International Airport, so the farmers take their produce to the airport.

- Wingflora co-operates with **Hortfin**. Hortifin is the Agent created for the sole purpose of monitoring the farmers to make sure that they are producing flowers of high quality and that they are not side marketing. So the Agent is present among farmers and has a direct linkage with Wingflora as it reports to Wingflora. This clearly means that Hortfin is a local company but linked to Wingflora.

  - Hortifin took an insurance on the crop, security on the growers. This was done on behalf of Wingflora, the marketing company, which took export proceeds of the growers as security.

  - Hortifin makes sure the flowers have arrived at the airport and are with Wingflora representatives. Hortfin, was structured in such a way that it was to mitigate against risks of side marketing and bankruptcy. So it also requested Land and other assets from the growers as additional security on behalf of the Wingflora. This is structured financing, there are no rules and regulations, except that the transaction has to be authentic, legal and above board.

- Apart from monitoring the farmers to see that they are producing quality flowers and are not side marketing, Hortifin has no other major role. The export contract is therefore with Wingflora. The growers receive the residual payment through Wingflora after loan repayments. The purpose of Wingflora is to ensure that the product goes to the market and that all receivables come through it in order to repay the loan. The difference goes to Wingflora (after repayment of the loan and interest), which in turn pays what is due to the growers.

- Prices are fixed according to the varieties being exported. They are based on average prices that those varieties have been fetching, both on the auction floor and direct markets.

Structured Finance can be tailored to meet the needs and requirements of all parties involved in the transaction, provided that perceived or real risks are mitigated. That is why Structured Finance can allow for accomplishing business in difficult markets.

APPENDIX A1 **Zimbabwe Floriculture Industry**

All Values in USD

ZIMBABWE GLOBAL TRADE

Years		1	2	3	4	5	6	7	8	9	10
Production per Hectare (kgs)	30 000	30 000	40 000	45 000	45 000	45 000	45 000	45 000	45 000	45 000	45 000
Average Unit Price $/kg	4,30	4,30	4,30	4,30	4,30	4,30	4,70	4,70	4,70	4,70	4,70
Annual Increase in Hectares		40	40	40	40	40	40	40	40	40	40
Previous Year's Hectrage	400	400	480	520	560	600	640	680	720	760	760
Cumulative Hectrage	***400***	***440***	***480***	***520***	***560***	***600***	***640***	***680***	***720***	***760***	***800***
Total Trade Value	**51 600 000**	**92 400 000**	**127 680 000**	**147 888 000**	**151 200 000**	**153 900 000**	**164 160 000**	**174 420 000**	**184 680 000**	**194 940 000**	**205 200 000**

APPENDIX A2 **Zimbabwe Floriculture Industry**

SALES SECTION - NEW PROJECTS ONLY

Years	1	2	3	4	5	6	7	8	9	10
Total Production (kgs)	960 000,00	2 560 000,00	4320000,00	5760000,00	7200000,00	8640000,00	10080000,00	11520000,00	12960000,00	14400000,00
Unit Price $/Kg	7,00	6,65	6,32	6,00	5,70	5,70	5,70	5,70	5,70	5,70
Total Sales Value	***6 720 000***	***17 024 000***	***27 302 400***	***34 560 000***	***41 040 000***	***49 248 000***	***57 456 000***	***65 664 000***	***73 872 000***	***82 080 000***
Less:										
Marketing Commission	336 000	851 200	1 365 120	1 728 000	2 052 000	2 462 400	2 872 800	3 283 200	3 693 600	4 104 000
Insurance @ 3% Sales	403 200	1 021 440	1 638 144	2 073 600	2 462 400	2 954 880	3 447 360	3 939 840	4 432 320	4 924 800
Freight	2 160 000	5 632 000	9 072 000	12 096 000	14 760 000	17 712 000	20 664 000	23 616 000	26 568 000	29 520 000
Loan Repayment	0	2 400 000	4 800 000	7 200 000	9 600 000	12 000 000	9 600 000	7 200 000	4 800 000	2 400 000
Interest at 9%	1 080 000	1 080 000	1 944 000	2 592 000	3 024 000	3 240 000	2 160 000	1 296 000	648 000	216 000
	3 979 200	**10 984 640**	**18 819 264**	**25 689 600**	**31 898 400**	**38 369 280**	**38 744 160**	**39 335 040**	**40 141 920**	**41 164 800**
Cash Surplus Deficit	**2 740 800**	**6 039 360**	**8 483 136**	**8 870 400**	**9 141 600**	**10 878 720**	**18 711 840**	**26 328 960**	**33 730 080**	**40 915 200**

APPENDIX A3 **Zimbabwe Floriculture Industry**

LOAN SECTION

Years	1	2	3	4	5	6	7	8	9	10
Loans										
Total Borrowing	12 000 000	12 000 000	12 000 000	12 000 000	12 000 000					
Repayments										
Year 1		2 400 000	2 400 000	2 400 000	2 400 000	2 400 000				
Year 2			2 400 000	2 400 000	2 400 000	2 400 000	2 400 000			
Year 3				2 400 000	2 400 000	2 400 000	2 400 000	2 400 000		
Year 4					2 400 000	2 400 000	2 400 000	2 400 000	2 400 000	
Year 5						2 400 000	2 400 000	2 400 000	2 400 000	2 400 000
Total Repayments	***0***	***2 400 000***	***4 800 000***	***7 200 000***	***9 600 000***	***12 000 000***	***9 600 000***	***7 200 000***	***4 800 000***	***2 400 000***
Cumulative Loan Balance	**12 000 000**	**21 600 000**	**28 800 000**	**33 600 000**	**36 000 000**	**24 000 000**	**14 400 000**	**7 200 000**	**2 400 000**	**0**

APPENDIX A4 **Zimbabwe Floriculture Industry**

PRODUCTION SECTION - NEW PROJECTS ONLY

Years	1	2	3	4	5	6	7	8	9	10
Freight Charges	2,25	2,20	2,10	2,10	2,05	2,05	2,05	2,05	2,05	2,05
Annual Production per Hectare (kgs)	30 000	40 000	45 000	45 000	45 000	45 000	45 000	45 000	45 000	45 000
New Hectares for Financing	32	32	32	32	32	32	32	32	32	32
Cumulative Increase in New Hectares	32	64	96	128	160	192	224	256	288	320
Total Production (kgs)	**960 000**	**2 560 000**	**4 320 000**	**5 760 000**	**7 200 000**	**8 640 000**	**10 080 000**	**11 520 000**	**12 960 000**	**14 400 000**

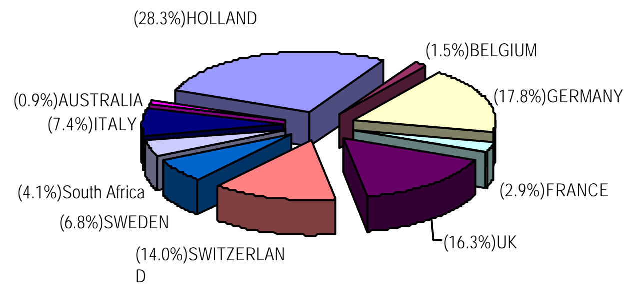
APPENDIX A5 Zimbabwe Floriculture Industry

TOTAL PROJECT COST

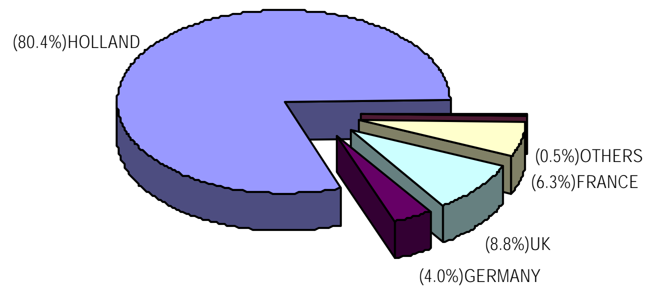
Years	1	2	3	4	5	6	7	8	9	10
Greenhouse	180 000,00	180 000,00	180000,00	180000,00	180000,00	180000,00	180000,00	180000,00	180000,00	180000,00
Plants	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000
Royalties	70 000	70 000	70 000	70 000	70 000	70 000	70 000	70 000	70 000	70 000
Fertigation	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Cold Room	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Infrastructure	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
Vehicle	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
	375 000	**375 000**	**375 000**	**375 000**	**375 000**	**375 000**	**375 000**	**375 000**	**375 000**	**375 000**

APPENDIX A6

WEIGHT EXPORTED
FROM WINGFLORA



WEIGHT EXPORTED
FROM ZIMBABWE



INDUSTRY COMPARISON TABLES

APPENDIX A7

BY SALES*

SEASON	WINGFLORA TURNOVER US$ mill.	ZIMBABWE TURNOVER US$ mill.	WINGFLORA GROWTH %	ZIMBABWE GROWTH %	COMPARATIVE GROWTH RATE	MARKET SHARE BY SALES
1989/90	1,52	17,23				8,8%
1990/91	2,50	22,33	64,3	29,6	34,7%	11,2%
1991/92	2,80	26,64	12,0	19,3	-7,3%	10,5%
1992/93	3,56	29,15	27,1	9,4	17,7%	12,2%
1993/94	4,94	37,23	38,7	27,7	11,0%	13,3%
1994/95	7,02	48,20	42,3	29,5	12,8%	14,6%
1995/96	6,67	52,24	-5,1	8,4	-13,5%	12,8%
1996/97	7,33	57,06	10,0	9,2	0,8%	12,9%
TOTAL	**1989/90 to 1996/97**		**382%**	**231%**	**151%**	**12,5%**

**CIF VALUE - excludes foreign charges and commission*

BY WEIGHT

SEASON	WINGFLORA EXPORTS TONNES	ZIMBABWE EXPORTS TONNES	WINGFLORA GROWTH %	ZIMBABWE GROWTH %	COMPARATIVE GROWTH RATE	MARKET SHARE BY WEIGHT
1989/90	512	2872				17,8%
1990/91	820	3722	60,2	29,6	30,6%	22,0%
1991/92	867	4757	5,7	27,8	-22,1%	18,2%
1992/93	973	5206	12,2	9,4	2,8%	18,7%
1993/94	1105	6769	13,6	30,0	-16,5%	16,3%
1994/95	1147	9095	3,8	34,4	-30,6%	12,6%
1995/96	1155	11356	0,7	24,9	-24,2%	10,2%
1996/97	1302	13270	12,7	16,9	-4,1%	9,8%
TOTAL	**1989/90 to 1996/97**		**154%**	**362%**	**-208%**	**13,8%**

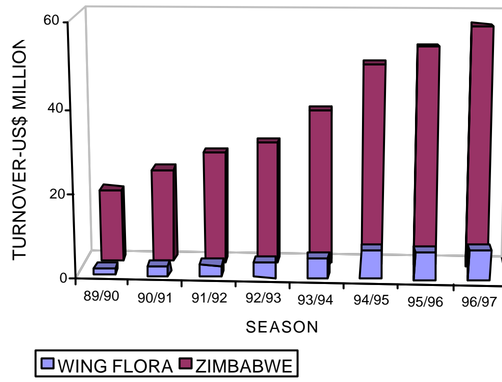
Source: Horticulture Producers Council, Export Flower Growers Association, Wing Flora Pvt Ltd.

E/RATES USED	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97
Z$ per U$	2,32	2,74	4,97	5,92	8,02	8,37	9,36	10,95

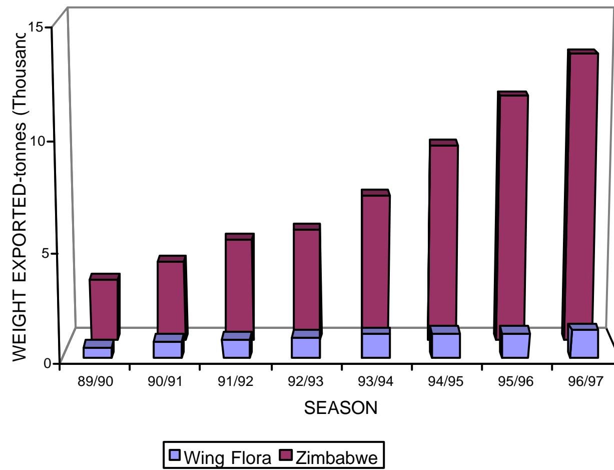
SOURCE: STANBIC BANK ZIMBABWE

APPENDIX A8

SALES TURNOVER

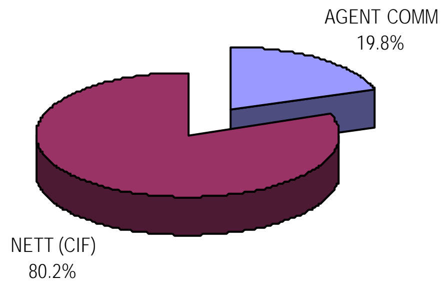


WEIGHT EXPORTED

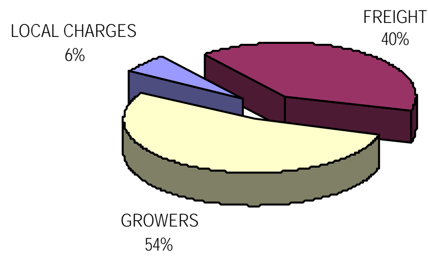


APPENDIX A9

DISTRIBUTION OF GROSS INCOME



DISTRIBUTION OF CIF



♦ ***APPENDIX B***

Showing an example of a transaction for the Horticultural Industry done in Zimbabwe in 1999 at a time when the country's international confidence was at its lowest ebb.

Zimbabwe Exporters
US$ 50 – 100,000,000 Export Receivables Financing
Indicative Terms and Conditions

Total Amount:	*US$ 50 – 100,000,000*
Borrower:	*Special Purpose Vehicle representing a Consortium of exporting companies in Zimbabwe.*
Arrangers:	Global Financial Services USA, Inc. SARA Consulting Ltd, London
Lenders:	*A syndicate of international banks led by a prime international bank.*
Purpose:	*Finance of export receivables from importers acceptable to the Lenders.*
Tenor:	*1 year but renewable annually at the option of the Lenders.*
Interest Rate:	*5% p.a. over 6 month US$ Libor fixed two business days prior to each 6 month interest period and calculated on an actual over 360 day year. Such interest to be payable at the end of each interest period.*
Management Fee:	*1,5% flat payable to the Lenders at signing of the Loan Documentation. In the event of annual renewal of the financing, at each annual renewal date a further 1% flat shall be payable to the Lenders.*
Arranger's Fee:	*0.85% flat payable to the Arrangers at signing of the Loan Documentation. In the event of annual renewal of the financing, at each annual renewal date a further 0.50%flat shall be payable to the Lenders.*

Commitment Fee:	*2% p.a. calculated on the total undrawn amount of the financing at any one time and on an actual over 360-day year. Such commitment fee to be payable monthly in arrears.*
Governing Law:	*English*
Legal and Out of Pocket Expenses:	*For account of the Borrower*
***Deductions**:*	*All payments shall be made without any* deductions whatsoever.
Security:	*Assignment of all export receivables by the consortium of Zimbabwean exporters. All drawings under the financing must be* supported by irrevocable and unconditional export receivables totalling 125% of each drawing, issued by importers acceptable to lenders (i.e. the Zimbabwean goods have been accepted by the importers and future payment of the receivables unconditional). *Special Purpose offshore Account in the name of the Lenders through which all export receivables must flow.*
Documentation:	*In form and substance satisfactory to all parties but essentially:* *Loan Agreement including clauses normal for this type of transaction.* *All necessary governmental and other approvals.* *Zimbabwean and English Legal Opinions.*

We hereby confirm that Global Financial Services, USA, Inc. and SARA Consulting Limited has our 60 day best efforts mandate to arrange the above Financing on the terms and conditions outlined.

We understand that should Global Financial Services, USA, Inc. and SARA Consulting Limited fail to arrange the financing, for any reason whatsoever, then this best efforts mandate shall become null and void.

REMARKS

The SPV has been created to mitigate country risk, and in case of bankruptcy of the borrowers to protect the assets.