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Repatriation of Malawian export proceeds under CD1 – who is the gatekeeper?

By

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Abstract

Tracking export proceeds is of prime importance to Malawi in view of the perennial forex shortage. This study has demonstrated disjointed efforts between Reserve Bank of Malawi, Malawi Revenue Authority and other players such as courier service providers, bus companies etc. in the economy. It is therefore recommended that synchronised computerised system should be prioritised to track each and every potential export proceed especially at this time when Malawi is claiming USD300 billion as undeclared export proceeds.

Type of Paper: Research

Key words: Repatriation; Malawi; Export; Proceeds

1.0 Introduction

Repatriation of export proceeds has been one of the mysteries in Malawian economy. Securing export

proceeds is one of the core functions of central bank which decided to reintroduce 30 percent mandatory sale of export proceeds in 2021 which was a departure of export scheme introduced in 1994 as noted by – Reserve Bank of Malawi (2021b).

2.0 Repatriation of export proceeds

Reserve Bank of Malawi (2021a) stipulated that the maximum period to repatriate export proceeds is 120 (one hundred twenty) days from the date of exportation. Meanwhile, the Reserve Bank of Malawi (2013) had stipulated that the threshold for the exemption from completing CD1 by exporters had been revised upwards from USD1,000.00 to USD5,000.00 but that splitting of the invoice to avoid completing the scaled up limit for CD1 would attract penalties. The upscaling of the requirement to complete CD1 was done to promote cross-border trade and in line with COMESA and SADC regional trade liberalization.

A scanned copy of CD1 does not provide full description of the name of the document but nevertheless indicates that it is an Exchange Control Manual Document under Exchange Control Act 1984. This is also the case with Malawi Trade Portal Website as well as Malawi Revenue Authority website. Financial Intelligence Unit (2016) however states that CD1 stands for Currency Declaration Form.

2.1 Weaknesses spotted on CD1

2.1.1 Inconsistencies in days to receive proceeds

Reserve Bank of Malawi (2021a) stipulates that export proceeds must be received within 120 days from the date of exportation while CD1 stipulates of six (6) months which is 180 days. Sangala (2019) confirmed of 180 days as well. Section 6(a) of Exchange Control (Repatriation of Export Proceeds and Operation of Foreign Currency Denominated Accounts) Regulations 2022 stipulates 120 days and it is therefore important to amend the CD1 to avoid inconsistencies.

2.1.2 Manual processing system of CD1

The purpose of CD1 is to give timely information to Reserve Bank of Malawi of probable export proceeds to be received in Malawi as the forms must be collected by exporters from their respective bankers and be completed in quadruplicate of which first copy is retained by Customs, second copy sent to the exporter, third and fourth (blue and pink) copies sent to International Operations Department of the Reserve Bank of Malawi which send the pink copy to the exporter's bank.

Manual processing has been observed above against computerised system. It is further noted that batch processing system is the likely mode of collecting (third

and fourth) copies from the Customs Department at regular intervals. There is delay in processing of the data for producing information for decision making.

Sangala (2019) stipulated that Reserve Bank of Malawi rolled out a new system in part to deal with this problem as follows:

[The Reserve Bank of Malawi (RBM) is implementing a system for reporting data on cross-border financial transactions by institutions licensed to deal in foreign exchange.

... The new system, dubbed Cross Border Foreign Exchange Reporting System (CFERS), will go live on March 1 2019.

CFERS will be in line with systems of banks, Malawi Revenue Authority and other financial institutions.

The central bank is also replacing the Foreign Exchange Statistical Database System with CFERS.

“With implementation of the CFERS, the CD1 form will be phased out since the system will interface with the system of Malawi Revenue Authority for extraction of data on exports and imports”, the statement reads”].

There is no evidence that CD1 has been phased out as it is still being featured on different websites in 2022 such as Malawi Revenue Authority, Malawi Investment and Trade Centre etc. It can therefore be concluded that problem of delaying in processing the export proceeds in Malawi has

not been resolved fully by the central bank. Batch processing can also result in loss of data while transmitting physical documents from the Customs Offices situated in various locations across the country.

2.1.3 Confusion on threshold for completing CD1

Documentation for several organisations including Malawi Revenue Authority, Malawi Investment and Trade Centre, Export Development Fund etc still reflects USD1,000.00 as threshold for exporters to complete CD1 despite the limit being raised to USD5,000.00 as highlighted by Reserve Bank of Malawi (2013) above. Financial Intelligence Unit (2016) however correctly depicts USD5,000.00 export proceeds as requirement to complete CD1. An unintended confusion however seems to arise where an exporter decides to be exporting products on maximum invoices of less than USD5,000.00 as a trade strategy and therefore completely misses out on Reserve Bank of Malawi radar while exporting substantial volumes in smaller quantities to numerous offshore clients.

2.1.4 Requirement to have a bank account

CD1 requires that payment terms must be in form of letters of credit and processed through bank accounts. Importers can come into the country and buy from the local suppliers and ship the goods to certain destinations

without expecting to bring in additional forex. Payments can also be made through international money transfers such as Mukuru or Hello Paisa such that they cannot be traced in the banking system. Some significant transactions could be missed out from the formal system.

3.0 Malawi Revenue Authority processes on exports

Customs Office processes CD1 forms but their documents still indicate that CD1 has to be completed for exports in excess of USD1,000.00 and this is despite MRA's undated Public Notice under the Director General whose tenure of office was between 2012 and 2014 advising that value for exports to be completed under CD1 Form was USD5,000.00. There is need to synchronise the processes. For exports below USD1,000.00, two forms are available. For exports whose value is less than MWK500,000.00 equivalent value, exporters must complete Form 38 and above that threshold must complete Form 12 – Malawi Trade Portal (2022). It is however not known when and how often information collated on the Forms 12 and 38 are transcribed and transmitted to Reserve Bank of Malawi. In an effort to improve export data, Malawi Revenue Authority has since started issuing out Discharge Note on all export consignments exiting Malawi as noted by Malawi Revenue Authority (2022):

[The export discharge note is an ASYCUDA world generated document that will prove completion of an export process by an exporter. It will be issued by Customs at the border stations as

as at the airports, for all export consignments exiting the country and shall be used as a gate pass for any export consignment exiting the country.

Exporters, Clearing Agents and the General Public are therefore being advised that upon arriving at the border or airport, they will be required to present their export documents to Customs Officers at the export counter where they will be issued with the export discharge note (for free) which they will then show at the exit barrier for verification before the consignments can be allowed to cross the border.

All exporters and the General Public are therefore encouraged to DEMAND from Customs and keep on file for future references, an export discharge note for all export consignments they will be effecting from Malawi. Failure to do so would be an offence against the Customs and Excise Act and Regulations as well as the Repatriation of Export Proceeds and Operations of Foreign Currency Denominated Accounts Regulations, 2022.].

Accurate data regarding export proceeds can be captured if appropriate control systems are put in place to ensure that all consignments leaving Malawi are appropriately accounted for. There are however some gaps regarding courier services, rail freight and buses.

4.0 Repatriation of mining export proceeds

Malawi through its incumbent Attorney General is demanding USD300 Billion from United States of

American mining company as reported by New24:

[US company Columbia Gem House has denied accusations from Malawi that it owes more than \$300 billion in unpaid taxes on minerals extracted in the country.

In a letter dated July 26, Malawi's attorney general ... accused the firm of evading duty on sales of rubies and sapphires mined at Chimwadzulo Mine in Ntcheu District from 2008.

The letter alleges that Nyala Mines Ltd, which it describes as Columbia Gem House subsidiary, paid taxes of just \$600 against projected revenue from their Malawian operation. But the US firm this week denied any link to the alleged case.

"Columbia Gem House is not, and never has been, an owner of Nyala Mines or any other entity in Malawi, nor a signatory to any lease agreement with the Government of Malawi," it said in an email to AFP.].

The probable export proceeds of USD24 billion is quite astronomical and if taxes on it of just about 10 percent equating USD2.4 billion had come through, that would have gone a long way to recalibrate the forex reserves position in Malawi even if it was coming in bits and pieces. The outcome of that matter is unknown but it shows that Malawi has not managed to pursue export proceeds from the mining sector and other activities.

5.0 Conclusion and recommendations

Malawi has for long time failed to accurately tabulate the value of the exported products and track the export proceeds thereof which have actually been received. The CD1 Form has proved to be outdated as exporters can receive proceeds through other means such as international money transfers or cash and not only restricted to bank transfers. The lack of coordination between systems used by Reserve Bank of Malawi and Malawi Revenue Authority is a cause for concern and the sooner this can be rectified, the better it is for Malawian economy.

The repatriation of export proceeds is of prime importance to Malawi and recent claims of USD300 billion from an American company is a testament that Malawi has to search deeper for undeclared export proceeds which if found, could substantially lessen the perennial forex shortage in the country which result in cost-push inflation. It is recommended that Immigration Department System should be synchronised with Malawi Revenue Authority and Reserve Bank of Malawi to track all vehicles, trains, aeroplanes, maritime vessels etc exiting Malawi to seek more information wherever necessary. The immigration department can also provide invaluable information regarding courier services for possible high value small packages exiting Malawi. Reserve Bank of Malawi should set up a task force of collecting data from all countries regarding consignments received in those countries stipulating that Malawi is the country of origin and

comparing the same with the records from local sources. To that end, RBM must coordinate with MRA to collect all data on the Discharge Notes recently introduced as every transaction will be captured.

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