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PD-AAx-679  
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TELEGRAM

PAGE 01 LILONG 01839 01 OF 18 061522Z 8564 035148 AID2760  
ACTION AID-00

LILONG 01839 01 OF 18 061522Z 8564 035148 AID276

STRENGTHENING THE RESERVE BANK OF MALAWI AND THE  
COMMERCIAL BANKING SYSTEM. THE PROGRAM REQUIREMENTS BY  
FISCAL YEAR ARE:

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ACTION OFFICE AFPD-04  
INFO AAF-03 AFEA-03 AFSA-03 AFOP-06 SEOP-01 FPA-02 AFEC-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPDC-01 FM-02 GCCN-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TDP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 A3 RC06  
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FY 1988 USDOLS 21.8 MILLION  
- (USDOLS 20 MILLION FOR MERF AND USDOLS  
- 1 MILLION FOR TECHNICAL ASSISTANCE AND  
- TRAINING); AND

INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W  
-----331374 061524Z /38

FY 1989 USDOLS 15 MILLION FOR MERF

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3451  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

THE FY 1988 FUNDS WOULD BECOME AVAILABLE AT THE  
SUCCESSFUL CONCLUSION OF NEGOTIATIONS BETWEEN THE WORLD  
BANK AND THE GOM ON ITPAC AND THE ESTABLISHMENT OF  
MERF. IN FY 1989, THE RELEASE OF THE FUNDS WOULD BE  
DEPENDENT ON PROGRESS TOWARD THE ACHIEVEMENT OF THE  
PROGRAM'S THREE OBJECTIVES AND THE ANALYSIS OF THE  
EXPORT SECTOR'S REQUIREMENTS FOR FOREIGN EXCHANGE.  
PROGRESS WOULD BE ASSESSED BY AN ANALYSIS OF CHANGE IN A  
SET OF PROGRAM INDICATORS BETWEEN THE BASELINE YEAR 1988  
AND 1989.

UNCLAS SECTION 01 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

THE INDICATORS BY EACH OF THE THREE OBJECTIVES ARE  
OUTLINED BELOW:

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

1. INCREASED AVAILABILITY OF FOREIGN EXCHANGE FOR THE  
PRIVATE SECTOR TO BE INDICATED BY:

GIVEN APRIL 13 ISSUES MEETING, MISSION HERewith PROVIDES  
COMPLETE PAIP IN CABLE FORM FOR IMMEDIATE TRANSMISSION  
TO PROJECT COMMITTEE MEMBERS. REQUEST AFR/PO ATTACH  
PAIP FACESHEET TO CABLE.

I. EXECUTIVE SUMMARY:

A. PROGRAM OBJECTIVES:

THE GOAL OF THIS TWO YEAR USDOL 36 MILLION PROGRAM GRANT  
IS TO INCREASE THE RATE OF GROWTH OF MALAWI'S GROSS  
DOMESTIC PRODUCT (GDP) THROUGH THE EXPANSION OF BOTH  
TRADITIONAL AND NONTRADITIONAL EXPORT INDUSTRIES. THE  
PROGRAM SUPPORTS POLICY REFORMS DIRECTED AT THE  
LIBERALIZATION OF THE FOREIGN EXCHANGE ALLOCATION SYSTEM  
TO BRING THE DEMAND FOR AND SUPPLY OF FOREIGN EXCHANGE  
CLOSER TOGETHER AND TO CREATE AN EFFICIENT AND  
RESPONSIVE ALLOCATION SYSTEM. THE USAID FUNDS WILL  
PROVIDE PARALLEL FINANCING FOR THE GOVERNMENT OF  
MALAWI'S (GOM) AND WORLD BANK'S INDUSTRIAL AND TRADE  
POLICY ADJUSTMENT CREDIT (ITPAC) PROGRAM. THE SPECIFIC  
OBJECTIVES IN THE ITPAC PROGRAM TO BE SUPPORTED BY USAID  
ARE:

1. INCREASED AVAILABILITY OF FOREIGN EXCHANGE TO THE  
PRIVATE SECTOR, PRIMARILY FOR THOSE FIRMS ENGAGED IN  
THE PRODUCTION OF GOODS FOR EXPORT;
2. THE ESTABLISHMENT OF A SIMPLIFIED AND STREAMLINED  
FOREIGN EXCHANGE ALLOCATION SYSTEM; AND
3. THE REDUCTION IN RESTRICTIVE REGISTRATION AND  
LICENSING PROCEDURES WHICH CONSTRAIN GROWTH IN  
EXPORT INDUSTRIES.

B. PROGRAM DESCRIPTION

THE USDOLS 36 MILLION WOULD BE DIVIDED INTO USDOLS 35  
MILLION IN BALANCE OF PAYMENT SUPPORT TO BE MADE  
AVAILABLE IN TWO TRANCHES TO THE MALAWI EXPORT REVOLVING  
FUND (MERF). THE REMAINING USDOLS 1 MILLION WOULD  
FINANCE TECHNICAL ASSISTANCE AND TRAINING IN SUPPORT OF  
THE ITPAC PROGRAM WITH PARTICULAR EMPHASIS ON

- QUANTITATIVE INCREASE IN THE AMOUNT OF FOREIGN  
EXCHANGE AVAILABLE TO THE PRIVATE SECTOR  
INCLUDING EXPORTERS AND INDUSTRIES PRODUCING  
FOR DOMESTIC CONSUMPTION;
- THE PROPORTION OF FOREIGN EXCHANGE AVAILABLE TO  
THE PRIVATE SECTOR HAS INCREASED RELATIVE TO  
THE PUBLIC SECTOR; AND
- DIVERSIFICATION IN THE TYPES OF FIRMS GAINING

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PPEA-01 SEOS-02 PPDC-01 FM-02 GCM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELD-01  
TELE-01 PRE-06 /067 A3 RC06

INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W  
-----331443 061530Z /41 38

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3452  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 02 OF 18 LILONGWE 01339

AIOAC

FOR AFR/PO, AFR/OP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

- ACCESS TO FOREIGN EXCHANGE HAS OCCURRED.
- 2. ESTABLISHMENT OF A SIMPLIFIED AND STREAMLINED ALLOCATION SYSTEM TO BE REFLECTED IN:
  - A REDUCTION IN THE NUMBER OF STEPS AND PROCEDURES REQUIRED TO OBTAIN FOREIGN EXCHANGE;
  - A DECREASE IN THE AMOUNT OF TIME REQUIRED TO COMPLETE A FOREIGN EXCHANGE TRANSACTION; AND
  - AN EXPANSION IN THE NUMBER OF COMMODITIES ON THE IMPORT LIBERALIZATION LIST.
- 3. REDUCTION IN RESPECTIVE REGISTRATION AND LICENSING PROCEDURES TO BE ASSESSED BY:
  - THE PROCESS OF REGISTERING EXPORTERS HAS BEEN SIMPLIFIED; AND
  - THE NUMBER OF REGISTERED EXPORTERS, PARTICULARLY NONTRADITIONAL ONES, HAS INCREASED.
- C. OUTLINE OF ESTABLISHMENT AND OPERATION OF THE MERF:
  1. THE USAID FOREIGN EXCHANGE WOULD BE DEPOSITED IN AN INTEREST BEARING DOLLAR ACCOUNT IN THE NAME OF THE RESERVE BANK OF MALAWI IN AN OFFSHORE COMMERCIAL BANK. THE FOREIGN EXCHANGE RESOURCES WOULD REPRESENT A NET INCREASE IN MALAWI'S FOREIGN EXCHANGE ASSETS IN BOTH 1988 AND 1989.
  2. ALL EXPORTERS WOULD BE ELIGIBLE TO USE THE FUND. A CERTAIN PROPORTION OF THE FUND WOULD, HOWEVER, BE RESERVED FOR USE BY SMALL AND MEDIUM SCALE ENTERPRISES AND THE PROMOTION OF NONTRADITIONAL EXPORTERS WOULD BE ENCOURAGED.
  3. THE FUND WOULD FINANCE THE IMPORTS OF RAW MATERIALS, INTERMEDIATE GOODS, CAPITAL GOODS AND PACKAGING MATERIALS. HOWEVER, FERTILIZERS WOULD BE INELIGIBLE. ONLY CHEMICALS REQUIRED AS PART OF AN EXPORT-ORIENTED PRODUCTION LINE OR PROCESSING SYSTEM

WOULD BE COVERED. ALL OTHER GOODS FROM GEOGRAPHIC CODE 699, EXCEPT THOSE SPECIFICALLY PROHIBITED UNDER USAID REGULATIONS, WOULD BE COVERED. A COMMODITY'S ELIGIBILITY WOULD BE BASED ON THE NEEDS OF THE EXPORTER AND NOT RESTRICTED TO THE EXISTING, OR EXPANDED, LIST OF LIBERALIZED COMMODITIES. IT IS VITAL TO THE OPERATION OF THE MERF THAT IT PERMIT A WIDE RANGE OF GOODS TO BE IMPORTED. THUS, FOR MAINTAINING THE COMPETITIVENESS OF MALAWI'S EXPORTERS CONSIDERING THEIR DIFFICULT ECONOMIC SITUATION IT IS IMPORTANT THAT IMPORTS NOT BE RESTRICTED TO USAID GEOGRAPHIC CODE 000.

4. ACCESS BY EXPORTER TO THE MERF WOULD BE SIMPLE AND STRAIGHT FORWARD. THE APPLICATION WOULD BE TO THE EXPORTER'S COMMERCIAL BANK WHICH WOULD EXAMINE THE PROPOSAL AND ENSURE ITS COMMERCIAL AND FINANCIAL VIABILITY. APPROVED APPLICATIONS WOULD BE FORWARDED TO THE RESERVE BANK WHICH WOULD AUTHORIZE ACCESS TO MERF. THE COMMERCIAL BANK WOULD INFORM THE OFFSHORE BANK TO OPEN A LETTER OF CREDIT IN THE NAME OF THE EXPORTER. ONCE GOODS WERE RECEIVED IN MALAWI, PAYMENT WOULD BE MADE TO THE SUPPLIER. UPON THE EXPORT OF THE MALAWI COMMODITY, PAYMENT BY THE OFFSHORE BUYER WOULD BE MADE TO THE MERF. THE OFFSHORE BANK WOULD DEDUCT CHARGES FOR THE LETTER OF CREDIT INCLUDING BANKING CHARGES AND INTEREST PAYMENTS. INTEREST PAYMENTS AND A PROPORTION OF THE FOREIGN EXCHANGE PROCEEDS WOULD GO INTO A SEPARATE ESCROW ACCOUNT AS A SAFEGUARD AGAINST DECAPITALIZATION OF MERF AND TO ALLOW FOR EXPANSION OF THE FUND IF NECESSARY. THE BALANCE OF THE FOREIGN EXCHANGE WOULD GO INTO THE GENERAL POOL OF FOREIGN EXCHANGE. THE RESERVE BANK WOULD CREDIT THE MALAWIAN EXPORTER'S COMMERCIAL BANK ACCOUNT THE MALAWI KWACHA EQUIVALENT OF THE SALE TRANSACTION.

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ACTION OFFICE AFDP-04  
INFO AAAP-03 AFEA-03 AFSA-03 AFDP-06 SEOP-01 FPA-02 AFEO-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
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TELE-01 PRE-06 /067 A3 RC26

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O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3453  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 03 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REOSD/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

D. COUNTERPART FUNDS AND THEIR USE:

UPON THE DEPOSIT OF THE USOLS IN THE OFFSHORE ACCOUNT, THE RESERVE BANK WOULD DEPOSIT THE EQUIVALENT IN MALAWI KWACHA INTO A SPECIAL DEVELOPMENT ACCOUNT. TEN PERCENT OF THESE FUNDS WOULD BE DEPOSITED INTO A TRUST FUND ACCOUNT FOR USE BY THE USAID MISSION IN MALAWI. THE COUNTERPART FUNDS WOULD SUPPORT THE DEVELOPMENT OF THE PRIVATE INDUSTRIAL AND COMMERCIAL SECTORS IN MALAWI, WITH PARTICULAR EMPHASIS ON SMALL AND MEDIUM ENTERPRISES. FOR EXAMPLE, ADDITIONAL LOAN FUNDS WOULD BE AVAILABLE TO FINANCIAL INSTITUTIONS SUCH AS INDEBANK, INDEFUND AND SEDOM. A LENDING FACILITY WOULD BE ESTABLISHED IN THE COMMERCIAL BANKS FOR MALAWIANS TO PURCHASE SHARE CAPITAL IN THE ENTERPRISES BEING DIVESTED UNDER THE ADMARC DIVESTITURE PROGRAM (612-0227). THIS WOULD ALSO INCLUDE FUNDS FOR THE PURCHASE OF AGRICULTURAL ESTATES.

E. PAAD DESIGN AND APPROVAL SCHEDULE:

THE PAAD DESIGN WILL TAKE PLACE FROM MID-MAY TO LATE JUNE 1988. REVIEW OF THE PAAD WOULD OCCUR IN JULY WITH INITIAL OBLIGATION IN AUGUST. SINCE TIMING IS CRITICAL, USAID/MALAWI REQUESTS A SPECIAL DELEGATION OF AUTHORITY TO APPROVE THE PAAD IN THE FIELD. THE PAAD DESIGN TEAM WILL CONSIST OF ECONOMIC, BANKING AND FINANCIAL EXPERTISE FROM ONE OF THE FIRMS WITH A MACROECONOMIC IQC PLUS THE INHOUSE SERVICES OF A PROGRAM DESIGNER AND ECONOMIST.

II. BACKGROUND:

A. THE MACROECONOMIC CLIMATE AND POLICY REFORM:

DESPITE BEING ONE OF AFRICA'S POOREST COUNTRIES, MALAWI ENJOYED SUSTAINED AND VIGOROUS ECONOMIC GROWTH DURING ITS FIRST FIFTEEN YEARS INDEPENDENCE. SINCE 1978, THE PACE OF GROWTH DECLINED. THIS REVERSAL AND THE DIFFICULTIES ENCOUNTERED IN RE-ESTABLISHING POSITIVE REAL GROWTH RATES HAVE BEEN CAUSED BY A NUMBER OF EXTERNAL AND INTERNAL FACTORS. AMONG THEM HAVE BEEN:

1. DISRUPTION OF MALAWI'S TRADITIONAL TRANSPORTATION ROUTES THROUGH MOZAMBIQUE AND THE SHARP INCREASE IN THE COSTS AND TIME OF MOVING EXPORTS AND IMPORTS OVER THE LONGER SOUTHERN AND NORTHERN ROUTES;
  2. DETERIORATION AND WIDE FLUCTUATION IN WORLD PRICES FOR MALAWI'S PRINCIPAL EXPORTS OF TOBACCO, TEA, COFFEE AND SUGAR, COUPLED WITH SHARPLY RISING COSTS OF IMPORTS;
  3. WEAKENING OF THE FINANCIAL AND MANAGEMENT POSITION OF PARASTATALS AND QUASI-PUBLIC BODIES, PARTICULARLY THE AGRICULTURAL DEVELOPMENT AND MARKETING CORPORATION (ADMARC), THE MALAWI DEVELOPMENT CORPORATION (MDC) AND THE PRESS CORPORATION;
  4. FASTER GROWTH IN RECURRENT GOVERNMENT EXPENDITURES WHICH OUTSTRIPPED GOVERNMENT REVENUES CREATING GROWING PUBLIC SECTOR DEFICITS AND INFLATIONARY PRESSURES ON THE ECONOMY;
  5. RAPID INCREASE IN MOZAMBIKAN REFUGEES WHICH STRAINED AN ALREADY OVERBURDENED DOMESTIC RESOURCE BASE;
  6. NATIONAL FOOD SHORTAGES RESULTING FROM THE FAILURE OF PRODUCTION TO KEEP PACE WITH RISING DEMAND AND EXACERBATED BY DROUGHT, INSECT INFESTATION AND THE INFLUX OF CLOSE TO 500,000 MOZAMBIKAN REFUGEES IN THE LAST TWO CROP YEARS; AND
  7. HEIGHTENED REGIONAL INSECURITY WHICH NECESSITATED DIVERSION OF DEVELOPMENT RESOURCES TO NATIONAL DEFENSE REQUIREMENTS.
- BEGINNING IN 1981, THE GOM INITIATED A FAR-REACHING AND BROAD-BASED STRUCTURAL ADJUSTMENT PROGRAM TO RESTORE OVERALL ECONOMIC STABILITY AND TO REMOVE STRUCTURAL CONSTRAINTS ON GROWTH. THIS PROGRAM HAS BEEN SUPPORTED

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ACTION A10-00

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ACTION OFFICE AFPD-04  
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SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
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TELE-01 PRE-06 /067 A3 RC06  
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INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W  
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O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3454  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 04 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

BY THREE STRUCTURAL ADJUSTMENT LOANS (SAL'S) AND A SERIES OF STAND-BY FACILITIES WITH THE INTERNATIONAL MONETARY FUND (IMF). ADDITIONAL RELIEF WAS PROVIDED THROUGH THE 1982 AND 1983 DEBT RESCHEDULINGS.

THE MAIN EMPHASES IN THIS PROGRAM HAVE BEEN:

1. PRICE RATIONALIZATION AND LIBERALIZATION, INCLUDING USE OF AGRICULTURAL PRICES TO INCREASE INCENTIVES TO SMALLHOLDERS, DECONTROL OF MOST INDUSTRIAL PRICES, GRADUAL REMOVAL OF FERTILIZER AND OTHER SUBSIDIES AND INTRODUCTION OF TARIFFS BASED ON LONG-RUN MARGINAL COSTS OF PUBLIC UTILITIES;
2. RESTRUCTURING OF THE PARASTATAL SECTOR INCLUDING DIVESTITURE, PRIVATIZATION AND REORGANIZATION OF ADMARC AND RATIONALIZATION AND RESTRUCTURING OF MDC AND PRESS; AND
3. IMPROVED PUBLIC SECTOR MANAGEMENT AND RESOURCE MOBILIZATION WITH EMPHASIS ON TIGHTER FISCAL AND MONETARY CONTROLS AND DISCIPLINE COMBINED WITH A ROLLING PUBLIC SECTOR INVESTMENT PROGRAM AND TAX REFORMS.

BY-AND-LARGE, THE REFORM PROGRAM HAS REMAINED ON TRACK. AS EXHIBITED BY THE MINISTER OF FINANCE'S PRESENTATION OF THE 1988/89 GOM BUDGET, THERE IS A STRONG AND DETERMINED COMMITMENT BY THE GOM TO THE REFORM PACKAGE AND PROCESS. THIS IS NOT TO SAY THAT THE PROGRAM HAS NOT HAD TO BE MODIFIED AND CERTAIN ASPECTS ALTERED TO REFLECT CHANGING CONDITIONS AND CIRCUMSTANCES AND THE NEED TO SOFTEN POTENTIAL ADVERSE DISTRIBUTIONAL AND SOCIAL IMPACTS.

THE INCREASED PRICE INCENTIVES TO SMALLHOLDERS HAVE HAD A POSITIVE IMPACT ON PRODUCTION AND EXPORT CROP DIVERSIFICATION, BUT THE BENEFITS HAVE LARGELY ACCRUED TO THE LARGER OF THE SMALLHOLDERS. THE FERTILIZER SUBSIDY REMOVAL PROGRAM COMBINED WITH THE INTRODUCTION OF HIGH ANALYSIS FERTILIZERS HAS REDUCED PRESSURES ON FISCAL RESOURCES AND LED TO INCREASED UTILIZATION OF MORE EFFICIENT FERTILIZERS. THE WORLD BANK'S AND

USAID'S AGRICULTURAL PROGRAMS ALONG WITH OTHER DONOR PROGRAMS ARE STRENGTHENING THE LINKS BETWEEN EXTENSION AND RESEARCH. HOWEVER, CONCERN FOR FOOD SECURITY CAUSED BY DROUGHT, RISING WORLD PRICE OF FERTILIZER AND REFUGEES AS WELL AS DISTRIBUTIONAL IMPACTS OF THE PROGRAM HAVE LED THE GOM TO PHASE THE REMOVAL OF THE FERTILIZER SUBSIDY OVER A LONGER PERIOD OF TIME, TO REDOUBLE ITS EFFORTS TO PROVIDE GREATER ACCESS TO CREDIT AND TO TAKE A CRITICAL LOOK AT THE NATIONAL RURAL DEVELOPMENT PROGRAM (NRDP). IN OTHER WORDS, THE APPROACH OF THE GOM IS TO INTEGRATE STRUCTURAL ADJUSTMENT INTO ITS DEVELOPMENT PROGRAM.

IN THE AREA OF FISCAL MANAGEMENT, THE GOM INTRODUCED AN AUSTERITY PROGRAM IN 1986 AND 1987 WHICH INCLUDED MEASURES TO MOBILIZE REVENUES AND STRICTLY CONTAIN AND CONTROL PUBLIC AND PARASTATAL EXPENDITURES. AS A CONSEQUENCE THE GOM HAS BEEN ABLE TO EXERCISE GREATER CONTROL OVER EXPENDITURES AND THE DEFICIT. THIS TIGHTENED SERIES OF CONTROLS AND DETERMINED COMMITMENT TO FISCAL REFORM HAVE PAVED THE WAY FOR AGREEMENT RECENTLY WITH THE IMF FOR A 15 MONTH STAND-BY ARRANGEMENT AND ACCESS TO ENHANCED STRUCTURAL ADJUSTMENT FACILITY (ESAF) RESOURCES. THE GOM IS DETERMINED TO ENTER THE PARIS AND LONDON CLUB NEGOTIATIONS AND THE CONSULTATIVE GROUP MEETING WITH A STRONG CASE FOR LOAN RESCHEDULING AND FORGIVENESS AND AN EXPANSION IN CONCESSIONAL PROGRAM ASSISTANCE.

ON THE EXTERNAL FRONT, THE GOM IS COMMITTED TO DEVELOPING RELIABLE ALTERNATE TRANSPORTATION ROUTES SUCH AS THE NORTHERN CORRIDOR. TO RESTORE EFFICIENCY IN THE ALLOCATION OF FOREIGN EXCHANGE, A TRADE LIBERALIZATION PROGRAM WAS INITIATED IN FEBRUARY 1988, WITH THE REMOVAL OF RESERVE BANK APPROVAL FOR IMPORTS OF SPARE PARTS AND CERTAIN RAW MATERIALS. CONTROLS ON OTHER IMPORT CATEGORIES WILL BE DISMANTLED IN A PHASED PROGRAM OVER THE 1988-89 PERIOD TO RESTORE A RELATIVELY OPEN TRADE

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O 061442Z APR 88  
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TO SECSTATE WASHDC IMMEDIATE 3453  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 05 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (012-0223)

REGIME. THE KWACHA WAS DEVALUED IN JANUARY 1988 REFLECTING THE GOM'S DETERMINATION TO MAINTAIN EXCHANGE RATE PARITY. HOWEVER, IN THE NEAR TERM THE GOM WISHES TO RELY LESS ON DEVALUATIONS TO CONTROL THE VALUE OF THE KWACHA AND MORE ON PUBLIC SECTOR EXPENDITURE CONTROLS AND STIMULATION OF THE PRIVATE SECTOR, PARTICULARLY EXPORT INDUSTRIES.

MALAWI MANAGED TO REDUCE DOMESTIC AND EXTERNAL BALANCES WHILE RESUMING GDP GROWTH IN 1982-85. THE CURRENT ACCOUNT DEFICIT DECLINED FROM 21 PERCENT OF GDP IN 1980 TO 8 PERCENT IN 1985, THE GOM BUDGET DEFICIT FROM 11 PERCENT IN 1981/82 TO 6 PERCENT IN 1984/85, AND GOP AT AN ANNUAL RATE OF ABOUT 4 PERCENT BETWEEN 1982 AND 1985, REPRESENTING A 0.8 PERCENT INCREASE IN PER CAPITA GOP. SMALLHOLDER PRODUCTION EXPANDED SHARPLY. HOWEVER, PROGRESS WAS SHORT-LIVED. THE PROGRESSIVE DISRUPTION AND FINAL CLOSURE OF DIRECT RAIL LINKS TO MOZAMBIKAN PORTS CAUSED AN ADVERSE SHIFT IN THE TERMS OF TRADE OF 18 PERCENT WHICH RESULTED IN AN 8 PERCENT LOSS OF GOP.

THE GOM DEFICIT WIDENED SHARPLY, REACHING 12.4 PERCENT OF GOP BY 1986/87, REFLECTING BUDGETARY PRESSURES RELATED TO REGIONAL INSECURITY AND AN INCREASE IN DEBT SERVICE STEMMING FROM THE EXPIRATION OF THE GRACE PERIOD ON THE 1982/83 DEBT RESCHEDULING. DETERIORATION OF EXPORT CROP PRICES IN 1986 EXACERBATED BALANCE OF PAYMENTS PRESSURES, WITH THE RESULT THAT INTERNATIONAL RESERVES WERE VIRTUALLY DEPLETED. BY THE END OF 1986, MALAWI'S ACCUMULATED EXTERNAL TRADE ARREARS WERE EQUIVALENT TO 6 PERCENT OF GOP. THIS LED TO STRINGENT RATIONING OF FOREIGN EXCHANGE TO THE PRIVATE SECTOR.

AS A CONSEQUENCE, REAL GDP GREW BY ONLY 2 PERCENT IN 1986 AND WAS NEGATIVE IN 1987 WITH EVEN SHARPER DECLINES IN PER CAPITA GOP IN BOTH YEARS. GROWTH IN COMMERCIAL AGRICULTURE WAS MODEST WHILE THE INDUSTRIAL SECTOR AND BASIC FOOD CROP PRODUCTION EXPERIENCED SHARP DECLINES.

THUS, DUE LARGELY TO ADVERSE EXTERNAL EVENTS, MALAWI CURRENTLY FACES A VERY DIFFICULT SITUATION. HOWEVER, INSTEAD OF BACKING AWAY FROM STRUCTURAL REFORMS AND STRICT FISCAL MANAGEMENT, THE GOM REMAINS FIRMLY

COMMITTED TO THE POLICY REFORM PROCESS. THE GOVERNMENT HAS STRENGTHENED ITS EFFORTS TOWARD STRUCTURAL REFORM, CONTINUING TO MOVE IN AREAS WHERE SIGNIFICANT PROGRESS ALREADY HAS BEEN MADE WHILE AT THE SAME TIME TRYING TO ADDRESS OUTSTANDING DEVELOPMENT ISSUES SUCH AS BASIC FOOD CROP PRODUCTION AND IMPROVED HEALTH CARE. HOWEVER, IT RECOGNIZES THAT ITS ABILITY TO DEAL EFFECTIVELY WITH THESE DEVELOPMENTAL CONCERNS DEPENDS ON THE RESTORATION OF MACROECONOMIC STABILITY AND GROWTH.

TO MEET THE TWIN OBJECTIVES OF ATTAINING POSITIVE PER CAPITA GROWTH AND IMPROVING SOCIAL WELFARE WILL REQUIRE SIGNIFICANT CONCESSIONAL EXTERNAL RESOURCES AND GREATER USE OF PROGRAM AS OPPOSED TO PROJECT ASSISTANCE. ASSUMING A GROWTH IN GOP OF 2.6 PERCENT IN 1988, 3.9 PERCENT IN 1989 AND 4.3 PERCENT IN 1990, GROSS TOTAL EXTERNAL FINANCING REQUIREMENTS ARE USDOLS 317.1 MILLION, 271.4 MILLION AND USDOLS 241.3 MILLION RESPECTIVELY. TAKING INTO ACCOUNT EXISTING AND ANTICIPATED BILATERAL AND MULTILATERAL ASSISTANCE AS WELL AS EXPECTED DEBT RELIEF FROM THE LONDON AND PARIS CLUBS, THE NET UNMET FINANCING GAPS FOR THESE THREE YEARS ARE USDOLS 33.0 MILLION, USDOLS 71.7 MILLION AND USDOLS 67.7 MILLION RESPECTIVELY.

B. THE INDUSTRIAL AND TRADE POLICY ADJUSTMENT CREDIT (ITPAC) PROGRAM:

IN LATE 1987, THE WORLD BANK AND THE GOM BEGAN PLANNING FOR THE INDUSTRIAL AND TRADE POLICY ADJUSTMENT CREDIT (ITPAC) PROGRAM TO BE FINANCED BY A USDOLS 25 MILLION INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) CREDIT. THIS PROGRAM WILL REINFORCE THE MACROECONOMIC ADJUSTMENT EFFORTS TO DATE AND ALLOW MOBILIZATION OF ADDITIONAL EXTERNAL RESOURCES TO COVER A LARGE SHARE OF THE ANTICIPATED RESOURCE GAP IN 1988 AND 1989. THE BANK AND THE GOM EXPECT TO FINALIZE THE PROGRAM IN MAY WITH BANK

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ACTION AID-00

LILONG 01839 06 OF 18 061529Z 3653 035169 A102

PROPOSED TAX STRUCTURE WOULD SHIFT TAXATION: (A) FROM INTERNATIONAL TRADE TO DOMESTIC TRANSACTIONS; B) FROM PRODUCTION TO CONSUMPTION; AND (C) FROM THE POOR TO THE RICH.

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ACTION OFFICE AFPO-3A  
INFO AAAP-03 AFEA-03 AFSA-03 AFDP-05 SEOP-01 FPA-02 AFEO-03  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPOC-01 FM-02 GCGH-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 A3 RC06  
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3. TRADE POLICY AND EXCHANGE RATE MANAGEMENT:

THE GOM WILL GRADUALLY REMOVE THE ADMINISTERED FOREIGN EXCHANGE ALLOCATION SYSTEM AND WILL REINSTATE A MARKET-DETERMINED SYSTEM THAT WOULD ALLOW IMPORTERS ACCESS TO FOREIGN EXCHANGE WITHOUT PRIOR RESERVE BANK APPROVAL. THE PROCESS OF LIBERALIZATION BEGAN IN FEBRUARY 1988 WITH THE ELIMINATION OF PRIOR APPROVAL ON SPARE PARTS AND CERTAIN RAW MATERIALS. THE LIST WILL BE EXPANDED AS FOREIGN EXCHANGE RESOURCES INCREASE. EVENTUALLY THE LIST WILL CONTAIN ONLY A LIMITED NUMBER OF ITEMS WHICH WILL REQUIRE PRIOR APPROVALS. ALSO THE GOM WILL REDUCE THE NUMBER OF RESTRICTIVE PROCEDURES SUCH AS THE IMPORT LICENSING REQUIREMENT BY THE MINISTRY OF TRADE, INDUSTRY AND TOURISM.

INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W  
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4. EXPORT PROMOTION:

THE KEY TO THE TRADE REFORM PART OF THE PROGRAM IS THE INCREASE IN THE AVAILABILITY OF FOREIGN EXCHANGE. THIS WILL INITIALLY BE MET THROUGH CONCESSIONAL ASSISTANCE FROM MULTILATERAL AND BILATERAL DONORS. OVER THE LONG RUN IT DEPENDS ON THE EXPANSION AND DIVERSIFICATION OF EXPORT INDUSTRIES. A NUMBER OF STEPS WILL BE UNDERTAKEN TO LAY THE FOUNDATION FOR THIS:

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FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3456  
INFO AMEMBASSY NAIROBI  
AMEMBASSY NAIROBI

- A. AN EXPORT REVOLVING FUND WILL BE ESTABLISHED TO INCREASE THE EXPORTERS ACCESS TO FOREIGN EXCHANGE AND TO RESTORE CONFIDENCE IN MALAWI'S ABILITY TO MEET ITS EXTERNAL OBLIGATIONS TO BOTH SUPPLIERS AND BUYERS.

UNCLAS SECTION 06 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PO, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

EXECUTIVE BOARD REVIEW AND AUTHORIZATION IN LATE JUNE 1988.

THE GOM EFFECTIVELY INITIATED THE ITPAC PROGRAM IN JANUARY 1988 AND HAS ALREADY IMPLEMENTED A NUMBER OF REFORMS IN FISCAL MANAGEMENT, EXCHANGE RATE MANAGEMENT AND TRADE POLICY. SPECIFIC MEASURES INCLUDE DEVALUATION OF THE KWACHA BY 15 PERCENT ON JANUARY 16, 1988; REMOVAL OF PRIOR RESERVE BANK OF MALAWI (RBM) FOREIGN EXCHANGE APPROVAL ON CERTAIN IMPORTS OF RAW MATERIALS AND SPARE PARTS ON FEBRUARY 1, 1988; A PACKAGE OF CURRENT EXPENDITURES CUTS AND REVENUE INCREASES TO REDUCE THE 1988/89 FISCAL DEFICIT; AND ELIMINATION OF EXTERNAL TRADE PAYMENTS ARREARS IN LATE 1987. COMPLEMENTARY MEASURES INCLUDE LIMITS ON NET DOMESTIC ASSETS OF THE BANKING SYSTEM, LIMITS ON GOM AND STATUTORY BODIES BORROWING FROM THE BANKING SYSTEM, AND LIMITS ON NEW NONCONCESSIONAL EXTERNAL LOANS CONTRACTED OR GUARANTEED BY THE GOM.

THE FOLLOWING IS A BRIEF SUMMARY OF THE MAIN FEATURES OF THE ITPAC PROGRAM:

1. FISCAL POLICIES:

THE MOST CRITICAL COMPONENT IN THE ITPAC PROGRAM IS THE FURTHER REDUCTION OF THE FISCAL DEFICIT. AS AGREED WITH THE IMF, THE GOM IS COMMITTED TO PROGRESSIVELY LOWERING THE DEFICIT AS A PROPORTION OF GDP;

- 87/88: 18.7 PERCENT
- 88/89: 8.1 PERCENT
- 89/90: 6.8 PERCENT
- 90/91: 6.2 PERCENT
- 91/92: 5.2 PERCENT

2. TAX REFORMS:

THE GOM WILL INITIATE A COMPREHENSIVE TAX REFORM PROGRAM TO IMPROVE THE STRUCTURE OF INCENTIVES FACING PRODUCERS AND INVESTORS AND TO ENSURE THAT THE TAX SYSTEM AS A WHOLE IS REASONABLY PROGRESSIVE. THE

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ACTION OFFICE AFPO-04  
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SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPDC-01 FM-02 GCCM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 A3 RC06

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FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3457  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 07 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

- B. EXPORT REGULATIONS AND ADMINISTRATIVE PROCEDURES
- WILL BE STREAMLINED AND REDUCED. EXPORT
  - LICENSING REQUIREMENTS, EXCEPT FOR BASIC FOOD
  - COMMODITIES AND THOSE RELATED TO ENVIRONMENTAL
  - CONCERNS, WILL BE GRADUALLY REMOVED. ALSO THE
  - GOM IS PURSUING SEVERAL IDEAS FOR PROVIDING
  - INCREASED INCENTIVES TO EXPORT INDUSTRIES SUCH
  - AS A FLAT IMPORT DUTY REBATE FOR CERTAIN
  - INDUSTRIES.

5. INDUSTRIAL POLICIES:

THE INDUSTRIAL DEVELOPMENT ACT OF 1966 WHICH AFFORDED PROTECTION TO SOME INDUSTRIES WILL BE REVISED TO PROVIDE GREATER OPPORTUNITIES FOR DOMESTIC COMPETITION.

6. PRICE DECONTROL:

ONLY FIVE COMMODITIES (LOW GRADE MEAT, FUEL, SUGAR, FERTILIZER, AND VEHICLE SPARE PARTS) HAVE CONTROLLED PRICES. THIS IS DOWN FROM 50 AT THE START OF THE STRUCTURAL ADJUSTMENT PROGRAM. THE GOM WILL CONTINUE THE LIBERALIZATION PROGRAM BY REMOVING THE CONTROLS ON LOW GRADE MEAT AND SPARE PARTS.

7. SMALL-SCALE INDUSTRIES:

SMALL-SCALE INDUSTRIES WILL BE SUPPORTED BY STRENGTHENING THE SMALL ENTERPRISE DEVELOPMENT ORGANIZATION OF MALAWI (SEDM) AND DEVELOPING CLOSER TIES BETWEEN SEDM AND THE COMMERCIAL BANKING SYSTEM. THIS WILL INVOLVE INCREASING CREDIT FUNDS, IMPROVING THE QUALITY OF SEDM PERSONNEL AND ESTABLISHING A CREDIT GUARANTEE SCHEME MANAGED AND OPERATED BY SEDM THROUGH THE COMMERCIAL BANKS.

8. FINANCIAL POLICIES:

THE FOCUS IN THE FINANCIAL SECTOR WILL BE ON INCREASED EFFICIENCY IN THE MOBILIZATION OF RESOURCES AND ACCESS TO CREDIT COMBINED WITH

PROGRAMS TO DEVELOP A MORE EFFECTIVE PRIVATE CAPITAL MARKET. THE LEGAL AND REGULATORY FRAMEWORK OF THE FINANCIAL SYSTEM WILL BE REVISED. INTEREST RATES ON TIME DEPOSITS AND VARIOUS SECURITIES WILL BE LIBERALIZED, EXCEPT ORDINARY SAVINGS ACCOUNTS WHICH WILL CONTINUE TO HAVE A MINIMUM RATE ESTABLISHED BY THE GOM.

III. THE MALAWI EXPORT REVOLVING FUND PROGRAM GRANT:

A. PROGRAM OBJECTIVES:

THE USAID PROGRAM WILL PROVIDE US\$36 MILLION OVER TWO YEARS IN THE FORM OF PARALLEL FINANCING FOR THE ITFAC PROGRAM. USAID WILL CONCENTRATE ON THE REFORMS IN TRADE POLICY, EXCHANGE RATE MANAGEMENT AND EXPORT PROMOTION. ESSENTIALLY THE USAID PROGRAM HAS THREE OBJECTIVES:

1. INCREASING THE AVAILABILITY OF FOREIGN EXCHANGE TO THE PRIVATE SECTOR, PARTICULARLY THOSE FIRMS ENGAGED IN THE PRODUCTION OF GOODS FOR EXPORT;
2. ESTABLISHING A SIMPLIFIED AND STREAMLINED FOREIGN EXCHANGE ALLOCATION SYSTEM; AND
3. REDUCING THE CONSTRAINING EFFECT ON COMPETITION AND PRIVATE SECTOR GROWTH CAUSED BY RESTRICTIVE REGISTRATION AND LICENSING PROCEDURES ON EXPORT INDUSTRIES.

FROM THE TOTAL US\$36.0 MILLION PROVIDED BY AID, US\$35.0 MILLION IN TWO TRanches WILL CAPITALIZE THE MALAWI EXPORT REVOLVING FUND. THIS WILL INVOLVE US\$28.0 MILLION IN FY 1988 AND US\$15 MILLION IN FY 1989. THE REMAINING US\$1.0 MILLION WILL FINANCE TECHNICAL ASSISTANCE AND TRAINING REQUIREMENTS

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ACTION OFFICE AFPO-04  
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SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPOC-01 FM-02 GCCM-02 APPC-02 STAG-02  
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FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 1458  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

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AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-02231)

ASSOCIATED WITH THE ITPAC PROGRAM, WITH PARTICULAR  
EMPHASIS ON THOSE AREAS IN WHICH USAID IS DIRECTLY  
INVOLVED.

TO DATE, THE DESIGN OF MERF HAS BEEN A COLLABORATIVE  
EFFORT WITH USAID, THE WORLD BANK AND THE GOM. USAID  
PARTICIPATED IN THE JANUARY 1988 WORLD BANK APPRAISAL  
MISSION. THIS INVOLVEMENT WILL CONTINUE THROUGH THE  
FINALIZATION OF THE PROGRAM IN JUNE 1988 AND OVER THE  
LIFE OF ITS IMPLEMENTATION.

**B. ASSESSING THE PROGRAM'S IMPACT:**

DURING THE PAAD DESIGN, BASELINE DATA WILL BE COLLECTED  
ON A NUMBER OF INDICATORS WHICH WILL BE RELIED UPON OVER  
THE COURSE OF THE PROGRAM'S IMPLEMENTATION TO ASSESS  
PROGRESS IN THE ATTAINMENT OF THE PROGRAM'S OBJECTIVES.  
THESE INDICATORS BY THE THREE OBJECTIVES ARE OUTLINED  
BELOW:

**1. INCREASED AVAILABILITY OF FOREIGN EXCHANGE TO THE  
PRIVATE SECTOR, PARTICULARLY EXPORT INDUSTRIES.**

- THE ABSOLUTE AMOUNT OF FOREIGN EXCHANGE  
- AVAILABLE TO EXPORTERS HAS INCREASED AS WELL AS  
- THE AMOUNT AVAILABLE TO OTHER PRIVATE SECTOR  
- IMPORTERS.
- THE SHARE OF FOREIGN EXCHANGE GOING TO THE  
- PRIVATE SECTOR HAS INCREASED WHILE THE  
- PROPORTION TO THE PUBLIC SECTOR HAS DECLINED.
- THE NUMBER OF PRIVATE SECTOR FIRMS GAINING  
- ACCESS TO FOREIGN EXCHANGE HAS EXPANDED.

**2. ESTABLISHMENT OF A SIMPLIFIED AND STREAMLINED  
FOREIGN EXCHANGE ALLOCATION SYSTEM WHICH IS DRIVEN  
BY THE SUPPLY AND DEMAND FOR FOREIGN EXCHANGE.**

- THE NUMBER OF PROCEDURES AND STEPS AND THE  
- AMOUNT OF TIME REQUIRED TO OBTAIN EXCHANGE HAS  
- BEEN REDUCED.

-- THE TIME REQUIRED TO COMPLETE A FOREIGN EXCHANGE  
- TRANSACTION HAS BEEN REDUCED.

-- THE NUMBER OF ITEMS ON THE IMPORT LIBERALIZATION  
- LIST HAS BEEN INCREASED.

**3. REDUCTION IN THE RESTRICTIVE PROCEDURES AND  
REGULATIONS ON EXPORTERS.**

-- THE PROCESS OF REGISTRATION AS AN EXPORTER HAS  
- BEEN SIMPLIFIED AND STREAMLINED.

-- THE NUMBER OF OFFICIALLY REGISTERED EXPORTERS  
- HAS INCREASED, PARTICULARLY AMONG NONTRADITIONAL  
- EXPORTERS AND SMALL AND MEDIUM ENTERPRISES.

**C. CONDITIONS GOVERNING RELEASE OF USAID FUNDS:**

THE FIRST TRANCHE OF USDOLS 20.0 MILLION WILL BE MADE  
AVAILABLE WHEN THREE CONDITIONS ARE SATISFIED. FIRST,  
THE GOM AND THE WORLD BANK HAVE SUCCESSFULLY CONCLUDED  
NEGOTIATIONS ON THE ITPAC PROGRAM WHICH WILL PROVIDE THE  
BROAD POLICY FRAMEWORK FOR AID'S ASSISTANCE, AND THE  
PROGRAM HAS BEEN AUTHORIZED BY THE BANK'S EXECUTIVE  
BOARD. SECOND, THE RESERVE BANK OF MALAWI HAS  
ESTABLISHED THE MALAWI EXPORT REVOLVING FUND WITH AN  
OFFSHORE COMMERCIAL BANK AND HAS FINALIZED THE  
PROCEDURES FOR OPERATING AND ACCESSING THE FUND. THIRD,  
ASSURANCES HAVE BEEN PROVIDED BY THE GOM AND THE RESERVE  
BANK THAT THE FUNDS TO BE DEPOSITED IN THE MERF ACCOUNT  
WILL BE ADDITIONAL TO THE FOREIGN EXCHANGE CURRENTLY  
AVAILABLE TO THE PRIVATE SECTOR.

THE SECOND TRANCHE OF US DOLS 15.0 MILLION WILL BECOME  
AVAILABLE FOR DISBURSEMENT IN FY 1999. HOWEVER, ITS  
RELEASE TO THE MERF WILL DEPEND ON THE SATISFACTION OF  
THREE CONDITIONS. FIRST, THE ANALYSIS OF THE OPERATION  
OF THE MERF AND DEMAND FOR FOREIGN EXCHANGE BY THE

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ACTION OFFICE AFPD-04  
INFO AAF-03 AFEA-03 AFSA-03 AFDP-06 SEOP-01 FPA-02 AFEQ-02  
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PPEA-01 SEOS-02 PPDC-01 FM-02 GCOM-02 APPG-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 A3 RC06

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FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3459  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

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AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REOS/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (012-0223)

EXPORT SECTOR AS WELL AS THE SUPPLY OF FOREIGN EXCHANGE JUSTIFIES THE RELEASE OF AN ADDITIONAL USDOLS 15 MILLION TO MERF. SECOND, SIGNIFICANT PROGRESS HAS BEEN MADE IN THE ATTAINMENT OF THE PROGRAM'S THREE OBJECTIVES. THIS WILL BE DETERMINED BY A JOINT USAID AND GOM ANALYSIS OF THE CHANGES WHICH HAVE OCCURRED IN THE BASELINE DATA OVER THE FIRST YEAR OF THE PROGRAM'S IMPLEMENTATION. THE WORLD BANK WILL BE INVITED TO PARTICIPATE IN THIS REVIEW. THIRD, ASSURANCES ARE GIVEN BY THE GOM THAT THE USDOLS 15.0 MILLION WILL BE IN ADDITION TO FOREIGN EXCHANGE RESOURCES ALREADY AVAILABLE TO THE PRIVATE SECTOR.

THE MISSION WILL ESTABLISH A SEPARATE PROJECT GRANT AGREEMENT OF US DOLS 1.0 MILLION TO FINANCE TECHNICAL ASSISTANCE AND TRAINING ASSOCIATED WITH THE IMPLEMENTATION OF THE ITPAC PROGRAM. PARTICULAR EMPHASIS WILL BE GIVEN TO THE TECHNICAL ASSISTANCE AND TRAINING REQUIREMENTS OF THE RESERVE BANK OF MALAWI AND THE COMMERCIAL BANKING SYSTEM AND FOR THE DEVELOPMENT AND ESTABLISHMENT OF A MALAWI CAPITAL MARKET STRUCTURE. OTHER THAN THE REQUIREMENT THAT USAID IS FURNISHED WITH THE LIST OF AUTHORIZED REPRESENTATIVES AND SIGNATURES FROM THE GOM, NO OTHER CONDITIONS PRECEDENT TO DISBURSEMENT WILL GOVERN THE USE OF THESE FUNDS. THESE FUNDS WILL ALSO BE USED TO MONITOR AND EVALUATE THE PROGRAM, ASSESS THE SOCIAL AND ECONOMIC IMPACTS OF THE STRUCTURAL ADJUSTMENT PROGRAM AND OTHER MACROECONOMIC POLICY RELATED STUDIES.

IV. ESTABLISHMENT AND OPERATION OF THE MALAWI EXPORT REVOLVING FUND:

A. EXPORTERS'S DEMAND FOR FOREIGN EXCHANGE:

MALAWI'S TRADITIONAL EXPORTS SUCH AS TOBACCO, TEA, SUGAR AND COFFEE ARE EXPECTED TO VALUE US DOLS 250 MILLION IN 1988. THE ASSUMED IMPORT CONTENT EXCLUSIVE OF FERTILIZERS AND FUEL IS 5 PERCENT OR US DOLS 12.5 MILLION.

IN THE CASE OF NONTRADITIONAL EXPORTERS, MOST OF WHOM ARE IN THE MANUFACTURING SECTOR, THE ESTIMATED VALUE OF

EXPORTS IS USDOLS 50 MILLION. SINCE MANUFACTURING INDUSTRIES ARE MORE DEPENDENT ON IMPORTS THAN AGRICULTURAL INDUSTRIES, IT IS ASSUMED THAT 50 PERCENT OR US DOLS 25 MILLION WOULD BE REQUIRED ANNUALLY. HOWEVER, UNLIKE AGRICULTURE IN WHICH ONLY ONE CROP IS EXPORTED PER YEAR, THE MANUFACTURING SECTOR CAN ANTICIPATE ON AVERAGE AT LEAST TWO PRODUCTION CYCLES. TAKING THIS INTO ACCOUNT AND ASSUMING 100 PERCENT REPLENISHMENT OF THE MALAWI EXPORT REVOLVING FUND, THE ACTUAL ANNUAL REQUIREMENTS OF NON TRADITIONAL EXPORTERS WOULD BE USDOLS 12.5 MILLION (ONE HALF THE USDOLS 25 MILLION ANNUAL REQUIREMENT).

THUS, THE INITIAL ESTIMATES OF THE ANNUAL FOREIGN EXCHANGE REQUIREMENTS OF THE EXPORT SECTOR IS USDOLS 25 MILLION, SPLIT EQUALLY BETWEEN TRADITIONAL AND NONTRADITIONAL EXPORTERS. OF THIS AMOUNT, THE USAID PROGRAM WOULD PROVIDE USDOLS 20 MILLION IN THE FIRST YEAR. THE FUND WOULD, HOWEVER, GROW TO USDOLS 35 MILLION IN THE SECOND YEAR WHICH WOULD COVER THE CURRENT ANNUAL ESTIMATED REQUIREMENTS PLUS ANTICIPATED EXPANSION IN EXPORT INDUSTRIES.

THE RESEARCH AND STATISTICS DIVISION WITHIN THE RESERVE BANK WILL BE COMPLETING A MORE COMPREHENSIVE HISTORIC STUDY OF THE EXPORT SECTOR'S AS WELL AS PRIVATE SECTOR'S REQUIREMENTS FOR FOREIGN EXCHANGE. THIS INFORMATION WILL BE AVAILABLE FOR THE PAAD DESIGN. EXPORTERS WILL BE DIVIDED INTO TRADITIONAL AND NONTRADITIONAL ONES. THESE WILL BE FURTHER SUBDIVIDED BY THE SIZE OF THEIR ESTABLISHMENT. FOR EACH OF THESE CATEGORIES, THE TYPE AND VALUE OF GOODS IMPORTED DURING THE LAST FEW YEARS WILL BE ANALYZED. IN ADDITION TO PROVIDING JUSTIFICATION FOR THE SIZE OF THE EXPORT REVOLVING FUND, THE ANALYSIS WILL GIVE A BASELINE AGAINST WHICH TO ASSESS GROWTH IN THE EXPORT SECTOR. ALSO THIS ANALYSIS WILL BE IMPORTANT TO SETTING THE BASIS FOR MERF'S

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IMPORT ALLOCATIONS, IMPORT PAYMENTS AND EXPORT RECEIPTS. THESE INDIVIDUALS WILL WORK CLOSELY WITH PARTICIPATING DOMESTIC BANKS AND THE FOREIGN COMMERCIAL BANK.

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INFO AAF-03 AFA-03 AFSA-03 AFD-06 SEOP-01 FPA-02 AFEO-02 SERP-01 AFTR-05 SECS-02 PPPB-03 IQ-01 GC-01 GCAF-01 PPEA-01 SEOS-02 PPDC-01 FM-02 GCM-02 APPC-02 STAG-02 PPR-01 SAST-01 SEC-01 TOP-05 EG-01 STFA-01 RELO-01 TELE-01 PRE-06 /067 43 RC06

E. OPERATION OF THE FUND:

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1. REGISTRATION OF EXPORTERS:

EXPORTERS WILL BE REGISTERED WITH THE RESERVE BANK. TO FACILITATE MONITORING AND MANAGEMENT OF MERF, EACH EXPORTER WILL BE REQUIRED TO MAINTAIN ONLY ONE COMMERCIAL BANK ACCOUNT FOR ALL FOREIGN EXCHANGE TRANSACTIONS.

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FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3460  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

2. ELIGIBILITY OF EXPORTERS:

ANY EXPORTER WOULD BE ELIGIBLE TO UTILIZE THE FUND. THE ONLY REQUIREMENT IS THAT THE EXPORTER WOULD HAVE TO REGISTER WITH THE SECTION OF THE RESERVE BANK MANAGING THE FUND. IN ORDER TO ENCOURAGE EXPORT DIVERSIFICATION AND THE EXPANSION OF MALAWIAN OWNED INDUSTRIES ENGAGED IN EXPORTS, A CERTAIN PROPORTION OF THE FUND'S RESOURCES WOULD BE SET ASIDE FOR NONTRADITIONAL EXPORTERS AS WELL AS SMALL AND MEDIUM SIZED ENTERPRISES.

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FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

3. ELIGIBILITY OF IMPORTED GOODS:

THE FUND WILL FINANCE IMPORTS OF RAW MATERIALS, SPARE PARTS, AND INTERMEDIATE GOODS INCLUDING PACKAGING MATERIALS. ALL FERTILIZERS AND FOOD PRODUCTS ARE EXCLUDED. TO BE ELIGIBLE, AN IMPORTED COMMODITY MUST BE UTILIZED BY A SINGLE FIRM. THE ONLY EXCEPTION TO THIS WILL BE PACKAGING MATERIALS. IN THE INITIAL STAGES, MOST OF THE RESOURCES ARE LIKELY TO BE FOR RAW MATERIALS. OVER TIME AND AS THE FUND GROWS, THE FUND'S RESOURCES WILL FINANCE THE PURCHASE OF SPARE PARTS,

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

RESOURCES BEING ADDITIONAL FOREIGN EXCHANGE RESOURCES. THUS, THE FUNDS PROVIDED BY USAID TO MERF WILL ALLOW GOM TO INCREASE BY AN EQUAL AMOUNT THE FOREIGN EXCHANGE TO OTHER DOMESTIC IMPORTERS.

B. ESTABLISHMENT OF THE FUND:

A SEPARATE INTEREST BEARING FOREIGN EXCHANGE ACCOUNT DENOMINATED IN US DOLLS WILL be opened by the reserve BANK OF MALAWI WITH A FOREIGN COMMERCIAL BANK. THE USAID TRANCHES WILL BE CREDITED TO THIS ACCOUNT. FUNDS IN THE ACCOUNT WILL BE DIVORCED FROM THE GENERAL FOREIGN EXCHANGE POOL. IF THERE ARE OTHER DONORS INVOLVED, ACCOUNTING OF EACH DONOR'S RESOURCES WOULD BE BY A SERIES OF SEPARATE ACCOUNTS. ASSUMING USAID IS ABLE TO PROVIDE AT LEAST USDOLLS 25.0 MILLION TO MEET MINIMUM NEEDS OF THE FUND, USAID WOULD PREFER TO BE SOLE FINANCER OF THE MERF. THIS WOULD PERMIT OTHER DONORS TO SUPPORT OTHER ASPECTS OF PROGRAM.

NOTE BY OC/T: (0) OMISSION. CORRECTION TO FOLLOW.

C. GROWTH AND MAINTENANCE OF THE FUND:

INTEREST EARNINGS PLUS A PROPORTION OF THE EXPORT PROCEEDS WOULD BE USED TO MAINTAIN AT A MINIMUM THE LEVEL OF THE FUND AND PERMIT IT TO GROW OVER TIME. THERE WILL BE TWO SOURCES OF INTEREST. THE FIRST WILL BE THE INTEREST EARNED ON THE ACCOUNT ITSELF. THE SECOND WILL BE THE INTEREST CHARGED THE EXPORTER BY THE FOREIGN COMMERCIAL BANK FOR SUPPLIER LETTERS OF CREDIT WHICH ARE NOT FULLY BACKED BY LOCAL CURRENCY HELD BY THE EXPORTER'S MALAWIAN BANK. INTEREST EARNINGS AND THE SHARE OF THE PROCEEDS FROM THE EXPORT CREDITED TO THE FUND WILL BE HELD IN A SEPARATE ESCROW ACCOUNT.

D. MANAGEMENT OF THE FUND:

THE MERF WILL BE MANAGED BY THE EXPORT SECTION IN THE EXCHANGE CONTROL DEPARTMENT OF THE RESERVE BANK OF MALAWI. IT WILL BE HEADED BY A MANAGER WHO WILL REPORT DIRECTLY TO THE ASSISTANT GENERAL MANAGER FOR THE EXCHANGE CONTROL DEPARTMENT. IN ADDITION TO THE MANAGER, THERE WILL BE SEVEN OTHER MEMBERS OF STAFF WHO WILL HAVE RESPONSIBILITY FOR OVERSEEING AND MONITORING

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PAGE 01 LILONG 01839 11 OF 18 061533Z 1835 036474 A105289  
ACTION AID-00

LILONG 01839 11 OF 18 061533Z 1835 036474 A1052  
OF THE RESOURCES IN MERF.

ACTION OFFICE AFPO-04  
INFO AAAP-03 AFEA-03 AFSA-03 AFOP-06 SEOP-01 FPI-02 AFEO-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPDC-01 FM-02 GCCM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TDP-05 ES-01 STFA-01 RELO-01  
TELE-02 PRE-06 /068 A1 NS-8

INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 (AS-01 AID-00)  
/000 W

-----115326 081525Z /41 38

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3461  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 11 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PU, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: M/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

REPLACEMENT EQUIPMENT AND EQUIPMENT FOR EXPANSION. CARE WILL BE EXERCISED TO ENSURE THAT MERF ALLOCATIONS ARE MADE ONLY FOR THE PROCUREMENT OF ITEMS THAT CANNOT BE SOURCED LOCALLY. END USER CHECKS WILL ALSO BE MADE TO DETERMINE THAT THE IMPORTED GOODS ARE NOT BEING SOLD TO OTHER COMPANIES. WHILE EMPHASIS WILL BE ON THE MANUFACTURE OF GOODS FOR EXPORT, EXPORTERS WHO ALSO SATISFY THE DOMESTIC MARKET WILL BE PERMITTED TO UTILIZE THE FUND, PROVIDED THE GOODS IMPORTED ARE 50 PERCENT OR LESS OF THE VALUE OF THE GOODS MANUFACTURED FOR EXPORT.

APPLICATIONS TO THE FUND WILL BE FOR BOTH OUTSTANDING AND NEW EXPORT ORDERS. AN ALLOCATION OF FOREIGN EXCHANGE WILL BE GRANTED UP TO A PROPOSED 50 PERCENT OF THE VALUE OF THE MANUFACTURED GOODS FOR EXPORT. THE ACTUAL PROPORTION WILL DEPEND ON THE ANALYSIS OF FOREIGN EXCHANGE USES AND EARNINGS OF EXPORT FIRMS AND THE REVIEW OF THE RISK ASSOCIATED WITH NONPERFORMANCE OR DEFAULT BY THE EXPORTER.

4. APPLICATION AND APPROVAL PROCESS:

EXPORTERS WILL APPLY FOR AN ALLOCATION UNDER THE MERF THROUGH THEIR OWN COMMERCIAL BANKS. THE BANK WILL REVIEW AND EVALUATE THE FINANCIAL VIABILITY OF THE APPLICATION. EACH APPLICATION WILL CONSIST OF A COPY OF THE EXPORT ORDER SHOWING ITS VALUE, TERMS AND METHOD OF PAYMENT, A LIST OF GOODS TO BE IMPORTED, PROFORMA INVOICE FOR THE GOODS TO BE IMPORTED AND A CERTIFICATION FROM THE EXPORTER THAT THE IMPORTED GOODS DO NOT CONSTITUTE MORE THAN 50 PERCENT OF THE MANUFACTURED ITEM AND THAT THE EXPORT PROCEEDS WILL BE REALIZED WITHIN 180 DAYS OF RECEIPT OF THE IMPORTED GOODS.

THE BANK WILL CERTIFY APPROVAL OF THE APPLICATION AND FORWARD IT TO EXCHANGE CONTROL. THE MERF STAFF IN EXCHANGE CONTROL WILL CHECK THE APPLICATION TO ENSURE ITS CONFORMITY TO THE REQUIREMENTS OF THE PROGRAM. EXCHANGE CONTROL WILL NOTIFY THE FOREIGN COMMERCIAL BANK AND THE EXPORTER'S DOMESTIC BANK TO OPEN A LETTER OF CREDIT FOR THE IMPORT OF THE GOODS. ESSENTIALLY, THE ROLE OF EXCHANGE CONTROL IS TO REVIEW AND TRACK THE USE

5. PAYMENT PROCEDURES:

BANK LETTERS OF CREDIT WILL BE THE METHOD OF PAYMENT USED BOTH BY THE FOREIGN COMMERCIAL BANK TO PAY THE SUPPLIERS OF IMPORTED GOODS AND BY THE FOREIGN BUYER'S BANK TO EFFECT PAYMENT FOR THE EXPORTED GOODS. THE RESERVE BANK HAS INDICATED THAT IT BELIEVES THAT ONE OF THE CONDITIONS FOR ACCESS TO MERF FOR ESTABLISHED EXPORTERS SHOULD BE THE WILLINGNESS OF THE FOREIGN BUYER TO MAKE PAYMENT BY A BANK LETTER OF CREDIT. THIS WILL MINIMIZE THE RISK OF NONPAYMENT. FOR NEW EXPORTERS AND ONES WITHOUT ESTABLISHED TRACK RECORDS, PAYMENT WOULD BE BY CHECK UPON RECEIPT OF GOODS BY THE BUYER.

THE EXPORT FIRM MAY ELECT ONLY TO PUT UP A PERFORMANCE BOND AT THE TIME THE APPLICATION IS APPROVED. HOWEVER, IN THIS CASE, INTEREST WILL BE ASSESSED ON THE LETTER OF CREDIT FROM THE TIME PAYMENT IS MADE UNTIL RECEIPT OF PROCEEDS FROM THE SALE OF THE EXPORT. IN THIS CASE, THE LETTER OF CREDIT CONSTITUTES A FOREIGN EXCHANGE LOAN TO THE EXPORTER. ON THE OTHER HAND, THE EXPORTER CAN AVOID INTEREST CHARGES BY DEPOSITING WITH ITS COMMERCIAL BANK THE FULL KWACHA EQUIVALENT OF THE LETTER OF CREDIT BEFORE OR AT THE TIME PAYMENT IS MADE BY THE FOREIGN COMMERCIAL BANK. THE ALTERNATIVE SELECTED WILL LARGELY BE UP TO THE FIRM.

6. A HYPOTHETICAL EXAMPLE OF HOW MERF WILL OPERATE: TO BETTER UNDERSTAND HOW MERF WILL FUNCTION, IT MIGHT BE USEFUL TO CONSIDER A HYPOTHETICAL EXAMPLE. DW TEXTILES LIMITED (A MAJOR MALAWIAN TEXTILE MANUFACTURER) HAS RECEIVED AN ORDER FROM A MAJOR CLOTHING MANUFACTURER IN THE USA. THE ORDER IS WORTH US\$0.5 MILLION. TO COMPLETE THE ORDER, IT MUST IMPORT DOLS 0.5 MILLION IN DYES AND SYNTHETIC FIBERS FROM THE USA. THE USA MANUFACTURER HAS AGREED TO MAKE PAYMENT TO DW TEXTILES

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PAGE 01 LILONGWE 01839 12 OF 18 061534Z 8663 035190 AID2736  
ACTION AID-00

LILONGWE 01839 12 OF 18 061534Z 8663 035190 AID2736  
NATIONAL BANK OF MALAWI THE KWACHA EQUIVALENT OF USDOLS  
1.50 MILLION.

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ACTION OFFICE AFPO-04  
INFO AAAP-03 AFPA-03 AFPA-03 AFPA-06 SEOP-01 FPA-02 AFEO-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPDC-01 FM-02 GCOM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 43 RC06  
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INFO LOG-00 AF-00 CIAE-00 EB-00 OODE-00 /000 W  
-----332226 061545Z /41 JB

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3462  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 12 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

LTD. BY A BANK LETTER OF CREDIT.

DW TEXTILES AS A REGISTERED EXPORTER SUBMITS ITS APPLICATION TO THE NATIONAL BANK OF MALAWI. THE NATIONAL BANK ANALYZES THE APPLICATION AND CERTIFIES IT FOR ACCESS TO MERF. THE APPLICATION IS SENT TO THE MERF STAFF IN THE EXPORT SECTION OF THE EXCHANGE CONTROL DEPARTMENT IN THE RESERVE BANK OF MALAWI. THE MERF STAFF REVIEWS AND RECORDS THE APPLICATION. THE FOREIGN EXCHANGE DEPARTMENT IS NOTIFIED TO INSTRUCT THE FOREIGN COMMERCIAL BANK AND THE LOCAL BANK TO ESTABLISH TWO LETTERS OF CREDIT. ONE LETTER OF CREDIT IS TO THE SUPPLIER OF THE DYE AND THE OTHER TO THE SUPPLIER OF THE SYNTHETIC YARN. IN ADDITION, THE USA MANUFACTURER IS ADVISED TO ESTABLISH A LETTER OF CREDIT TO COVER PAYMENT OF ITS EXPORT ORDER WITH DW TEXTILES. DW TEXTILES ELECTS TO COVER THE COST OF THE IMPORTS WITH THE FULL DEPOSIT OF THE LOCAL CURRENCY EQUIVALENT OF ITS IMPORT ORDERS PLUS BANKING CHARGES.

AFTER 60 DAYS, DW TEXTILES RECEIVES BOTH IMPORTED ITEMS. THE FOREIGN COMMERCIAL BANK MAKES PAYMENT TO THE TWO USA SUPPLIERS, AND DW TEXTILES' ACCOUNT WITH THE NATIONAL BANK OF MALAWI IS DEBITED THE MALAWI KWACHA EQUIVALENT. THE CLOTH IS MANUFACTURED AND EXPORTED WITHIN 110 DAYS AND IS RECEIVED BY THE USA MANUFACTURER AFTER A FURTHER 40 DAYS. PAYMENT OF USDOLS 1.5 MILLION IS MADE THROUGH THE LETTER OF CREDIT TO THE MERF ACCOUNT WITH THE FOREIGN COMMERCIAL BANK. SINCE DW TEXTILES FULLY COVERED THE VALUE OF THE TWO LETTERS OF CREDIT FOR THE IMPORTED RAW MATERIALS, THE FOREIGN COMMERCIAL BANK ONLY DEDUCTS THE USDOLS 0.5 MILLION FOR THE COST OF THE RAW MATERIALS PLUS AN ADDITIONAL NOMINAL AMOUNT FOR BANKING CHARGES ASSOCIATED WITH HANDLING THE L/C.

THE USDOLS 0.5 MILLION IS RETURNED TO MERF AND IS AVAILABLE FOR REALLOCATION TO OTHER EXPORTERS. A SHARE OF THE REMAINING APPROXIMATELY USDOLS 1.0 MILLION IS PLACED IN AN FOREIGN EXCHANGE ESCROW ACCOUNT TO MAINTAIN CAPITALIZATION OF THE FUND AND TO PERMIT IT TO GROW OVER TIME. THE NET BALANCE BECOMES A PART OF THE RESERVE BANK'S GENERAL POOL OF FOREIGN EXCHANGE. THE RESERVE BANK OF MALAWI CREDITS DW TEXTILES' ACCOUNT WITH THE

7. USE OF MERF RESOURCES AT END OF PROGRAM

THE MERF IS ESSENTIALLY AN INTERIM MECHANISM FOR STIMULATING MALAWI'S EXPORT SECTOR. ONCE THE FOREIGN EXCHANGE ALLOCATION SYSTEM HAS BEEN LIBERALIZED THE NEED FOR THE MERF WILL HAVE ENDED. AT THAT TIME, THE MERF FUNDS WOULD BE RELEASED TO THE GENERAL POOL OF FOREIGN EXCHANGE.

F. COUNTERPART FUNDS AND THEIR USE:

THE RESERVE BANK OF MALAWI WILL OPEN A KWACHA COUNTERPART ACCOUNT IN ITS BANKING DEPARTMENT. AS USAID DEPOSITS OF USDOLS ARE MADE INTO THE MERF ACCOUNT WITH THE FOREIGN COMMERCIAL BANK, THE EQUIVALENT IN KWACHA AT THE HIGHEST LEGAL EXCHANGE RATE ON THE DAY OF DEPOSIT WILL BE MADE INTO THE SPECIAL COUNTERPART ACCOUNT. THE RESERVE BANK AND THE USAID MISSION PREFER THIS METHOD OF GENERATING LOCAL CURRENCY RATHER THAN RELYING ON THE PAYMENT OF LOCAL CURRENCY BY THE MALAWIAN EXPORTER AT THE TIME PAYMENT IS MADE FOR THE IMPORTED ITEMS.

NINETY PERCENT OF THE FUNDS WOULD FINANCE THE EXPANSION OF COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR INCLUDING FURTHER LOAN FUNDS FOR ONLENDING BY INDEBANK, INDEFUND AND SEDOM TO PRIVATE BUSINESSES. THIS LENDING PROGRAM WOULD PLACE EMPHASIS ON THE EXPANSION OF SMALL AND MEDIUM ENTERPRISES AND ATTEMPT TO BUILD A CLOSER TIE BETWEEN THE COMMERCIAL BANKING SYSTEM AND THESE FINANCIAL INSTITUTIONS. THESE FUNDS WOULD ALSO CONSTITUTE A COMMERCIAL BANK RESOURCE WHICH POTENTIAL INVESTORS COULD ACCESS TO PAY EQUITY SHARES IN THE VARIOUS COMPANIES BEING DIVESTED UNDER THE ADMARC DIVESTITURE PROGRAM OR OTHER SIMILAR PROGRAMS INITIATED

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ACTION AID-00

LILONG 01839 13 OF 18 061535Z 8666 035193 A1027

ACTION OFFICE AFPO-04  
INFO 4AAF-03 AFEA-03 AFSA-03 AFOP-06 SEOP-01 FPA-02 AFEO-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPDC-01 FM-02 GCCH-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TDP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 AJ RC06

COMPONENT OF THE RESERVE BANK'S OWN TRACKING OF THE SUCCESS OF THE PROGRAM AND WILL BE USED TO MODIFY AND FINE-TUNE THE SYSTEM. THE SECOND WILL BE PERIODIC INFORMATION ON THESE INDICATORS FURNISHED BY THE RESERVE BANK OF MALAWI, THE MINISTRY OF FINANCE, THE NATIONAL STATISTICS OFFICE, THE COMMERCIAL BANKS AND THE PUBLIC RECORDS OF CERTIFIED PUBLIC ACCOUNTING FIRMS.

INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W  
-----JJ2255 061546Z /41 38

SPECIFIC EXAMPLES OF THE DATA TO BE COLLECTED AND ANALYZED DURING THE DESIGN AND MONITORING PROCESS ARE:

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3463  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

1. AN ENUMERATION OF THE NUMBER AND TYPES OF FIRMS INVOLVED IN THE EXPORT SECTOR. THIS WILL INCLUDE THE COMMODITIES AND THEIR VALUE OF EXPORTS. THE FIRMS WILL BE CLASSIFIED BY THE SIZE OF ESTABLISHMENT AS MEASURED BY THE NUMBER OF EMPLOYEES AND ITS NET WORTH AND WHETHER THEY ARE INVOLVED IN TRADITIONAL OR NONTRADITIONAL EXPORTS.

UNCLAS SECTION 13 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PO, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

2. A HISTORICAL ANALYSIS OF THE AMOUNT OF FOREIGN EXCHANGE AVAILABLE TO THE PRIVATE SECTOR OVER THE PAST FEW YEARS. THIS INFORMATION WILL BE DIVIDED BETWEEN EXPORT AND NON-EXPORT FIRMS AND INDUSTRIES. FOR THOSE FIRMS INVOLVED IN EXPORTS, THE TYPOLOGY DEVELOPED ABOVE WILL BE USED TO ASSESS FOREIGN EXCHANGE DEMAND BY TRADITIONAL AND NONTRADITIONAL EXPORTS.

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

3. THE RECENT EXPERIENCE OF EXPORTERS WILL BE ANALYZED. THIS WILL CONSIST OF A REVIEW OF THE APPLICATIONS MADE FOR FOREIGN EXCHANGE. THE NUMBER APPROVED, THE AMOUNT OF TIME REQUIRED TO GAIN APPROVAL, THE TIME BETWEEN APPROVAL AND ARRIVAL OF GOODS, THE TIME BETWEEN RECEIPT OF GOODS AND CONSUMPTION OF THE EXPORT ORDER AND THE TIME REQUIRED FOR THE SUPPLIER OF THE IMPORTED COMMODITY TO RECEIVE PAYMENT BY THE RESERVE BANK.

IN THE FUTURE. ALSO FUNDS WOULD GO TOWARD THE STRENGTHENING OF BUSINESS AND TECHNICAL ADVISORY SERVICES AND ENTREPRENEURIAL TRAINING BY DEMATT, INDEFUND, SEOM AND MEDI (MALAWI ENTERPRISES DEVELOPMENT INSTITUTION).

THE USAID MISSION WILL REQUEST THAT 10 PERCENT OF THE FUNDS BE PLACED IN A TRUST FUND ACCOUNT FOR USE BY THE MISSION IN MEETING SOME OF ITS KWACHA EXPENSE REQUIREMENTS IN MALAWI E.G. HOUSING AND OFFICE OPERATIONS.

V. PROGRAM MONITORING AND MANAGEMENT:

A. MONITORING REQUIREMENTS:

MONITORING AND TRACKING PROGRESS TOWARD THE ATTAINMENT OF THE PROGRAM'S OBJECTIVES ARE IMPORTANT COMPONENTS OF THE PROGRAM. HOWEVER, IN ESTABLISHING MONITORING PROCEDURES SEVERAL FACTORS HAVE BEEN TAKEN INTO ACCOUNT. FIRST, THE USAID PROGRAM IS AN INTEGRAL COMPONENT OF THE LARGER ITPAC PROGRAM. THUS, ANY SYSTEM DEVELOPED MUST COMPLEMENT THE APPROACH TAKEN IN ITPAC AND INVOLVE CLOSE COLLABORATION WITH THE WORLD BANK AND OTHER BILATERAL DONORS WHICH EVENTUALLY BUY INTO THE PROGRAM. SECOND, EVEN WITH THE PLANNED INCREASES IN THE MISSION'S STAFF, EACH PROJECT OFFICER WILL BE HANDLING LARGE PORTFOLIOS OF ACTIVE PROJECTS OR PROGRAMS. THUS, THE SYSTEM NEEDS TO CONCENTRATE ON INFORMATION AND DATA ANALYSIS WHICH ARE ESSENTIAL FOR MEASURING PROGRESS WHILE MINIMIZING THE AMOUNT OF MISSION STAFF TIME REQUIRED. THIRD, OWNERSHIP OF THE PROGRAM RESTS WITH THE GOM AND THE RESERVE BANK OF MALAWI. THEREFORE, IT IS ESSENTIAL THAT THEY PLAY A LEADING ROLE IN THE ANALYSIS AND EVALUATION OF PROGRESS AND THAT THE SYSTEM RELY ON DATA WHICH IS RELATIVELY EASY FOR IT TO COMPILE AND ACCESS.

THE MONITORING SYSTEM WILL MAKE USE OF TWO TYPES OF DATA. THE FIRST WILL BE DATA COLLECTED DURING THE PAAD DESIGN ON THE KEY INDICATORS. THESE DATA WILL FORM THE BASELINE AGAINST WHICH PROGRESS WILL BE MEASURED IN THE SECOND YEAR. ALSO THIS INFORMATION WILL BE AN IMPORTANT

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ACTION AID-00

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ACTION OFFICE AFPD-04  
INFO AAAF-03 AFEA-03 AFSA-03 AFDP-06 SEOP-01 FPA-02 AFEO-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEDS-02 PPOC-01 FM-02 GCM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 AJ RC06  
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INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 /000 W  
-----332274 061547Z /40 38

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3464  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 14 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PO, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

4. AN ASSESSMENT OF THE PROCEDURES AND PROCESS FOR  
FOREIGN EXCHANGE APPROVALS. THIS WILL INCLUDE AN  
OUTLINE OF THE STEPS AND PROCESS AND WILL BE RELATED  
TO THE TIME ANALYSIS IN SECTION 3 ABOVE.

5. ONCE THE MERF IS OPERATIONAL THE FOLLOWING  
ADDITIONAL DATA WILL BE ROUTINELY COMPILED BY THE  
RESERVE BANK FROM INFORMATION SUPPLIED BY THE  
FOREIGN AND LOCAL COMMERCIAL BANKS INVOLVED IN THE  
PROGRAM:

- A. FINANCIAL STATEMENTS ON THE FUND AND ALL ESCROW  
- ACCOUNTS ASSOCIATED WITH IT. THIS WILL INCLUDE  
- RECEIPTS, DISBURSEMENTS AND REFLOWS.
- B. TYPES AND VALUES OF GOODS BEING IMPORTED THROUGH  
- THE FUND.
- C. INFORMATION ON PAYMENT PROCEDURES BEING UTILIZED  
- BY TYPE OF EXPORTER.
- D. TYPES AND VALUES OF GOODS BEING EXPORTED  
- THROUGH THE FUND.
- E. NUMBER AND TYPE OF APPLICATIONS BEING HANDLED  
- BY THE FUND, CLASSIFIED BY TYPE OF EXPORTER.

THE PAID DESIGN TEAM WILL EXPLORE WITH THE GOM WHICH OF  
THESE DATA WILL BE PROVIDED QUARTERLY AND  
SEMI-ANNUALLY. FOR EXAMPLE, FINANCIAL STATEMENTS WILL  
BE NEEDED QUARTERLY, BUT DETAILS OF THE ALLOCATION  
PROCESS ONLY EVERY SIX MONTHS.

THE ANALYSIS OF THIS DATA WILL BE THE BASIS ON WHICH  
USAID WILL MAKE THE DISBURSEMENT OF THE SECOND TRANCHE  
IN FY 1989. THIS ANALYSIS WILL EXAMINE PROGRESS TOWARD  
THE ATTAINMENT OF THE PROGRAM'S OBJECTIVES AND THE  
GROWTH IN THE DEMAND FOR FOREIGN EXCHANGE. IF PROGRESS  
HAS BEEN SATISFACTORY AND THE DEMAND FOR THE FOREIGN  
EXCHANGE RESOURCES JUSTIFIES THE RELEASE OF THE USAID  
FUNDS, THE USAID MISSION DIRECTOR WILL APPROVE THE  
DISBURSEMENT OF THE FUNDS TO THE MERF.

B. MANAGEMENT REQUIREMENTS:

FOR THE GOM, OVERALL RESPONSIBILITY WILL RESIDE IN THE  
TREASURY, MINISTRY OF FINANCE. HOWEVER, THE DAY TO DAY  
OPERATION OF THE FUND WILL BE THE RESPONSIBILITY OF THE  
RESERVE BANK OF MALAWI IN COLLABORATION WITH THE  
COMMERCIAL BANKS.

WITHIN THE USAID MISSION, THE PROGRAM WILL BE MANAGED BY  
THE RECENTLY ESTABLISHED PROGRAMMING, ANALYSIS AND  
EVALUATION OFFICE HEADED BY THE PROGRAM OFFICER. THIS  
OFFICE WHEN FULLY STAFFED WILL CONSIST OF THE PROGRAM  
OFFICER (USDH), THE ECONOMIST (USDH), THE EVALUATION  
OFFICER (US OR FSN PSC), SOCIOLOGIST (US OR FSN PSC),  
THE LIBRARIAN (US PSC), TWO PROGRAM ASSISTANTS (FSN PSC)  
AND TWO SECRETARIES (FSN PSC).

THE ECONOMIST, WITH THE SUPPORT OF THE PROGRAM OFFICER  
AND SOCIOLOGIST, WILL HAVE PRIMARY RESPONSIBILITY FOR  
THE PROGRAM AS WELL AS THE OTHER ACTIVE ECONOMIC POLICY  
REFORM PROGRAM, THE AOMARC PARASTATAL DIVESTITURE  
(612-0227). THE ROLE OF THE SOCIOLOGIST WILL BE TO  
MONITOR THE SOCIAL AND DISTRIBUTION IMPACTS OF THE  
STRUCTURAL ADJUSTMENT PROGRAM IN GENERAL AND TO ALERT  
THE USAID MISSION AND GOM OF ANY MAJOR ADVERSE EFFECTS.

A PROGRAM IMPLEMENTATION COMMITTEE CHAIRED BY THE  
MINISTRY OF FINANCE WILL BE FORMED. THE COMMITTEE WILL  
MEET AT LEAST QUARTERLY TO REVIEW IMPLEMENTATION OF THE  
PROGRAM. THE COMMITTEE WILL CONSIST OF REPRESENTATIVES  
FROM USAID, THE RESIDENT WORLD BANK MISSION, THE  
DEPARTMENT OF ECONOMIC PLANNING AND DEVELOPMENT, THE  
RESERVE BANK OF MALAWI AND THE COMMERCIAL BANKS. THE  
COMMITTEE WILL ENSURE THE FLOW OF DATA AND INFORMATION  
NEEDED TO ASSESS PROGRESS. THE COMMITTEE WILL CONDUCT A  
THOROUGH REVIEW OF PROGRESS PRIOR TO THE RELEASE OF THE  
SECOND TRANCHE AND ITS REPORT AND RECOMMENDATIONS WILL

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ACTION AID-00

LILONG 01839 15 OF 18 061537Z 8681 035205 AID2790

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ACTION OFFICE AFPD-04  
INFO AAFA-03 AFEA-03 AFSA-03 AFDP-06 SEOP-01 FPA-02 AFEQ-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPDC-01 FM-02 GCOM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 43 RC06  
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INFO LOG-00 AF-00 CIAE-00 EB-00 DOOE-00 /000 W  
-----332370 061550Z /41 38

O 061442Z APR 88  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC IMMEDIATE 3465  
INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

UNCLAS SECTION 15 OF 18 LILONGWE 01839

AIDAC

FOR AFR/PO, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

BE AN IMPORTANT INPUT INTO THE MISSION DIRECTOR'S  
DETERMINATION THAT SIGNIFICANT PROGRESS HAS BEEN MADE.

VI. RELATIONSHIP TO USAID/MALAWI'S STRATEGY AND  
COORDINATION WITH OTHER DONORS:

A. RELATIONSHIP TO USAID/MALAWI'S STRATEGY:

THE MISSION'S STRATEGY IS BUILT AROUND FOUR DEVELOPMENT  
PROBLEM AREAS. THESE ARE: (1) LOW PER CAPITA INCOME DUE  
TO LOW SMALLHOLDER AGRICULTURAL PRODUCTIVITY AND LIMITED  
OFF-FARM EMPLOYMENT OPPORTUNITIES; (2) LIMITED HUMAN  
RESOURCES AND INSTITUTIONAL CAPACITY TO SUPPORT  
DEVELOPMENT; (3) HIGH MORTALITY, MORBIDITY AND  
POPULATION RATES; AND (4) ACUTE SHORTAGES OF FINANCIAL  
RESOURCES. MERF AND THE ITPAC PROGRAM WILL HAVE AN  
IMPACT ON THREE OF THESE STRATEGIC AREAS. THE MOST  
IMPORTANT WILL BE THE INCREASE IN THE FOREIGN EXCHANGE  
RESOURCES AVAILABLE TO MALAWI. THIS WILL EASE  
INFLATIONARY PRESSURES AND PROVIDE A NET INCREASE IN  
FINANCIAL RESOURCES TO SUPPORT ECONOMIC GROWTH.  
FURTHERMORE, BY DIRECTING THE FOREIGN EXCHANGE RESOURCES  
TO THE PRIVATE EXPORT SECTOR AND SIMPLIFICATION OF THE  
FOREIGN EXCHANGE ALLOCATION SYSTEM, MERF WILL BE A  
STIMULUS TO EXPANSION OF EMPLOYMENT AND INDUSTRIAL  
GROWTH. THE LOCAL CURRENCY RESOURCES WILL COMPLEMENT  
THE FOREIGN EXCHANGE RESOURCES BY BOOSTING INVESTMENTS  
IN SMALL AND MEDIUM ENTERPRISES AND CREATING GREATER  
ACCESS TO INVESTMENT CAPITAL RESOURCES. ALSO THE US  
DOLS 1.0 MILLION SET ASIDE FOR TECHNICAL ASSISTANCE AND  
TRAINING WILL BE UTILIZED TO STRENGTHEN THE MANAGEMENT  
AND ALLOCATION OF FOREIGN EXCHANGE, IN PARTICULAR, AND  
THE BANKING AND CAPITAL MARKET SYSTEM IN GENERAL. THUS,  
THIS WILL CONTRIBUTE TO THE DEVELOPMENT OF HUMAN CAPITAL  
AND INSTITUTIONAL CAPACITY IN THIS SECTOR OF THE  
ECONOMY. WITH THE EXPANSION OF THE ECONOMY WHICH WILL  
RESULT FROM THE ITPAC PROGRAM, THE GOM WILL BE IN A  
BETTER POSITION TO FINANCE THE DEVELOPMENT AND EXPANSION  
OF SOCIAL SECTOR SERVICES SUCH AS HEALTH, THEREBY  
LESSENING THE IMPACTS OF STRUCTURAL ADJUSTMENT ON THESE  
AREAS. THIS IS REGARDED AS AN IMPORTANT INDIRECT EFFECT  
OF THIS PROGRAM. IN SUMMARY, THE PROGRAM IS VERY MUCH  
RELATED TO THE MAJOR STRATEGIC AREAS OF THE USAID

PROGRAM.

B. DONOR COLLABORATION:

DONORS OTHER THAN THE WORLD BANK, IMF AND USAID WHO HAVE  
BEEN INVOLVED IN THE STRUCTURAL ADJUSTMENT PROGRAM SINCE  
ITS BEGINNING IN THE EARLY 1980'S HAVE INCLUDED THE  
BRITISH, JAPANESE, GERMANS AND EEC. THOSE MOST ACTIVE  
IN THE POLICY DIALOGUE WITH THE GOM HAVE BEEN THE  
BRITISH, GERMANS AND EEC. THE OTHER DONORS HAVE LARGELY  
RELIED ON COFINANCING THE STRUCTURAL ADJUSTMENT PROGRAM  
AND THE WORLD BANK TO CARRY OUT THE POLICY DIALOGUE WITH  
THE GOM.

THE WORLD BANK PLANS TO COMMIT USDOLS 85.0 MILLION OF  
IDA MONIES TO THE TOTAL ANTICIPATED USDOLS 175.0 MILLION  
ITPAC FUNDING PACKAGE. AT THE PRESENT TIME, USAID IS  
THE MAIN BILATERAL DONOR WHICH HAS INDICATED AN INTEREST  
IN SUPPORTING THE NEW ITPAC PROGRAM. TO COMPLETE THE  
ITPAC FUNDING PACKAGE, THE WORLD BANK IS ANTICIPATING  
CO-FINANCING FROM THE FOLLOWING DONORS:

- JAPAN: USDOLS 30.0 MILLION UNDER THE SPECIAL PROGRAM  
FOR DEBT-DISTRESSED COUNTRIES
- EEC: USDOLS 12.0 MILLION
- AFRICAN DEVELOPMENT BANK: USDOLS 12.0 MILLION
- NETHERLANDS: USDOLS 3.0 MILLION

THE COLLABORATIVE WORKING RELATIONSHIP WHICH HAS  
CHARACTERIZED THE STRUCTURAL ADJUSTMENT PROGRAM TO DATE  
WILL CONTINUE DURING THE IMPLEMENTATION OF ITPAC. USAID  
WILL INVOLVE THE WORLD BANK IN THE IMPLEMENTATION  
REVIEWS AND THE ANALYSIS OF PROGRESS INDICATORS  
ASSOCIATED WITH THE MERF PROGRAM. LIKEWISE, THE WORLD

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MINISTRY OF FINANCE, THE DEPARTMENT OF ECONOMIC  
PLANNING AND DEVELOPMENT, THE RESERVE BANK OF MALAWI  
AND THE NATIONAL STATISTICS OFFICE. THE  
INTERNATIONAL BANKING EXPERT WILL WORK CLOSELY WITH  
THE RESERVE BANK OF MALAWI, THE MALAWIAN COMMERCIAL  
BANKS AND FINANCIAL INSTITUTIONS, AND INTERNATIONAL  
BANKS ON THE DESIGN, DEVELOPMENT AND OPERATION OF  
THE MALAWI EXPORT REVOLVING FUND.

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ACTION OFFICE AFPD-64  
INFO AAAF-03 AFEA-03 AFSA-03 AFDP-06 SEOP-01 FPA-02 AFEO-02  
SERP-01 AFTR-05 SECS-02 PPPB-02 IG-01 GC-01 GCAF-01  
PPEA-01 SEOS-02 PPOC-01 FM-02 GCGM-02 APPC-02 STAG-02  
PPR-01 SAST-01 SEC-01 TOP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /867 A3 RC06  
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O #61442Z APR 88  
FM AMEMBASSY LILONGWE  
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AMEMBASSY HARARE

IN ADDITION TO THESE INDIVIDUALS, THE MISSION WOULD WISH  
TO HAVE CONSULTATIONS WITH SOUTHERN AFRICA REGIONAL  
PROGRAM STAFF WORKING ON THE DEVELOPMENT OF THE SARP  
EXPORT REVOLVING FUND. THESE CONSULTATIONS WOULD BE  
ESSENTIAL TO THE DESIGN OF BOTH PROGRAMS. IT IS  
PROPOSED THAT THESE CONSULTATIONS TAKE PLACE IN LILONGWE  
IN JUNE 1988.

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AIDAC

FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

ASSUMING A FIVE WEEK DESIGN EFFORT, THE MISSION WILL  
REQUIRE US DOLS 25,000 IN PD AND S FUNDS FOR THE TWO  
CONTRACT PERSONS. THIS WILL COVER SALARIES, TRAVEL COST  
AND PER DIEM AND THE RENTAL OF A VEHICLE IN MALAWI. IF  
THE USOM ECONOMIST IS PROVIDED BY USAID/WASHINGTON, THE  
MISSION WILL NEED AN INCREASE OF US DOLS 6,000 IN ITS  
OPERATING EXPENSE TRAVEL BUDGET TO COVER THIS  
INDIVIDUAL'S TRAVEL AND PER DIEM.

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

B. PAAD DEVELOPMENT SCHEDULE AND ISSUES:

BANK WILL INCLUDE USAID IN ITS OWN DIALOGUE WITH THE GOM  
ON THE LARGER ITPAC PROGRAM AND ITS PERIODIC REVIEW  
MISSIONS ONCE ITPAC IS UNDERWAY.

1. PRE-PAAD DESIGN ACTIVITIES:

VII. PAAD DEVELOPMENT AND AUTHORIZATION:

A. DESIGN REQUIREMENTS:

BEFORE THE COMMENCEMENT OF THE PAAD DESIGN IN MID  
MAY, SEVERAL RELEVANT STUDIES WILL HAVE BEEN  
COMPLETED BY THE SOUTHERN AFRICA REGIONAL PROGRAM  
OFFICE IN HARARE. THESE STUDIES ARE BEING DONE IN  
CONJUNCTION WITH THE PREPARATION OF THE REGIONAL  
EXPORT REVOLVING FUND PAIP. THE ONES WHICH WILL BE  
USEFUL IN THE DESIGN OF THE MERF INCLUDE THE

ASSUMING AN APRIL 1988 APPROVAL TO PROCEED WITH PAAD  
DESIGN, THE MISSION PROPOSES TO FIELD THE PAAD DESIGN  
TEAM IN MID MAY. THE DESIGN TEAM WOULD CONSIST OF THE  
FOLLOWING PERSONNEL DRAWN FROM A COMBINATION OF USAID  
AND CONTRACTOR PERSONNEL.

1. TEAM LEADER WOULD BE THE ASSISTANT MISSION DIRECTOR  
WITH THE ASSISTANCE OF THE PROGRAM OFFICER. THE  
TEAM LEADER WILL BE RESPONSIBLE FOR OVERSEEING THE  
BASELINE SURVEY WORK WHICH WOULD OCCUR PRIOR TO THE  
ARRIVAL OF THE PAAD TEAM AND THE DEVELOPMENT OF THE  
PAAD OUTLINE. DURING THE DESIGN ITSELF, THE TEAM  
LEADER WOULD DIRECT AND MANAGE THE DEVELOPMENT OF  
THE PAAD INCLUDING THE PROCESS OF POLICY DIALOGUE  
WITH THE GOM AND OTHER DONORS.
2. USAID ECONOMIST WOULD HAVE RESPONSIBILITY FOR  
DIRECTING THE WORK OF THE CONTRACT MACROECONOMIST  
AND INTERNATIONAL BANKING EXPERT. USING THE VARIOUS  
ANALYSES PROVIDED BY THESE TWO CONTRACT PERSONNEL,  
THE ECONOMIST WOULD PREPARE THE MACROECONOMIC  
SECTION, THE ANALYSIS OF THE DEMAND FOR FOREIGN  
EXCHANGE, THE OPERATION OF MERF AND OTHER RELEVANT  
ECONOMIC AND FINANCIAL SECTIONS OF THE PAAD. THIS  
ECONOMIST WOULD BE PROVIDED EITHER BY REDSO/ESA OR  
USAID/WASHINGTON.
3. TWO CONTRACT PERSONNEL WOULD BE RECRUITED FROM ONE  
OF THE MACROECONOMIC IQC'S. THIS WOULD INCLUDE A  
MACROECONOMIST AND AN INTERNATIONAL BANKING EXPERT.  
THE MACROECONOMIST WOULD DO AN ECONOMIC ANALYSIS  
WHICH PROVIDES THE OVERALL MACROECONOMIC CONTEXT IN  
WHICH THE PROGRAM WILL OPERATE. THIS ANALYSIS WILL  
MAKE USE OF DATA AND SECONDARY SOURCES OF  
INFORMATION FROM THE WORLD BANK, THE IMF, THE

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PPR-01 SAST-01 SEC-01 TCP-05 ES-01 STFA-01 RELO-01  
TELE-01 PRE-06 /067 A3 RC06

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O 061422Z APR 88  
FM AMEMBASSY LILONGWE  
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INFO AMEMBASSY NAIROBI  
AMEMBASSY HARARE

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FOR AFR/PD, AFR/DP AND AFR/SA  
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

FOLLOWING:

- A. FOREIGN EXCHANGE SUPPLY AND DEMAND: ACTUAL AND ANTICIPATED;
- B. AVERAGE CYCLE TIME PER EXPORT TRANSACTION (BY INDUSTRY, COMMODITY AND COUNTRY);
- C. IMPORT CONTENT OF EXPORTS AND AVAILABILITY OF IMPORTS WITHIN THE SOUTHERN AND CENTRAL AFRICAN REGIONS; AND
- D. COSTS TO OFFSHORE BANKS: ACCEPTABLE INTEREST RATE SPREAD AND RISK QUANTIFICATION.

THE USAID/MALAWI MISSION WILL ALSO BE WORKING WITH THE RESEARCH AND STATISTICS SECTION IN THE RESERVE BANK OF MALAWI TO COMPILE BASELINE DATA ON THE PROGRESS INDICATORS TO BE USED IN MONITORING AND EVALUATING THE PROGRAM. THE DATA WILL COME FROM THE RESERVE BANK, MINISTRY OF FINANCE AND NATIONAL STATISTICS OFFICE PRIMARY DATA SOURCES. THIS INFORMATION WILL BE ASSEMBLED IN A SERIES OF TABLE FORMATS WHICH WILL BE AVAILABLE FOR ANALYSIS BY THE PAAD DESIGN TEAM.

2. PAAD DESIGN SCHEDULE:

THE PAAD WOULD BE COMPLETED BY THE END OF JUNE FOR REVIEW IN JULY 1988. CONSIDERING THE TIMING, MISSION REQUESTS AN AD HOC DELEGATION OF AUTHORITY TO APPROVE THE PAAD. WHILE THE PAAD IS BEING REVIEWED, THE MISSION WOULD PREPARE THE TWO PROGRAM GRANT AGREEMENTS WITH THE ASSISTANCE OF THE REGIONAL LEGAL ADVISOR. ASSUMING A JULY AUTHORIZATION OF THE PAAD, THE MISSION WOULD BE IN A POSITION TO CONCLUDE THE TWO GRANT AGREEMENTS WITH THE GOM IN AUGUST 1988 OR EARLY SEPTEMBER AT THE LATEST.

3. ISSUES:

- A. FUNDING OF THE PROGRAM:

THE MISSION HAS AVAILABLE USDOLS 10.1 MILLION FROM ITS FY 1988 FUNDS TO PUT INTO THE PROGRAM. THIS IS BROKEN DOWN BETWEEN USDOLS 5.0 MILLION FROM CURRENT OYB FUNDS AND THE USDOLS 5.1 MILLION FROM THE FORTHCOMING DEOBLIGATION AND REOBLIGATION SEE LILONGWE 01723) OF THE REMAINING FUNDS IN THE BALANCE OF PAYMENTS COMPONENT OF THE FERTILIZER SUBSIDY REMOVAL PROGRAM (612-0225). AN ADDITIONAL US DOLS 10.9 MILLION FROM OTHER SOURCES WILL BE REQUIRED IN FY 1988 TO SUPPORT THE PROGRAM AS PROPOSED. EVEN IF THESE ADDITIONAL FUNDS ARE NOT FORTHCOMING, THE PROGRAM WILL STILL BE VIABLE IF INITIATED WITH ONLY USDOLS 10.1 MILLION.

IN FY 1989, THE PROGRAM WOULD BE FINANCED BY USDOLS 5.0 MILLION FROM THE PLANNED BILATERAL PROGRAM. ASSUMING APPROVAL OF THE REGIONAL EXPORT REVOLVING FUND IN FY 1989, THE REMAINING USDOLS 10.0 MILLION COULD COME FROM SOUTHERN AFRICA REGIONAL FUNDS SET ASIDE IN THAT PROGRAM FOR MALAWI.

B. WAIVERS:

THE PROGRAM WILL REQUIRE TWO WAIVERS. THE FIRST WILL BE THE WAIVER OF THE 25 PERCENT HOST COUNTRY CONTRIBUTION UNDER SECTION 110 OF THE FOREIGN ASSISTANCE ACT OF 1961 AS AMENDED. THIS WAIVER WILL BE SUBMITTED TO USAID/WASHINGTON FOR APPROVAL PRIOR TO FIELD AUTHORIZATION OF PAAD. THE SECOND WAIVER WILL BE OF USAID'S SOURCE/ORIGIN REQUIREMENTS ON THE USE OF THE FOREIGN EXCHANGE TO PERMIT GEOGRAPHIC CODE 899 PROCUREMENT. IT IS NOT CLEAR AT THIS POINT WHETHER SUCH A WAIVER WILL BE NECESSARY. ESSENTIALLY, THE USAID COLLAR FUNDS AVAILABLE TO THE MERF CONSTITUTE A CASH TRANSFER. HOWEVER, THE FUND WILL OPERATE ANALOGOUS TO A COMMODITY IMPORT PROGRAM. FURTHERMORE, CONGRESSIONAL LEGISLATION HAS TIGHTENED THE

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INFO AAAF-03 AFEA-03 AFSA-03 AFDP-06 SEOP-01 FPA-02 AFEO-02  
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E. O. 12356: N/A  
SUBJECT: MALAWI EXPORT REVOLVING FUND (MERF) - PAIP (612-0223)

CONDITIONS UNDER WHICH CASH TRANSFERS MAY OPERATE.  
IT IS CLEAR THAT CONGRESS'S INTENT WAS TO GIVE THE  
US GOVERNMENT GREATER CONTROL OVER THE USES OF THESE  
FUNDS. LEGAL GUIDANCE ON THE ISSUE OF THIS WAIVER  
WILL BE OBTAINED IN THE PRE-PAAD DESIGN PERIOD. IF  
THE WAIVER IS REQUIRED, IT WILL BE REQUESTED FROM  
USAID/WASHINGTON IN ADVANCE OF PAAD APPROVAL AND  
AUTHORIZATION.

C. INITIAL ENVIRONMENTAL EXAMINATION:

THE MISSION REQUESTS USAID/WASHINGTON TO GRANT A  
CATEGORICAL EXCLUSION OF THE INITIAL ENVIRONMENTAL  
EXAMINATION (IEE) ON THE GROUNDS THAT THE PROGRAM DOES  
NOT EFFECT THE NATURAL OR PHYSICAL ENVIRONMENT. TMUS,  
THE PROGRAM WOULD BE ELIGIBLE FOR THE CATEGORICAL  
EXCLUSION IN ACCORDANCE WITH THE CRITERIA IN 22 CFR PART  
216.2 (C) 1 (I). THE FOREIGN EXCHANGE ASSOCIATED WITH THE  
PROGRAM WILL BE UTILIZED TO CAPITALIZE THE MERF AND  
PROVIDE TECHNICAL ASSISTANCE AND TRAINING. NO US DOLLAR  
FUNDS WILL BE USED FOR CONSTRUCTION ACTIVITIES OR ANY  
OTHER ACTIVITY WHICH WOULD IN ANY WAY ALTER OR DISTURB  
THE NATURAL OR PHYSICAL ENVIRONMENT.

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(SECTION 11 OF 18 MISSING - SEND WHEN REC, D)

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