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NO. 11 (THE PRIVATE SECTOR AND THE DEVELOPMENT OF
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1. INTRODUCTION: AS NOTED REF C, MISSION REGRETS DELAY
IN RESPONDING TO REF A WHICH WAS RECEIVED JUST PRIOR TO
ARRIVAL OF HICKS. THANKS FOR YOUR FOLLOW UP QUERY. AS
WE TRIED TO CONVEY DURING YOUR VISIT LAST SEPTEMBER,
USAID/MALAWI HAS INCORPORATED AS AN INTEGRAL PART OF ITS
COUNTRY INVESTMENT STRATEGY, THE USE OF PRIVATE SECTOR
DEVELOPMENT MECHANISMS TO DELIVER U.S. ECONOMIC
ASSISTANCE AND TO STIMULATE GREATER PRIVATE SECTOR
INVOLVEMENT IN THE DEVELOPMENT PROCESS. THE MALAWIAN
ECONOMY, WITH ITS STRONG FREE MARKET ORIENTATION LENDS
ITSELF WELL TO AID'S STRATEGY OF ENGAGING AND FORGING A
PARTNERSHIP WITH THE PRIVATE SECTOR TO FOSTER ECONOMIC
GROWTH AND DEVELOPMENT. MUCH OF USAID/MALAWI'S PRESENT
PORTFOLIO OF INVESTMENTS RELIES ON PRIVATE SECTOR
INSTITUTIONS OR MECHANISMS TO DELIVER ASSISTANCE, BUILD
AND EXPAND PRIVATE SECTOR INSTITUTIONAL CAPACITY, AND TO
ENHANCE PUBLIC SECTOR CAPACITY AND POLICY ORIENTATION TO
MORE EFFECTIVELY IDENTIFY AND UTILIZE PRIVATE SECTOR
DEVELOPMENT ALTERNATIVES.

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2. BACKGROUND: (A) REF D IS A COMPREHENSIVE ASSESSMENT OF THE MALAWI ECONOMY AND THE PRIVATE SECTOR. IT IS ESSENTIAL READING FOR THOSE INTERESTED IN UNDERSTANDING THE DYNAMICS OF MALAWI'S ECONOMY AND THE IMPORTANT ROLE THAT PRIVATE SECTOR INSTITUTIONS HAVE PLAYED IN THE DEVELOPMENT OF THIS COUNTRY SINCE INDEPENDENCE. WHEN THE LATTER WAS ACHIEVED IN 1964, MALAWI WAS A POOR, SMALL, LANDLOCKED, FISCALLY BANKRUPT COUNTRY DEVOID OF ANY SIGNIFICANT MINERAL RESOURCES. IT HAD ONLY ABOUT 200 KMS OF SINGLE LANE PAVED ROADS, 33 COLLEGE GRADUATES, AND NO INDIGENOUS ENTREPRENEURIAL CLASS. WHAT LARGE AND MEDIUM SCALED PRIVATE BUSINESS THAT EXISTED WAS IN THE HANDS OF THE ASIAN AND EUROPEAN COMMUNITIES. GIVEN THE PAUCITY OF RESOURCES AT INDEPENDENCE, FEW EXPECTED MALAWI TO REGISTER THE DEVELOPMENT ACHIEVEMENTS ACCOMPLISHED IN THE FIRST TWO DECADES SINCE INDEPENDENCE. BETWEEN 1964-1982 PER CAPITA INCOME GREW BY 2.9 PERCENT PER YEAR, SIX TIMES THE AVERAGE GROWTH RATE OF POOR SMALL LANDLOCKED COUNTRIES. MALAWI IS ONE OF ONLY THREE SUB-SAHARAN AFRICAN COUNTRIES TO EXCEED A FOUR PERCENT ANNUAL GROWTH RATE OF AGRICULTURE OUTPUT DURING THE DECADE OF THE 1970'S.

(B) MUCH OF THE PROGRESS ACHIEVED SINCE INDEPENDENCE CAN BE ATTRIBUTED TO GOVERNMENT'S CONSCIOUS DECISION TO DEVELOP THE COUNTRY'S AGRICULTURE POTENTIAL, ESPECIALLY FOR EXPORTS, AND THE DEVELOPMENT OF THE PRIVATE NON-AGRICULTURAL ECONOMY - DESPITE THE ABSENCE OF INDIGENOUS ENTREPRENEURS. THE FORMER WAS ACCOMPLISHED BY CREATING AND MAINTAINING AN INCENTIVE ENVIRONMENT FOR AGRICULTURAL PRODUCTION. TO ACCOMPLISH THE LATTER AND TO INCREASE INDIGENOUS PARTICIPATION IN THE ECONOMY, THREE LARGE HOLDING COMPANIES (PRESS HOLDINGS, MALAWI DEVELOPMENT CORPORATION (MDC) AND THE AGRICULTURAL DEVELOPMENT AND MARKETING CORPORATION (ADMARC) WERE CREATED. THESE THREE INSTITUTIONS HAVE: (1) PLAYED A LEAD ROLE IN ESTABLISHING MEDIUM AND LARGE SCALE BUSINESSES; (2) OPERATED IN COOPERATION WITH GOVERNMENT ESPECIALLY IN RESPONDING TO GOVERNMENT PRIORITIES; AND (3) BEEN RESPONSIVE IN AN ACTIVE MANNER TO THE HEAD OF STATE. THESE COMPANIES IN PARTNERSHIP WITH OUTSIDE FOREIGN INVESTMENT ARE RESPONSIBLE FOR ESTABLISHING MOST OF THE LARGE SCALE INDUSTRY AND MANUFACTURING CONCERNS THAT HAVE COME INTO EXISTENCE SINCE INDEPENDENCE. A FOURTH MAJOR PRIVATE SECTOR COMPANY IN MALAWI, THE INVESTMENT DEVELOPMENT BANK (INDEBANK), HAS ALSO PLAYED

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AN IMPORTANT ROLE IN FINANCING MALAWIAN PRIVATE SECTOR DEVELOPMENT IN CONJUNCTION WITH PRESS, ADMARC AND MDC. REF D CONTAINS COMPLETE DESCRIPTIONS AND ANALYSES OF THESE COMPANIES AND THEIR IMPORTANCE TO MALAWI'S ECONOMIC STRUCTURE. THROUGH THEIR VARIOUS INVESTMENTS AND HOLDINGS IN A LARGE NUMBER OF PRIVATE FIRMS, THEY HAVE A MAJOR INVOLVEMENT IN MALAWI'S PRIVATE ECONOMY.

(C) REF D CONTAINS A LISTING OF THE VARIOUS PARASTATAL HOLDINGS AND THE INTERLOCKING RELATIONSHIPS THAT EXISTS BETWEEN THEM. MOST IMPORTANTLY HOWEVER, THESE ORGANIZATIONS, ESPECIALLY FOR THE FIRST 15 YEARS FOLLOWING INDEPENDENCE, WERE OPERATED ON A COMMERCIAL BASIS. DIVIDENDS RECEIVED BY THESE COMPANIES WERE REINVESTED IN OTHER PRIVATE VENTURES. FOR TRANSNATIONAL INVESTMENT PARTNERS, THE INVESTMENT CLIMATE WAS SATISFACTORY. PROFITS WERE HIGH, GOVERNMENT INTERFERENCE IN MARKETS WAS MINIMAL, THERE WERE NO LIMITATIONS ON REPATRIATION OF DIVIDENDS, RESOURCE ALLOCATION WAS GENERALLY EFFICIENT AND THE POLITICAL CLIMATE WAS STABLE.

(D) IN SUM EVEN THOUGH THERE WAS AND REMAINS A CLOSE RELATIONSHIP BETWEEN GOVERNMENT AND THE PRIVATE ECONOMY, THE GOVERNMENT OF MALAWI, EXCEPT FOR A BRIEF PERIOD BETWEEN 1978-82, HAS MAINTAINED A STABLE ECONOMIC POLICY ENVIRONMENT CONDUCIVE TO PRIVATE ENTERPRISE AND PRIVATE SECTOR DEVELOPMENT. THIS STABLE, MARKET ORIENTED ENVIRONMENT REMAINS THE MAJOR FEATURE OF THE MALAWIAN ECONOMY. GOM'S WILLINGNESS AND CAPACITY TO SUSTAIN THIS POLICY ENVIRONMENT WILL BE KEY TO MALAWI'S CONTINUED ECONOMIC RECOVERY. THIS ENVIRONMENT IS BEING FURTHER IMPROVED BY THE SUCCESSFUL IMPLEMENTATION OF A SERIES OF WORLD BANK (AID SUPPORTED) STRUCTURAL ADJUSTMENT PROGRAMS WHICH HAVE RESULTED IN PRICE/WAGE DECONTROL, SUBSIDY REMOVALS AND LESS REGULATORY FUNCTIONS EXERTED OVER BUSINESSES. A THIRD STRUCTURAL ADJUSTMENT PROGRAM WAS SIGNED LAST NOVEMBER WHICH IF SUCCESSFULLY IMPLEMENTED WILL FURTHER IMPROVE MALAWI'S BUSINESS CLIMATE.

(E) THE COMPLEX RELATIONSHIP BETWEEN THE GOM AND THE PRIVATE SECTOR DESCRIBED IN REF D HAS HAD BOTH POSITIVE AND NEGATIVE EFFECTS ON THE NATIONAL ECONOMY. AS NOTED ABOVE, THE PERIOD 1978-1982 SAW AN OVERALL DECLINE OF THE NATIONAL ECONOMY OCCASIONED BY (1) A SERIES OF ILL-ADVISED POLITICALLY MOTIVATED DECISIONS AFFECTING

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THE HOLDING COMPANIES AND THEIR SUBSIDIARIES THAT PROVED TO BE INAPPROPRIATE AND COSTLY; (2) EXOGENOUS FACTORS (E.G. INCREASED PETROLEUM COSTS, WORLD RECESSION, DROUGHT); AND, (3) INTERNAL ECONOMIC RECESSION. IT APPEARS THAT THIS BRIEF PERIOD OF ECONOMIC STAGNATION AND DECLINE HAS HAD A SOBERING EFFECT ON GOM OFFICIALS AND THE PUBLIC/PRIVATE SECTOR RELATIONSHIP NOW EMERGING RELIES MUCH LESS ON DIRECT INTERVENTIONS BY GOVERNMENT.

(F) RECENTLY MALAWI HAS GIVEN GREATER ATTENTION TO PROMOTING MORE MODEST SCALE ENTREPRENEURSHIP THROUGH THE ESTABLISHMENT OF VARIOUS SUPPORT-TYPE ORGANIZATIONS PROVIDING CREDIT, TECHNICAL AND MANAGEMENT SERVICES, AND TRAINING. THESE ORGANIZATIONS INCLUDE:

- INDEFUND (A DEVELOPMENT INVESTMENT BANKING SUBSIDIARY OF THE INVESTMENT AND DEVELOPMENT BANK OF MALAWI, ESTABLISHED IN 1981 TO SUPPORT MEDIUM SCALE ENTREPRENEURS);
- SEDOM (SMALL ENTERPRISE DEVELOPMENT ORGANIZATION OF MALAWI, A STATUTORY BODY PROVIDING CREDIT TO SMALL SCALE INDUSTRIAL BORROWERS, ESTABLISHED IN 1982);
- DEMATT (DEVELOPMENT OF MALAWIAN TRADERS' TRUST: AN INSTITUTION, PROVIDING TRAINING AND BUSINESS ADVISORY SERVICES PRIMARILY TO SMALL AND MEDIUM SCALE MALAWIAN BUSINESSES IN RURAL AREAS, ESTABLISHED IN 1979);
- POLYTECHNIC (TECHNICAL COLLEGE WITH APPROPRIATE TECHNOLOGY SECTION IN ENGINEERING DEPARTMENT AND BUSINESS MANAGEMENT COURSES SPECIFICALLY GEARED TO SMALL SCALE ENTERPRISE OPERATIONS).

(G) THESE ORGANIZATIONS TOGETHER ARE EXPECTED TO HAVE A MUCH DIFFERENT EFFECT ON THE PRIVATE SECTOR THAN THE EARLIER SET OF PARASTATALS. PRESENTLY, ONE SEES LESS RELIANCE ON ADMARC, MDC AND PRESS TO DEVELOP LARGER-SCALE INDUSTRIAL, MANUFACTURING AND SERVICE CONCERNS. THE STRUCTURAL ADJUSTMENT PROGRAM CALLS FOR SIGNIFICANT RESTRUCTURING, REDUCING COSTS AND IMPROVING OPERATIONAL EFFICIENCY OF PRESS, ADMARC AND MDC. FOR EXAMPLE, ADMARC IS PRESENTLY UNDERGOING AN EXERCISE SUPPORTED ACTIVELY BY USAID, WHICH WILL RESULT IN RESTRUCTURING AND DIVESTMENT AS DESCRIBED IN REF (E). MAJOR PROGRAM OBJECTIVES ARE TO INCREASE OPERATIONAL EFFICIENCY; INCREASE SCOPE FOR PRIVATE SECTOR INVOLVEMENT IN AGRICULTURAL MARKETING; AND TO DRASTICALLY REDUCE ADMARC'S INVOLVEMENT IN NON-MARKETING

ACTIVITIES. MDC AND PRESS HAVE MADE CONSIDERABLE PROGRESS IN RESTORING THEIR RESPECTIVE FINANCIAL VIABILITY. BOTH HAVE CONCENTRATED ON STRENGTHENING THEIR MANAGEMENT CAPACITY AND DEVELOPING SOUND INVESTMENT POLICIES. EFFECTIVE RESTRUCTURING AND A RETURN TO EFFICIENT OPERATION OF THESE ORGANIZATIONS WHICH ARE HEAVILY INVOLVED IN THE PRIVATE ECONOMY IS KEY TO REVITALIZATION OF PRIVATE SECTOR LED GROWTH.

3. THE PRIVATE SECTOR AND USAID'S INVESTMENT STRATEGY. IN MALAWI, USAID ENJOYS A UNIQUE SITUATION WHEREIN THE GOVERNMENT ITSELF RECOGNIZES THE IMPORTANT ROLE THE PRIVATE SECTOR CAN PLAY IN THE DEVELOPMENT PROCESS. CONSEQUENTLY, GOVERNMENT FREQUENTLY PREFERS AND OFTEN DIRECTS THE INVOLVEMENT OF PRIVATE SECTOR ENTITIES IN DEVELOPMENT ACTIVITIES FUNDED BY VARIOUS DONORS. THE GOM AND USAID REALIZE THAT PRIVATE SECTOR INSTITUTIONS ARE OFTEN MORE EFFICIENT AND COST EFFECTIVE IN THE DELIVERY OF DEVELOPMENT ASSISTANCE. EFFECTIVE USE OF PRIVATE SECTOR ENTITIES CAN REDUCE COSTS TO GOVERNMENT BOTH FINANCIALLY AND IN TERMS OF HUMAN CAPITAL AND BRING TO BEAR A RANGE OF SKILLS AND TECHNICAL COMPETENCIES ON DEVELOPMENT PROBLEMS OFTEN LACKING IN PUBLIC SECTOR INSTITUTIONS. AT THIS WRITING, APPROXIMATELY DOLS 15 MILLION (OR 25 PERCENT OF CURRENT BILATERAL INVESTMENT PORTFOLIO) IN USAID RESOURCES SUPPORT ACTIVITIES IN THE PRIVATE SECTOR OR ACTIVITIES THAT USE PRIVATE SECTOR INSTITUTIONS AS THE DELIVERY MECHANISM FOR U.S. ECONOMIC ASSISTANCE. THE MAJOR AREAS OF THIS INVOLVEMENT ARE DISCUSSED BRIEFLY IN THE FOLLOWING PARAGRAPHS.

(A) ESTABLISHMENT OF PRIVATE COMMERCIAL TRUCKING INDUSTRY. TO ACQUIRE AND SECURE ROAD LINKS TO MAJOR SEA PORTS, MALAWI IS TRYING TO DEVELOP A PRIVATE, INDIGENOUS INTERNATIONAL TRUCKING INDUSTRY. THIS WILL REPLACE LOSS RAILROAD SERVICES THROUGH MOZAMBIQUE WHICH HANDLED 90 PERCENT OF ALL MALAWIAN TRADE PRIOR TO THE DETERIORATION OF SECURITY IN NEIGHBORING MOZAMBIQUE. NOW LESS THAN 2 PERCENT OF MALAWI'S TRADE TRANSITS MOZAMBIQUE PORTS. GOM HAS ADAMANTLY AVOIDED CREATING A PARASTATAL INSTITUTION TO PROVIDE THIS SERVICE AND IS PROMOTING THE ESTABLISHMENT OF A COMMERCIALY VIABLE OPERATION. SEVERAL PRIVATE IMPLEMENTING INSTITUTIONS (CREDIT, FREIGHT FORWARDERS, ADVISORY AND TRAINING SERVICES, EQUIPMENT SUPPLIERS AND FOREIGN TRANSPORT FIRMS) ARE BEING ENGAGED TO HELP DEVELOP THIS CAPACITY. AID RESOURCES AIM TO HELP GOM IN ITS EFFORT TO BUILD PRIVATE

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SECTOR TRANSPORT INDUSTRY AS WELL AS STRENGTHEN OTHER PRIVATE SECTOR INSTITUTIONS PARTICIPATING IN THIS INITIATIVE. IN THIS INSTANCE, GOM IS WORKING IN PARTNERSHIP WITH PRIVATE SECTOR, CHANNELLING PUBLIC AND DONOR CONTRIBUTED RESOURCES TO LOCAL PRIVATE SECTOR TO ACHIEVE STRATEGIC NATIONAL ECONOMIC AND SECURITY OBJECTIVES. WHILE ALL PARTIES INVOLVED REMAIN COMMITTED TO THIS ACTIVITY, IMPLEMENTATION EXPERIENCE TO DATE HAS HIGHLIGHTED THE IMPORTANCE (AND DIFFICULTY) OF PROVIDING THE RIGHT MIX OF INCENTIVES TO SECURE PRIVATE SECTOR INTEREST AND PARTICIPATION.

(B) EXPORT DIVERSIFICATION AND EMPLOYMENT. MALAWI IS PROMOTING AGRO-BUSINESS AND INDUSTRIAL DEVELOPMENT TO DIVERSIFY AND EXPAND ITS EXPORT BASE AND TO GENERATE EMPLOYMENT. A MAJOR GOM STRATEGY IN PURSUING THIS OBJECTIVE IS TO REPLACE GOM DIRECT REGULATORY ROLE WITH INDIRECT PROMOTIONAL ROLE. MOST INSTITUTIONS ENGAGED IN THIS EFFORT ARE PRIVATE AND ARE PROVIDING RURAL CREDIT/SAVING SERVICES AND BUSINESS/TECHNICAL TRAINING TO EMERGENT BUSINESSMEN. USAID'S RESOURCES ARE SUPPORTING THE FURTHER DEVELOPMENT AND SUSTAINABILITY OF THESE PRIVATE INSTITUTIONS (INDEFUND, MALAWI UNION OF SAVINGS AND CREDIT COOPERATIVE ORGANIZATION (MUSCCO), DEMATT) AND ASSISTING GOM TO STRENGTHEN POLICY ENVIRONMENT AND INSTITUTIONAL FRAMEWORK FOR PROMOTING SMALL SCALE ENTERPRISE DEVELOPMENT.

(C) POLICY REFORM. TO IMPROVE EFFICIENCY OF AGRICULTURAL MARKETS, MALAWI IS REVIEWING ITS PRICING AND MARKETING POLICIES AND PRACTICES WITH A VIEW TOWARD MORE PRIVATE SECTOR INVOLVEMENT AND GREATER COMPETITION. WHILE SUBSTANTIAL PROGRESS IS BEING MADE ON PRICE DECONTROL AND INCENTIVE AGRICULTURAL PRICING, OTHER POLICIES (SUCH AS SUBSIDIES AND PAN TERRITORIAL PRICING) CONTINUE TO INHIBIT GREATER PRIVATE SECTOR PARTICIPATION. USAID IS PROVIDING FUNDING THROUGH A POLICY REFORM INITIATIVE, TO UNDERTAKE A NUMBER OF STUDIES WHICH WILL PROVIDE GOM POLICY AND DECISION MAKERS WITH INFORMATION TO MAKE INFORMED DECISIONS WITH RESPECT TO ADDITIONAL AREAS REQUIRING POLICY REFORM AND GREATER PRIVATE SECTOR PARTICIPATION.

(D) SELF-HELP RURAL WATER. TO REDUCE CONSTRUCTION AND MAINTENANCE COST OF PROVIDING IMPROVED WATER, MALAWI RELIES ON VOLUNTEER UNSKILLED LABOR TO INSTALL AND DO FIRST LINE MAINTENANCE OF GRAVITY-FED RURAL WATER SUPPLY

SYSTEMS. WHILE GOVERNMENT PROVIDED MUCH OF THE RESOURCES AND SUPPORT REQUIRED FOR THE PROGRAM, THIS SUPPORT IS PROVIDED IN MANNER WHICH FURTHERS GOVERNMENT-COMMUNITY PARTNERSHIP RATHER THAN INCREASING COMMUNITY'S DEPENDENCE ON GOVERNMENT.

4. WHERE DO WE GO FROM HERE?

AS THE FORGOING PARAGRAPHS INDICATE, THE PRESENT USAID INVESTMENT PROGRAM HAS A STRONG PRIVATE SECTOR FOCUS AND THE PRIVATE SECTOR IN MALAWI IS PLAYING A CONSTANTLY EXPANDING ROLE IN THE NATIONAL ECONOMY. THE AREAS OF USAID ASSISTANCE ARE NUMEROUS YET CLOSELY INTER-LINKED: (PRIVATIZATION/ DIVESTITURE OF SPEARHEAD AND ADMARC, SMALL-SCALE ENTERPRISE PROMOTION, PRIVATE SECTOR HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT; AND POLICY DIALOGUE ON A NUMBER OF IMPORTANT POLICY ISSUES SUCH AS AGRICULTURAL MARKETING EFFICIENCY, SUBSIDIES, PRICING POLICY, DUTIES, TAXES AND TARIFFS). WHILE OUR INVOLVEMENT IS CONSIDERABLE, EXPERIENCE HAS TAUGHT US THAT THERE ARE SEVERAL FACTORS THAT SERIOUSLY CONSTRAIN THE PACE AT WHICH MISSION CAN EXPAND ITS USE OF PRIVATE SECTOR DELIVERY MECHANISMS. IN COMPARISON WITH MANY OTHER AFRICAN ECONOMIES, MALAWI'S IS RELATIVELY SMALL. ALSO, THE MALAWI ECONOMY IS STILL SLUGGISH AS IT EMERGES FROM A PERIOD OF EXTENDED DECLINE AND FACES SOME DIFFICULT ECONOMIC PROBLEMS. VITAL SUPPORT INSTITUTIONS, ESPECIALLY FOR SMALL SCALE ENTERPRISE PROMOTION ARE RELATIVELY NEW, WEAK, LACK EXPERIENCE AND HAVE LIMITED CAPACITY. BEFORE NEW INITIATIVES CAN BE UNDERTAKEN, MANY OF THE PRIVATE SECTOR INSTITUTIONS WE ARE NOW SUPPORTING MUST BECOME STRONG, EFFECTIVE AND VIABLE. ALTHOUGH SOME OF THE PRIVATE SECTOR ACTIVITIES THE MISSION IS PRESENTLY ENGAGED IN HAVE A CERTAIN ELEMENT OF RISK, IF SUCCESSFULLY IMPLEMENTED, THE WAY WILL BE CLEARED FOR INCREASED USE OF THESE PRIVATE SECTOR INSTITUTIONS BY OURSELVES, THE GOM AND OTHER DONORS TO DELIVER ECONOMIC ASSISTANCE. THESE LIMITATIONS NOTWITHSTANDING, THE MISSION HAS IDENTIFIED THE FOLLOWING AREAS FOR FUTURE PRIVATE SECTOR PROGRAMMING:

(A) PRIVATIZATION AND DIVESTITURE. AS INDICATED PARA F ABOVE, GOM IS TAKING VERY DEFINITIVE STEPS TO DECREASE GOVERNMENT INVOLVEMENT IN THE ECONOMY. AS NOTED IN REF E, ADMARC IS TRYING TO IMPROVE ITS OVERALL LIQUIDITY BY

DIVESTING ITSELF OF MANY OF ITS NON-AGRICULTURAL MARKETING ACTIVITIES. SECONDLY, AWARE OF ITS OWN COST STRUCTURE, ADMARC IS WILLING TO EXPLORE PRIVATIZING CERTAIN MARKETING FUNCTIONS WHERE PRIVATE TRADERS COULD PERFORM THESE FUNCTIONS MORE EFFICIENTLY. USAID IS PLANNING TO ASSIST THE GOM IN THIS PRIVATIZATION AND DIVESTITURE INITIATIVE.

(B) DEVELOPMENT MANAGEMENT. INSUFFICIENT WELL TRAINED SKILLED MANPOWER AND WEAK INSTITUTIONAL CAPACITY IN BOTH THE PUBLIC AND PRIVATE SECTORS ARE MAJOR FACTORS THAT WILL CONSTRAIN AND LIMIT GROWTH OF MALAWI'S ECONOMY. MISSION SHARES CONCERNS EXPRESSED REF (A) PARA 1 REGARDING EXCESSIVE FOCUS ON AND EXPANSION OF PUBLIC SECTOR INSTITUTIONS. HOWEVER, WE BELIEVE THAT IN ORDER FOR PRIVATE SECTOR DEVELOPMENT MECHANISMS TO BE MAXIMIZED - ESPECIALLY IN DELIVERING GOVERNMENT TO GOVERNMENT ASSISTANCE - IT IS ESSENTIAL TO HAVE IN PLACE STRONG, WELL TRAINED, LEAN YET EFFICIENT PUBLIC SECTOR INSTITUTIONS. COMPETENT TOP QUALITY PUBLIC SECTOR INSTITUTIONAL CAPACITY IS KEY TO THE DEVELOPMENT AND PROMULGATION OF GOVERNMENT POLICIES THAT CREATE THE PROPER ENVIRONMENT FOR A THRIVING PRIVATE SECTOR AND HEALTHY PARTNERSHIP BETWEEN PUBLIC AND PRIVATE SECTOR INSTITUTIONS. USAID WILL PROVIDE ASSISTANCE TO ENHANCE THE CAPACITY OF CERTAIN PUBLIC AND PRIVATE SECTOR INSTITUTIONS TO PLAN, DESIGN AND MANAGE DEVELOP ACTIVITIES. THIS INITIATIVE WILL CONCENTRATE ON MANPOWER DEVELOPMENT, UPGRADING AND EXPANDING ADMINISTRATION, PLANNING, MANAGEMENT, ANALYTICAL, EVALUATION, AND RESEARCH CAPACITY.

5. PROBLEMS/ISSUES. BASED ON OUR EXPERIENCE TO DATE AND OUR FUTURE PLANS, WE SEE THE FOLLOWING AS IMPORTANT GENERAL AREAS OF CONCERN THAT REQUIRE MORE REFLECTION AND DISCUSSION.

(A) IN MOST DEVELOPING COUNTRIES, THE FEW PRIVATE SECTOR INSTITUTIONS THAT EXIST ARE USUALLY SMALL WITH LIMITED ABSORPTIVE CAPACITY AND VERY LITTLE LIQUIDITY. THEY ARE OFTEN UNFAMILIAR WITH HOST GOVERNMENT PROCEDURES AND CONFUSED BY HOST GOVERNMENT AND AID REGULATIONS. FURTHERMORE, AID'S TRADITIONAL PROJECT ASSISTANCE MANAGEMENT/IMPLEMENTATION ARRANGEMENTS ARE NOT VERY WELL SUITED TO THESE INSTITUTIONS. FOR THESE ORGANIZATIONS OUR PROJECT ASSISTANCE MODES ARE OFTEN ADMINISTRATIVELY

BURDENSOME FOR THE SMALL AMOUNTS OF FUNDING INVOLVED. OUR FINANCIAL CONTROL PROCEDURES OFTEN COMPLICATE AN ALREADY TENUOUS CASH FLOW SITUATION AND OUR REPORTING REQUIREMENTS CAN DIVERT LIMITED HUMAN RESOURCES AWAY FROM MORE IMPORTANT OPERATIONAL CONCERNS. CLEARLY, MORE CONSIDERATION NEEDS TO BE GIVEN TO USING MORE NON-PROJECT ASSISTANCE MODES, TO FINANCE OUR PRIVATE SECTOR INITIATIVES.

(B) AID'S REGULATIONS AND RESTRICTIONS GOVERNING THE USE OF U.S. ECONOMIC ASSISTANCE RESOURCE OFTEN CONFLICT WITH PRIVATE SECTOR DECISION MAKING. AID PROCUREMENT REGULATIONS PROBABLY PROVIDE THE BEST EXAMPLE FOR THIS POTENTIAL CONFLICT. OUR REGULATIONS REQUIRE BUYING U.S. UNLESS THIS PROVISION WAIVED. HOWEVER, PRIVATE SECTOR BENEFICIARIES OF AID FINANCING ARE INTERESTED IN BUYING FROM THE MOST ECONOMICAL SOURCE - U.S. OR OTHERWISE. THIS ISSUE IS PARTICULARLY GERMAIN GIVEN THE PRESENT STRENGTH OF U.S. DOLLAR AND SUBSEQUENT HIGH COST OF U.S. GOODS COMPARED TO THOSE FROM EUROPEAN AND OTHER SOURCES. USAID IS PRESENTLY CONFRONTED WITH THIS DILEMMA WITH OUR PRIVATE SECTOR COMMERCIAL TRANSPORT PROJECT.

(C) IN THE PRIVATE SECTOR, TIME IS MONEY. HOWEVER, WE ARE OFTEN A LESS EFFICIENT PARTNER WITH PRIVATE ENTITIES BECAUSE ALL TOO OFTEN IT TAKES US TOO LONG TO MAKE DECISIONS AND GET THE RESOURCES MOVING. TO WORK WITH AND ASSIST PRIVATE SECTOR INSTITUTIONS WE MUST BE ABLE TO DO BUSINESS AND MOVE RESOURCES IN THE SAME EFFICIENT MANNER AS THE PRIVATE SECTOR DOES. THIS MEANS RELIEF FROM AID/FAA REGULATIONS AND THE WILLINGNESS TO TAKE WELL CONSIDERED RISKS FOR HIGH PAYOFFS.

6. USAID HOPES THAT THIS MESSAGE ADDS TO BODY OF KNOWLEDGE BEING DEVELOPED ON PRIVATE SECTOR DEVELOPMENT IN AFRICA AND LOOKS FOWARD TO CONTINUED PARTICIPATION IN THIS DIALOGUE. WE HOPE TO HEAR FROM YOU SOON REGARDING NEXT STEPS AND FUTURE AFR PRIVATE SECTOR INITIATIVES.
ADAMS##