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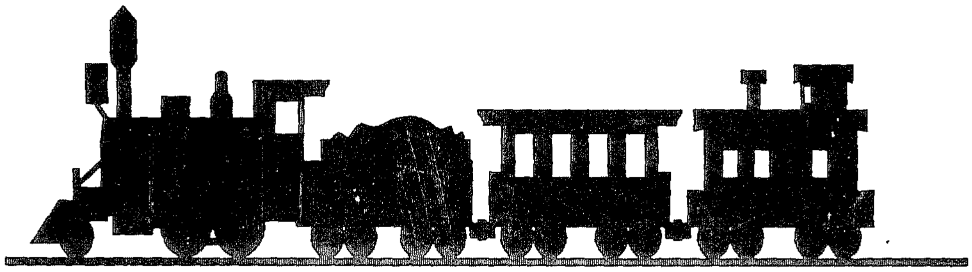
USAID/MALAWI



MALAWI RAILWAYS RESTRUCTURING PROGRAM

NPA No. 690-0276.12
Project No. 690-0277.12

September 1994

ACTION MEMORANDUM FOR THE USAID/MALAWI DIRECTOR

FROM: William R. Brands *William R. Brands*

SUBJECT: Malawi Railways Restructuring Program (NPA No. 690-0276.12) and Malawi Railways Restructuring Project (Project No. 690-0277.12)

DATE: September 29, 1994

I. Problem: You are requested to (a) approve the Malawi Railways Restructuring Program (690-0276.12) with a three year life of program and a funding level of $20,000,000, (b) authorize $10,000,000 in FY 1994 funding for the program and (c) approve and authorize the Malawi Railways Restructuring Project (690-0277.12) with a three year life of project and a funding level of $5,000,000. The entire $5,000,000 will be obligated using FY 1994 funds. The program and project components are being authorized and obligated separately but share one Program Assistance Approval Document (PAAD).

II. Discussion

A. Background

Malawi, as a landlocked country, must depend on neighboring countries for all imports and exports to the sea. The strategic role of Malawi Railways lies in its ability to provide the shortest and most economical routes for Malawi's international traffic. Until 1982, virtually all imports and exports were carried by rail through Mozambique utilizing the ports of Beira and Nacala. The civil war in Mozambique, however, closed these traditional routes for over a decade. Traffic was diverted by road to the port of Durban thus increasing transport distances by 200 to 300 percent and placing Malawi in the unenviable position of having the highest transport costs in the world. According to the World Bank, the continuing dependence on the longer and more expensive routes is costing the Malawian economy about $40-50 million dollars per year, with transport costs remaining as high as 41% of the total landed costs of imports and exports. These high transport costs have had an especially adverse impact on the 1.8 million smallholder farm families who rely on imported inputs for both subsistance and cash crops.

Expecting a resumption of operations on the Mozambican railway networks, Malawi Railways did not take steps to reduce or redeploy its manpower. It has remained for the last decade a bloated parastatal in the best tradition of such enterprises and a critical drain on the Government of Malawi's (GOM) budget. Malawi Railways is over MK 100 million in debt to the GOM for budgetary outlays to keep the railroad afloat and approximately MK 50 million in debt to commercial banks. Furthermore, surplus locomotives and wagons were neither offered on hire to other railways nor mothballed, nor were train operating schedules and frequencies reduced. The continued high operating costs meant that since the 1980s the revenues generated by Malawi Railways have not been sufficient to cover even the operating costs; accordingly Malawi Railways does not have the capacity to service its long or short-term loans, or to finance the replacement of its worn-out assets. It is not surprising that Malawi railways went insolvent in 1993.

Although limited operations on the Nacala Corridor were resumed in 1990, the route has not been able to attract its former business. Only 15% of Malawi's international freight traffic utilized the Nacala Corridor in 1993. The railways in both Mozambique and Malawi continue to suffer from poor management, inefficient operating arrangements, and a basic lack of synergism between each other. Subsequently, the Nacala Corridor has been unable to attract a greater volume of business despite its shorter distance.

A sound policy environment is also essential for the success of Malawi Railways' plans to become commercially viable. However, the need to utilize other modes of transport has lead to some distortions in inter-modal competitiveness, especially with respect to the pricing of domestic transport services, both passenger and freight. Removal of regulatory and licensing impediments, price liberalization and improved access of finance are all policy-related areas which could have a substantial positive impact.

With the Mozambican Peace Accords being implemented, opportunities exist for reducing high transport costs through a resumption of efficient rail service to the port of Nacala and improving transport sector policies. The GOM has taken the lead in addressing many of these issues, including the initiation of an ambitious restructuring program of Malawi Railways in 1993. However, the GOM requested donor support when it was agreed that the financing requirements were far in excess of its abilities to fund. The Malawi Railways Restructuring Program is a response to this Malawian initiative.

B. Summary of Program Description

The Malawi Railways Restructuring Program is a component of the Regional Railways Restructuring Program funded under the Southern Africa Regional Program (SARP). The goal to which this program contributes, is: "To enhance the environment for increased trade and investment in the Southern Africa Development Community (SADC) region." The goal of the Malawi Railways component mirrors this. The purpose of the Malawi Railways Restructuring Program, however, is more specific to the Malawian situation. The purpose is: "To

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reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency, reliability and inter-modal competitiveness." The combined program and project will provide $25 million to support GOM activities in achieving this objective.

Budget support in the form of three cash grants totalling $20 million over the next three years will directly support achievement of the Program's purpose. It will enable the GOM to:

(a) improve the efficiency and reliability of the Nacala Corridor through: (1) improving the efficiency and reliability of the railways in Malawi and Mozambique; (2) intensifying market outreach; and (3) resolving operational problems through regular consultation;

(b) restructure, commercialize and eventually privatize Malawi Railways by: (1) setting up a new railway company; (2) winding down the existing parastatal; and (3) improving abilities of staff to run a market-driven railway: and

(c) formulate a transport policy that fosters a sound environment for commercially viable transport businesses.

Five million dollars in project assistance will be granted to assist the GOM in the implementation of these three activities. Project assistance includes technical assistance, studies, training and computers.

Current analyses indicate that the program will lead to: (1) a reduction of surface transport costs on crucial farm inputs, and other imports and exports from current high level of 41% of landed transport costs to 35%; (2) a resumption of a minimum of 300,000 metric tons per year of traffic on the Nacala Corridor from the current level of 110,000 metric tons; and (3) a policy environment that fosters commercially viable transport businesses. Such achievements represent a minimum cost savings to the Malawian economy of $30 million a year.

C. Disbursement Mechanisms

It is anticipated that program DFA funds will be disbursed to the GOM in three tranches over the life of the Program. An illustrative disbursement schedule is contained in the PAAD. Dollars will be disbursed directly to the Reserve Bank of Malawi's account in the Federal Reserve Bank of New York. The Congressional Notification for this Program contained notification of an exemption under Section 537 (b)(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1991 so that dollar disbursements do not have to be deposited in a separate account and programmed for specific uses. As a result, dollars will only be tracked for confirmation of their receipt.

There will be no formal local currency generations or deposits made

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by the GOM under this Program. However, the GOM will make a counterpart contribution of not less than $7,500,000 by September 30, 1997, which will be budgeted for and expended on mutually agreed activities appearing in the GOM's Letters of Intent.

USAID will monitor additional GOM financial and budgetary commitments through GOM Letters of Intent (LOI) and annual implementation reviews. LOIs will be required prior to the initiation of each tranche period and, among other requirements, will include a description of the financial resources to be provided by the GOM in support of activities contained in the upcoming tranche. The Grant Agreement will require USAID satisfaction that the funds committed by the GOM in the LOIs were actually made available prior to USAID disbursements.

D. Feasibility

The combined Program/Project has been subjected to all of the standard , USAID-required feasibility analyses. As a result of the analyses, the Program has been found to be economically, technically, socially, and institutionally feasible. Furthermore, assumptions and constraints of feasibility have been clearly identified, and the Program design has been modified to include actions to reduce risk. These analyses are all presented or summarized in the body of the PAAD. All relevant analyses are attached to the PAAD.

E. Financial Plan

Detailed financial plans both for the Project and the Program are included in the PAAD. A comprehensive procurement plan is also incorporated into the PAAD. An overall illustrative summary program/project financial plan is found in the Summary and Recommendations section of the PAAD.

III. Actions Precedent to Disbursement.

The actions precedent to disbursement are contained both in the Policy Matrix and Section VI of the PAAD.

IV. PAIP ECPR Issues and Special Concerns

An Executive Committee for Project Review (ECPR) was held in USAID/W on June 29, 1994, at which time it was decided to move forward with Program authorization and initial obligation for FY 94.

A. ECPR Issues

The following issues were raised during review of the PAIP/PID in USAID/W, and have been addressed as noted:

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Issue 1. Rationale for a Regional Approach

Given the regional focus of the overall program, it was determined that a regional framework and constraints analysis be included in the Malawi PAAD/PP. The PAAD subsequently includes a comprehensive discussion of the program activities and constraints within a regional context. Careful consideration was also given in PAAD preparation to DFA principles including the people-level impact of the program.

Issue 2. Justification for Choice of Delivery Modes

The ECPR requested that USAID/Malawi revise the PAIP to include a specific discussion of how the Mission arrived at its mix of delivery modes (NPA and Cash Transfer vs. Project, CIP and Cost Reimbursements). The Mission provided this information in the PAIP. Additionally, the PAAD provides a more explicit justification of why the NPA mechanism instead of a local cost financing approach will be utilized and why a CIP is inappropriate.

Issue 3. Host Country Contribution

It was determined that the Mission will include a minimum host country contribution in the final design of the PAAD/PP based on the budgetary resources information provided in the Letter of Intent. The Mission will also document in the PAAD the need to allow a sufficient period of time for ultimate host country expenditure reconciliation. The PAAD includes a host country contribution of 25% and a sufficient time period for host country expenditure reconciliation.

Issue 4. Allocation of FTE/PSC Ceiling for Implementation

USAID/Malawi requested an additional FTE or PSC to hire as a program coordinator. It was determined that the Africa Bureau could not allocate an additional FTE, but that it may be possible to allocate a PSC to Malawi in FY96.

Issue 5. Delegation of Authority

As previously noted, it was determined that a more explicit discussion of certain aspects of the delivery modes was necessary in order to provide an adequate justification for NPA. It was noted that once this discussion was incorporated into the PAAD/PP, the Mission Director would receive an ad hoc delegation of authority to authorize the Program and Project. As the Mission has incorporated this discussion into the PAAD/PP, the AA/AFR delegates to you, as Mission Director of USAID/Malawi, an ad hoc delegation of authority to authorize the Malawi Program (690-0276.12) and the Malawi Project (690-0277.12).

B. Special Concerns

The following special concerns were raised, and have been addressed as follows:

1. DFA Objectives

The ECPR stressed the necessity to link the purpose statement to DFA objectives in terms of people level impact and this impact is clearly reflected in the purpose of the Malawi Railways Restructuring Program.

2. Vulnerable Groups

The ECPR noted that although certain groups will benefit from the program, the Mission should be aware that other vulnerable groups may be negatively impacted. The Mission has included a comprehensive social soundness analysis in the PAAD.

3. Railway Reform Legislation

If legislative actions are required to accomplish program/project objectives, FAA Section 611A(2) requires each Mission to state the basis for its belief that these actions will be accomplished on a timely basis. Legislative action will not be required to form a new railway company which is the basis of key program activities. However, changes to existing legislation, as it pertains to the old railway parastatal, are recommended to preclude any confusion between the two.

4. Relationship Between USAID and Other Donors

The ECPR noted that USAID plans on-going coordination with other donors on reform measures. Given the coordinated nature of the program, USAID/Malawi was advised not to proceed unilaterally if other donors end participation, unless the Mission conducts an adequate assessment of the program and after consultation with USAID/W. USAID/Malawi has agreed not to proceed unilaterally without an assessment or consultation.

5. Financing of Feasibility Studies

The Trade and Development Agency has been charged with carrying out any U.S. Government funded feasibility studies unless such studies are planned by USAID as part of an ongoing development program. The Mission has no plans for such feasibility studies.

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V. Other Requirements

A. Initial Environmental Examination (IEE)

The IEE was approved by the Africa Bureau Environmental Officer on July 19, 1994 and cleared by AFR/GC on July 21, 1994. A negative determination was approved for program activities and a categorical exclusion for the project activities of training, studies and technical assistance. The entire IEE appears as an annex of the PAAD.

B. Statutory Checklists

All checklists (statutory and country) appear as an annex of the PAAD.

C. Source/Origin

The authorized USAID geographic code for procurement of goods and services, with the exception of ocean shipping, air travel and transportation services, is Code 935 and Malawi. Shipping and air travel/transportation regulations are specified in the Program Grant Agreement. Generally, all reasonable efforts are to be made to maximize procurement of goods and services from the U.S.

D. Notification to Congress

The Congressional Notification was submitted to the Hill on September 15, 1994 and expired on September 28, 1994.
The CN contained an exemption to the separate dollar account requirement.

E. Cash Transfer Approval

The action memorandum for the use of the cash transfer mechanism in the non-project assistance component of the program was approved by the Office of the AA/AFR on September 26, 1994.

F. Waiver of Returned Interest to U.S. Government

Per Kleinjan-Vance e-mail of September 29, 1994, it is our understanding that a waiver has been granted to exempt this program from the requirement to track interest earnings on cash transfers per State 205189.

G. Technical Reviews

Relevant sections of the PAAD have been reviewed by the Mission Controller. The RLA reviewed and approved the PAAD on September 13, 1994. The PAAD has also been thoroughly reviewed by the Agriculture and Food Security (AFS) Office, which will be the office responsible in USAID/Malawi for management and implementation of the program, and the Program and Project Development (PPD) Office.

H. Gray Amendment

The PAAD recommends full and open competition in the choice of institutional contractors for any technical assistance which may be required under the project component. Notices in the Commerce Business Daily and instructions to offerors will contain language encouraging "participation to the maximum extent possible of small business concerns, small disadvantaged business concerns and woman-owned small business concerns . . . as prime contractors and subcontractors."

VI. Delegation of Authority

With the incorporation in the PAAD of statements and justifications to the effect that a comparison between an NPA mechanism and local cost financing approach was explicitly considered, and that the NPA mechanism was deemed indispensable, and that public, quasi-public and private CIPs are considered inappropriate as per State 255844, all actions required by the ECPR prior to authorization have been completed. You may, therefore, exercise your ad hoc delegation of authority as per State 255844 in accordance with the terms and conditions of Delegation of Authority 551 to approve and authorize the Malawi Railways Restructuring Program PAAD and the Malawi Railways Restructuring Project.

VII. Recommendation

That you:

A. Approve a multi-year, combined project (690-0277.12) and non-project sector assistance program (690-0276.12) for the Republic of Malawi titled the Malawi Railways Restructuring Program with anticipated USAID financing totalling $25,000,000 ($20,000,000 of non-project assistance and $5,000,000 in project assistance) over a three year period;

B. Authorize $10,000,000 of non-project assistance for obligation in FY 1994 under Program No. 690-0276.12;

C. Authorize the full amount of project assistance totalling $5,000,000 for technical assistance and related costs under Project No. 690-0277.12; and

D. Sign both the Program and Project Agreements, obligating $10,000,000 and $5,000,000 respectively, of FY 1994 DFA funds.

APPROVED Cynthis F. Rozell

DISAPPROVED ________

DATE 30 September 1994

Attachments:

1. PAAD Facesheet/Authorization
2. Project Data Sheet
3. Project Authorization
4. PAAD

Drafted: W. Brands, PPD
Clearances: T. Lofgren, PPD TL 9/29/94
M. Sarhan, PPD 9/29/94
G. Rozell, AFS 9/29/94
M. Powdermaker, FMO 9/29/94
A. Vance, RLA Draft 9/30/94
S. Scott, DD 29 Sept. 94

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CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)	1. PAAD Number 690-2276.12 (690-T-603)
	2. Country Malawi
	3. Category Non-Project Sector Assistance
	4. Date September 29, 1994
5. To Cynthia F. Rozell, Mission Director	6. OYB Change Number n/a
7. From William R. Brands, PPD, USAID/Malawi William R. Brands	8. OYB Increase: n/a To be taken from:
9. Approval Requested for Commitment of $10,000,000.00	10. Appropriation Budget Plan Code GSS4-94-31612-IG39

11. Type Funding	12. Local Currency Arrangement	13. Estimated Delivery Period	14. Transaction Eligibility Date
☐ Loan ☒ Grant	☐ Informal ☐ Formal ☒ None	9/94 - 9/97	October 1, 1994

15. Commodities Financed None

16. Permitted Source		17. Estimated Source
U.S. only		U.S.
Limited F.W.		Industrialized Countries
Free World		Local
Cash	$10,000,000.00	Other

18. Summary Description

See Atttached.

19. Clearances	Date	20. Action
PPD: T. Lofgren TL	9/29/94	☒ APPROVED ☐ DISAPPROVED
PPD: M. Sarhan	9/29/94	
AFS: G. Rozell G Rozell	9/29/94	Authorization Signature: Cynthia F. Rozell — Date: 30 September 1994
FMO: M. Powdermaker	9/29/94	
RLA: T. Fillinger, (in draft)	9/13/94	Title: Mission Director, USAID/Malawi
DD: S. Scott	29 Sept 94	

AID 1120-1 (8/91) CLASSIFICATION

XD-ABP-585-A
95192

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete
Amendment Number:
DOCUMENT CODE: 3

COUNTRY/ENTITY: MALAWI

3. PROJECT NUMBER: 690-0277.12

4. BUREAU/OFFICE: AFR

5. PROJECT TITLE (maximum 40 characters): MALAWI RAILWAYS RESTRUCTURING PROJ.

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 97

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 94 B. Quarter 4 C. Final FY 95

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(5,000)	( )	(5,000)	(5,000)	( )	(5,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS	5,000		5,000	5,000		5,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1)						5,000		5,000	
(2)									
(3)									
(4)									
TOTALS						5,000		5,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To reduce surface transport costs on smallholders inputs and export crops through increased railway efficiency and reliability and inter-modal competitiveness.

14. SCHEDULED EVALUATIONS
Interim MM 01 YY 96 MM YY Final MM 06 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES
☐ 000 ☐ 941 ☒ Local ☒ Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

Controller: Clearance 9/29/94

17. APPROVED BY
Signature: Cynthia F. Rozell
Title: Mission Director
Date Signed: MM 09 DD 30 YY 94

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY

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PAAD FACESHEET, ITEM 18, SUMMARY DESCRIPTION

The purpose of the Malawi Railways Restructuring Program is to reduce surface transport costs of smallholder inputs and export crops through increased railway efficiency and reliability and inter-modal competitiveness. The program will accomplish three objectives: improve the reliability and efficiency of the Nacala Corridor to enable Malawi Railways to capture a maximum share of overseas traffic; turn Malawi Railways into a commercially viable transport business through restructuring and eventual privatization; and formulate a transport policy that fosters a sound environment for commercially viable transport businesses.

The attached PAAD justifies a $25.0 million program consisting of $20 million in USAID cash disbursements AND $5 million in USAID project assistance. Of this amount the PAAD facesheet authorizes $10 million of cash disbursements. The program grant will be disbursed in three separate tranches over a three-year period, subject to satisfaction of the actions precedent to disbursements contained in Section VI of the PAAD.

The program will be exempt from the separate account requirements of Sec. 537(b)(1) of the 1994 Foreign Operations, Export Financing and Related Programs Appropriation Act. Congress was notified of USAID's intent to allow this exemption via the normal Congressional Notification process as permitted by Sec. 537(b)(4). The program will not generate local currency nor require a special local currency deposit.

PROJECT AUTHORIZATION

Name of Country:	Malawi
Name of Project:	Malawi Railways Restructuring Project
Number of Project:	690-0277.12

1. Pursuant to Chapter 10 of Part I of the Foreign Assistance Act of 1961, as amended, and Title II of the Foreign Operations, Export Financing and Related Program Appropriations Act, FY 1991, under the heading "Sub-Saharan Africa, Development Assistance," I hereby authorize the Malawi Railways Restructuring Project (the "Project") for the Republic of Malawi (the "Cooperating Country"), involving obligation of $5,000,000 in grant funds, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is three years from the date of initial obligation.

2. The project component will finance technical and other related assistance to support the implementation of activities designed to reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and inter-modal competitiveness.

3. The Project Grant Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with USAID regulations and Delegations of Authority, shall be subject to the following terms and covenants and major conditions, together with such other terms and conditions as USAID may deem appropriate.

Source and Origin of Commodities, Nationality of Services

Commodities and services financed by USAID under the Project shall have their source and origin in the United States, in the Cooperating Country, or in countries included in Geographic Code 935, except as USAID may otherwise agree in writing.

Except for ocean shipping and air transportation and travel services to or from the U.S., the suppliers of commodities or services shall have the United States, the Cooperating Country, or other countries included in Geographic Code 935, except as USAID may otherwise agree in writing.

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Ocean shipping financed by USAID under the Project shall, except as USAID may otherwise agree in writing, be financed only on flag vessels of the United States or Code 935 countries. Air travel and transportation shall be financed only on U.S. flag carriers to the extent they are available. Procurement of commodities and services of U.S. source, origin and nationality shall be maximized to the extent practicable.

Cynthia F. Rozell

Cynthia F. Rozell
Mission Director
USAID/Malawi

Dated: 30 September 1994

Drafted: W. Brands
Clearances: T. Lofgren, PPD TL 9/29/94
M. Sarhan, PPD 9/29/94
G. Rozell, AFS G Rozell
M. Powdermaker, FMO 9/29/94
T. Fillinger, RLA (Draft 9/13/94)
S. Scott, DD 29 Sept 94

MALAWI RAILWAYS RESTRUCTURING PROGRAM
Program No. 690-0276.12

PROGRAM ASSISTANCE APPROVAL DOCUMENT

TABLE OF CONTENTS

ATTACHMENTS

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I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

USAID/Malawi recommends the approval and authorization of the Malawi Railways Restructuring Program (MRRP), USAID Program No. 690-0276.12 and Project No. 690-0277.12. This combined project (PA) and non-project sector assistance (NPA) authorizes funding of US $25,000,000, consisting of $20,000,000 in NPA and $5,000,000 in PA. Initial FY 94 obligations will total $10,000,000 in non-project sector assistance and $5,000,000 in project assistance. The proposed NPA will require incremental obligations totalling $10,000,000. Development Fund for Africa (DFA) grants will finance both the project and non-project sector assistance activities. The anticipated Project Assistance Completion Date (PACD) is September 30, 1997. The Malawi Railways Restructuring Program is a component of the Regional Rail Restructuring Program funded under the Southern Africa Regional Program (SARP).

B. The Grantee

The Grantee will be the Government of Malawi (GOM), acting through the Ministry of Finance (MOF), the Ministry of Transport and Communications (MOTC), and Malawi Railways. This program will support GOM-led initiatives in transport sector policy reform and institutional restructuring, commercialization and privatization of the parastatal, Malawi Railways. USAID/Malawi will enter into a collaborative relationship with the GOM and Malawi Railways to provide the financing required for continued policy and institutional reforms. This program works in concert with the grantee's approach to, and goals for transport sector policy and institutional reform and seeks to facilitate its implementation.

C. Summary Program Description

The strategic role for Malawi Railways lies in its ability to provide the shortest and most economical routes for Malawi's international traffic. Until 1981, virtually all imports and exports were carried by rail through Mozambique utilizing the ports of Beira and Nacala. The civil war in Mozambique, however, closed these traditional routes for over a decade. Traffic was diverted by road to the port of Durban thus increasing transport distances by 200 to 300 percent and placing Malawi in the unenviable position of having one of the highest transport costs in the world. According to the World Bank, the continuing dependence on the longer and more expensive routes is costing the Malawian economy about $ 40-50 million dollars per year, with transport cost remaining as high as 41% of the total landed cost of imports and exports. These high transport costs have had an especially
adverse impact on Malawi's 1.8 million smallholder farm families who rely on imported inputs for their subsistence.

Expecting a resumption of operations, Malawi Railways did not take steps to reduce or redeploy its manpower. It has remained for the last decade a bloated parastatal in the best tradition of such enterprises and a critical drain on the Government of Malawi's budget. Malawi Railways is over MK 100 million in debt to the GOM for budgetary outlays to keep the railway afloat and approximately MK 50 million in debt to commercial banks. Furthermore, surplus locomotives and wagons were neither offered for hire nor mothballed, nor were train operating schedules and frequencies reduced. The continued high operating costs meant that since the 1980s the revenues generated by Malawi Railways have not been sufficient to cover even the operating costs; accordingly Malawi Railways does not have the capacity to service its long or short-term loans, or to finance the replacement of its worn-out assets. It is not surprising that Malawi Railways went insolvent in 1993.

Although limited operations were resumed on the Nacala Corridor in 1990, the route has not been able to attract its former business. Only 15% of Malawi's international freight traffic utilized the Nacala Corridor in 1993. The railways in both Mozambique and Malawi continue to suffer from poor management, inefficient operating arrangements, and a basic lack of synergism between each other. Subsequently, the Nacala Corridor has been unable to attract a greater volume of business despite its shorter distance.

A sound policy environment is also essential to the success of Malawi Railways' plans to become commercially viable. However, the need to utilize other modes of transport has lead to some distortions in inter-modal competitiveness, especially with respect to the pricing of domestic transport services. Removal of regulatory and licensing impediments, price liberalization and improved access to finance are all policy-related areas which could have a substantial positive impact.

With the Mozambican Peace Accords being implemented, opportunities exist for reducing high transport costs through a resumption of rail service to the port of Nacala and improving transport sector policies. The GOM has taken the lead in addressing many of these issues, including the initiation of an ambitious restructuring program of Malawi Railways in 1993. However, the GOM requested donor support when it was agreed that the financing requirements were far in excess of its abilities to fund. The Malawi Railways Restructuring Program is a response to this Malawian initiative.

The Malawi Railways Restructuring Program is a component of the Regional Railways Restructuring Program funded under the Southern Africa Regional Program (SARP). The goal to which this program contributes, is, "to enhance the environment for increased trade and investment in the Southern Africa Development Community (SADC) region." The goal of the Malawi Railways component mirrors this. The purpose of the Malawi Railways Restructuring Program, however, is more specific to the Malawian situation. The purpose is to reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency, reliability and inter-modal competitiveness. The program will provide $25 million in grant assistance to support GOM activities in achieving this objective.

Budget support in the form of three cash grant tranches totalling $20 million over the next three years will enable the GOM to:

(a) improve the efficiency and reliability of the Nacala Corridor through (1) improving the efficiency of the Malawi and Mozambican railways, (2) intensifying market outreach, and (3) resolving operational problems through regular consultation;

(b) restructure, commercialize and privatize Malawi Railways by: (1) setting up a new railway company; (2) winding down the existing parastatal; and (3) improving abilities of staff to run a market-driven railway; and

(c) formulate a transport policy that fosters a sound environment for commercially viable transport businesses.

The $5 million in project assistance to support the GOM in the implementation of these three activities (supporting objectives) will finance:

(a) technical assistance to incorporate a new railway company, liquidate the assets of the old railway parastatal in a transparent and socially responsive manner, develop effective operating agreements and a coordinating entity between the railways in Mozambique and Malawi, establish a Transport Policy Unit within the MOTC, develop mechanisms for leasing the permanent way, and devise modes and options for the privatization of the new railroad company;

(b) studies that will directly support GOM initiatives and activities;

(c) training to support the GOM institutions and Malawi Railways involved in implementing the program; and

(d) the procurement of computers to improve managerial and operational capabilities of the new railway company, the liquidation
capabilities of the old railway parastatal and the analytical capabilities of the Transport Policy Unit within the Ministry of Transport and Communications.

Current analyses indicate that achievement of these activities will lead to (1) a reduction of surface transport costs on crucial farm inputs, and other imports and exports from the current high level of 41% of landed transport costs of imports and exports to 35%, (2) a resumption of a minimum of international traffic of 300,000 metric tons per year on the Nacala Corridor from the current level of 110,000 metric tons, and (3) an environment that fosters commercially viable transport businesses. Such achievements represent a minimum cost savings to the Malawian economy of $30 million a year.

D. Summary Program Budget

Summary Program Budget
($000)

Source/Assistance Type	FX	GOM	Total
Budget Resources	-	$7,500	$7,500
DFA/NPA (Policy Performance)	$20,000	-	$20,000
DFA/PA (TA, Training, Studies, and Computers)	$5,000		$5,000
TOTAL	$25,000	$7,500	$32,500

E. Policy Matrix

Regional Railways Restructuring Program			
Goal and Purpose		Impact Indicators	
GOAL: To increase trade and investment in Southern Africa			
PURPOSE: To reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and resulting intermodal transport competitiveness		Average CIF costs as share of total delivered price paid by smallholders of imported inputs reduced from 41% in 1994 to 35% in 1997. Difference between export price and price received by smallholders for exported commodities decreases by 15% as a result of reduction in transport costs.	
Supporting Objective One: Improve the efficiency and reliability of the Nacala Corridor			
Tranche 1	Tranche 2	Tranche 3	Program Indicators
Draft an "Operational Agreement" between CFM (N) and MR indicating minimum performance standards, modalities for tariff restructuring, and mechanisms for collecting revenues.	Sign the "Operational Agreement". Establish a joint review board (JAB) between the GOM/MR and the Government of Mozambique/CFM (N) to periodically review implementation of the operations agreement. Establish arbitration mechanisms for disputes.	Implement operational agreement and mechanism for arbitration.	Average time required to move transport from Nacala to Blantyre declines from 7 days to 2 days. International traffic on the Nacala line increases from 110,000 MT in 1994 to 300,000MT by 2000. Operational Agreement. Establishment of revenue collecting and arbitration mechanisms. Reports of the JAB.
	Receive from MR an assessment of capacity building requirements for new railway.		MR assessment report

Supporting Objective Two: Restructure and Privatize Malawi Railways			
Tranche 1	Tranche 2	Tranche 3	Program Indicators
Develop a detailed Restructuring Preparatory Plan which outlines activities to be undertaken to implement the restructuring program including arrangements for asset transferrals and the capital structure of the new company. Develop an equitable and transparent retrenchment program.	Incorporate the new railway company under the Companies Act and transfer assets to the new company. Implement the equitable and transparent retrenchment program. Prepare a process for the sale of non-core assets which is transparent. Develop an appropriate mechanism for leasing permanent way to the new railway company.	Implement mechanism for leasing permanent way to the new railway company. Develop employee credit scheme of excess funds from asset disposal.	Reduction in employment from 3500 in 1993 to 1000 by 1995. Incorporation documents. Transparent sale on non-core assets. Lease agreement. Financial statements from credit institution showing deposits from asset disposal.
Prepare and sign a Memorandum of Understanding between the GOM and Malawi Railways on the respective obligations and responsibilities of each, and overall performance targets to be met by the railway.	Draft revisions to all appropriate railway legislation and regulation enabling the New Malawi Railways Company to be autonomous and privatized.		Revised railway legislation.
	Develop employee stock ownership instruments for purchase of shares in the new railway, and reserve shares for this purpose at the time that the new company is established. Develop a transparent process for the privatization of the railway, through sale or concession.	Implement process for the privatization of the railway.	Accounting statement indicating reserve shares for employee stock ownership. Transparent sale of core railway to nongovernment entity.

Supporting Objective Three: Formulate a transport policy that fosters a sound environment for commercially viable transprt activities.			
Tranche 1	Tranche 2	Tranche 3	Program Indicators
Formulate a comprehensive surface transport policy statement which supports and promotes: (a) a fair and open competitive environment for transport operators, through a program of sector deregulation, liberalization, commercialization and privatization; and (b) safe and environmentally sound transport operations. The policy agenda shall cover all modes of surface transport including rail transport, road transport and water-borne transport.	Prepare an agenda of issues and constraints identified in the policy statement for research and analysis. Establish a Transport Policy Unit (TPU) or some other institutional means in the MOTC to undertake analysis and impact assessment for policy formulation. Draft ammendments to transport legislation.	Based on findings of analyses undertaken by the Transport Policy Unit, draft amendments and revisions to relevant legislation and regulations which are in support of the new transport policy.	Traffic on the Beira corridor increases from 150,000 in 1994 to 225,000 by 2000. Policy statement. Studies and assessments produced by the TPU. Ammendments, revisions, and regulations to new transport policy reflecting recommendations in analyses.
Other activities			
Provide Letter of Intent and Action Plan for implementation of Tranche 2 activities.	Provide Letter of Intent and Action Plan for implementation of Tranche 3 activities.		

II. BACKGROUND

A. Macroeconomic Setting

1. Regional Macroeconomic Setting

Southern Africa is a region about three fourths (2,250,000 square miles) the size of the United States that includes eleven countries. The region has a population of 124 million people. The region is also endowed with enormous natural resources with extensive mineral deposits, substantial mineral reserves, deep water port facilities and a well integrated transport network.

Recent data indicate that total trade of the Southern Africa Development Community (SADC) was valued at US$27.8 billion in 1990. Of this amount, about 75.5 percent was international trade and 24.5 percent was with South Africa. Although trade within SADC was only US$1.5 billion in 1990, a more efficient infrastructure system will enhance the prospects for both intra-regional and international trade as transport costs are reduced.

2. Macroeconomic Setting of the Malawian Economy

The economy of Malawi is predominantly rural and relatively small by international standards. Agriculture is the primary source of income for most Malawians. About 85 percent of Malawi's population residing in the rural areas depend on agriculture for food, energy, employment and income. The agricultural sector accounts for more than 35 percent of the country's GDP, over 90 percent of foreign exchange earnings, and 82% percent of the employed labor force. Malawi's major exports are tobacco, tea and sugar with fertilizer and petroleum products being the primary imports. The contribution of the manufacturing sector towards GDP has remained largely insignificant over the past five years, about 15 percent. The small population size and the low per capita income have tended to undermine the expansion in the manufacturing sector through the narrow domestic market. Malawi's total population is currently estimated at 10 million people, with a per capita GDP of about US$ 210 in 1993. [Note: the significant depreciation in the value of the Malawian kwacha since it was floated in February 1994 has significantly reduced per capita income in US dollar terms. The 1994 per capita income is now estimated at about US$ 140.]

After almost two decades of impressive economic growth following independence in 1964, the Malawian economy slowed down. Exogenous factors such as rising oil prices, decline in the terms of trade and prolonged drought accounted, in part, for this downturn. Additionally, civil strife in neighboring Mozambique resulted in an influx of more than 900,000 refugees following the outbreak of civil war. Further exacerbating Malawi's macroeconomic situation was an escalating transport bill that resulted from diverting international traffic from least cost routes through Mozambique to more costly routes to Durban, South Africa and Dar es Salaam, Tanzania. This followed the closure of the Nacala line in 1984, as well as the Sena line to Beira. The 1991/92 drought also placed downward pressure on Malawi's economy as the country had to import significant amounts of food stuffs.

Geographically, Malawi is a land-locked country. Its shortest route to an international port of Nacala by road or rail is about 800 kilometers (km). The use of this shortest route has been restricted by intermittent disruptions. For over a decade, the country has heavily relied on the much longer and more expensive transport routes to the port of Durban, a distance of approximately 2,400 km. As a result, Malawi's transport bill for international traffic over the past years has been exceptionally high, over US$100 million.

With such a high transport bill, the country's future economic prospects will be heavily dependent upon its ability to effectively utilize the most economical (least cost in terms of total distribution cost) routes for the its imports and exports.

Opportunities exist for reducing Malawi's transport bill with better utilization of the routes. The Government of Malawi is committed to enhancing the allocation of freight traffic to the more economical routes. The shift in traffic along lower cost routes is expected to decrease the share of insurance and freight in landed cost (c.i.f. margin) from the present level of 41 percent to 35 percent in 1996. Already, tremendous investment has been made in the transport sector. Expenditures on transport development have dominated Malawi's development budget since independence. Over the past several years, road transport development received the largest subsector share of Malawi's transport expenditures. In the 1989/90 fiscal year, the share of the transport sector as a percentage of total development expenditures, excluding indirect subsidies to transport parastatal organizations, was very high at 36 percent; declining to 21 percent in 1991/92. Recently published government reports indicate a declining trend in the past few years. The declining trend should be expected because once the infrastructure is developed, and assuming an average of a 25 to 30-year useful life with adequate maintenance, little new capital investments would be required.

B. Transport Sector Overview

1. Regional Transport System

Recent developments in the southern African region, and in particular South Africa, offer favorable prospects for enhanced regional and inter-regional cooperation, particularly regarding the region's transport sector. Events, such as the formation of the Southern African Development Community (SADC) in 1993 and the Community for Eastern and Southern Africa (COMESA) in early 1994 are quite encouraging. The dismantling of international sanctions against South Africa, the election of a truly democratic and non-racial government in South Africa in April 1994 were key developments in the region. Additionally, the region-wide cooperation of all southern African states including South Africa during the 1991-1992 drought ushered in a new era of cooperation at a time when the region was most vulnerable. A more relevant development, as it relates to the Malawian transport context, was the 1992 signing of a peace accord between the Government of Mozambique and RENAMO. The event allowed Malawi's major export and import corridors to reopen and made them less vulnerable to security threats.

a. Characteristics of the Region's Transport Sector

The southern Africa region has a well-developed transport system. Its main characteristics are:

- a common interconnected railway system of national railways with a common track gauge extending from Capetown to Dar es Salaam and from Beira to Walvis Bay;

- a well developed international road network that is in reasonably good condition, although recent studies indicate about 50 percent of the roads in SADC member states are in need of repair and rehabilitation;

- an extensive port system with deep water facilities at Nacala, Mozambique and Walvis Bay in Namibia;

- with the exception of a few countries, most states in the region are within a relatively short distance to a port;

- a unique system of transport corridors that links the railways and road systems to the ports; and

- an extensive road haulage capacity, although this capacity is burdened with overly intrusive economic regulations.

The SADC transport corridors, many of which were once disrupted or closed because of war-related destruction and civil strife, are now reopened. One exception is the Lobito Corridor in Angola which will require rehabilitation once civil strife ends and normalcy returns to the country. This corridor links Angola, Zambia and Zaire to the Atlantic Ocean at the Port of Lobito. Although additional capital investments are required, such as completing the last 77 kilometer section of the Nacala Line and rehabilitating the Benguela Railway, adequate transport capacity exists in the SADC region.

Regarding the region's road system, a new bridge across the Limpopo River may be required to improve the flow of traffic between South Africa and the rest of the region. Additionally, some minor ferry and bridge improvements at crossings on the Zambezi River that links Zambia to Botswana, Zimbabwe and Namibia may be necessary. Beyond these capital needs and in view of existing excess capacity and the projected traffic demand, no other major capital investments in infrastructure are required. The main requirement for the region's road network are adequate road maintenance and consistent, clear and unambiguous road financing and maintenance policies and practices.

b. Opportunities in the Regional Transport Sector

The capacity and performance of the region's transport system was demonstrated during the 1991-1992 drought when the system handled some 12 million tons. Despite initial doubts, by most accounts, the region's transport system performed remarkably well. This was a result of the cooperation among the region's transport enterprises including those of South Africa. However, the long-term outlook for the transport sector, particularly the railways and the airlines, is less promising unless radical changes take place.

Notwithstanding its performance during the 1991/92 drought, the southern Africa's transport system over the past several years have had only a marginal performance. This has resulted in negative financial impacts on national budgets. This situation offers a wide scope of opportunities to introduce transport policy and regulatory reforms and operational efficiency improvements. This is especially urgent now that adequate transport infrastructure capacity exists in the region and that hostilities in Mozambique and between SADC member states and South Africa have ceased. And, even though a solution to ending hostilities in Angola remains problematic which effectively delays the rehabilitation and efficient movement of traffic through the Lobitio Corridor, actions must be taken now.

The region's transport corridors, once devastated due to twenty years of civil strife and war-related destruction, have now been rehabilitated. More than adequate infrastructure capacity exists to handle the projected volume of inter-regional and intra-regional trade. The main development opportunities in the region's transport sector now are in the area of assisting governments to improve the managerial and operational efficiencies and financial performance of their transport enterprises. This is required in order to lower their transport bill and make a positive impact on their country's fiscal balance.

In order to take full advantage of these opportunities, the region's policy and regulatory environment must be dramatically transformed. The region's governments must allow market-based price signals to determine the type and level of transport services to offer. This means, first and foremost, a lessening of governmental interference in the economic regulation of transport services. Privately-owned or state-owned enterprises must be free to set prices for services, free to enter and exit markets, and free to make and retain profits and autonomy in their operations.

Continued rationing of transport services by national governments through economic regulation and pricing and investment policy (e.g., tariffs, user fees, cumbersome transit documentation and procedures and other barriers) is no longer justifiable or sustainable. The financial burdens state-owned transport enterprises, particularly railways and airlines, impose on their national governments is simply too costly. Burdensome regulations and poor fiscal policies have the potential to adversely affect the region's trade and investment prospects. Additionally, most, if not all, of the region's parastatal transport enterprises require radical restructuring and eventual privatization. World-wide experience suggests that this can best be accomplished through schemes to restructure and privatize parastatal transport enterprises.

2. Nacala Corridor

Prior to the outbreak of hostilities in Mozambique, virtually all Malawian imports and exports were carried by rail to the Mozambican ports of Beira and Nacala. After 1981, the civil war seriously disrupted traffic operations. By 1984, both routes were completely closed. Traffic was consequently diverted from the Mozambican routes to those serving the port of Durban and thus increasing transport distances by 200 to 300 percent as well as the number of countries required to transit. While the Sena rail line to Beira has remained closed, the Nacala Corridor opened limited operations in 1990. The corridor consists of two railways and a port system. It includes Malawi Railways, CFM/N and the Port of Nacala. The Nacala corridor which runs from Lilongwe to the port of Nacala (about 807 km) is geographically and economically the most suitable route for Malawi's international traffic. The catchment area for the Nacala Corridor includes all of Malawi and most of northern Mozambique.

a. Malawi Railways

The Malawi Railways is a parastatal transport enterprise. Its railway line extends from Nyuchi, near the Mozambique border at Entre Lagos, to Nkaya. From Nkaya, the line branches northward through Lilongwe to the Zambian border, and extends southeastwardly through Blantyre to the border where it connects to CFM. Malawi Railways has a route length of 815 kilometers. Malawi Railways is one of the smallest railways in the region and, indeed in Africa, as compared to SPOORNET and the National Railways of Zimbabwe with 23,244 km and 2,745 km respectively.

For a variety of reasons which will be discussed under the constraints analysis, freight traffic via Malawi Railways fluctuated widely over the past ten years (See Table 1). In 1985, Malawi Railways carried a combined total of 398,000 tons of freight. Of this amount, only 7,000 tons was overseas traffic. During the past decade traffic volumes via Malawi Railways peaked in 1986 at 492,000 tons. This is against the railways' highest volume of 1,350,000 tons carried in 1973. The 1986 peak was primarily due to an increase in local traffic. For most of the 1980s, international rail traffic was virtually non-existent. International traffic carried by Malawi Railways only began to show substantial increases in 1990 when it increased to 24,000 tons. And by 1992 and 1993, international freight traffic had increased to 84,000 tons and 70,000 tons, respectively. A significant part of this increase was imports attributed to drought related food assistance.

b. Caminho de Ferro de Mozambique Norte CFM(N)

The government-owned CFM/N line is entirely in Mozambique. CFM/N runs 646 route kilometers from the Port of Nacala on the Indian Ocean to Entre Lagos on the border with Malawi. With the exception of a 77 kilometer section between Entre Lagos and Cuamba, the line has been completely rehabilitated with multi-donor assistance led by the Caisse Francaise de Development, Canadian CIDA and Portugal. The rehabilitated line uses a 45 kilogram per meter continuous welded rail laid on concrete sleepers. The maximum axle load on the rehabilitated section of the line is 20 tons. Although the 77 km section of the track is in poor condition, it is nonetheless negotiable. However, it requires speed restrictions of about 15 to 20 kilometers per hour. Maximum speeds of 100 kilometers per hour are possible on the rehabilitated sections of the line.

Maximum train capacity on CFM/N is estimated at 10-11 pairs of trains per day with train lengths of 40 wagons due to 650 meter passing loops. This train configuration produces gross trailing loads of about 1600 tons per train. With an optimal distribution and utilization of rolling stock and locomotives CFM/N annual line capacity can handle up to 9 million tons per year.

c. The Port of Nacala

The Port of Nacala is the northern most port facilities along Mozambique's coast line on the Indian Ocean. The port is a deep water facility that was recently rehabilitated with assistance from the Nordic countries. It has a half-mile wide channel with depths up to 60 meters. Large vessels can navigate the port channel and enter berthing areas with ease. Deepsea berthing facilities include four general cargo berths (426 meters) and new container quays (376 meters). Storage areas in the port include 7 warehouses with storage areas covering 21,600 square meters. The port also has a container facility.

The general layout of the newly rehabilitated port is adequate for projected traffic demand. Rail trackage within the port provides adequate capacity for placement of wagons for loading and off-loading. Access to the port by road is also possible for domestic traffic.

The annual capacity of the port is approximately 1 million tons for break-bulk cargo; 30,000 containers or TEUs (twenty-foot equivalent units); and 1.4 million tons of dry cargo. This results in a combined total cargo handling capacity of the port of 2.4 million tons.

After its closure in 1984 because of civil strife, the newly rehabilitated Nacala Corridor was reopened in 1990. The corridor was opened with a limited train capacity of one train per week which was later increased to two trains. Deterioration in the security situation in Mozambique caused repeated disruptions in rail service such as derailments and sabotage. With the cessation of hostilities in Mozambique and the signing of a peace accord, commercial operations along the corridor resumed and traffic volumes began to increase. Traffic data for 1993 indicate volumes of 110,000 tons or 15% of total traffic. This is against the volume that predated hostilities in Mozambique, when the corridor attracted up to 90 percent of the overseas traffic.

Current traffic volumes via the Nacala route are still only 15 percent of Malawi's international traffic. However, it is estimated that 300,000 tons of traffic could be attracted to the Nacala route if the corridor functioned efficiently. Additionally, the same analyses notes that an efficiently operated and privately-managed railway company could attract up to 60 to 75 percent or more of the estimated overseas traffic of about 750,000 tons a year.

3. Overview of the Transport Sector in Malawi

Malawi is a landlocked country that measures some 120,000 square kilometers (km) of which 20 percent is covered by Lake Malawi. It is one of the smallest countries in the southern Africa region. The longest airline distance of approximately 900 km runs north to south and extends from the country's northernmost border with Tanzania to its southernmost point bordering Mozambique. Malawi's largest population centers are its capital Lilongwe in the central region and Blantyre in the south. These two cities are separated by a surface distance of 300 km by road and 360 km by rail. Malawi's former capital Zomba about 70 km northeast of Blantyre and Mzuzu in the north at about 360 km from Lilongwe are secondary population centers.

a. The Transport System

Malawi's transport system consists of 10,800 km of roads, of which 2,700 km are main roads and 8,100 km of secondary and district roads; a railway with 815 km of track; four major lake harbors and four commercial airports. With the exception of road haulage, all transport in Malawi is controlled by government-owned parastatal organizations.

b. Road Network

The main road network is primarily concentrated in the south of the country. It includes 1,900 km of bitumen surface roads, 100 km of all-weather gravel roads and approximately 700 km of earth roads. The road network density is about 2 km per 1,000 inhabitants and about 1 km per 9 square kms of land surface. This compares favorably with the road network density in the neighboring countries of eastern and southern Africa. The road network is considered adequate to meet the country's growth potential. What's required is an on-going and intense maintenance program to prevent the road system from deteriorating.

Although Durban continues to attract a substantial share of Malawi's export and import traffic (about 60 percent in 1993/94), the reopening of the all weather road through Mozambique leading to the Port of Beira following the cessation of hostilities in Mozambique has begun to erode the share of traffic via Durban. This was a most welcomed development in terms of Malawi's transport bill. International freight traffic through Durban averages US$131 per ton compared to US$66 per ton via Beira.

c. Rail Transport

The country's railway line (Malawi Railways) extends from the southern border with Mozambique and then northward through Blantyre to Lake Malawi and then westward through the central region in Lilongwe to the Zambian border. Although the Sena Line is closed as a result of the past civil war in Mozambique, the railway line connects to the Sena line that extends to the Port of Beira in Mozambique. Malawi Railways also extends eastward to Nyuchi and connects with CFM/N that serves the Port of Nacala. Although Malawi Railways extends westward to Zambian border it does not connect to Zambia Railways. There is, however, a 27 km extension under construction from Mchinji to Chipata. In order for Malawi Railways to be fully connected to Zambia Railways' main line, construction of a 360 km line would be required.

Table 1. Freight Volumes Carried by Malawi Railways (in 1,000 tons)

	1985 /86	1986 /87	1987 /88	1988 /89	1989 /90	1990 /91	1991 /92	1992 /93	1993 /94a
Local	391	482	376	312	323	346	252	231	157
Impor	1	0	0	0	9	24	25	71	59
Expor	6	10	6	4	4	12	13	13	12
Trans	0	0	0	0	0	0	0	0	0
TOTAL	398	492	382	316	335	382	290	314	228

a: April-December 1993 only.

Major transport flows reflect the country's current economic activity. As revealed in Table 1 above, Malawi Railways carried a total of 228,000 metric tons of freight in 1993/94. This volume is down substantially from the level in 1985/86 when total freight volume was 398,000 metric tons. Of the 1993/94 traffic volume, only 71,000 tons were international traffic. As indicated in Table 2, Malawi's expected imports on the Nacala Corridor are mainly wheat flour, fertilizer, vegetable oil, and petroleum products, while exports are mainly tobacco and tea. The predominant flow of projected traffic is expected to be in the direction of imports.

Table 2. Expected Malawi traffic on the Nacala Line (in 1,000 tons)

Commodity	1994/95	1999/2000 reference
IMPORTS		
Fertilizer	24	44
Salt	6	7
Wheat(flour)	30	35
Veget. oils	14	16
Other dry	16	24.5
Petrol	3	12
Diesel	6	25.5
Jet A-1	16	20.5
TOTAL	115	184.5
EXPORTS		
Sugar	0	2
Tobacco	23	40.5
Tea	1	3.5
Cotton	0	0.5
Coffee	0	1
Other	5	6
TOTAL	29	53.5
GRAND TOTAL	144	238

Source: Projections by the World Bank Appraisal Mission of April 1994

The rehabilitation of the last 77 km section of the Nacala line will improve train speeds and reduce turnaround times for Malawi's Railways. The Nacala route is the most economical route for Malawi's international traffic. Average transport costs to the Port of Nacala are US$59 per ton compared to the more expensive routes via the multi-modal Northern Transport Corridor to Dar es Salaam (US$ 108/ton);

Beira (US$66/ton); and Durban (US$131 /ton). See Table 3 below for data on average transport cost and turn-around times.

Table 3. **Land Transport Costs of International Routes for Malawi (in US$ per ton)**

Route	Est. average land transport costs	Est. present transit time
Nacala (rail)	59	3-27 days
Beira (road)	66	1-2 days
Dar es Salaam (road and rail)	108	5-9 days
Durban (road and rail)	131	7-9 days

d. Lake Service Transport

Water-borne transport on Lake Malawi is another major transport mode available for passengers and freight in Malawi. Water-borne transport is provided by the Lake Service which until recently was part of Malawi Railways. Although Lake Services provide water-borne transport services, it plays a rather minor role in total freight traffic and passenger movements, including international traffic. Freight traffic is estimated at 30,000 tons per year, while passenger traffic is currently estimated at about 200,000 passengers per year. Traffic on the Lake Service is expected to increase with the commissioning of the new container/petroleum product ship, the Kwacha. Inadequate drafts at the two main ports of Chipoka and Chilumba have restricted the operations of Lake Services' main oil tanker and its container vessel, which was delivered in 1991 and has yet to be placed in service. Once the current dredging program is complete, these vessels will become more fully operational. However, the long-term viability of many the waterborne transport services provided by Lake Services will remain in question.

e. Air Transport

Malawi's national airlines (Air Malawi) provide passenger and freight service to five international (all in the eastern and southern African region) and four domestic destinations. Total international passenger traffic is expected to grow according to World Bank estimates at an annual rate of 5.7 percent by the year 2,000 and reach approximately 199,000 passengers. The average annual growth rate for domestic passenger traffic will be slightly less optimistic over the same period at 4.8 percent per year.

C. Constraints to Improving Transport Services

1. Regional Constraints

The constraints to an efficiently operated transport system in the southern African region can be grouped into five key areas: infrastructure capacity, managerial and operational capacity, financial constraints, institutional constraints, and policy and regulatory environment.

a. Infrastructure Capacity Constraints

USAID's Southern Africa Regional Program (SARP) funded a study in 1991 identifying infrastructure priorities in the SADC region. The study found that infrastructure constraints were being adequately addressed by USAID and other donors. USAID/SARP has supported SADC efforts to strengthen its rail, road, and port facilities. Between 1980 and 1994, USAID's investment in transport infrastructure totaled US$289 million. These funds were used to support infrastructure development projects aimed at improving physical capacity needed to transport critical production inputs, expand markets and enhance the management and efficiency of the infrastructure. However, 70 percent of USAID's investment in the transport sector over the past fourteen years has been directed at physical transport capacity and less that 1 percent had gone into efficiency improvements. After more than 14 years of consistent investments in improving physical transport capacity by USAID and other donors, little new capital investments are required.

Increasingly, the SARP program is shifting its focus away from increasing physical infrastructure capacity to operational and managerial improvements aimed at achieving efficient operations. Recent SARP funded projects such as the SADC Transport Efficiency Project was designed precisely to achieve efficient operations of the surface transport sector. This is to be achieved through the installation of regional computer-based wagon control and management systems along with a comprehensive and balanced set of transport policies for the region.

b. Managerial and Operational Constraints

Lack of managerial and operational capacity at all levels of management are among the most critical constraints transport enterprises face in the SADC region. This problem manifests itself in a variety of ways: lack of customer orientation; non-commercial business attitude; surplus labor pools; rolling stock and motive power; poor maintenance of locomotives and rolling stock; and poor operational practices and procedures.

i. Lack of a Customer Orientation

In the past, railways in the SADC region have had protected markets and effectively did not have to compete for freight traffic. Thus, the railways lacked a customer orientation and were unresponsive to market demand. Meanwhile, the road haulage industry became more competitive and responsive to customer needs. As a result, the share of total traffic transported by rail declined from 85% in 1981 to only 30% in 1991. Service reliability and dependability have been repeatedly cited by major shippers for shifting from rail to road, this despite the fact that transport is often twice as expensive as rail in terms of ton/kilometer. Furthermore, more than U.S.$1.0 billion have been invested in the region's railways system with litle apparent regard for efficient operations. Despite the fact that road transport was not a major beneficiary of these investment decisions, road transport operators have consistently outperformed the region's railways in the delivery of transport services.

ii. Non-Commercial Business Orientation of Railway Management

The general lack of a commercial business attitude on the part of the railway management remains a constraint to improving the operational and financial performance. Such non-business attitudes are reflected, not only in national policies, but also at the operational level of the railway enterprise. Many managers continue to cling to outdated management and railway operations practices. Some are even hostile to any mention of increasing opportunities for private sector participation in the railway. Although such attitudes are beginning to change in the region, they are far from being completely reformed.

iii. Poor Maintenance of Equipment and Physical Facilities

With few exceptions, SADC transport enterprises, particularly the railways, do a poor job of maintaining their rolling stock and permanent ways. On an average day, 50 to 60 percent of their locomotive fleets are unavailable for service compared to less than seven percent in North American railways. This situation has developed despite massive investments by the international community in new locomotives, spare parts, workshop equipment and tools and training throughout the region and within individual railways.

The condition of the track in some SADC railways has deteriorated due to a lack of maintenance. Although not the only cause, frequent derailments as a result of poor track conditions are not uncommon. Human error attributed mainly to poorly trained drivers is also resulting in a significant number of derailments. This has resulted in substantial financial and economic losses from insurance claims, lost productivity, etc.

iv. Poorly Managed Train Operations

Inefficient distribution and utilization of rolling stock and locomotives by railway management continue to result in low productivity in most of the region's railways. This manifests itself in excessively long turn-around times, poor wagon placements, low wagon availability, low locomotive utilization, poor train makeup, unnecessary shunting operations, high wagon-hire charges and a general lack of knowledge on the location and status of wagons. It is also not uncommon for railways in the region to send their train crews only to the neighboring country's border and return irrespective of how far the train has actually traveled. Crews are taken off and locomotives are returned without crossing the border. Such poor train coordination practices place railways in an uncompetitive position as compared to dock-to-dock services provided by the trucking industry.

v. Surplus Transport Capacity

The region's railways have experienced substantial declines in their traffic base over the past several years as a result of competition from road transporters. This has resulted in surplus capacity in its rolling stock, workshops, plant and equipment. Surplus capacity also exists in many of the region's permanent ways including track, railway sidings, yard, etc., as well as in its labor force. With continuing strong competition from the road transporters, it is unlikely that railways' capacity utilization will approach acceptable levels in the short run with their current asset base.

In addition to a declining traffic base, over capitalization also accounts for the excess capacity in the region's railways. Simply put, too many locomotives are available for the volume of traffic demanded. Excess capacity in locomotives and rolling stock result in low performance indicators if such equipment is not mothballed. With a declining traffic base due to competition from road haulers, the market share lost to road transporters is unlikely to be regained. Therefore, the surplus capacity is likely to remain a problem well into the future unless a clear strategy is formulated to either redeploy or divest of surplus assets.

vi. Non-standard Equipment

The lack of standardized equipment, particularly in the railways of the region, remains a constraint to efficient cross-border operations. Harmonization of standards, such as those of rolling stock airbrakes, wheels couplers, wagon design, and brake valves will improve the railways' ability to provide through service. This will also increase the opportunity to offer unit train service without the need to change locomotives and crews at border crossings.

vii. Procurement Procedures and Practices

Procurement policies and procedures in most of the region's railways tend to be archaic and often cumbersome. In many cases, the right spare parts are not available for routine service jobs. This unduly detains locomotives and wagons in maintenance shops when they should actually be in service. This practice also results in low locomotive and wagon availability and utilization. The lack of proper control over the procurement of spare parts and the reliance on a central tender board also delays the procurement of needed spare parts and inputs. In order for the transport sector to become efficient, a complete overhaul of their procurement policies and procedures must be undertaken.

viii. Lack of Focus of Core Business Operations

Many of southern Africa's transport enterprises, particularly the railways, continue to provide services and produce products in which they have no natural economic advantage including hotel accommodations, health facilities, food services, housing, maintenance of vehicle fleets, natural resources development, construction, etc. World-wide railway practice is to divest of non-core railway services and assets. The trend is to concentrate on providing efficient transport services with a decided customer orientation. Several of the region's railways are only now beginning to focus on their core business activities.

c. Financial and Economic Constraints

The transport system in each of the SADC member states -- the national railways, the national airlines and the road subsector -- accounts for most of the financial losses incurred by the national governments. In the road subsector, poor maintenance is usually the result of inadequate and ineffective road financing and taxation policies. With regard to the railways and airlines, financial losses can be attributed to poor financial, managerial and operational performance. These inefficiencies are compounded by ill-conceived and often restrictive transport policies. While recognizing that there is a "public good" element to public transport, such policies are often unaccountable and unresponsive to market forces. As such, Government-owned transport enterprises have often subsidized operating costs, the replacement of assets and the procurement of equipment and spare parts.

d. Institutional Constraints

Transport services in the region are primarily publicly-owned monopolies. Most of these enterprises are burdened with bureaucratic practices and procedures, excessive layers of management, and a cumbersome and virtually static decision-making and approval process. Several key institutional factors constrain their efficient operations. These include the inability to effectively address the labor redundancy problem either through retrenchment programs, retraining schemes or redeployment. Additionally, state-owned transport enterprises are unable or unwilling to introduce performance-based employee incentive schemes as a way to increase labor productivity. Such enterprises are further constrained by the persistent intrusions by the national government on their operational autonomy. Governments tend to insist on state-owned enterprises providing uneconomical transport services through public service obligations. Provision of social services to employees by transport enterprises such as health, housing, recreational, etc. are in some cases insisted on by the national governments as discussed above.

There are two major institutions impacting on regional transport, the Southern African Transport and Communications Commission (SATCC) and the Preferential Trade Area (PTA). Both organizations lack the capacity to analyze, formulate, adopt and implement transport policies and regulations, despite having mandates from their member states to undertake policy development. This inability has resulted in often conflicting transport policies and regulations whereby there is no clear agreement or consensus as to what is in the interest of the region and what policies should be pursued.

Regional-level capacity building, policy development and information dissemination are key components of the SADC Transport Efficiency Project (STEP). USAID, through the Southern Africa Regional Program (SARP), is providing technical assistance to SATCC under the STEP project. STEP will undertake policy analysis, policy formulation and information dissemination. This will allow SATCC to enhance its ability to undertake cross-country analysis of surface transport policies across modes and within corridors to rationalize regional transport policy. This policy research will be made available to key public and private transport decision-makers throughout the region.

The STEP project also involves providing long-term technical assistance to SATCC. SATCC has shifted its focus from coordinating physical infrastructure capacity building to managerial and operational efficiency of state-owned transport enterprises and the harmonization and rationalization of transport policies.

In view of the regional constraints indicated above, USAID/SARP's strategic objective for the transport sector provides a window as to where we have been in the past and where we intend to go in the future. Our strategic objective for the transport sector, as set forth in the Southern African Regional Program for FY 91-95 is to encourage a more rational development and efficient use of regional infrastructure.

Since early 1990, USAID began to place increasing emphasis on improving managerial and operational efficiency and a higher capacity utilization of railway infrastructure. The Malawi Railways Restructuring Project will be the first program/project funded under the new Regional Railways Restructuring Program, as a part of the new ISA strategy.

e. Policy and Regulatory Constraints

The policy dialogue at the regional level since the inception of SATCC in 1980, has shifted away from a focus on capital investments which drove much of the donor's development strategy during the previous decade. The policy emphasis is now on improving the efficiency of the transport sector and achieving sustainability and commercial and financial viability. However, the realization of urgently needed policy and regulatory reforms necessary to achieve this new found goal has lagged considerably. The transport environment continues to be dominated by parastatal transport enterprises and by governmental institutions often exercising monopoly control over all major aspects of the transport sector. Such control has been exercised through direct ownership in parastatals, national legislation and transport policies and regulations. Licenses, road permits, transit permits, setting fares and tariffs, customs regulations, subsidies, and control of entry and exit of transport firms have all been used by the national government to protect state-owned transport enterprises and restrict competition in the transport market.

Noticable improvements in transport regulations and policies include the relaxation of permit restrictions and transit fees and adoption of common axle-weight limits, vehicle weights and dimensions, and common road user charge policy. However, limited access to credit and to foreign exchange for vehicles and spare parts continues to hamper the region's road transport industry. Additionally, cumbersome customs documents and clearance procedures continue to constrain cross-border trade. These constraints are all being address by the support USAID is providing to SATCC under the SADC Transport Efficiency Project(STEP).

2. Malawian Constraints

Although, there are a number of encouraging developments in Malawi that will result in substantial reductions in transport cost for international traffic, much remains to be achieved. The reopening of a shorter and a more economical rail route to the port of Nacala and a road route to the Port of Beira, the entry of a number of foreign transport operators, and the emergence of a competing transport environment for international traffic have all contributed to an improvement in Malawi's transport sector. However, many, if not all, of the constraints identified at the regional level that restrict efficient transport operations and service delivery are also present in the Malawian transport environment. These include poor economic and financial performance, surplus capacity in transport assets, redundant labor pools, an uncompetitive policy and regulatory environment, and inadequate skilled management and professional-level staff. These conditions have become serious constraints to sustained growth and improvement in overall performance of the transport sector, and indeed the Malawian economy.

The marginal performance of Malawi's transport sector results from the high cost of international and domestic traffic and the often inadequate and unreliable supply of domestic transport, particularly during peak agriculture production seasons. The country's restrictive transport policy and regulatory environment also result in an uncompetitive transport market, inefficient transport services, high transport cost, and low service delivery. These constraints further translate into poor financial results as reflected by poor profitability and sustainability of domestic transport enterprises, financial losses of state-owned transport enterprises such as those sustained by Malawi Railways and the Lake Services, the entry and dominance of the domestic transport market by foreign transport operators to the exclusion of domestic operators, and a poor transport safety record.

a. Economic Performance

Due to the outbreak of hostilities in Mozambique in the early 1980's, Malawi's international traffic was diverted from the most economical routes through Mozambique to the most costly routes to Durban and Dar es Salaam. Not only were Malawian imports and exports diverted from their most economical routes, there was also a modal shift away from rail to road. This came about as a result of shipments by containers coming into wider use in the region. These two factors alone had a significant adverse impact on Malawi Railways natural traffic base and hence its revenue generating capacity. Net ton kilometers (NTKs) of freight carried in 1980 was 247 million, but fell to an estimated NTK 52 million in 1992/93. Over the same time period, the operating ratio (expenditures divided by revenues) increased from 79 to 149.

Additionally, Malawi Railways labor productivity and capacity utilization of resources declined and are currently at unsatisfactory levels. Net ton kilometers per staff was 53,000 in 1980 and, in 1992/93, had dropped to NTK 14,000 per staff. Over the same period locomotive usage dropped from 116 kilometers per locomotive/day to 55, wagon utilization dropped from 42.4 kilometers per wagon/day to 14.5, and track density, measured as NTKs per kilometer of track, dropped from 313 million to 66 million.

Over the past few years, Malawi Railways has been faced with a severe liquidity crises. Malawi Railways has been unable to meet its short-term credit obligations and has on occasion been unable to pay staff salaries. And, although Malawi Railways has sufficient fixed and removable assets to meet its financial obligations were it force into liquidation, the railway is technically insolvent. The railways financial position has been deteriorating for the past thirteen years.

Up until 1981, the operating ratio of the railways was below 100. In subsequent years, the operating ratio has fluctuated , averaging 110 percent between 1984/85 and 1992/93 inclusive, but rising to 147 in 1992/93. These percentages are based on a historic book value calculation of depreciation, which tend to understate poor performance as measured by operating ratio. According to World Bank estimates, were Malawi Railways depreciable assets calculated on a replacement value basis, the operating ratio of Malawi Railways would be about 240 percent. Because the railways is a government-owned transport enterprise, all operating losses sustained by Malawi Railways translates into direct subsidies by the national government. The continuing poor financial position of the railways has necessitated the need for the Malawian government to subsidize Malawi Railways. The operating losses sustained by Malawi Railways, including those of the Lake Services, dropped from profitable levels in the 1975-1981 period to losses throughout the 1980s and 1990s. In 1988/89, operation losses were about MK 2.2 million, representing about 10 percent of gross revenue. In 1992/93, operating losses increased to about 14.8 million (approximately $US 2 million at mid 1994 exchange rates, and well over $US 3 million at historic rates), and increased substantially to over 45 percent of gross revenue.

b. Policy and Regulatory Environment in Malawi

Although the Government of Malawi has made noticeable progress in deregulating the transport sector, a great deal remains to be done to create an enabling environment favorable to open competition across all modes of transport. Overly restrictive policies and intrusive economic regulations are having a negative impact across almost all modes of transport in Malawi.

In the road transport sector which accounts for 70 percent of all freight movement, tariffs and rate setting for domestic cargo, restrictions on joint haulage of passenger and freight, tax hire and owner-account cargo, import duties and taxes, permits, fees and licenses, etc., unduly restrict the ability of transport providers to operate in an open competitive environment and restricts the free flow of goods and passenger traffic. In the rail transport sector, public service obligations such as the provision of uneconomical rail passenger services and the continued interference by the national government in transport operations contribute to the lack of viability of Malawi Railways. Water-borne transport, such as that provided by the Lake Service is also a victim of public service obligations imposed by the government. The provision of uneconomical passenger services and the insistence on rates below the marginal cost of providing the service result in inefficiencies.

The Government of Malawi, acting through its relevant ministries, should formulate a comprehensive set of transport policies and promote and encourage regulatory reforms in order to remove any over intrusive transport regulations and legislation that inhibit efficient transport operations. Broad policy areas where comprehensive public actions are urgently required include pricing and investment policies, road financing and taxation policies, regulatory reforms and regulatory enforcement.

Malawi's transport sector is further inhibited by insufficient institutional capacity to formulate, effectively coordinate, adopt and implement transport policies and adequately enforce transport regulations. This is, in part, due to the fact that responsibility for formulating transport policies and enforcement of regulations are divided among several government agencies. The results are often intrusive economic regulations, contradictory transport policies and regulations that result in inefficient transport service delivery at exceptionally high costs. This problem also derives from a lack of skilled personnel. Additionally, the inability to retain trained personnel due to inadequate remuneration packages also reduces the national capacity to formulate and implement balanced transport policies. Moreover, the public service system with its rigid personnel structure limits the ability of public agencies to meet their present and future staff requirements.

There a number of transport regulations that need to be deregulated. If the transport regulations were reformed, and, in some cases enforced, this would dramatically improve the efficiency of the Malawi's transport sector and reduce transport costs. These include regulations regarding the exit and entry of firms, control of routes, setting of tariffs and rates for freight and passenger transport, licenses, permits and fees, etc. Reforming transport regulations requires the Malawi government to harmonize transport regulations, such as those affecting road user charges, transit permits, transit fees, axle weight limitations, vehicle inspection and licensing, as well as transit, customs documentation and procedures to conform with the regional transport market.

E. Donor Programs

1. Donor Programs in Region

Since the formation of SADCC (now SADC), the donor community and international development organizations have actively financed SADC's Program of Action (POA). Donor's include the EEC, CIDA, NORAD, SIDA, ODA, KfW, Caisse Francais de Development, Belgium, Australia, Italy, USAID and the World Bank among others, supported infrastructure projects identified in the POA. The main thrust of the POA was to install transport infrastructure and lessen the dependency on South African transport routes. Many of these donors, because of past investments in transport and communications, have a continuing interest in regional cooperation. They also have an interest in ensuring that the rehabilitated capacity is managed and operated efficiently and that the lack of maintenance should not be allowed to degrade the system's capacity.

Most of the donors' development assistance is being targeted to improving the management and operational efficiency of the transport sector. Now that adequate transport capacity is available in the region, policy and regulatory reform, institutional coordination, regional coordination and human resources development are the main focus areas of donors' assistance.

a. Canada (CIDA)

The Canadian International Development Agency (CIDA) is considering a strategy that focuses on improving the operational performance of entire corridors. This strategy builds upon the experience gained during the 1991-92 drought and what has been learned in the Beira Corridor and, more specifically from, the Beira Corridor Group. The strategy would provide, inter alia, training for railway officials and road transport operators, provide institutional support for corridor groups such as port user's group operators, and would make investments for office equipment such as computers and photocopying machines, etc. Although, the CIDA program mainly targets the eastern corridors in the region, it also envisages providing national-level capacity building. This will provide training for Ministries of Transport to improve their transport policy development capabilities.

b. Germany (GTZ)

The German Technical Cooperation (GTZ) is concentrating its sector resources primarily in the area of human resources development. This approach recognizes the need for national-level capacity building in the region. GTZ's assistance is being provided to SATCC to support regional training programs in the transport sector. Such assistance will be targeted to improving the skills' levels of supervisory, middle and senior management of transport enterprises.

c. Caisse Francaise de Development

Caisse Francaise de Development is collaborating with USAID/Mozambique on a strategy to revitalize and improve the managerial and operating efficiency of the CFM/N section of the Nacala Corridor. This strategy include plan to rehabilitate the last 77 kilometer of the Nacala Line, provide short-term technical assistance for marketing and operations and a plan to rationalize the railway staff and management.

d. European Union (EU)

The EU is finding a major multi-year study on the region's transport sector. The study will cover all modes of transport and will focus on the integration of South Africa with the region.

e. Norway (NORAD)

Norad's assistance in recent years has been directed at assisting Road Transport operators' associations to conduct technical analysis and prepare policy papers for group workshops. Previously, Norad provided technical assistance to SATCC for ports research and analysis.

f. Denmark (DANIDA)

Danida's assistance like that provided by Norad's, has been targeted to the Road Transport Working group of SATCC . Limited support has been provided to the railway working group, also of SATCC.

g. Austria

Austria's development assistance for the region is targeted to support for an Assessment of Railway Track Maintenance requirements and Training. The objective is to establish an effective regional track maintenance system.

h. Australia

Australia's support for the region's transport sector has been to provide support to SATCC in carrying out analytical studies. Austria assistance has provided counterpart consultants for SATCC.

i. United Kingdom - Overseas Development Agency (ODA)

The British ODA has been involved primarily in providing technical assistance to improve railway management in several of the region's railways. ODA currently provides assistance to Malawi Railways, CFM/S and TAZARA, and in previous years to Botswana.

j. The World Bank

At present, the World Bank is providing assistance to most of the region's railways including Tanzania Railways Corporation, National Railways of Zimbabwe, Zambia Railways, CFM/S, and the Benguela Railways. Only Swaziland Railways, SPOOORNET, Botswana Railways and TransNamib have not been recipient of some type of assistance from the World Bank. Most of the World Bank assistance has been used to finance interventions aimed at restructuring the railways either through a combination of technical studies, organizational restructuring, management training, equipment and spare parts.
As will be discussed, the World Bank will play a co-financing role in the Malawi Railways Restructuring Program.

2. Donor Involvement in Restructuring of Malawi Railways

Because of its continuing poor financial performance, Malawi Railways initiated its own restructuring program. The program began in 1993 after discussions with USAID, the World Bank and ODA. The program has achieved some success in its implementation. Malawi Railways has i.) reduced its staff strength by 1,100 employees from 3,386 in 1992; ii.) reduced rail sections such as Lilongwe-Mchinji and the Limbe-Southern border to siding status; iv.) closed uneconomical stations; v.) improved train operations by running block-trains for international traffic; and vi.) separated the Lake Services from Malawi Railways.

The initial restructuring efforts undertaken by Malawi Railway will serve as the foundation for a more comprehensive and intensive restructuring and eventual privatization of the railways. Follow-on restructuring activities will be undertaken jointly by the USAID and the World Bank who will co-finance the project. The restructuring project is divided into four components: (i) restructuring and eventual privatization of Malawi Railways; (ii) the restructuring of the Lake Services including the possible involvement of the private sector in core transport activities; (iii) the revitalization of the Nacala Corridor; and (iv) the formulation of a comprehensive transport policy. USAID support to the project does not include the revitalization of the Lake Service, with the exception of support to labor retrenchment. USAID project support in the formulation of transport policy will focus only on surface transport policies. The specific program and project activities USAID assistance will support under the Malawi Railways Restructuring Program are detailed under Section III. The majority of World Bank support will focus on restructuring of the Lake Services and procurement of physical assets for revitalizing the Nacala Corridor.

III. PROGRAM DESCRIPTION

A. Program Objectives and Strategy

1. Program Goal and Purpose

The goal of the Malawi Component of the Regional Railways Restructuring Program is to enhance the environment for increased trade and investment in the Southern Africa region. Its purpose is to reduce surface transport costs of smallholder inputs and export crops through increased railway efficiency and reliability and inter-modal competitiveness.

2. Program Strategy - Achievement of Objectives

The Malawi Railways Restructuring Program encompasses three supporting objectives. Achievement of these supporting objectives will directly contribute to a reduction in surface transport costs of smallholder inputs and export crops. The supporting objectives are to: (a) improve the efficiency and reliability of the Nacala Corridor to enable Malawi Railways to capture a maximum share of overseas freight traffic; (b) restructure and eventually privatize Malawi Railways to ensure that the net operating surplus generated by Malawi Railways' operations provide an adequate return on capital employed; and (c) formulate a transport policy that fosters a sound and impartial environment for commercially viable transport businesses. Program objectives will be achieved through a combination of program activities and project assistance. These are discussed in greater detail in the text which follows.

B. Program Activities

1. Activity One: Nacala Corridor Operations

The main aim of this set of activities is to increase the rail freight traffic on the Nacala Corridor as much as possible and as early as possible, by: (i) increasing efficiency and reliability of operations along the corridor; (ii) promoting a seamless transfer of cargo; and (iii) facilitating the sharing of resources and conduct of joint activities by the two railways. This is to be achieved by: (a) establishing corridor-wide performance targets and improved coordination between MR and CFM/N; (b) increasing the reliability and efficiency of MR operations so that it can meet corridor performance targets; and (c) intensifying a customer-driven orientation at MR to marketing the Nacala corridor service.

a. Corridor Performance Targets and Cooperation with CFM/N

The success of the Nacala Corridor is equally dependent on CFM(N) as it is on Malawi Railways. Shippers/customers require reliable and efficient transport services for door-to-port and port-to-door movements, offered at a competitive price. In the past, the railways individually have proved to be neither efficient, reliable nor cost competitive. Furthermore, the railways have not cooperated effectively with each other on overseas traffic movements, and border crossing activities (train interchange, customs, wagon safety inspection, etc.) have been inefficient and unpredictable. In addition, Malawi needs to obtain guarantees from Mozambique that the corridor will remain open and operate at given performance standards before Malawi invests further in the corridor. Thus, a key element of improving market share and generating customer confidence will be the securing of agreements between the two respective railways and Governments for the efficient functioning and promotion of the corridor.

However, agreements in the past have been subject to a number of deficiencies: (a) the agreements have been unevenly implemented over time and typically, only for a subset of issues actually covered in the agreements; (b) multiple agreements have existed simultaneously at certain stages such that some members of the railways and government were unclear as to which agreement was in effect, or as to which agreements were subsidiary to others; (c) agreements have been limited in the scope of the activities they covered, focusing on narrower operational issues rather than including broader issues related to seamless transfer along an integrated corridor; and (d) disagreements over some of the topics in the agreements have, in the absence of appropriate arbitration mechanisms, led to disruption in operations and a deterioration of the MR-CFM/N cooperative relationship.

One single agreement needs to be put in effect which establishes: (a) the overall goals and objectives for cooperation and joint activity on the corridor; (b) specific operational performance targets for the two railways; (c) freight tariffs, charges for inter-railway services and mechanisms for revenue collection; and (d) institutional and procedural means for monitoring compliance with the agreement and performance targets, advocating improvements to cooperation and joint activities, and resolving disputes.

<u>Goals and Objectives.</u> The agreement needs to establish that the two railways will cooperate to the fullest extent possible in providing the most commercially efficient and reliable transport of goods for customers along the Nacala corridor. This should include principles governing agreement on operational performance targets, interchange, and competitive access and through-trains. In addition, it should cover shared resources and coordinated functions such as: (a) utilizing each other's facilities such as training centers, computers, cranes and special track equipment; (b) adopting a common strategy and using to the extent possible common resources for marketing, procurement, and technical assistance; and (c) using common contractors and hired equipment.

<u>Performance targets.</u> A signed comprehensive agreement between Malawi Railways and CFM(N) will be necessary to define the minimum targets of operational performance to be achieved by both railroads. These will include but not be limited to operating standards for the interchange of wagon-load and block trains, wagon inspection, shunting operations at border stations, transit times and schedules, availability of locomotives for traction, through-trains and competitive access, and equipment return and repositioning.

<u>Tariffs and Charges.</u> The agreement should set out the modalities for tariff restructuring for both interchange and through-train traffic, the mechanism for collecting revenues, and the schedule of charges for inter-railway services such as wagon hire, use of facilities for freight handling and storage, locomotive assistance, rescue operations, and wagon repair.

<u>Compliance and Disputes.</u> The implementation of the operations agreement will need to be subjected to joint periodic review through a formal Joint Review Board or a similar entity. The Joint Review Board would also facilitate the sharing by Malawi Railways and CFM(N) of the facilities and expertise of each other. It is envisioned that consultations will take place periodically on several levels. CFM(N) and Malawi Railways will meet to sort out problems with train operations and commercial transactions. The Joint Review Board will review recurring problems with the implementation of the operations agreement, and generate new ideas for improving CFM(N) and Malawi Railways cooperation and efficiency of operations. A National Commission of leaders from each country or a designated arbitrator would deal with major issues arising from the Joint Review Board with authority to resolve them. Finally, due to the fact that a variety of different donors are involved on both sides of the border, regular donor coordination meetings will be encouraged.

b. Reliability of Operations on Malawi Railways

Importers and exporters have been hesitant to revert traffic back along the Nacala corridor route even though distances are vastly shorter and potential shipping costs significantly less. This reflects both past weaknesses in physical infrastructure along the route as well as poor logistics and operational management by the railways. However, currently, most steps have already been, or are in the process of being, taken to provide an adequate infrastructure along this route. Reliability and efficiency of operations on the Nacala Corridor remains the most important determinant of the rail route's share of freight traffic.

Unfortunately, the low volume of overseas traffic carried by MR during the last decade and a half, its poor financial condition and its lack of customer focus, among other issues, means that Malawi Railway currently lacks the capacity and capability to meet the challenges of providing the seamless transfer requirements of customers and meeting the performance targets that would have to be set in the bi-lateral agreement with CFM/N[1].

The managerial and operational capacity of MR will have to be improved substantially if the requisite performance targets are to be met. A process re-engineering program needs to be established which: (a) identifies the requirements of customers in terms of service, reliability, efficiency and facilities; (b) assesses the manner in which MR currently attempts to meet customer needs and the corresponding operational performance levels; and (c) establishes improved work processes and procedures so that MR can meet customer requirements and achieve the operational targets set out in the agreement.

In addition, Malawi Railway's performance on the Nacala Corridor and its ability to meet targets set out in the bi-lateral agreement will be enhanced by general efforts aimed at commercialization of the railway and improving company performance, customer orientation, staff motivation and corporate culture. These elements are addressed in further detail in Section III.2.a: Commercialize and Undertake Corporate Turnaround.

c. Marketing of Nacala Corridor

Malawi Railways needs to aggressively market itself and the Nacala corridor. The railway needs to better understand customer requirements, be able to deliver a service for which customers perceive value, make customers aware of the quality MR's "to-be-improved" service offerings, and price its services in a realistic, market-based fashion.

Enhanced marketing of the Nacala Corridor will require a number of programs and actions. Firstly, more information is required on customer needs and preferences. This includes not only the service offering required from Malawi Railways, but also the adequacy of operating arrangements for handling traffic and the adequacy of physical facilities such as customer-specific sidings and bonded warehouses and customs and transit facilitation at the Port of Nacala. This information will help to refine performance targets and allow the re-engineering of MR as an organization to be developed in a customer-driven manner, so that the corridor can better attract market share. In the past MR has not maintained close and regular relations with the majority of its customer base, has been less than fully responsive to customer requirements, and

[1] CFM/N is in a similar situation in terms of needing improvements in managerial and operational capacity in order to meet the requisite performance targets.

has tended to focus on operations. Secondly, it is necessary but not sufficient to merely improve efficiency and reliability of operations to requisite standards along the corridor. Customers must be made aware of the improvements, have confidence that MR can consistently "deliver" the service levels its claims it can, and perceive the benefit to them relative to alternative means of transport. For example, even if MR could attain the operating efficiency and reliability levels that it experienced during peak traffic performance years on the corridor, it is likely that a far lower share of customers would be attracted back to using the railway because more effective competition from trucking now exists than was in the case in the past and MR has an "image problem" to overcome. Thirdly, a targeted marketing program needs to be developed and implemented so that MR can attract the highest possible value customers with the highest propensity to use the rail route through Nacala. It will initially be important to target "visible" customers and then meet their "demanding" service requirements, so as to generate greater awareness and credibility in the ability of the railway to deliver quality services. Finally, it will be vital for CFM(N) and Malawi Railways to establish market-based, flexible and compatible tariff structures so as to: (a) provide incentive to shippers to use the corridor; (b) facilitate tariff quoting and the forwarding function on a corridor-wide basis; and (c) differentiate between market segments so as to allow the railways to maximize the yield that each segment will bear.

d. GOM Activities

To achieve this objective, the Government of Malawi will:

1. Draft and sign, in coordination with the Government of Mozambique, an "Operational Agreement" between CFM(N) and Malawi Railways indicating minimum performance standards, modalities for tariff restructuring, and mechanisms for collecting revenues.

2. Establish a Joint Review Board (JRB), or other such entity, between the Government of Malawi/Malawi Railways and the Government of Mozambique/CFM(N) to periodically review implementation of the operations agreement.

3. Develop agreed-upon mechanisms for arbitrating major issues/disagreements arising from the Joint Review Board.

4. Receive from Malawi Railways an assessment of detailed training needs, organizational and staffing plan, and consultancy requirements needed to improve managerial and operational efficiency so that MR can: (a) meet performance targets; and (b) design and implement a program for intensified marketing of the Nacala route.

2. Activity Two - Malawi Railways Restructuring

The main aim of this activity is to turn Malawi Railways into a commercially viable entity. This is to be accomplished first, through restructuring and commercialization of the company, and then subsequently through its privatization. A secondary aim is to ensure that those staff and assets deemed as surplus to the commercialized railway are retrenched and divested in an efficient, transparent and socially responsible manner.

a. Restructure and Commercialize the Railway

The performance of Malawi Railways since the early 1980s has been very poor. Traffic volumes declined substantially, largely but not exclusively due to the war activities in Mozambique. However, Government and management at the railway failed to respond to this declining environment and made limited efforts to downsize to a more appropriate scale of operations. As a result, by the early 1990s, even when the Nacala corridor had been open for a number of years, the railway was still very over-staffed, was over-capitalized with a correspondingly high debt servicing profile, suffered from de-motivated management and staff, and lacked a market-based strategic focus. This was due to inappropriate decisions by management and government, the policy and regulatory environment in which the railway operated, and the operations orientation of the railway.

Throughout this period Government heavily subsidized the railway, with annual subventions averaging MK10-20 million, typically representing a quarter to a half of the gross revenue of the railway. In addition, by early 1994, the railway's financial situation had become so severe that it was incapable of even servicing its immediate short-term liabilities, let alone longer term debt owed to Government or making any provisions for capital replacement.

Government is no longer willing or able to continue subsidizing the railway. In addition, it recognizes that a commercially run railway with a more "arms length" relationship with Government is Malawi Railway's only prospect for becoming financial viable as a company and for generating net economic benefit for the nation.

To turn Malawi Railways around and make it commercially viable, the company needs to: (a) develop a strategic focus as to which core markets it will target; (b) restructure the company, given the strategic focus adopted, so that the company is the right size, contains the appropriate portfolio of businesses and activities, and is free to make commercially based decisions unencumbered by Government and the regulatory regime; and (c) commercialize and turn the company around so as to improve its performance by reducing costs, enhancing productivity and increasing revenue.

i. Develop Strategic Market Thrust

Malawi Railways and the Government have already largely determined the strategic market thrust of the railway[2]. It will be primarily a freight railway, which will concentrate its efforts on regaining market share of overseas traffic on the Nacala corridor. It will also maintain its presence in local/domestic freight markets. In addition, the railway will exit the passenger transport business. However, at the discretion of Government, the railway may offer limited passenger service as a public service obligation (PSO) provided that the railway is appropriately compensated by government for those services.

While the strategic market thrust of the railway has been developed sufficiently for the restructuring program to be defined, a more comprehensive strategic plan will be needed to guide corporate turnaround and commercialization efforts. Furthermore, the process of developing a strategic plan will itself build ownership for the strategy and enhance it chances for successful implementation. In addition, the

[2] The strategic thrust of the railway is evident from Malawi Railways Limited Corporate Plan: 1994/95-1998/99 (draft February, 1994), the various minutes of the Railway Restructuring Committee meetings, and the Aide Memoire of the World Bank resulting from the Appraisal Mission in April, 1994.

dissemination of a strategic plan will help staff throughout the organization to better understand their role in the company, and may also provide a rational basis for explaining why some staff will be made redundant.

ii. Restructure the Railway

The restructuring of Malawi Railways addresses its over-staffing, over-capitalization, and the nature of the company's relationship with government and the related regulatory regime. The aim of the restructuring is to correct for the poor decisions of the past which adversely affected the structure (scale and scope) of the company, and to lay a sound foundation from which the railway can begin to improve performance, without starting from a deficit position.

The restructuring involves: (a) "right-sizing" the company by retrenching surplus staff and disposing of non-essential assets; (b) adjusting the "portfolio composition" to ensure that the company only contains those businesses and activities needed for the core business, by spinning off non-core businesses and functions such as Lake Services; (c) restructuring the balance sheet through repaying debt from asset sales, seeking debt relief or rescheduling, and obtaining equity infusions; and (d) creating a more arms length relationship from Government by changing the corporate legal structure of the company and the composition and decision-making processes of the Board, implementing a Memorandum of Understanding (MOU) on the new relationship between the new railway company and government, and amending/repealing legislation and regulations which are contrary to the intent of the MOU. (Although no new legislation is required to incorporate a new railway company, previous legislation relating to the old parastatal should be changed so as not to confuse issues between the two.)

Malawi Railways and the Government have already taken a number of positive steps towards restructuring of the railway. These include: (a) laying off approximately 1,100 redundant staff; (b) closing down a number of uneconomic railway stations; (c) reduction or elimination of a number of passenger services: (d) separating Lake Services from the railway in terms of management and financial reporting; and (e) reducing to siding status the railway lines between Lilongwe-Mchinji and Limbe-Nsanje, respectively.

Further restructuring will be required and will be an on-going process. A "two-company" approach will be an effective means and framework for achieving the restructuring objectives, particularly early in the process. This approach involves: (a) no legal status change to the existing Malawi Railways Holding Company Ltd. (UK), in which surplus assets and staff will remain, and will be sold/let go over time[3] and the company dissolved; (b) creation of a new railway company, incorporated in Malawi under the Companies Act, which has limited debt, majority government ownership, sanctity against being declared a Statutory Body, and whose articles of association limit the role of government on the Board and in decision-making; and (c) transferral of core railway assets and staff to the newly created company.

The objectives of setting up a new company are to: (a) facilitate right-sizing of the company, business portfolio adjustment and financial restructuring; (b) create a more autonomous entity, which is more "arms length" from Government, including changing MR's Statutory Body status; (c) provide a sound base for commercial viability; and (d) provide a foundation for eventual private sector participation in the company.

[3] See Section __ on "Divest Assets and Retrench Labor".

The benefits of this approach are as follows. There is no need to "wind down" the old company nor to declare it solvent for the near term, thus facilitating an orderly disposal of assets. Management of the new company can focus on the task of turning around the railway, without the distraction of managing the process of disposing the assets. The new company will also be more attractive to potential private investors/buyers because it is not a statutory body and it has improved financial prospects (assuming complementary operational improvements are made). An additional benefit is that no new acts of Parliament are required for establishing the new company.

Preparing for and establishing the new company will require of number of detailed, technical activities. Some of these have already been undertaken such as the identification and preliminary valuation of assets to be transferred to the new company. Others are planned as part of the Restructuring Preparatory Plan (RPP), which is the plan of actions Government and the railway will implement up to the point that the new company is established. RPP measures include but will not be limited to the following.

(a) Develop an organizational structure for and staffing requirements of the new company. The organizational structure should be lean and flat, with a strong emphasis on marketing. Staffing requirements will be driven by market needs; preliminary analysis shows that about 900 staff will be needed to run the restructured, freight railway in the first instance.

(b) Develop job descriptions, grading levels and compensation packages for staff positions at the new company. In addition, draft Conditions of Service for the new company. A revised pension scheme will also need to be developed for the new company, and any residual pension liabilities of MR resolved.

(c) Design and implement a recruitment process to fill positions at the new company. The process should be transparent and impartial. It should start sufficiently in advance of the date of establishing the new company so as to allow time for evaluation of a wide range of candidates, and for staff from MR who have been offered positions in NMR to hand in their notice at MR in a time frame consistent with their terms of employment. Additional effort will be made to select and hire a new General Manager, such that the new GM can overlap for several months with the current GM. Qualified Malawian nationals should be aggressively recruited for the GM position.

(d) Prepare and submit incorporation documents in order to register the new company under the Companies Act of Malawi. This will require several steps, including: (i) deciding the name of the company, and if it is to include the word "Malawi" then permission from the President is required; (ii) designation of subscribers, of which there will need to be minimum of seven if it is to be incorporated as a Public Company under the Companies Act; (iii) designation of a minimum of three directors; and (iv) promulgation of articles of association governing issues related at a minimum to the role and procedures of the Board and of share holders.

(e) Transfer assets to the new company, after a professional inventory, valuation and clear title has been established for the assets. Assets will be transferred to the new company in exchange Government will receive equity in the new company and forgive debts owed to it in MR UK Ltd, or by some other method to be determined. In order to support the new company in the start-up period, the Government will need to waive stamp duties and provide initial working capital (about MK2.5 million), as a short-term loan to the new company.

(f) Develop and put in place a capital structure for the new company. This will include determining the value at which assets will be transferred to the new company and the corresponding equity Government will hold in the company.

Consideration should be given to reserving shares, at the time the new company is established, for purchase by NMR management and employees. This would provide additional incentive for them to perform well on the job, as they would receive share dividends from net company income, and benefit from capital appreciation of the stock. A program to set up the Employee Stock Ownership Program (ESOP) will be developed. Key issues include: (a) which groups are eligible for the program; (b) how to value the shares; (c) on what basis employees are to pay for the shares and whether assistance be given; and (d) how to ensure that employees perceive and can realize financial benefits from the shares.

In addition, Government will probably have to subordinate its capital in NMR in order to attract new investment, including investment by employees through an ESOP. In this case, two classes of stock could be offered which vary in terms of voting and dividends rights. New investors would get preferred stock which was eligible to pay dividends; whereas government's stock would not be eligible for dividend yields at all, or until some point at which certain return requirements were achieved by NMR.

In addition to corporate-level restructuring elements, the Government will need to ensure that the new railway company remains free of undue government interference, and operates on a "level playing field" with other modes of transport and transport corridors. Therefore, Government will need to: (a) sign and adhere to a Memorandum of Understanding which specifies the relationship and respective roles between government and the new railway company, including any anticipated public service obligations and related compensation, and guarantees the non-Statutory Body status of the new company; (b) amend or repeal relevant legislation and regulations such as the Railways Act and possibly provisions of the Statutory Bodies Act, the Finance and Audit Act, the Malawi Railways Holdings Company Act and the Land Acquisition Act; and (c) establish and enforce a comprehensive, sound and balanced transport sector policy, which prevents distortions or discrimination in the sector and creates an enabling environment for commercially oriented transport service providers.[4] Furthermore, the program will assist with related reforms of the general legal framework which are required to ensure that legislation is up to date and consistent with current national-level policy and does not pose undue constraint on the creation of an enabling environment for privatization.

iii. Commercialize and Undertake Corporate Turnaround

Once the majority of the restructuring activities have been implemented, a process for introducing a more commercial orientation at the railway is needed in order to improve its performance and better allow it to achieve its strategic goals. In order to achieve the commercial goal of maximizing profits (minimizing losses), the railway will need to adopt measures which reduce costs, enhance productivity and increase revenue. In addition, the corporate culture will need to change to one which is consistent with a commercial, customer-oriented mindset.

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[4] See Program Activity Three for more details on the reform of transport sector policy.

Cost Reduction. Measures to reduce costs will have largely been undertaken as part of the restructuring. These include the reduction of the labor force, disposal of non-core assets and spinning-off unrelated businesses. However, the new company should continue to explore means for further reducing costs such as sub-contracting out selected support services and functions, and reducing general and administrative (G&A) expenses.

Productivity Enhancement. The productivity of the new company will need to be enhanced through several measures: (a) training activities to equip staff in new skill sets that they will need to run a smaller and leaner railway; (b) revision and refinement of work practices and processes with a focus on efforts to meet performance targets established for Nacala corridor service and for the railway overall[5]; (c) fine tuning of the organizational structure to improve work flows, communications and internal client/customer relations; and (d) adoption of mechanisms to improve motivation such as a goals-based compensation system, access to training opportunities, ESOP participation, and a profit-based bonus system.

Revenue Generation. Revenues can be increased by: (a) implementing a targeted and aggressive marketing program, with a particular focus on the Nacala Corridor overseas freight business; (b) getting closer and more responsive to the customer and delivering a more customized product/service offering; and (c) revising tariffs to capture market share, facilitate corridor movements (e.g., joint tariff schedule with CFM/N), and differentiate tariff rates amongst customer groups such as providing contract rates for high volume customers.

Corporate Culture. A new corporate culture needs to be developed at the new company which provides greater motivation to staff and injects a customer-driven marketing orientation into the company. This can be achieved by such means as improved communications, delegation of authority, performance recognition, goals-based compensation system, the building company pride and ownership in company initiatives, and creating means for financial gain from company performance such as profit-based bonuses and/or ESOPs. These measures will be particularly key as the culture which prevailed at MR is significantly different from that at the new company: there will now be limited perception of life-time employment at the railway; compensation and promotion will be based on performance instead of most employees at similar grades moving roughly in unison most of their careers irrespective of individual performance; and the majority of social services which were supplied by the MR will now have to be "purchased" by employees.

b. Divest Assets and Retrench Labor

Once the new company is operative, the existing Malawi Railways will cease its transport activities and concentrate on sale of surplus assets, discharge of all liabilities and retrenchment of most of the staff not associated with the new railway. A skeleton staff, however, will remain with the old company as "stewards" of the assets and to facilitate the winding down process. The whole process is likely to take 18 to 24 months.

The process of winding down is complex as it comprises: (a) disposal of locomotives, wagons, passenger coaches, physical railway assets, land, and houses in the most efficient and transparent manner; and (b)

[5] The bi-lateral agreement with CFM/N defines corridor performance targets and the MOU with Government sets out overall railway targets.

staff retrenchment, counselling services for retrenched staff, facilities and assistance toward retraining. The company will, therefore, continue to be managed in a professional manner.

i. Divest Assets

An administrator/liquidator will be appointed for the Malawi Railways (UK) Ltd. to implement a transparent process for the orderly sale of the assets and the discharge of all debts and liabilities. Assets are to be sold on the open market for the highest value obtainable within a reasonable period of time.

The liquidator may need to hire additional technical expertise because the railway owns specialized and varied assets. Such specialists might include an expert in the market for locomotives and rolling stock, and an expert in commercial and residential real estate. Specialists would be expected to assist in establishing sales prices, designing and implementing the process for selling/bidding, and evaluating offers of purchase. In addition, legal assistance may be required to establish clear title for some of the assets being sold and execute sales contracts.

The process designed and implemented for the disposal of MR's housing stock needs to be developed in a manner which minimizes social dislocation. This may be achieved by a combination of: (a) the phasing with which different blocks of housing stock are brought onto the market; (b) notification period given to current occupants; and (c) other procedural mechanisms.

The financial proceeds will go to Government to be used for various purposes. Creditors (e.g., City of Blantyre, local traders, etc.) and other short-term and urgent liabilities (e.g., Bank overdraft) will have their financial claims settled from the sale of the assets. Any debt owed to Government, which is in excess of the equity position it takes in the new company, could also be settled from the sales proceeds. Remaining financial proceeds will be used to fund credit schemes for the purchase of productive and non-productive assets, and/or assist with the financing of share ownership such as an ESOP. In addition, consideration will be given to the establishment of a national-level Privatization Fund, into which the net financial proceeds of privatization will be deposited and the funds used in turn to finance future privatizations (such as the cost of restructuring, technical assistance or investor schemes).

Part of the "skeleton" staff which remains at MR will be responsible for ensuring that the assets are safe and secure, and do not dilapidate excessively prior to the point of sale. In addition they will provide administrative support to the asset disposal process.

ii. Retrench Labor

The railway currently employs about 2,100 staff. The new railway will be established with about 900 staff positions, and perhaps another 190 to support passenger services. Consequently, approximately 1,000 staff are likely to be retrenched before the new company is established or shortly thereafter.

Staff to be retrenched will be those that are not offered employment at the new company. Information will be widely disseminated in advance of notices being given, which explains to all current employees the process of recruitment for the new company, the package that retrenched staff can expect, and the overall rationale for the restructuring program and resulting need to lay people off. The severance package will be complemented by other forms of assistance in order to help retrenched staff. These will include counselling services, and facilities and assistance toward retraining. The overall package must provide the maximum benefits set out in railway's conditions of service and any recent revisions thereto, and be delivered in a socially responsible manner. However, the package must also be consistent with national policy regarding parastatals in general, and avoid setting a precedent for severance packages that the GOM would be unable to replicate at a future point in time for the railway and/or at other parastatals.

Severance Package. Severance will be paid to all staff to be retrenched, at the time they are handed their notice. The package (e.g., redundancy payment, pension fund pay-out, relocation allowance, etc.) shall be consistent with Malawi Railway's Conditions of Service and recent practices and precedents set in the retrenchment program conducted during late 1993 and early 1994 and those of other parastatals.

Counselling Services. When staff are notified that they are being retrenched, they will be a given an exit interview which explains why they are being laid off, the severance package they are to receive and the other forms of assistance to which they are entitled. Thereafter, counselling services will be made available to staff who wish to be counselled to assist with post-retrenchment adjustment issues, and facilitate retrenched staff's access to the other forms of assistance such as retraining. The counselling unit would also have information on job market prospects in the formal sector in Malawi which may be suitable for retrenched staff, and will assist with arranging interviews.

Retraining. Retrenched staff will be given access to training to assist them to acquire skills that will enhance their chances for finding alternative employment or for starting small businesses. The extent of support will depend on the type of skills needed, the suitability for retraining of those people made redundant, and the nature of the training facilities available.

The retrenchment program will pay direct costs associated with attending training programs currently available at Malawian institutions. In addition, a training needs assessment/survey of retrenched staff will be undertaken to identify if there are certain skill areas in which former staff would like to be trained but for which no courses currently exist. Efforts will be made to develop requisite curriculum and add these courses to existing institutions. Consideration should also be given to using the training center at MR for retraining purposes. Customized programs/courses could be offered, assuming there was sufficient demand and justification for doing so.

c. Privatize the Railway

The railway should be privatized as soon as possible after restructuring. This will introduce private sector management, further commercialize its operations, and increase the traffic on the Nacala corridor.

The process for privatizing the railway should start once the new company has been established because NMR is likely to attract considerable private sector interest. This is because the new company will start as an organization without excessive staff and physical assets, will have a high potential for increasing the level of business, and will have positive earnings (EBIT) and cash flow, assuming that the permanent way is leased. Moreover, registering NMR under the Companies Act should make it easier to implement any privatization plan. In addition, in order to promote privatization from the initial stages of the new company, opportunities for employee stock ownership of a percentage of the new company will be implemented so that the company is not 100% owned by the government and a precedent exists for private ownership.

A two-step process will be undertaken to privatize the restructured company.

Step One: A wide range of options will be identified and evaluated for the mode of privatization to be considered for the railway. The options will be objectively evaluated against an explicit set of privatization goals and objectives developed by the GOM, with the assistance of a privatization specialist. The evaluation will narrow the range of privatization options to those that best meet the privatization goals and objectives. A likely outcome is that the "preferred" privatization modes might be narrowed down to include: (a) sale to a private operator, of either a majority or minority share of the company; or (b) a concession to a private operator in which the operator shares some of the risks and the investment expenses of the railway.

Step Two: Once the range of privatization modes is narrowed, then the process of "packaging", marketing and selling the company can begin. Thus, the second stage of the two-step process will include: (a) preparation of a prospectus and bidding documents; (b) implementation of a transparent tendering process; and (c) selection of a private investor and/or operator. Assistance from professional investment advisors will be needed to effectively carry out the program. The individual sub-tasks in Step Two need to be implemented in a professional manner, as indicated below.

Prospectus and Bid Documents. The prospectus and bid documents need to be prepared professionally and objectively. The prospectus and bid documents should allow bidders to select amongst a range of privatization modes acceptable to government, and make their respective proposals. In this way, the market will not be unduly limited, and government will be given feedback on which mode of privatization yields the best market response and offer.

Marketing and Distribution. A wide marketing and dissemination program undertaken to make the maximum feasible range of potential bidders aware of the prospect. Solicitation notices should be placed in international, as well as regional and local publications.

Evaluation and Selection. Evaluation criteria need to be developed which are objective and consider economic as well as financial considerations. The main objective is to have the railway perform better in a post-privatization period -- the bidder offering the highest price, may not be the best qualified to run the company. Evaluation criteria will also need to be carefully designed so that alternative bids comprising different modes of privatization can be appropriately compared and evaluated (e.g., comparing a bid for a concession versus a bid for share purchase). Evaluation criteria should be presented, in some form, in the prospectus and bid documents to indicate to prospective bidders what issues are important to government and to help them evaluate whether to bid.

Negotiation. Negotiators for government should be assisted by a professional advisor, the results of the selection process announced widely, and unsuccessful bidders quickly advised that they were not selected.

A well executed privatization process will not only enhance the prospects for successfully privatizing NMR and ensure its improved performance after privatization, but will generate momentum for Government's other privatization initiatives.

d. GOM Activities

To achieve this objective, the Government of Malawi will:

1. Develop, in coordination with Malawi Railways, a detailed Restructuring Preparatory Plan which outlines activities to be undertaken to implement the restructuring program, including arrangements for asset transferrals, development of legal incorporation documents and the capital structure of the new company.

2. Draft revisions to all appropriate railway legislation and regulation enabling the New Malawi Railways Company to be autonomous and privatized.

3. Incorporate the new railway company under the Companies Act and transfer assets to the new company.

4. Prepare and sign a Memorandum of Understanding between the GOM and Malawi Railways which specifies the relationship and respective roles between government and the new railway company, including any anticipated public service obligation and related compensation, guarantees for the non-Statutory Body status of the new company, and overall performance targets to be met by the railway.

5. Implement an equitable and transparent retrenchment program in areas of severance, counseling and retraining.

6. Prepare a process for the sale of non-core assets which is transparent and minimizes social dislocation.

7. Develop employee stock ownership instruments for purchase of shares in the new railway, and reserve shares for this purpose at the time that the new company is established.

8. Develop and implement an appropriate mechanism for leasing permanent way to the new railway company.

9. Develop a transparent process for the privatization of the railway, through sale or concession, and implement the program in a timely fashion.

10. Develop an agreed-upon plan between the GOM and USAID for the uses of the proceed from the sale of the assets.

3. Activity Three - Transport Sector Policy

The main objective of this program activity is to create a fair and open competitive environment within and between surface transport modes, and to ensure that investments in transport infrastructure are consistent with national transport policy.

To achieve these aims, this component will assist Government to: (a) formulate a coordinated transport policy that fosters a safe and competitive transport environment for commercially viable and financially sustainable transport enterprises; (b) prepare amendments to relevant subsidiary legislation and regulations in support of policy reform, and (c) build capacity to analyze policy impact so that government can better design, select and revise policy.

This program component is intended to identify and revise those restrictive policies and regulations which constrain competition and adversely affect the efficient functioning of the transport market. As such, it will, at a minimum, address: the elimination of unnecessary tariffs and rate regulations; the elimination of direct or indirect subsidies in the transport market; the elimination of unnecessary regulations on entry and exit in the transport market; and, the elimination of cumbersome customs and clearance documentation.

The MOTC will need to develop a Transport Policy Unit (TPU) or some other institutional means to provide a focal point and "center of excellence" for policy formulation, analysis and impact assessment. This unit will form the main counterpart entity in MOTC for much of the technical assistance provided through the project component (see below).

GOM Activities

To achieve the objective of this program component, the Government of Malawi will:

1. Formulate a comprehensive transport policy which supports and promotes: (a) a fair and open competitive environment for transport operators, through a program of sector deregulation, liberalization, commercialization and privatization; and (b) safe and environmentally sound transport operations.

2. Establish a Transport Policy Unit (TPU) or some other institutional means in the MOTC to act as the focal point for policy formulation, analysis and impact assessment.

3. Prepare a policy agenda for policy research and analysis to be undertaken. The policy agenda shall prioritize all policy research issues and activities, and shall cover all modes of surface transport pertaining to this program agreement including rail transport, road transport and water-borne transport.

4. Draft amendments and revisions to relevant legislation and regulations which are in support of the new transport policy.

C. Project Activities

In addition to the $20 million cash transfer to support the three specific program activities discussed above, the Malawi Railway Restructuring Program includes $5 million for a project component. This will provide technical assistance, training, computers and funding for studies that directly support the GOM and Malawi Railways in implementing the program activities. Project assistance will also be utilized to fund the services for a project manager and for the monitoring, evaluation and audit element of the program.

1. Activity One - Nacala Corridor Operations

The previous section discussed activities to be undertaken by the GOM and Malawi Railways supported by USAID which will increase the efficiency and reliability of operations of the Nacala Corridor. The

Malawi Railways Restructuring Program includes a project component which will provide direct USAID financing for foreign exchange costs to support GOM and Malawi Railways implementation of this program activity. Project assistance under this activity will be directed at: (a) establishing corridor-wide performance targets and improved coordination between MR and CFM/N; (b) increasing the reliability and efficiency of MR operations so that it can meet corridor performance targets; and (c) intensifying a customer-driven orientation at MR to marketing the Nacala corridor service.

a. Technical Assistance

Short-term technical assistance will be provided in a number of areas throughout the course of the program. Expertise will be required to assist with: (a) developing appropriate performance targets for corridor operations; (b) establishing a Joint Review Board, or other such entity, and mechanisms and procedures for arbitration of disputes; (c) facilitating trade and transit arrangements at the border; (d) improving managerial and operational performance of Malawi Railways so that it can better meet corridor performance targets; and (e) designing and implementing a program for intensified marketing of the Nacala route.

b. Studies

Additional investigations into the more pressing problems of efficiency and reliability faced by Malawi Railways and the corridor will be undertaken. Required studies include: (a) a training needs analysis of skills required in the organization to meet corridor performance targets and to conduct intensified marketing; (b) a tariff restructuring study aimed at compatibility between the two railroads and at improved pricing based on full costs and market segment characteristics; (c) a survey of customer needs and preferences, the adequacy of facilities, and the adequacy of operating arrangements for handling the traffic offered by customers; and (d) a work flow and practices assessment to determine current processes for producing operational performance and the areas for improvement/revision.

It is envisioned that additional studies will be identified throughout the program as different activities are undertaken and implemented. All proposed investigations will build upon previous studies and experiences.

c. Training

The project training activities will be developed as a result of the training needs analysis study discussed above. Training will focus on corridor specific issues aimed at both improving operational performance and at intensifying marketing activities. Topics are likely to include but not be limited to: work load analysis; scheduling and critical path analysis; operations research and management; market analysis and research; and pricing analysis.

d. Computers

Computer hardware and software will be funded to support the corridor marketing efforts and operational performance. For the marketing functions, PC-based systems will be provided with database, spreadsheet and desktop publishing software to facilitate the creation of customer databases, tracking of key customer accounts, development of marketing plans, analysis of market volume sensitivity to pricing and other service features, and production of marketing literature and promotional materials. For operational performance, systems will be installed to monitor and evaluate operational performance, improve train operations and the tracking of rolling stock, and provide information to customers on the status of cargo shipments.

e. Other Physical Inputs

Due to severe financial constraints, Malawi Railways has not been able to provide funding for even minor physical inputs for over the last decade. As a result funding will be required for replacement of worn-out spares, cross-border communications equipment, track rehabilitation and some service equipment. The World Bank loan funds for these physical inputs required to improve the efficiency and reliability of the Nacala Corridor.

2. Activity Two: Restructure and Privatize Malawi Railways

Project assistance will be provided to support the GOM in: (i) restructuring, commercializing and eventually privatizing Malawi Railways; and (ii) divesting surplus assets and retrenching staff in an efficient, effective and transparent manner. These two project sub-components are addressed in turn below.

<u>2.a Restructure, Commercialize and Privatize MR</u>

The objective of this project sub-component is to assist the GOM to: (i) restructure MR in terms of its size, scope of activities, legal status, reporting relationship with Government and its financial condition; (ii) commercialize MR by taking measures to reduce costs, enhance productivity, increase revenue and inject a more commercial orientation into the corporate culture; and (iii) privatize MR by implementing an appropriate transparent and professionally managed process.

a. Technical Assistance

Technical assistance will be required for several activities, which will generally be short term in nature. Technical assistance activities include: (i) conduct of a strategic management workshop and assistance with the development of strategic plan for the new railway; (ii) development and implementation of the Restructuring Preparatory Plan (RPP) which includes development of a new Conditions of Service, development of a pension scheme and resolution of existing liabilities against the current scheme, incorporation of the new company, transfer of assets to the new company, and development of an appropriate capital structure including reserving shares for an ESOP; (iii) establishment of performance targets overall for the new railway with respective time frames for achieving those targets; (iv) drafting of amendments and revisions to railway-related legislation and regulations; (v) implementation of a program or mechanism to lease permanent way to the new railway; (vi) development of measures at the new railway to reduce costs, enhance productivity, increase revenue and inject a more commercial orientation into the corporate culture; (vii) development of a Operations Rule Book for the new company; (viii) development of means to motivate staff and create goals-oriented performance by implementing an ESOP scheme, a bonus system and a goals-based performance evaluation system; and (ix) design and implementation of a transparent and professionally managed process for privatizing the railway.

b. Studies

A range of studies will be identified and conducted during the course of the project. An initial set of studies include: (i) an assessment of MR's current pension scheme, analysis of mechanisms for discharging claims and liabilities against the scheme and for transferring pension rights to the new company, and design of a pension scheme for the new company; (ii) an evaluation of alternative capital structures for the new company, including number of shares, share value, nomination of subscribers, reservation of shares for an ESOP, and differentiation of shares in terms of voting and dividend rights; (iii) an assessment of an appropriate financial, legal and organizational means for leasing permanent way to the new railway; (iv) the design of an ESOP for the new company which examines, among other issues, who should be eligible for shares, the value of shares, the basis on which employees should purchase shares, and the process by which employees can be made aware of the benefits of ESOP participation; (v) a study of improved work practices and procedures at the new company so that is can better meet its overall performance goals; (vi) the design of a goals-based performance evaluation system for personnel at the new company; and (vii) an evaluation of alternative modes or privatization which objectively assesses different modes against explicit privatization goals developed in concert with government.

c. Training

Most of the training in this project sub-component will relate to commercialization of the new railway and equipping staff to better meet its overall performance goals as set out in the MOU with government. Training will focus on efforts to enhance productivity in such areas as: (i) improved work practices and procedures; (ii) new job functions and key skills such as market research, marginal pricing, accident analysis, and operations research and planning; (iii) skills upgrading so staff can better use general managerial, financial and operational decision-support systems; and (iv) management training. There will also be a number of change management activities to instill a commercial orientation in the organization by improving communications, increasing delegation of authority, creating a greater awareness of profit-motivated corporate behavior, and engendering a customer focus and appreciation of service quality throughout the organization.

d. Computers

PC-based hardware and software will be provided in support of the this project sub-component. The computers will mainly focus on decision-support systems (DSS) to be used for general management, financial analysis and planning, marketing and customer support, and operations research and planning. Relatively high-powered desktop computers will be supplied with a range of standard applications software packages (e.g., spreadsheet, database, word processing, and desktop publishing). In addition, selected specialized models may be purchased to support rail-specific applications, such as the tracking of rolling stock.

2.b Divest Assets and Retrench Labor

The objective of this project sub-component is to assist the GOM to: (i) dispose of the surplus assets not needed by the new railway and discharge all residual liabilities against MR; and (ii) retrench in an equitable, transparent and socially responsible manner those staff who will not be offered employment at the new railway.

a. Technical Assistance

For management of the overall winding down process for MR, an administrator/liquidator will need to be appointed. This individual, to support the disposal of assets, is likely to need the assistance of specialists in the following areas (i) commercial and residential real estate to assist with the sale of MR's housing stock and other property; (ii) the market for used railway equipment, locomotives and rolling stock; and (iii) legal procedures for establishing clear title to assets and concluding sales/contractual agreements.

Technical assistance will also be required to support the implementation of an equitable and transparent retrenchment program. TA will be needed to support counselling services, retraining and credit activities.

b. Studies

Studies in this sub-component are likely to include: (i) an assessment of job prospects in the formal sector which may be suitable for retrenched railway staff; (ii) a training needs assessment of what skills retrenched workers would like, including business and entrepreneurial skills; and (iii) a survey and evaluation of training courses and facilities available in Malawi which may be suitable for supporting retrenched staff retraining and recommendations for improvements to the training infrastructure and course availability.

c. Training

Significant amounts of retraining are anticipated in this project sub-component to support the retraining of retrenched railway workers. While specific training inputs will be determined after training needs are assessed and the number of retrenched staff interested in being retrained is determined, it is estimated that the average cost of training per participant would be about $US 2,000 over a two-year period and that 500 participants may be interested in the retraining. The project will seek to be flexible, as needs, the level of interest and the ability of the training infrastructure to respond become better known. It may be the case that the average cost per participant is lower, and that many more staff are interested. Likewise, a mix of many participants undertaking only a limited number of short courses, with few participating in longer, more extensive training is a likely outcome.

d. Computers

Some PC-based systems with standard applications software will be needed to support the winding down process. These will support such functions as: inventory tracking of assets; preparation of bid documents or product sales literature; development of valuation and pricing estimates; database tracking of retrenched workers; database analysis of the job market; and curriculum development for retraining.

3. Activity Three: Transport Sector Policy

Project activities to be carried under the Transport Sector policy component of the project will assist Government to: (a) formulate a coordinated transport policy that fosters a safe and competitive transport environment for commercially viable and financially sustainable transport enterprises; (b) prepare amendments to relevant subsidiary legislation and regulations in support of policy reform; and (c) build capacity to analyze policy impact so that government can better design, select and revise policy.

a. Technical Assistance

Short-term technical assistance (ST-TA) will enhance the MOTC's capacity to formulate policy and assess the impact of those policies. ST-TA is likely to be the following areas: (a) transport economic analysis, such as vehicle capacity and operating cost analyses, road user cost analysis, and training MOTC staff in elements of transport economic analysis; (b) transport policy to assist with national-level policy formulation, investigating urban and rural transport issues, and training MOTC staff in policy analysis and development; (c) legal reforms, particularly of the Road Traffic Act; (d) institutional strengthening of the Ministry, particularly the Road Traffic Department and the Transport Planning Division ; and (e) computer modelling and management information systems.

ST-TA activities are expected to be delivered through a combination of activities undertaken jointly with Ministry counterparts in such areas as policy studies, training and computer modeling.

b. Studies

Studies will be undertaken as part of the short-term technical assistance activities. These are likely to include studies of: national vehicle capacity; vehicle operating costs; rural and urban transport; road user costs; and selected areas, in support of deregulation and liberalization of surface transport modes, such as pricing, taxation, licensing, and registration of transport companies.

c. Training

Much of the training will be undertaken as part of the short-term technical assistance activities. ST-TA will provide on-the-job training by working closely with Ministry counterparts while performing their tasks, and will conduct selected on-site workshops and seminars (particularly for policy analysis, transport economics, and computer skills). Some university-based training, in Malawi or elsewhere, may be undertaken to enhance skills in transport economics, policy analysis and transport modeling. Training needs will be developed further during the course of the project.

d. Computers

Computer software and hardware will be provided to augment MOTC's general computing capacity and to support specific transport policy analysis models and databases. Hardware is likely to include 4-6 higher-speed 486 desktops which have substantial hard disk storage and at least 4MB of RAM. Software is likely to include a variety of packages, ranging from recent versions of DOS, Microsoft Windows and standard applications software (word-processing, spreadsheet, database) through to specialized spreadsheet and database packages and transport-specific models.

4. Illustrative Project Budgets

Project Assistance Budget - Table One
($000)

	FY 95	FY 96	FY 97	TOTAL
Technical Assistance/ Studies/ Training	1,000	1,500	1,200	3,700
Computers	250	250	-	500
Project Management	100	200	200	500
Monitoring, Evaluation & Audit	100	100	100	300
TOTAL	1,450	2,050	1,500	5,000

Project Assistance - Table Two
($000)

Activity One - Nacala Corridor Operations	
Malawi Railways and CFM(N) Cooperation	
1. TA/Studies	200
Activity Two - Malawi Railways Restructuring	
The New Malawi Railways (Incorporation, Restructuring, Privatization & Capacity Building)	
1. TA/Studies/Training	2,000
2. Computer	200
The Old Malawi Railways (Liquidation & Retrenchment)	
1. TA/Studies	500
2. Computers	100
Activity Three - Transport Sector Policy	
Transport Policy Unit	
1. TA/Studies/Training	1,000
2. Computers	200

IV. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities

1. Malawian Leadership and Management Arrangements

This program fits perfectly into the new administration precepts on foreign aid. The program design results from a Malawian initiative. As noted, Malawi Railways began implementing a tough and much needed restructuring of its management and operations in 1993. However, the GOM and Malawi Railways agree that financing requirements were in excess of its abilities and consequently requested donor support. The design of the Malawi Railways Restructuring Program represents a total and continuous participation between the donors, GOM and Malawi Railways. The implementation of the program will be the primary responsibility of Malawi Railways and the GOM.

The restructuring program will be implemented by Malawi Railways and the GOM in four phases. Three of these phases are scheduled to be completed during the life of the USAID program and will result in disbursement of program funds. For each of these three phases the GOM and Malawi Railways will submit to the Mission a Letter of Intent which will detail the results expected during the particular phase of implementation (program indicators) and the actions both the Railways and the GOM will undertake to achieve those results (an action and financing plan). The Mission, in conjunction with other donor partners, the GOM and Malawi Railways will review the results achieved and jointly determine whether the conditions for disbursement of USAID funds have been met. For each phase part of the conditionality will include the submission, review and approval of the Letter of Intent for the following phase of implementation.

This mode of program implementation will address two overriding concerns of USAID. First, under this mode of implementation, the leadership of Malawi Railways and the GOM is ensured. The Malawian entities will remain in the lead of the restructuring program, not the advisors or USAID. At the same time, it provides USAID with the best assurance that, should the restructuring program go off track for any reason, additional funds will not be committed. This enables the Mission to make judgements during the actual program life on the likelihood of the anticipated results being achieved, to work through modifications with the GOM and Malawi Railways in the face of unanticipated events, and to keep its program implementation focused on the results of the activity and away from Mission inputs. In short, it recognizes that glitches in the program re likely to occur, and provides the implementation flexibility required to address them.

2. Donor Involvement and Coordination

The donor community in Malawi, USAID, ODA and the World Bank, fully supports GOM's efforts discussed in this program. The program will be primarily co-financed by the World Bank and USAID. The ODA, however, will continue to support technical assistance to senior management for one year. World Bank funds will be committed to the capital investments required to improve the operational efficiency of Malawi Railways and the Nacala Corridor such as track improvements, communications equipment and replacement of worn-out assets. USAID will provide budgetary support for restructuring activities, staff development and training, technical studies to facilitate commercialization and privatization, and credit facilities for purchase of productive and non-productive assets and options for an employee stock ownership program.

USAID, ODA and the World Bank have already taken part in an initial appraisal mission on Malawi Railways restructuring efforts. All three organizations regularly participate on a donor coordination committee on the transport sector and have had extensive experience working together as the primary donors behind the $US 120 million Northern Corridor Project. In addition to these transport sector donor meetings, the World Bank and USAID have scheduled joint coordination meetings on Malawi Railways Restructuring Program each February during the life of the program. Similar meetings will be proposed with donors supporting CFM(N).

This proposed split in donor responsibilities capitalizes on previous experience. In order to facilitate implementation of the program, the World Bank and USAID will be responsible for separate packages or activities. World Bank will do all the procurement, with the exception of computers, which should allow for a more efficient planning by the railway as only one set of procurement regulations will need to be followed, a major problem with previous transport projects. Procurement is also the activity which lends itself most logically to loan financing. As the requirements of this program will necessitate constant monitoring and policy dialogue, USAID with a permanent presence in Malawi is in the best position to provide both oversight of conditionality and the budget support required for restructuring within a framework of adequate social safeguards.

3. USAID/Malawi Responsibilities and Management Arrangements

USAID will manage the overall project through the Agriculture and Food Security Office. However, joint reviews will take place on, at least, an annual basis between the involved donors, Malawi Railways and the GOM. As with all USAID programs, there will be substantial involvement by the Controller's Office in all aspects of program/project grant funds. Under the project element, funds are provided to hire a PSC Project Coordinator. A full-time USDH is not available within the Mission's current FTE ceiling.

4. Detailed Implementation Plan

Planned Implementation Schedule

Time	Action	Agent
1994		
September	Obligation & Proag Signing	GOM & USAID
October	Prepare Buy-in for Bridging Activities for Preparatory Restructuring & Ops. Agree. (Including SOWs for Organizational & Staffing Structure, Operational Agree., Incorporation Document Preparation, Capital Structure, Asset Transferral	USAID MR & USAID
November	RFP for New Railway Company (Restructuring,	

	Commercialization & Priv.) and Old Railway Company (Liquidation & Retrenchment) Drafted	MR & USAID
	Strategic Planning Workshop	MR, GOM & USAID
December	First Tranche Funds Released	GOM & USAID
	Draft SOW for Training Needs Assessment	MR & USAID
	Draft SOW for Tariff Restructuring Study	MR & USAID
	Draft SOW for Corridor Customer Needs Survey	MR & USAID
<u>1995</u>		
January	Draft PIO/C for Computers	MR, GOM & USAID
	Draft SOW for ESOP Study	MR, GOM & USAID
	Draft SOW for Retrenchment Retraining Survey	MR & GOM & USAID
	Draft SOW for Leasing Perm. Way Study	MR & GOM
	Draft RFP for Transport Policy Unit	GOM & USAID
February	Donor Coordination and Review Meeting	MR, WB & USAID
April	Bridging TA Completed on Operational Agreement and Restructuring Preparatory Activities	
	Training Needs Study Completed	MR & USAID
	Tariff Restructuring Study Completed	MR & USAID

	Customer Preference Survey Completed	MR & USAID
	TA Arrives for New Railway Company	MR & USAID
May	ESOP Study Completed	MR & USAID
	Retraining Study Completed	MR & USAID
	TA Arrives for Old Railway Company	MR & USAID
June	Permanent Way Study Completed	MR & USAID
August	Draft SOW on Privatization Modes Study	MR & USAID
	TA for Transport Policy Unit Arrives	MR & USAID
October	Second Tranche Funds Released	GOM & USAID
November	Computers Arrive & Installed	MR, GOM & USAID
December	Transport Policy Unit Organizes Studies Agenda	GOM & USAID
<u>**1996**</u>		
January	Mid-term Evaluation	MR, GOM & USAID
February	Donor Coordination & Review Meeting	MR, WB & USAID
March	Modes of Privatization Study Completed	MR & USAID
	Draft SOW on Credit Fund Study	MR & USAID
April	Revamped Staff Training Programs Implemented at New Railway	MR & USAID
June	First Series of Transport Policy Studies Completed by Transport Policy Unit	GOM & USAID

September	Credit Fund Study Completed	MR & USAID
<u>1997</u>		
January	Second Series of Transport Policy Studies Completed by Transport Policy Unit	GOM & USAID
February	Donor Coordination & Review Meeting	MR, WB & USAID
May	Third Tranche Funds Released	GOM & USAID
June	Evaluation	MR, GOM, USAID
July	Audit	USAID

B. Detailed Financial Plan

1. Results-Oriented Programming and Dollar Disbursement Mechanism

a. Choice of Program Modality.

In making its decision to utilize a combined program and project assistance modality to implement this program, the Mission carefully aligned program objectives, in terms of both expected results and process, with alternative assistance modalities. In addition to the substantive program objectives outlined in the policy matrix and elsewhere in this document, the Mission identified the following "process objectives" which influenced Mission decisions.

(i) Ownership of the program. The continued commitment of the management and staff of Malawi Railways as well as the GOM was considered fundamental to the success of the program. To emphasize the ownership of the program, the Mission sought an assistance modality which would reinforce and support the exceptional leadership which both entities have taken for program design and initial implementation; in short, we seek to keep the Malawians in the "driver's seat."

The assistance modality we are proposing is a combined NPA/Project approach. However, it is not a typical Cash Transfer program. Instead of disbursing against "conditionalities," the Mission proposes to disburse against phased results, which are directly linked to the expected, end-of-program impacts. The GOM and Malawi Railways will jointly establish a set of concrete overall program indicators which specify the anticipated impacts in qualitative and quantitative terms. Both the overall objective of the program and these end-of program indicators will directly link the benefits of the program to improvements in the economic conditions of smallholder farmers, a key strategic objective of USAID's assistance strategy in Malawi.

We believe that a phased, results-oriented approach enables the GOM and Malawi Railways to continue to lead the process of restructuring better than a project approach. Under a project, the GOM and Malawi Railways becomes dependent on USAID actions; e.g., approval of a credit scheme, loan scheduling becomes dependent on USAID policy to advance and liquidate funds; and on-going operating expenses of the GOM and the Railways associated with restructuring become hostage to the submission and approval of workplans, advance liquidation procedures, etc.

The proposed modality, however, does put USAID's commitment to results-oriented assistance approaches to the test. Instead of controlling by inputs, we propose to control by results. We, in fact, believe that in the case of this program, this gives the USG greater control over its funds since results will have been achieved before disbursements take place. What better guarantee of success can there be?

(ii) Flexibility. While the Railways, the GOM, the World Bank and the Mission are thoroughly in agreement on the ultimate objectives of this program as defined by quantifiable impact at both the macroeconomic (World Bank) and microeconomic (USAID) levels, all partners recognize that this is not an infrastructure project and all of the variables which need to be addressed to achieve the identified impacts may, in fact, not be foreseen during the design of the program. Therefore, flexibility to respond to changing circumstances, the ability to try more than one solution to a problem, will be crucial to achieving the objectives we jointly seek.

The modified NPA approach proposed provides the much needed flexibility that a project approach cannot provide. For each phase of the program and prior to disbursement of funds associated with the previous phase, the GOM and Malawi Railways will submit a letter of intent which outlines the actions that they jointly propose to take during the subsequent phase to achieve the program results associated with that phase. For example, it is expected that privatization of the New Malawi Railways Co. will occur during the last phase of the program. Prior to disbursing funds associated with the previous phase, USAID will have received from the GOM and Malawi Railways a letter of intent which will outline each of the steps that each of the parties will undertake to achieve the privatization of the Railways. In this way, USAID will understand how the issues of transparency in the sales transaction will be addressed. We will be fully briefed as to how much of the New Railway will be sold and how the management structure will be set up. As part of the letter of intent, we will understand how the expenses associated with privatization will be budgeted and made available both by the GOM and the Railways. This approach allows the details of privatization to be worked out much closer to the actual action. As a result, we expect that the design for the privatization will be much more complete and concrete than it could be if we were to jointly outline the details and budget USAID funds for these actions now.

In building in this degree of flexibility in implementation, the issue of 611(a) requirements must be addressed. This approach requires that a 611(a) certification be made taking into consideration **theresults** of the assistance activity, not the**inputs**. The PAAD to justifies the proposed level of authorized financing based on the results of the activity. Africa Bureau has some experience with this application of 611(a) criteria in Mozambique's agriculture sector program, Benin's education sector program, and others. For this program, we propose to relate program financing to program results in three ways: (1) the economic analysis demonstrates that the economic benefits to be accrued to the economy far outweigh the economic costs of restructuring; (2) the financial assessment determined that the financial returns to smallholders far exceed the financial costs of the program; and, (3) as a reality check, the costs of servicing Malawi Railroad's current and projected debt (in the absence of restructuring) will be compared to the costs of the restructuring.

(iii) Budget Support Program Rationale. Because of the GOM's structural adjustment program and an economic imperative to impose austerity on government expenditures, the GOM can no longer absorb the costs of subsidizing the railroad which is already in serious debt to the government. Nor can it afford the costs associated with restructuring it, or of servicing the debt that it holds. Therefore, the Mission looked for that modality which would provide budget support most efficiently and effectively to enable the GOM to privatize the Railroad as quickly as possible.
Budget support can theoretically be provided under either a project or non-project assistance modality. The processes differ vastly and the reasons for choosing one method over the other should well understood.

(a) Different Procedures: When USAID provides budget support via a project, inputs to the government's budget must be clearly delineated and justified. USAID can do this in a variety of ways. For operating expenses, we usually choose to ask for periodic workplans which include salary levels, per diem estimates, justification for gasoline expenditures, etc. We then approve a workplan, advance funds against the workplan (because our whole justification for financing operating expenses is a financing constraint), and require the government to liquidate the advance on a 30-day or 90-day basis prior to processing and justifying a new advance. In short, even though USAID finances budgeted expenses, on a project basis USAID is still actively involved in financing government inputs, and the time and energy of USAID as well as host country project managers is consumed with input justification and liquidation. Where financial procedures of the grantee are not adequately developed or where controls are not sufficient to ensure that USAID funds will be used for the purposes they were authorized, it is important that USAID assume this role.

Under the modified NPA approach proposed for this program, USAID proposes to disburse its funds against results, not inputs. We believe that the GOM budgeting, accounting and control systems for local cost financing have been determined to be sound, per the analysis provided below. We do not, however, have the same high confidence in the ability of the GOM to undertake international procurement. Therefore, in those instances where external expertise or services are necessary for achieving the program results, USAID proposes to provide these inputs on a projectized basis and A.I.D. will procure them directly. Therefore, the NPA portion of this program will only finance local on budget expenses and will not be reconverted to foreign exchange.

(b) Timeliness: Following project procedures to provide local cost budget support requires time, and under circumstances where the grantee's budgeting and control systems have been determined by USAID to be sound, it results in double accounting for local inputs (once by the government and once by USAID). The project modality for providing budgetary support for local costs is, therefore, not the most efficient one, but it is effective under those circumstances where there is reason to question the grantee's ability to do its own accounting and controlling of funds. For this reason, Mission has determined that a mixed approach, utilizing NPA for budget support and project assistance for foreign exchange inputs will maximize efficiency and effectiveness.

(c) Leverage: Under a project approach, financial leverage is achieved through a counterpart contribution; i.e., the grantee typically is requested to provide 25% of the total project costs, often on an in-kind basis. Under the proposed approach, financial leverage is achieved in two ways. A formal counterpart contribution is required. In addition, by providing much needed dollars directly to the GOM on a grant basis, USAID leverages an actual cost contribution from the government far in excess of the A.I.D. funding plus required counterpart. For example, the total amount of the proposed A.I.D. grant plus GOM counterpart totals $32.5 million. Yet, we know that if the program were projectized, and all actual inputs necessary to achieve the project purpose were financed by actual inputs, the required level of input financing would total well over $40 million. This includes the expenses to the government to be provided as budget support and on an in-kind basis, the retirement of Malawi Railways' debt to both government and the commercial banks, and the assets of the current railway which are transferred to other entities at less than cost (e.g., the assets of Lake Services to be separated from Malawi Railways; the possible provision of occupied houses to Railroad retirees as part of their retirement package, etc.). However, because USAID is providing a valued financing package (e.g., dollars rather than local cost financing), that package leverages greater GOM local resources.

(iv) Financial Management Capacities. A major factor in the Mission's deliberations regarding implementation modality is the ability of the primary implementor to manage U.S. resources effectively and responsibly; i.e., to budget, account for and control them in such a way that A.I.D. has a high degree of confidence in their ultimate use. The Government of Malawi's Office of the Auditor General has recently been the subject of a thorough RIG/A/Nairobi audit certification and it has been found to be fully qualified to conduct and certify audits over A.I.D. funds disbursed through GOM ministries. The last Mission General Financial Assessment also certified that government budgeting and accounting systems were worthy of a high degree of confidence. However, the Mission's assessment of the capacity of the GOM to undertake international procurement actions, either for commodities or services, has historically been less than favorable. This is common across practically all government ministries, parastatal institutions, and non-governmental institutions. This is a direct result of the procurement process employed, however, and not a question of the financial management of international procurement. Therefore, in choosing an assistance modality, Mission looked for that modality which maximized reliance on financial management systems which we know are sound. The fact of a sound system for the budgeting, accounting and control of funds disbursed through the Reserve bank and the GOM budget for local expenses weighed heavily in the Mission's considerations as outlined in paragraphs two and three, above.

In considering the alternative approaches and the advantages/disadvantages of each as outlined above, the Mission chose the combined NPA and Project approach as it was deemed indispensable to the successful completion of the program activities given the emphasis placed on Malawian ownership of decision-making and institutional reform.

However, in determining that a combined approach heavily-oriented to NPA was appropriate, Mission then considered which NPA disbursement modality was appropriate; i.e., whether a cash disbursement or a commodity import program (CIP) was more conducive to meeting the financing needs and to achieving the objectives of the program.

Over the past nine years, USAID has been actively involved in Malawi's transport sector with a heavy emphasis on investments in increasing transport capacity. Over that time, USAID financed approximately $25 million of construction and large commodity investments. The current proposal seeks to increase the efficiency of those previous investments by restructuring management and operations of the Railroad and the Nacala Corridor. No significant international commodity procurement is required to achieve this objective, and, therefore, none is proposed. Given that the need has been clearly established for budget support and no need had been established for commodity inputs, USAID rationally chose to fund the proposed program via cash disbursements to support the GOM budget rather than via CIP. This decision also supports our process objective of ensuring that Malawians manage the structuring of the Railroad and maintain control over financing all local inputs to that effort.

b. Program Implementation The restructuring program will be implemented by Malawi Railways and the GOM in four phases. Three of these phases are scheduled to be completed during the life of the USAID program and will result in disbursement of program funds. For each of these three phases, the GOM and Malawi Railways will submit to the Mission a Letter of Intent which will detail the results expected during that particular phase of implementation (program indicators) and the actions both the Railways and the GOM will undertake to achieve those results (an action and financing plan). The Mission, in conjunction with other donor partners, will review and approve the plan. As each phase of implementation draws to a close, the Mission, in conjunction with other donor partners, the GOM and Malawi Railways will review the results achieved and jointly determine whether the conditions for disbursement of USAID funds have been met. For each phase part of the conditionality will include the submission, review and approval of a Letter of Intent for the following phase of implementation.

This mode of program implementation will address two overriding concerns of USAID First, under this mode of implementation, the leadership of the GOM and Malawi Railways for the restructuring program is ensured. The Malawian entities will remain in the lead of the restructuring program, not the advisors or USAID At the same time, it provides to USAID the best assurance that, should the restructuring program go off track for any reason, additional U.S. funds will not be committed. This enables the Mission to make judgements during the actual program life on the likelihood of the anticipated results being achieved, to work through modifications in the GOM and Malawi Railways restructuring plan in the face of unanticipated events, and to keep its program implementation focussed on the results of the activity and away from inputs. In short, it recognizes that glitches in the program are likely to occur, and provides the implementation flexibility required to address them.

c. Disbursement of Funds. USAID will disburse funds at the successful conclusion of each implementation phase for budgetary support to the GOM. Dollars will be disbursed directly to the Reserve Bank of Malawi's account in the Federal Reserve Bank of New York.

Malawi's foreign exchange allocation system has over the past year undergone significant and positive change. A new interbank market for both allocation of foreign exchange to commercial banks and private exchange houses has been established and market-oriented price determination is in place and functioning well. Exchange controls, administrative restrictions and approvals by the Reserve Bank are things of the past. A mini-foreign exchange auction is held each week in which all actors freely bid on and offer for sale foreign exchange. The purpose of this mini-auction is to establish a weekly, transparent and publicly announced reference price, but the market is free to exchange local currency for foreign exchange at rates above or below the reference price. Foreign exchange houses, commercial banks, private traders, and individuals are free to engage in exchange transactions without regard to the purpose for which the foreign exchange will be put.

USAID dollar funds disbursed to the Central Bank for this program would be subject to the same sound economic and financial management practices. Under these conditions, it is impossible to establish in advance the specific uses of USAID dollars, and given the foreign exchange allocation system in place, Malawi qualifies for an exemption to the legislatively-mandated separate account management requirements for NPA dollars.

USAID's interest in providing program funds, as described above, is based on our intention to ensure that the GOM and Malawi Railways remain in charge of all the implementation actions required to achieve the restructuring. As such, we firmly believe that they have to be in charge of the financial resources required to make that happen. For each phase of implementation, the GOM and Malawi Railways will specify in their Letter of Intent to USAID the amount of budgetary financing they anticipate providing in order to implement the actions and achieve the results expected under each phase. Part of the review of each phase will ensure that those budgetary resources were, in fact, made available for the purposes intended in a timely manner. In this way, USAID will ensure that adequate local financing is made available through the budget to implement the program. This obviates the need for the creation and management by USAID of a special local currency account.

The disbursement modality proposed herein includes USAID oversight of host country expenditures through the GOM budgetary process. It is worth mentioning that the GOM's policies and procedures for budgeting, accounting and controlling funds have been reviewed by USAID and other donors and found to be sound. RIG/A/Nairobi has, in fact, examined and certified the Auditor General's Office of the GOM as an approved audit entity, a rare distinction among governments in Africa. The Mission's General Financial Assessment, concluded less than five years ago, also makes a determination that the budgeting, accounting, and control procedures utilized by the GOM are worthy of highest confidence. That said, Mission intends to update that Assessment early in 1995.

2. **Detailed Budget**

The following provides an illustrative detailed expenditure budget for the three year life of the program.

Illustrative Expenditure Budget
($000)

ITEM	FY 95	FY 96	FY 97	TOTAL
1. NPA	5,000	7,000	8,000	20,000
2. Corridor Operations: TA/Studies	150	50	-	200
3. New Railway Company				
1. TA/Stud/Train	700	800	500	2,000
2. Computers	200	-	-	200
4. Old Railway Company				
1. TA/Stud/Train	200	200	100	500
2. Computers	100	-	-	-
5. Transport Policy Unit				
1. TA/Stud/Train	400	400	200	1,000
2. Computers	200	-	-	200
6. Project Management	100	200	200	500
7. Monitoring, Eval. & Audit	100	100	100	300
TOTAL	**7,150**	**8,750**	**9,100**	**25,000**

C. Procurement Plan and Method of Financing

Project Assistance under the Malawi Railways Restructuring Program totals $5 million. This will primarily fund technical assistance, studies, and training to support the implementation of program activities. Computers will be the only commodities procured under the program by USAID.

The MRRP will utilize several approaches to obtain these services: buy-ins to centrally-funded projects; use of indefinite quantity contracts (IQCs) managed by USAID/W and REDSO/ESA; and direct competitive procurement for some services and studies. The following illustrates the types of approaches to be used for different project activities.

--- Computers will be purchased using procurement service agents under contract with USAID with guidance from the REDSO/RCMO.

--- With the incorporation of a new railway company scheduled for April of 1995, technical assistance will be required immediately. In order to facilitate the restructuring prepatory process, USAID/Malawi plans to use the centrally managed Privatization and Development Project to secure the required technical services for a period of nine months. These crucial technical services will provide a bridging mechanism before an institutional contractor can be put in place. Support through this buy-in will assist the GOM and Malawi Railways develop organizational and staffing structures for the new company, job descriptions, grading levels and compensation packages, a recruitment process to fill positions, incorporation documents, asset transferral mechanisms and a capital structure. Such activities must take place before the actual incorporation of the new company. Additionally, the buy-in will be utilized to provide start-up support to improving Nacala Corridor operations. This will include TA to assist in preparation of an "Operational Agreement" and studies in areas of tariff restructuring, customer preference and training needs.

--- As the bridging activities are taking place, an institutional contractor will be hired for a minimum two-year period to provide primarily short-term technical assistance, training and studies in support of the restructuring, commercialization and privatization activities associated with the new railway company and the liquidation and retrenchment activities associated with the old company. A direct contracting mechanism with open competition will be utilized. Although one RFP will be issued, the institutional contractor will be required to provide separate teams for both the old and new railway companies as the activities between the two should not be merged.

--- A direct contract mechanism with open competition will also be used to secure technical assistance, training, and studies from an institutional contractor or educational institution in order to support the development of the Transport Policy Unit at the Ministry of Transport and Communications. The contractor will be hired for a minimum of two years.

--- The Mission will use both IQCs managed from Washington and REDSO/ESA (e.g., mid-term and final evaluations) and local direct contracts to fund technical assistance and studies on a needs basis to further the goals of the program.

--- A PSC will be hired in April of 1995 through a direct contract for a minimum two-year period to provide project management and monitoring support for all program and project activities.

--- All recipients of U.S. Government funds will be responsible for the annual audits of the activities financed under the project component. Such recipients will be required to have these audits performed by independent auditors approved by the USAID Inspector General, and in accordance with U.S. Government auditing standards. Technical assistance, where necessary, will be provided to the recipients by USAID and or the USAID Inspector General in contracting for and/or implementation of these audits. Sufficient funds are budgeted in the project fund for purposes of audit, monitoring and evaluation.

Procurement Plan

TA	Time frame	Source/ Origin	Type	Aprox. Cost ($000)	Waiver	Comp. tion	FTE Ceiling	Meth of FIN
RPP	10/94-06/95	000	Buy-in	700	NO	DONE	NO	LOC
NC/OC	06/95-06/97	000	Direct Contr.	2,000	NO	OPEN	NO	LOC
TPU	08/95-08/97	000	Direct Contr.	1,000	NO	OPEN	NO	LOC
PSC	05/95-09/97	935	Direct Contr.	500	NO	OPEN	YES	COST REIM
M&E& AUD.		935	IQC/Dir Contr,	300	NO	OPEN	NO	COST REIM

D. Monitoring and Impact Assessment

The goal of the Malawi Railways Restructuring Program, which is funded under the new Regional Rail Restructuring Program, is to increase trade and investment in Southern Africa. This regional program provides one vehicle for USAID/SARP's strategic objective in the transport sector: to encourage a more rational development and efficient use of regional infrastructure.

The goal of the USAID/Malawi program, as expressed in the Country Development Strategy Statement (CDSS) approved in 1989, is to enhance the economic well-being of the average Malawian household. Within this strategy, is a target of opportunity to support the environment for broad-based sustainable growth. Because of Malawi's dependence on imported inputs and agricultural exports, its very high transport costs are a major constraint to its development prospects. One activity within the Mission's strategic framework, therefore, is to improve the international transportation system.

The anticipated impact of the program goal is expected to obtain at the regional level. Quantifiable indicators and their measurement, therefore, will be the principle responsibility of USAID/Harare.. USAID/Malawi has identified quantifiable indicators under the program purpose. These indicators will be achieved through GOM activities, as outlined in the program outputs.

1. Program Purpose

The purpose of the program is to reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and resulting intermodal transport competitiveness. Several indicators will be tracked on a regular basis to ensure that the project is having its intended impact:

- Average CIF costs as share of total delivered price paid by smallholders of imported inputs reduced from 41% in 1994 to 35% in 1997.

- Transport costs of smallholder export products from farm to local market or Malawi border, and from Malawi border to port decreases by 15%.

Sources for these indicators are international traffic statistics.

2. Program Outputs

The Malawi Railways Restructuring Program has three supporting objectives: improve the efficiency and reliability of the Nacala Corridor, restructure and privatize Malawi Railways, and formulate a transport policy that fosters a sound environment for commercially viable transport activities. Program outputs are expected to be achieved under these supporting objectives.

a. Improve the efficiency and reliability of the Nacala Corridor

The reliability and efficiency of the Nacala Corridor will be improved through the development and implementation of an "Operations Agreement" between CFM (N) and MR indicating minimum performance standards, modalities for tariff restructuring, and mechanisms for collecting revenues, the establishment of arbitration mechanisms for disputes, and the establishment of a joint review board (JAB) between the GOM/MR and the Government of Mozambique/CFM (N) to periodically review implementation of the operations agreement. In addition, MR will provide an assessment of capacity building requirements for the new railroad.

Indicators which will be monitored during the course of the program include:

- Average time required to move transport from Nacala to Blantyre declines from 7 days to 2 days.

- International traffic on the Nacala line increases from 110,000 mtric toms in 1994 to 300,000 metric tons by 2000.

- The Operational Agreement.

- The establishment of revenue collecting and arbitration mechanisms.

- Reports of the JAB.

- MR assessment report.

Sources for these indicators include the actual documents and reports, weekly and monthly traffic reports from Malawi Railways, and field visits as part of ongoing program monitoring.

b. Restructure and privatize Malawi Railways

Activities required to restructure Malawi Railways include an equitable and transparent retrenchment program, incorporation of the new railway company under the Companies Act, sale of non-core assets, development of an agreed-upon plan for the uses of the proceeds from the sale of assets, and the development of an appropriate mechanism for leasing permanent way to the new railway company. Indicators which will be monitored under this activity include:

- Reduction in employment from 3500 in 1993 to 1000 by 1995.
- Incorporation documents.
- Transparent sale on non-core assets.
- Financial statements demonstrating uses of proceeds from asset disposal.
- Lease agreement for permanent way.

Sources for these indicators are MR personnel records, financial statements, and legal documents.

Agreement must be reached between the GOM and Malawi Railways on the respective obligations and responsibilities of each, and overall performance targets to be met by the railway. In addition, the GOM will draft revisions to all appropriate railway legislation and regulation enabling the New Malawi Railways Company to be autonomous and privatized. Indicators to be monitored include:

- Memorandum of Understanding.
- Revised railway legislation.

Sources for these indicators are legal and other documents.

The final activity in the process to restructure and privatize Malawi Railways is to develop employee stock ownership instruments for purchase of shares in the new railway and to develop a transparent process for its sale or concession and implement the program in a timely fashion. The indicators to be monitored include the following:

- Accounting statement indicating reserve shares for employee stock ownership.
- The transparent sale of CORE railway to nongovernment entity.

The source will be the sales document.

c. Formulate a transport policy that fosters a sound environment for commercially viable transport activities

The GOM will formulate a comprehensive surface transport policy statement which supports and promotes fair competition and safe and environmentally sound operations in the transport sector. This statement will identify issues for further analysis. Analyses will be under taken by a Transport Policy Unit (TPU) or some other institutional means to be established in the MOTC. Based on findings of analyses undertaken by the Transport Policy Unit, the GOM will draft amendments and revisions to relevant legislation and regulations which are in support of the new transport policy. Indicators to be monitored during the program include:

- Traffic on the beira corridor increases from 150,000 metric tons in 1994 to 225,000 metric tons by 2000.
- Policy statement.
- Studies and assessments produced by the TPU.
- Draft amendments to transport legislation.

3. Program Inputs

a. USAID inputs

The USAID inputs will consist of three contributions of $5 million in FY-95, $7 million in FY-96, and $8 million in FY-97 and $5 million in project assistance.

b. GOM inputs

The GOM inputs will be monitored to determine the host country contribution. These are (1) replacement of worn out assets of the core railway, (2) staff training and time required to carry out the restructuring program, and (3) the legal fees for establishing a new core railway. They will be monitored through reviewing GOM budgetary figures.

3. Monitoring strategy

Comprehensive reviews of compliance with the letter and the intent of the actions prior to disbursement in the program will be undertaken. Monitoring and evaluation is critical to understanding the status of various activities and for identifying implementation constraints and opportunities. Regarding inputs, USAID will review the degree to which budgetary resources committed by the GOM in their letters of intent were actually made available as part of the mission's overall assessment of whether the program activities have been satisfactorily undertaken under each tranche.

A large share of the activities under this program involve agreements, studies, and legislation. As such, the Mission's monitoring strategy will comprise review of the actual documents drafted by the Government of Malawi. Evidence of certain activities will require field visits.

Primary and secondary data collection and analyses required for policy formulation and impact assessment will be undertaken principally by the Transport Policy Unit or similar institution to be established in the MOTC. The project component of this program provides technical and financial support to this activity.

V. ANALYTICAL SUMMARIES

A. Economic Analysis

1. Benefits of the Program

An economic analysis of undertaking the Malawi Railways Restructuring Program was conducted to: i.) determine the economic viability of the program and ii.) assess the distributional impacts on beneficiary groups if the program is found to be economically feasible. The main economic benefits to be derived from undertaking this program of restructuring Malawi Railways and reforming the transport policy and regulatory environment are reductions in unit transport costs. These transport cost reductions or transport cost savings are the net difference in costs derived expected diversions of international traffic from the longer more costly transport routes, such as Durban and Dar es Salaam to the shorter cheapest alternative routes to Nacala and Beira.

Assumptions made to calculate the benefits are the following:

(a) Traffic is assumed to grow to 750,000 tons by 2001, and to 830,000 by 2004. As a privatized company, Malawi Railways will attract 300,000 tons or 40 percent of the available international traffic by 2001 and 77 percent by 2004. Additionally, the capacity for the Port of Beira is assumed to be 300,000 tons.

(b) The estimated savings resulting from the shift in the share of traffic from Durbin to Beira is $US 37 per ton and to Nacala is $us 65 per ton.

Other expected benefits include an expansion in import and export trade due to lower transport costs, elimination of payments resulting from the large subsidy incurred by the government every year, and elimination of the GOM debt to commercial banks through the sale of assets. No effort was made to quantify these benefits because the savings in transportation costs are sufficient to justify the project.

2. Costs of the program

The costs of the proposed program consist of the direct investment costs required to undertake the program. These include USAID project assistance and investment expenditures incurred by the GOM. GOM expenses include $US 16 million in replacement of worn out capital to be financed by the World Bank, $US 1 million in training and councelling, $1 million in legal fees, and an additional 15% contingency.

3. Economic Rate of Return

The Economic Rate of Return (ERR), based on the economic analysis, yields an ERR of 50 percent. The Net Present Value (NPV) of the restructuring program yield US$57.5 million and US$42.0 million when cash flows were discounted at 8 percent and 12 percent, respectively. Both the ERR and the NPV indicate that the program is economically feasible to undertake. A complete economic analysis is presented in the annex to this document.

Other expected economic benefits are efficiencies achieved as a result of a liberalized policy and a deregulated transport environment. However, these benefits were not estimated because of the exceptionally high ERR derived from the estimated savings in transport costs.

Economic Analysis of Malawi Railways Restructuring Program

Year	Investments With Project	Traffic Via Nacala Wthout Project	Traffic Via Beira Without Project	Traffic Via Durban Without Project	Total Traffic Without Project	Traffic Via Nacala With Project	Traffic Via Beira With Project	Traffic Via Durban With Project	Total Traffic With Project	Total Transport Savings (in U.S.$)
	(US$)	(Tons)	(Tons)	(Tons)	(Tons)	(Tons)	(Tons)	(Tons)	(Tons)	
1995	$11,040,000	141,900	130,000	388,100	660,000	151,800	184,800	323,400	660,000	($8,368,900)
1996	$11,180,000	145,554	132,795	398,646	676,995	155,709	189,420	331,866	676,995	($8,424,805)
1997	$3,780,000	149,302	135,650	409,476	694,428	277,771	194,156	222,501	694,428	$6,735,192
1998	$0	153,146	138,567	420,596	712,309	284,924	199,009	228,376	712,309	$10,801,902
1999	$0	157,090	141,546	432,015	730,651	292,260	203,985	234,406	730,651	$11,096,318
2000	$0	161,135	144,589	443,741	749,465	299,786	224,840	224,840	749,465	$11,981,594
2001	$0	165,284	147,698	455,782	768,764	345,944	230,629	192,191	768,764	$14,811,340
2002	$0	169,540	150,873	468,146	788,560	394,280	220,797	173,483	788,560	$17,195,242
2003	$0	173,906	154,117	480,842	808,865	525,762	226,482	56,621	808,865	$25,548,180
2004	$0	178,384	157,430	493,879	829,693	580,785	232,314	16,594	829,693	$28,926,784
	$26,000,000	1,595,242	1,433,265	4,391,224	7,419,731	3,309,022	2,106,431	2,004,278	7,419,731	$110,302,848

NPV @ 8%	57,528,321
NPV @ 12%	42,008,291
ERR	50.09%

B. Distributional Impacts

As indicated elsewhere in this PAAD, this program is part of a broader project being co-financed by the World Bank and USAID. The program seeks to restructure Malawi Railways and establish a more efficient and open-competitive transport policy and regulatory environment. The estimated economic impact of this program are expected to be primarily at two levels: i.) at the level of the producer, particularly smallholder estate producers; and ii.) at the level of the consumer, particularly households. The economic benefits are assumed to be distributed among the beneficiary groups as the consumer and producer surplus. The total estimated benefits to be distributed are US$24.3 million which are total reductions in transport costs. It is assumed that the policy and regulatory environment will be sufficiently liberalized such that the transport market is competitive and functions efficiently. A competitive and an efficiently functioning transport market should prevent monopolies or oligopolies from exercising control over the market. Under a regime of an open-competitive transport market, transport cost savings are passed on to producers and consumers as lower transport costs.

1. Economic Impact on Producers

The economic impact that this program will have on producers are the reductions in the C.i.f. (i.e. Cost, insurance and freight) value of production inputs, mainly imports of fertilizer and the F.o.b. (Free on board) price for exports Since the Malawian economy is mainly an agricultural based economy, imported production inputs, such as agricultural inputs should become cheaper. For example, fertilizer imports which is consumed primarily by medium to large tobacco and maize estate holders are expected to be directly affected by a reductions in transport costs. Although their production budgets and capacities are limited, smallholder estates owners who produce for the export market are also expected to be benefit from savings in transport costs passed on to them. Current estimates indicate that fertilizer costs (about MK2,004 in 1994) are about 90 percent of total variable costs in the production of one hectare of burley tobacco. Imported fertilizers in the production of hybrid maize are also quite significant at about 58 percent of total costs. Any reductions in the cost of this input are welcomed and should reflect a gain to the producer, particularly smallholder producers. Relative price declines of imported production inputs normally produces expansion in output or economic activity since the cost of production becomes cheaper. Lower production costs tend to be reflected in lower prices to consumers particularly in domestic markets. This may also induce additional consumption which in turn may yield additional increases in output. The elasticity of supply and demand are the key inputs to determine the direction and magnitude of the relative impact on producers as a reductions in transport costs take effect.

2. Economic Impact on Consumers

The main economic impact of the program on consumers are expected to be reductions in the cost of transport or the consumers surplus as it is generally referred. Depending on their elasticity of demand, consumers may consume additional transport or they may switch their expenditures to other consumption items especially items necessary for the household.

A review of income distribution data for Malawi indicate that the bottom 40 percent of the population earn only 7 percent of the national income. While, comparably, the top 10 percent of the population earn in excess of 55 percent of the national income. The middle 50 percent earn 38 percent of national income. These results indicate a rather shewed distribution of income in Malawi. However, the results are not entirely surprising given the predominance of agricultural in the Malawian economy and the fact that between 80 to 90 percent of the population are employed in the agricultural sector.

The most recent data on household expenditures for Malawi reveal that households in the bottom 40 percent of the income distribution scale spend approximately 70 percent of their income on consumption items such as food stuffs. By comparison, household expenditures of the top 10 percent of the income distribution scale are in the range of 15 percent of their household income. Again, this is not surprising, as income rises the share of expenditures for consumption decreases and savings and investment increases.

The implications of these results, as they relate to savings derived from reductions in transport, are that consumers i.e., the bottom 40 per of the population will likely achieve substantial economies. Under conditions of an open-competitive transport market of which the proposed program seeks to achieve, transport cost reductions are passed on to consumers and producers as transport savings. Should such a condition come about an almost immediate gain to these user groups are expected. This could be measured by the quantity of transport consumed times the price of transport. Relative price declines for other consumption item such as imports, most especially food items and other consumerables, often take longer to work their way through the system. Nonetheless, with such downward pressure they should decline as the C.i.f. value of these imports are reduced; thereby making them cheaper. However, whether this will result in more or less consumption of transport or more or less household consumption which forces relative prices up or down depends upon the user groups' elasticity of demand.

B. Political Analysis

The GOM and Malawi Railways management are committed to restructuring. This is evidenced by several factors, including the initial restructuring program carried out by Malawi Railways and its planned continuation and the high level of cooperation and dialogue being carried out by the GOM with the Government of Mozambique and private sector interests.

A change in government in May following free elections has not altered the commitment by the new leadership of the GOM to the objectives of this program. In fact, the President of Malawi in a recent state address noted his governments commitment to privatization including parastatals. He also pledged the GOM's support to expanding opportunities for employee ownership programs of businesses within Malawi.

Even though commitment exists, several politically sensitive issues have been taken into account in preparation of this PAAD/PP. Issues relating to retrenchment of staff and transparency of decision-making during the restructuring and privatization process are potentially explosive. For this reason, an extensive social soundness analysis was undertaken on the effects of a retrenchment program. Many of the findings have been incorporated into the program to provide an adequate social safety net for those adversely impacted. These include equitable severance packages including such benefits as retraining, counseling and credit funds. Additionally, representatives from both the labor union movements in Malawi and the U.S. have been consulted and kept abreast of all proposed program activities.

As a result of questions from the press and public on the lack of transparency from recent sales of other parastatals, the Mission has continuously carried out and encouraged an open dialogue on the aims and objectives of the program. The Mission has also incorporated procedures within the program to guarantee that asset valuation, establishment of title to assets, and bidding procedures for ultimate sale will be public and transparent.

As most of the Nacala Corridor runs through Mozambique, the political sensitivities of the Government of Mozambique have been taken into consideration during the preparation of this program. Railway and Mozambican government officials have been regularly consulted by both the donors and their Malawian counterparts. Both parties stand to gain from a comprehensive "Operational Agreement" which facilitates joint activities and promotes increased usage of the Nacala Corridor.

A sensitivity analysis was carried out to determine the degree to which benefits to Malawi are dependent on managerial improvements and staff restructuring at CFM(N). After a team of railway and donor officials visited Mozambique, they noted that the managerial and staff competence of CFM(N) was more than sufficient and that potential benefits to Malawi would not be adversely impacted.

C. Social Soundness Analysis

Malawi Railways has increasingly experienced financial difficulties. Since 1993, it has effectively been insolvent on a cash flow basis. With encouragement and support from the GOM and international donors, Malawi Railways is in the process of restructuring with the goals of providing efficient service in a competitive environment and becoming financially self-sustainable.
The objective of the proposed Malawi Railways Restructuring Program is to improve its overall efficiency by improving performance in key areas. Achieving specific targets in these key areas will include the following changes in the structure and operation of Malawi Railways:

(1) Reduction in the work-force by almost 70%, from early 1993 to mid-1995;

(2) The railway lines with greater economic potential termed "core lines" will be fully maintained and efficiently run with increased goods transportation services; and

(3) The remaining lines ("retained lines") will be maintained so as not to let the lines go into total disrepair. Both passenger and goods transportation will be reduced on these lines.

In general, there will be a reduction in passenger services on all lines and more particularly in the retained lines. There will be increased service in the core lines for the transportation of goods. The GOM may continue to provide subsidies for passenger services on some routes where alternate travel options are not feasible.

Findings:

The short-term negative effect of the restructuring effort will generally emanate from income loss and problems of economic and social adjustment resulting from staff retrenchment in a time of economic downswing. On the other hand, favorable impact will result from reduced transportation cost and positive economic incentives to some sectors and reduced financial pressure on the government.

Impact on the Retrenched Workers:

- Re-employment prospects are poor. Serious employment problems exist particularly in the urban centers.
- Every year 169,000 new workers enter the labor force, with only 15,000 new jobs created.
- Many employers do not hire workers over 40, of which many of Malawi Railway's staff are.
- They lack business skills, capital and access to finance.
- The older workers will return to traditional villages and engage in agriculture. The younger workers will stay in the cities and seek employment.
- Land for building houses and for cultivation are generally available in rural areas.
- Funds for investment on land clearing and house building is required.
- Living conditions will deteriorate significantly, relative to current housing for staff.
- Dislocation will force many children to drop out of school, greatly reducing opportunity for employment in the future.
- Potential social conflicts may arise out of adjustment problems with children.
- Access to quality out- and in-patient health care services will be more limited.

Impact on Women:

- Many wives of retrenched staff will be forced into seeking income earning alternatives to house-keeping, as often Malawi Railways staff were the sole income earner.

- They will generally take up self-employed activities with low capital requirement like food preparation, retail activities, etc.

- Greater involvement in income-earning occupation leads to delegation of house-keeping activities to female children, leading to more frequent absence from schools and poor school performance.

Worker Acceptability of the Retrenchment to Date:

- Many of the staff understand the rationale of the restructuring program but were unprepared for the retrenchment.

- Lack of communication and of representation of the employees in the decision was resented.

- The rainy season was an inappropriate time for re-location.

- Severance allowances were considered inadequate..

Impact on Transportation Efficiency:

- Volume of goods transported by the Nacala route will increase the current level of approximately 10-15 percent of total trade volume to a level between 33 to 70 percent by the year 2000.

- Revenue for Malawi Railways will increase significantly and the GOM will save more than the average MK 10 to 20 million spent yearly to subvent the railroad.

- The economy could save over $US 30 million or 24 percent of transport costs, if all international corridors operated efficiently.

- Shippers and traders will be the direct beneficiaries of reduced transportation costs. They are expected to save between MK 165 and MK 196 for every ton of dry commodity.

- Some of the transportation cost savings will be passed on to producers and consumers in the form of lower input costs and higher output prices.

- Petroleum products, cement, fertilizer, tobacco and wheat are some of the products benefiting from the increased efficiency in transportation.

Impact of Reduced Passenger Services:

- Road transport is becoming the dominant mode of domestic transportation.
- Malawi Railways still provides the only means of transportation to many villages, however. Small traders bringing fresh produces to the cities and consumer products and agricultural inputs to the villages will be most effected.
- The tobacco growing areas of the south-central region and the sugar growing region of the south will be most affected by the reduction of Malawi Railways services.

Mitigation Measures:

The rationalization of the operation of Malawi Railways is overdue. It will reduce a significant financial burden of the GOM. Greater efficiency in railway transportation will lead to lower effective transportation cost and indirectly affect production and income. However, the restructuring program will impose hardship on the staff laid off from secure employment. In the absence of many alternative employment and business possibilities, the retrenched people and their dependents face severe socioeconomic problems. Both the GOM and the donors should look at possibilities to mitigate the adverse socioeconomic impact resulting from retrenchment and the reduction of services on some routes. Several measures can be taken in tandem with the restructuring program in order to make this transition more acceptable and less painful to the affected people.

- The workers should be provided with counselling services and out placement services. Otherwise, lack of information may force them to inappropriate decisions.
- The workers should be offered re-training in appropriate skills. Several existing organizations can be revamped and involved in the rehabilitation work.
- The workers should be provided with easy access to credit to set up viable business operations, and/or buy productive and non-productive assets.
- The formula for severance allowance should be compatible with packages offered by other companies.
- Development of low cost rural access roads in areas not serviced by Malawi Railways should be promoted.
- Improved means for explaining to workers the rationale and consequences of the restructuring activity should be put in place.

D. Institutional and Administrative Analysis

This analysis summarizes: (i) the level of support for the project in a broader institutional context and the key linkages with Malawi Railways (MR); (ii) the ability of MR to implement the reforms envisaged in the project; and (iii) the administrative capabilities of the MR, as the recipient entity, to manage its respective role in the program/project.

Institutional Context

Support for the restructuring, commercialization and privatization of MR is high within the broader institutional context, and is generally supported by internal stakeholders.

Externally, the key constituent groups such as the Ministry of Finance, Ministry of Transport and Communications (MOTC), Department of Statutory Bodies (DSB), and the Office of the President and the Cabinet support the program. This reflects the government objective of stemming the fiscal drain represented by such parastatals as MR, and is in support of the new policy on privatization recently announced by the President. These entities are familiar with the main elements of the program, as they were members of the Railway Restructuring Committee, and in fact, initiated the process of restructuring MR (including initial retrenchments) more than a year in advance of the planned project effectiveness date.

The risks with external constituents are as follows: (i) some senior members of government are new since the elections and have not been involved throughout the program/project development process; (ii) the Department of Statutory Bodies may resist certain elements of the program as it will be concerned not to set inappropriate precedents for the restructuring of other parastatals and may perceive some aspects of the program as a loss of power as MR will be removed from DSB's portfolio; and (iii) the Ministry of Finance, given current austerity measures and budget constraints, may be hesitant to accept some elements of the financial restructuring, particularly those which channel the sales proceeds of MR assets to uses other than the general treasury.

Internal constituent support for the project/program is mixed and is marred by the lack of transparency and information dissemination exhibited to date. Senior management are well aware of the program and generally are in support of it. Middle management and senior technical staff are only vaguely aware of the specifics of the restructuring, and are hesitant to endorse the activities fully until they know further details. General staff at MR tend to be skeptical of the program or are unaware of its main elements, other than it will necessitate lay-offs.

There are several institutional linkages which are key to successful project implementation. The linkages include MR with the Ministry of Transport, Ministry of Finance and DSB. These linkages have been established, particularly through the restructuring committee. However, the committee met infrequently, so the sustainability of linkages is questionable. MR seems to have the strongest linkage with DSB -- both for day-to-day issues as well as longer term strategic issues. The Ministry of Transport, under whose tutelage MR falls, has weaker links with MR than DSB, and at the MR operational level seems to have, de facto, delegated authority to DSB. Ministry of Finance has a narrow linkage in terms of financial flows, particularly with regard to budget submissions and subvention requests. MR's Board of Directors ceased to be functional mid-1994. However, by some accounts, the Board was ineffective and subordinate to DSB.

The direct linkage with the Office of the President and the Cabinet (OPC) has been limited to date, with most interaction at that level being channeled through DSB or MOTC. OPC has a potentially significant role in the project, as some major and fundamental reforms will be required. Decisions regarding the sale of land, Government's "write-down" of debts owed to it by MR, creation of an ESOP, reform of legislation and other elements of the program, will all need support at the level of OPC. OPC's role would become even more important if the restructuring and privatization of MR becomes highly visible and is used to create momentum for the national privatization program and related economic restructuring.

Ability of MR to Implement the Reforms

The dynamic situation in which MR will be a vastly different and smaller organization during most of the life of the project makes it difficult to assess its ability to implement the reforms. Significant organizational changes are anticipated in terms of: (i) organizational structure, staffing, compensation and reporting relationships; (ii) the corporate culture and commercial orientation of the companies; and (iii) the work practices and ethos, and staff rationale for "coming to work".

Nonetheless, extrapolating from the current institutional capacity, MR's ability to implement the reforms will be moderate in the absence of institutional strengthening, and activities designed to build understanding of, and ownership for, the reform program. The program is complex and involves reforms in a number of areas, many of which are removed from the function of railway operations. The almost singular focus to date of the railway on operations, to the detriment of marketing, finance and management practices, implies that the railway is currently ill-equipped to implement the sweeping organizational reforms envisaged. In addition, the long history of the railway and tenure of many of its staff, is likely to act as a retardant on "change".

Administrative Capabilities of Recipient Entity

MR is reasonably well-positioned to manage the administrative elements of the program/project overall. MR's senior management has a relatively close working relationship with the main donors funding the project, and has been integrally involved in the design of the project. Basic systems and procedures are in place for tracking and monitoring project inputs, and for performing basic accounting functions.

Potential weaknesses include: (i) procurement of physical goods through the World Bank; and (ii) administrating the other elements of the project, which are complex and diverse. MR is not well versed in World Bank procurement practices and procedures, although they have had an initial orientation. As stated above, the diversity and complexity of the project will imply a departure from railway operations into many other areas. Administrative capacity may be stretched in this area, due more to lack of familiarity than capacity, per se. Some exposure to project management techniques was provided to MR during the project design phase, which will allow it to define critical paths, track progress, take corrective actions as necessary, and monitor resources. However, such project management capability has not been institutionalized.

Recommendations

To enhance the chances for successful project implementation and the realization of anticipated project benefits, the following actions, at a minimum, should be considered.

a. USAID needs to designate a strong project manager to work exclusively on the project/program. This individual should have capabilities in organizational change and strategic management, in addition to project management skills and knowledge of the railway/transport sector.

b. The Government of Malawi should nominate a reasonably senior person to act as project coordinator. This is particularly important as multiple donors are involved, the project is diverse and complex, and the management of MR (who have been most involved in the project to date) will be responsible for only a portion of project implementation activities.

c. Institutional strengthening of MR to undertake procurement and project management should be continued.

d. Project activities designed to build ownership for the project and bring about organizational change should be given priority. Participants on selected occasions should include internal and external constituents, in addition to senior management, such as relevant government officials, middle management and worker representatives.

e. A project manager/coordinator and/or standing committee should be established at MR.

E. Financial Analysis

The financial benefits of the program, in terms of improvements to Malawi Railway's financial performance, are outlined below and with the accompanying table. In addition, the program's internal rate of return is estimated, both for the project overall and for the USAID portion.

Financial Benefits

Preliminary estimates indicate that the new railway (NMR) could become a commercially viable enterprise. An illustrative pro forma analysis of NMR's income statement demonstrates that over the next five years, NMR's operating margin could increase from about MK 7.5 million in 1995 to over MK 18 million in 1999, representing about 17% and 31% of gross sales, respectively. A net loss of about MK 1.2 million in 1995 could be converted into a net gain of MK 7.7 million in 1999. Over the same period, return on sales and on assets could increase from negative amounts to about 14% and 4.7%, respectively.

Under this scenario: (i) assets are valued on a depreciated replacement cost basis, in order to make provision for capital replacement and better reflect the cost of capital employed; (ii) the new railway (NMR) leases the permanent way, and thus saves over MK 200 million of assets being recorded on its balance sheet with the resulting dampening effect on return on assets (ROA); and (iii) the donor-funded capital investment program is provided to NMR on IDA terms rather than at prevailing commercial rates.

This scenario is forecast for a restructured, but not privatized, Malawi Railways (termed NMR). It is anticipated that a private operator would take even greater measures to reduce costs, increase revenues and expand market share. A return on assets of over 10% could easily be expected within 5 years, provided that an efficient private sector operator ran the railway in a competitive, deregulated environment free of government interference.

Financial Rate of Return

Total Project. The Malawi Railways Restructuring project, inclusive of World Bank inputs, yields an estimated financial internal rate of return of about 6 percent. A 20-year time horizon is used for the analysis.

The financial benefit stream is based on: (i) projected net income of NMR; and (ii) Government savings from the cessation of paying subsidies/subventions to MR. Net income projections are based on the financial pro forma in the Finance Technical Working Paper (August 16th, 1994), which simulates the performance of a restructured MR (ie, NMR) from 1995 to 1999. They are then increased by 5 percent per annum from 1999 to the year 2014. Direct subsidy savings are projected at MK 9 million per annum throughout the 20-year period. The MK 9 million was MR's subvention request to support rail operations (ie, exclusive of Lake Services) in budget year 1994/95.

The cost stream for calculating the financial rate of return is based both on project costs and relevant, net NPA-related costs. The project costs are the total estimated project costs of US$ 29 million, as calculated by the joint project appraisal team in April 1994. From this amount, $US 6.72 million is deducted, as it is to be used to support retrenchment/severance payments at MR. This results in a base project cost of $US 22.28 million. This amount is allocated over the three-year project life as follows: 57% in year one; 33% in year two; and 10% in the third year. This is consistent with allocation percentages estimated by appraisal teams.

Net NPA-related costs are added to the project cost stream calculated above. The NPA-related costs include an estimated $US 5 million in support of: (a) credit schemes to assist entrepreneurs and/or fund the purchase of productive and non-productive assets; (b) ESOP share financing assistance or re-purchase guarantees; and (c) pension provisions to "buy out" liabilities of the existing Malawi Railways pension fund. In addition, $US 1 million is estimated for the cost of retraining activities which are not covered by direct project assistance (ie, the cost of the program themselves is included here, but not related technical assistance costs.)

The resulting $US 6 million of NPA-related costs are assumed to be expended 70% in the first year and 30% in the second year. This is because the majority of the NPA-related support is likely to assist retrenched workers (such as most of the credit schemes, the pension buy-out and much of the retraining) and thus, will occur early in the program. Year two costs are likely to include support for ESOP share purchases and some residual retraining costs for programs which extend into the second year. Furthermore, this adds a degree of conservatism to the rate of return analysis. If any of the NPA-related costs in actuality are expended in year three, this would only serve to improve the F(IRR).

Excluded from net NPA-related costs are income transfers. This includes $US 6.72 million for retrenchment (severance) support, which was already taken out of project costs (see above), and any provision the GOM will need to make for paying the salaries of the staff who remain at Malawi Railways to assist with the winding down process.

Throughout the analysis, US dollars are converted at a rate of MK 7.5 to one dollar.

USAID Project Component. The USAID portion of the project yields an F(IRR) of about 14%, if 70% of the total project's financial benefit is assigned to the USAID portion. If only 50% of the benefits are attributed to USAID, then the USAID portion yields an F(IRR) of 9%.

Project costs are estimated at $US 5 million, and are distributed over the three years as follows: $US 3 million in year one; $US 1.5 million in year two; and $US 0.5 in year three. NPA-related costs are assumed to be incurred in a similar fashion to the project overall (ie, $US 6 million spread over 70% and 30%, respectively, in the first two years). The same exchange is used as indicated above.

It appears reasonable to assume that at least half of the program benefits, if not more, are attributable to USAID project inputs. This is because the lack of appropriate physical infrastructure has not been the binding constraint on the performance of Malawi Railways or the Nacala Corridor, but rather managerial and operational issues (e.g., lack of coordination and cooperation between the two railways (MR and CFM/N), inefficient operating practices, over staffing and capitalization, poor management, and a low emphasis on marketing). It is these latter issues that the USAID project inputs are designed to address, whereas the World Bank will be funding civil works and other major capital investments.

Financial Impact Analysis

Total Project

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Income	−1.2	−0.1	2.1	4.9	7.7	8.1	8.5	8.9	9.4	9.8	10.3	10.8	11.4	11.9	12.5	13.2	13.8	14.5	15.2	16.0
Subsidy Relief	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Net Finan. Benefit	7.8	8.9	11.1	13.9	16.7	17.1	17.5	17.9	18.4	18.8	19.3	19.8	20.4	20.9	21.5	22.2	22.8	23.5	24.2	25.0
Cost	−95.2	−55.1	−16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Position	−87.4	−46.2	−5.6	13.9	16.7	17.1	17.5	17.9	18.4	18.8	19.3	19.8	20.4	20.9	21.5	22.2	22.8	23.5	24.2	25.0
(F)IRR	9.07%																			

5% growth in net income; subsidy flat at MK 9mn; exchange rate of 7.5
project cost is $22.28 million (ie, less cost of retrenchment); spread by year is 57%, 33% and 10%

USAID Component

PA Only	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Income	−0.8	−0.1	1.5	3.4	5.4	5.7	5.9	6.2	6.6	6.9	7.2	7.6	8.0	8.4	8.8	9.2	9.7	10.2	10.7	11.2
Subsidy Relief	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Net Finan. Benefit	5.5	6.2	7.8	9.7	11.7	12.0	12.2	12.5	12.9	13.2	13.5	13.9	14.3	14.7	15.1	15.5	16.0	16.5	17.0	17.5
Cost	−22.5	−11.3	−3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Position	−17.0	−5.0	4.0	9.7	11.7	12.0	12.2	12.5	12.9	13.2	13.5	13.9	14.3	14.7	15.1	15.5	16.0	16.5	17.0	17.5
(F)IRR	34.60%																			

70% of benefit stream; project assistance only 3, 1.5, 0.5
50% of benefit stream; project assistance only 3, 1.5, 0.5 24.1%

PA Plus NPA	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Income	−0.8	−0.1	1.5	3.4	5.4	5.7	5.9	6.2	6.6	6.9	7.2	7.6	8.0	8.4	8.8	9.2	9.7	10.2	10.7	11.2
Subsidy Relief	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Net Finan. Benefit	5.5	6.2	7.8	9.7	11.7	12.0	12.2	12.5	12.9	13.2	13.5	13.9	14.3	14.7	15.1	15.5	16.0	16.5	17.0	17.5
Cost	−75.0	−63.8	−48.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Position	−69.5	−57.5	−41.0	9.7	11.7	12.0	12.2	12.5	12.9	13.2	13.5	13.9	14.3	14.7	15.1	15.5	16.0	16.5	17.0	17.5
(F)IRR	3.36%																			

Per PA scenario, plus NPA at $7mn, $7mn, $6mn   50% of benefits: −0.19%

F. Environmental Decision

The Initial Environmental Examination (IEE) on the Malawi
Railways Restructuring Program was completed for the PAIP/PID and approved by the Africa Bureau Environmental Officer (BEO) on July 17, 1994 and cleared by AFR/GC on July 21, 1994. A Negative Determination was given for program activities and a Categorical Exclusion for the project activites of training, studies and technical assistance. The entire IEE appears in the Annex.

VI. ACTIONS PRIOR TO DISBURSEMENT, COVENANTS AND STATUS OF NEGOTIATIONS

A. Actions to be Completed Prior to Disbursement

Prior to disbursements under the Grant, the Grantee will, except as the Parties may otherwise agree in writing, furnish or cause to have furnished to USAID, in form and substance jointly agreed to by the Parties:

General Actions

(a) a written opinion of counsel acceptable to USAID certifying that this Agreement has been duly authorized and/or ratified by and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with its terms and conditions.

(b) a written statement of the names and titles of the persons holding or acting in the office of the Grantee specified in Section 7.9, and of any additional representatives, together with a specimen signature of each person specified in such statement.

(c) a Letter of Intent covering each activity/action to be included under the first tranche containing: 1) a comprehensive list of actions that the Grantee intends to take; 2) the name of the principal representative/entity responsible for implementing or causing to be implemented or accomplished, each action detailed in the list; and 3) a budget of financial resources to be committed by the GOM in support of program activities.

B. Actions to be Completed Prior to First Disbursement

Prior to the first disbursement under the Grant, which shall be in the amount of Five Million United States Dollars ($5,000,000), or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish or cause to have furnished to USAID, in form and substance jointly agreed to by the Parties:

General Actions

(a) a Letter of Intent covering each activity/action to be included under the second tranche containing: 1) a comprehensive list of actions that the Grantee intends to take; 2) the name of the principal representative/entity responsible for implementing or causing to be implemented or accomplished, each action detailed in the list; and 3) a budget of financial resources to be committed by the GOM in support of program activities.

Nacala Corridor Operations

(b) a drafted Operations Agreement between Mozambique CFM(N) and Malawi Railways indicating minimum performance standards, modalities for tariff restructuring, and mechanisms for collecting revenues along the Nacala Corridor.

Malawi Railways Restructuring

(c) a written Restructuring Preparatory Plan which outlines activities to implement the restructuring program, including arrangements for asset transferrals, preparation of legal incorporation documents and the capital structure of the new company.

(d) a signed Memorandum of Understanding between the Grantee and Malawi Railways which specifies the relationship and respective roles between government and the proposed new railway company, including any public service obligation and related compensation, guarantees for the registration of the new company under the Companies Act, and overall performance targets to be met by the new railway company. (Although the Memorandum of Understanding will be signed with the existing Malawi Railways, Grantee will guarantee its applicability to the proposed new company.)

(e) an equitable and transparent retrenchment program plan including provisions for severance, counseling and retraining.

Transport Sector Policy

(f) a comprehensive transport policy statement which supports and promotes: (1) a fair and open competitive environment for transport operators through a program of sector deregulation, liberalization and commercialization and privatization; and (2) safe and environmentally sound transport operations.

C. Actions to be Completed Prior to Second Disbursement

Prior to disbursement of the second tranche of the Grant, which shall be in the amount of Seven Million United States Dollars (U.S. $7,000,000), or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish or cause to have furnished to USAID, in form and substance jointly agreed to by the Parties:

General Actions

(a) a Letter of Intent covering each activity/action to be included under the third tranche containing: 1) a comprehensive list of actions that the Grantee intends to take; 2) the name of the principal representative/entity responsible for implementing or causing to be implemented or accomplished, each action included on the list; 3) a budget of financial resources to be committed by the GOM for program activities.

b) evidence that the estimated budgetary resources contained in its Letter of Intent submitted in partial satisfaction of Tranche 1 activities for expenses covering Tranche 2 activities, have, in fact, been provided in a timely manner.

Nacala Corridor Operations

c) a signed Operations Agreement between CFM(N) and Malawi Railways indicating minimum performance standards, modalities for tariff restructuring, and mechanisms for collecting revenues.

(d) evidence of the establishment of a Joint Review Board, or other such entity, between the Grantee Malawi Railways and the Government of Mozambique/CFM(N) to periodically review implementation of the Operations Agreement.

(e) evidence that there exist agreed-upon mechanisms for arbitrating major issues/disagreements arising from the Joint Review Board, or other such entity, in coordination with the Government of Mozambique.

(f) an assessment of detailed training needs, organizational and staffing plans, and consultancy requirements needed to improve managerial and operational efficiency so the New Malawi Railways can: (1) meet performance targets; and (2) design and implement a program of intensified marketing of the Nacala Corridor.

Malawi Railways Restructuring

(g) evidence that a new railway company has been incorporated under the Companies Act and assets have been transferred to the new company.

(h) drafted revisions to all appropriate railway legislation and regulations enabling the new railway company to be autonomous and legally unencumbered from eventual privatization.

(i) evidence that an equitable and transparent retrenchment program in areas of severance, retraining and counseling has been implemented.

(j) evidence demonstrating that the process for sale of non-core assets will be transparent and assets will be sold for market value.

(k) details of an agreed-upon plan between the Grantee and USAID for the uses of the proceeds from the sale of the assets.

(l) details of employee stock ownership instruments to be utilized for purchase of shares of new core railway and proof that shares have been reserved for this purpose at the time the new company is established.

(m) evidence that an appropriate mechanism will be established for leasing the permanent way to the new railway company.

(n) evidence that the process for the eventual privatization of the railway through sale or concession will be transparent.

Transport Sector Policy

(o) an agenda of issues and constraints identified in the transport policy statement for research and analysis.

(p) evidence that a Transport Policy Unit, or some other institutional means in the Ministry of Transport and Communications, has been established and/or strengthened to undertake analysis and impact assessment for transport policy formulation.

D. Actions to be Completed Prior to Third Disbursement

Prior to disbursement of the third tranche, which shall be in the amount of Eight Million United States Dollars (U.S.$ 8,000,000), or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Grantee will, except as USAID may otherwise agree in writing, furnish or cause to have furnished to USAID, in form and substance jointly agreed to by the Parties, the following illustrative actions:

General Actions

a) evidence that the estimated budgetary resources contained in its Letter of Intent submitted in partial satisfaction of Tranche 2 activities for expenses covering Tranche 3 activities have, in fact, been provided in a timely manner.

Nacala Corridor Operations

(b) evidence that the Operations Agreement has been implemented in areas of performance targets, tariff structure and revenue collection.

(c) if major issues/disagreements arise from the Joint Review Board, or other such entity, evidence that the arbitration mechanism functions effectively.

Malawi Railways Restructuring

(d) evidence that a mechanism for leasing the permanent way to the new railway company has been established.

(e) evidence that the privatization of the railway through sale or concession has been implemented.

(f) evidence that the Grantee has utilized funds from the sale of non-core assets as agreed-upon by the Parties.

Transport Sector Policy

(g) drafted amendments and revisions to relevant legislation and regulations which are in support of the new transport policy and based on findings of analyses undertaken by the Transport Unit or similar such entity.

E. Special Covenants

The Grantee will provide assurances that it will :

(a) not declare the new railway company as a statutory body either at the time of incorporation or subsequently;

(b) fully subsidize the new railway company for losses incurred on account of passenger services as computed according to performance agreements;

(c) ensure timely and sufficient funds for manpower and operational expenses required to implement the program;

(d) conduct annual reviews jointly with USAID on progress toward meeting program objectives;

(e) encourage privatization of whole or part of the New Malawi Railways in accordance with a wide range of options analyzed under the program;

(f) not undertake any investment in reopening alternative international routes without USAID concurrence; and

(g) appoint and maintain qualified key management staff of the Transport Policy Unit and the New Malawi Railways.

F. Status of Negotiations

The staff from Malawi Railways, the Ministry of Transport and Communications, and the Department of Statutory Bodies have participated at every stage of planning for this program. The program results from a Malawian initiative. Malawi Railways began implementing a tough restructuring of its management and operations on its own in 1993. However, the GOM through a formal letter from the Ministry of Finance requested donor support for the restructuring when it was agreed that the financing requirements were far in excess of its abilities to fund. Two analytical teams have subsequently worked extensively with Malawi Railways management and GOM officials in developing a viable program. Since the analytical work, USAID staff has held regular meetings with GOM and railway officials. As the Principal Secretary of the Ministry of Finance (MOF) chairs the GOM committee on Malawi Railways Restructuring, MOF staff are kept abreast of all developments in this area. Full and formal meetings between USAID and the GOM to discuss the Malawi Railways Restructuring Program will be scheduled throughout the negotiation phase.

Malawi Railways Restructuring Program
and
Malawi Railways Restructuring Project

Attachments

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Letter of Intent, ANNEX A

Telegrams: FINANCE, Lilongwe
Telephone: Lilongwe 782 199
Telex: 44402

MINISTER OF FINANCE
P.O. BOX 30049
LILONGWE 3
MALAWI

REF. NO. USA/38

September 29, 1994

The Mission Director
USAID
P O Box 30455
LILONGWE

Dear Madam,

RE: GIRLS' ATTAINMENT IN BASIC LITERACY AND EDUCATION II (GABLE), AGRICULTURAL SECTOR ASSISTANCE PROGRAM II (ASAP) AND MALAWI RAILWAYS RESTRUCTURING (MRR) PROGRAM

The Government of Malawi (GOM) hereby requests the assistance of the United States Government through USAID to continue a series of reforms in primary education and agriculture, and to initiate reforms to restructure Malawi Railways.

Based on discussions between USAID and GOM officials over the past several months and the successful negotiations last week, the Government of Malawi is committed to undertake the activities of GABLE II, ASAP and MRR as outlined in the draft agreements.

In support of the activities and reforms to be undertaken for these programs, we understand that new U.S. commitments will be as follows:

GABLE II: US$ 21 million for budget support and US$ 4.5 million for the project element;

ASAP II: US$ 35 million for budget support;

MRR : US$ 20 million for budget support and US$ 5 million for project support.

The Government appreciated US assistance for these programs and looks forward to signing the agreements on GABLE, ASAP and MRR.

Yours sincerely,

Aleke K. Banda

Aleke K Banda
MINISTER OF FINANCE

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ANNEX B

PROGRAM LOGFRAME
MALAWI RAILWAYS RESTRUCTURING PROGRAM
(NPA NUMBER 690-0276.12)

GOAL: To increase trade and investment in Southern Africa

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
PURPOSE To reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and resulting intermodal transport competitiveness	Average CIF costs as share of total delivered price paid by smallholders of imported inputs reduced from 41% in 1994 to 35% in 1997 Transport costs of smallholder export products from farm to local market or Malawi border, and from Malawi border to port decreases by 15%.	International traffic statistics	No large price shocks in the petroleum market. Agricultural input and export markets continue to be liberalized. World market for Malawi exports remains stable.
Supporting Objective One: Improve the efficiency and reliability of the Nacala Corridor			
Develop and implement an "Operational Agreement" between CFM (N) and MR indicating minimum performance standards, modalities for tariff restructuring, and mechanisms for collecting revenues. Establish arbitration mechanisms for disputes. Establish a joint review board (JAB) between the GOM/MR and the Government of Mozambique/CFM (N) to periodically review implementation of the operations agreement.	Average time required to move transport from Nacala to Blantyre declines from 7 days to 2 days. International traffic on Nacala line increases fromm 110,000 MT in 1994 to 300,000 by 2000. Operational Agreement, establishment of revenue collecting and arbitration mechanisms. Reports of the JAB	Weekly and monthly traffic reports from Malawi railways. Ongoing program monitoring and field visits.	Political stability in Mozambique. Foreign exchange market in Malawi remains liberalized and access to foreign exchange by private traders remains open and unrestricted.
Receive from MR an assessment of capacity building requirements for the new railroad.	MR assessment report	Ongoing program monitoring.	

ANNEX C

ACTION: AID-2
INFO: ECON-1 DCM-1 AMB-1

DISTRIBUTION: AID
CHARGE: AID

VZCZCLG0977
PP RUEHLG
DE RUEHC #5844/01 2640836
ZNR UUUUU ZZH
P R 210834Z SEP 94
FM SECSTATE WASHDC
TO RUEHLG/AMEMBASSY LILONGWE PRIORITY 4015
RUEHSB/AMEMBASSY HARARE PRIORITY 9445
RUEHMB/AMEMBASSY MBABANE.PRIORITY 1670
RUEHNR/AMEMBASSY NAIROBI PRIORITY 3264
INFO RUEHTO/AMEMBASSY MAPUTO 5570
RUEHLS/AMEMBASSY LUSAKA 8533
RUEAIIA/CIA WASHDC 7456
RUEKJCS/DOD WASHDC 1567
BT
UNCLAS SECTION 01 OF 05 STATE 255844

OFFICIAL COPY

AIDAC, NAIROBI FOR REDSO RLA, MBABANE FOR RLA

E.O. 12356: N/A
TAGS:
SUBJECT: SARP--SOUTHERN AFRICA REGIONAL RAIL RESTRUCTURING PROGRAM (690-0276/77)

1. SUMMARY: AN EXECUTIVE COMMITTEE FOR PROJECT REVIEW (ECPR) MEETING ON THE SUBJECT PROGRAM WAS HELD IN USAID/W ON JUNE 29. THE MEETING WAS ATTENDED BY REPRESENTATIVES FROM THE LILONGWE AND HARARE MISSIONS AND FROM AFR/SA, AFR/ARTS, GC/AFR AND PPC/POL. KEITH BROWN, DIRECTOR OF AFR/SA, CHAIRED THE MEETING. THE REVIEW BEGAN WITH A BRIEF DISCUSSION OF THE BACKGROUND OF THE RAILWAY RESTRUCTURING PROGRAM BY MISSION REPRESENTATIVES FROM ZIMBABWE (REGIONAL FOCUS) AND MALAWI (MALAWI RAILWAYS FOCUS). ECPR APPROVED THE PAIP/PID FOR THE MALAWI COMPONENT OF THE SUBJECT PROGRAM AND APPROVED DELEGATING AUTHORITY TO USAID/MALAWI TO AUTHORIZE THE PAAD/PP FOR DOLLARS 20 MILLION NPA AND DOLLARS 5 MILLION PROJECT ASSISTANCE, PENDING USAID/W REVIEW AND APPROVAL OF MORE DETAILED INFORMATION JUSTIFYING THE USE OF NONPROJECT ASSISTANCE. THIS INFORMATION HAS BEEN REVIEWED AND ACCEPTED BY ECPR WITH RECOMMENDED MODIFICATIONS, AND THIS CABLE CONTAINS THE DOA. SUBSEQUENT NEW STARTS HAVE BEEN POSTPONED TO FY 1996 PENDING FURTHER GUIDANCE FROM THE BUREAU. THE FOLLOWING ISSUES AND CONCERNS PROVIDE THE BASIS FOR GUIDANCE TO THE FIELD. END SUMMARY.

DATE: 09/23/94

ACTION TO:
Brandis PPD
INFO:
DIR
DD
AFS
CONT
EXO
GSO
HPN
HRDO
PAE
PID
DUE DATE: 10/30/94

ACTION TAKEN:

INITIALS DATE

98

2. ISSUE 1: RATIONALE FOR A REGIONAL APPROACH

AS THE PROGRAM PROPOSES RESTRUCTURING THE RAIL SECTOR IN FOUR COUNTRIES (MALAWI, MOZAMBIQUE, ZIMBABWE, AND ZAMBIA), ECPR HIGHLIGHTED THE NEED TO PROVIDE IN THE PAIP/PID A REGIONAL FRAMEWORK FOR ALL PROGRAM ACTIVITIES AND TO PROVIDE MORE DETAILED ANALYSIS OF THE PROBLEMS TO BE ADDRESSED IN THE PARTICIPATING COUNTRIES. AS A RESULT, IT WAS DETERMINED THAT A REGIONAL FRAMEWORK AND CONSTRAINTS ANALYSIS BE INCLUDED IN THE MALAWI PAAD/PP AND SUBSEQUENT RAILWAY RESTRUCTURING PAIP/PIDS. THAT FRAMEWORK SHOULD INCLUDE A DISCUSSION OF THE ANTICIPATED REGIONAL IMPACTS AS WELL AS CORRIDOR LEVEL AND NATIONAL IMPACTS. MISSIONS ARE REMINDED THAT IN THE SARP PROGRAM AS A POLICY MATTER, DESPITE THE SLIGHT FLEXIBILITY PROVIDED BY THE SARP'S AUTHORIZATION STATUTE, THE PURPOSE OF OUR ASSISTANCE AND THE IMPACTS TO BE DEMONSTRATED BY USG ASSISTANCE MUST BE CONSISTENT WITH DFA PRINCIPLES. FOR EXAMPLE, EVEN IN A RAILWAY PROGRAM, SUCCESS MUST BE DEFINED AND MEASURED IN TERMS OF THE IMPACT IT HAS ON PEOPLE'S LIVES. INCREASED MANAGERIAL AND OPERATIONAL EFFICIENCY AND REDUCED TRANSPORT COSTS ASSOCIATED WITH PRIVATIZATION OR PRIVATE SECTOR MANAGEMENT OF A RAILROAD MAY NOT BE VIEWED AS ENDS IN THEMSELVES.

3. ISSUE 2: JUSTIFICATION FOR THE CHOICE OF DELIVERY MODES

A. IN GENERAL, AN OVERALL DISCUSSION JUSTIFYING A COMBINED PROJECT/NPA APPROACH ACROSS THE REGION IS NECESSARY. SUBSEQUENT RAILWAY PAIPS/PIDS WILL INCLUDE A DISCUSSION OF ALL ALTERNATIVE ASSISTANCE DELIVERY MODES WHICH DEMONSTRATES HOW THE PROPOSING MISSION ARRIVED AT ITS MIX OF PROJECT VERSUS NPA, CASH TRANSFER VERSUS CIP, ETC.

B. IN THE CASE OF MALAWI, THE ECPR REQUESTED THAT MALAWI REVISE THE REVIEWED PAIP/PID TO INCLUDE A MORE EXPLICIT TREATMENT OF THIS DISCUSSION, INCLUDING THE RELATIONSHIP BETWEEN THE PRIVATIZATION ACTIVITY AND THE USE OF NPA. RELEVANT OFFICES HAVE REVIEWED THE PROPOSED REVISIONS TO THE PAIP/PID. WHILE THE MISSION HAS MADE A CONSIDERABLE EFFORT IN DESCRIBING THE CHOICE OF NPA OVER PROJECT ASSISTANCE, TWO STATEMENTS SHOULD BE INCORPORATED INTO THE PAAD/PP IN ORDER TO DEMONSTRATE THE APPROPRIATENESS OF NPA AND CASH TRANSFER VERSUS PROJECT/FIXED AMOUNT REIMBURSEMENT/CIP MECHANISM.

1) FIRST, THE MISSIONIS PRESENTATION OF INTERNAL GOM ACCOUNTING PROCEDURES SUGGESTS THAT A PROJECT APPROACH,

INCLUDING A LOCAL COST FINANCING APPROACH OR FIXED AMOUNT REIMBURSEMENT CONTRACT, MIGHT ACHIEVE THE SAME END-OF-PROJECT-IMPACT AS WOULD AN NPA MECHANISM. THE PAAD/PP SHOULD INCLUDE A STATEMENT TO THE EFFECT THAT A COMPARISON BETWEEN A LOCAL COST FINANCING APPROACH AND NPA MECHANISM

WAS EXPLICITLY CONSIDERED, AND THAT THE NPA MECHANISM WAS DEEMED INDISPENSABLE TO THE SUCCESSFUL COMPLETION OF THE RAIL RESTRUCTURING ACTIVITY GIVEN THE EMPHASIS THE NPA MECHANISM PLACES ON MALAWIAN OWNERSHIP OF DECISION-MAKING AND INSTITUTIONAL REFORM IN THIS CASE. SUCH INDIGENOUS OWNERSHIP IS CRITICAL TO THE PROGRAM SUCCESS, AND WOULD BE ABSENT IF A LOCAL COST FINANCING APPROACH WERE ADOPTED. THEREFORE, NPA AND LOCAL COST FINANCING APPROACHES WOULD NOT ACHIEVE IDENTICAL END-OF-PROJECT STATUS.

2) SIMILARLY, A STATEMENT REGARDING THE INAPPROPRIATENESS OF A CIP SHOULD BE EXPLICIT IN THE PAAD/PP. THUS, A STATEMENT OF THE INAPPROPRIATENESS OF A PUBLIC OR QUASI-PUBLIC CIP (GIVEN DIRECT PROJECT PROCUREMENT OF A LIMITED ARRAY OF GOODS AND SERVICES REQUIRED) AND OF THE INAPPROPRIATENESS OF A PRIVATE SECTOR CIP, SINCE IT WOULD CONTRAVENE THE LIBERALIZATION EFFORTS CURRENTLY UNDERWAY THROUGH THE FOREIGN EXCHANGE SYSTEM SHOULD BE INCORPORATED INTO THE PAAD/PP.

C. IN LIGHT OF THE RECOMMENDED INCLUSIONS IN THE PAAD/PP, THE ECPR ENDORSES THE REQUEST FOR A WAIVER OF THE DOLLAR SEPARATE ACCOUNT AND TRACKING REQUIREMENT THROUGH THE CONGRESSIONAL NOTIFICATION PROCESS. THE RATIONALE PROVIDED BY USAID/MALAWI (THAT DOLLAR TRACKING WOULD INTERFERE WITH MALAWIIS COMPLETELY OPEN, MARKET-DETERMINED FOREIGN EXCHANGE ALLOCATION SYSTEM) IS CONSISTENT WITH AGENCY GUIDANCE ON DOLLAR TRACKING.

D. FINALLY, IF AN EXEMPTION TO SEPARATE DOLLAR ACCOUNT AND RELATED DOLLAR TRACKING IS GRANTED BY THE APPROPRIATIONS COMMITTEES (THE NOTIFICATION WAITING PERIOD ROUTINELY), NO LOCAL CURRENCIES WOULD BE GENERATED OR TRACKED. NONETHELESS, THE PLANNED PROGRAM CONDITIONALITIES IN THE PAAD/PP SHOULD AVOID EXPLICIT OR IMPLIED STATEMENTS WHICH COULD ASSOCIATE PROGRAM/PROJECT RESOURCES FINANCING WITH COSTS ASSOCIATED WITH SEVERANCE PAYMENTS OR SEVERANCE ARRANGEMENTS RELATED TO THE RESTRUCTURING OF MALAWI RAILWAYS.

4. ISSUE 3: HOST COUNTRY CONTRIBUTION

THIS ISSUE WAS RAISED AS A MALAWI SPECIFIC ISSUE.

HOWEVER, ALL PARTICIPATING COUNTRIES ARE REQUIRED TO OBTAIN A HOST COUNTRY CONTRIBUTION UNLESS SEPARATE JUSTIFICATION AND WAIVER ARE PROVIDED TO THE AA/AFR FOR

REVIEW AND APPROVAL. IN THE CASE OF MALAWI, THE MISSION WILL INCLUDE A MINIMUM HOST COUNTRY CONTRIBUTION IN THE FINAL DESIGN, BASED ON THE ANNUAL FINANCING AGREEMENT BETWEEN MALAWI RAILWAYS AND THE GOVERNMENT OF MALAWI TO BE INCLUDED IN THE LETTER OF INTENT, WHICH IS SUBJECT TO USAID REVIEW AND APPROVAL. IN ADDITION, ECPR AGREED THAT THE MISSION WOULD DOCUMENT IN THE PAAD THE NEED TO ALLOW A SUFFICIENT PERIOD FOR ULTIMATE HOST COUNTRY EXPENDITURE RECONCILIATION. IT WAS RECOGNIZED THAT FINAL RECONCILIATION WILL LIKELY REQUIRE UP TO TWO YEARS. GC AFR REMINDED THE MALAWI MISSION THAT IT WILL NEED TO ENSURE SEPARATION OF USAIDIS DOLLAR DISBURSEMENT FROM THE GOVERNMENT OF MALAWI BUDGETARY/EXPENDITURE PROCESS.

5. ISSUE 4: ALLOCATION OF FTE/PSC CEILING FOR IMPLEMENTATION

A. ECPR REVIEWED USAID/MALAWIIS REQUEST FOR AN ADDITIONAL FTE OR PSC TO HIRE A PROJECT COORDINATOR. AT THE MEETING IT WAS DETERMINED THAT THE BUREAU COULD NOT ALLOCATE AN ADDITIONAL FTE AND THAT AFR/SA WOULD REVIEW THE PSC REQUEST WITHIN THE CONTEXT OF PSC CEILINGS FOR THE SOUTHERN AFRICA REGION. USAID/MALAWI AGREED TO MAKE ITS CASE FOR AN ADDITIONAL FTE OR PSC IN ITS NEW STRATEGY WHICH WILL BE SUBMITTED TO USAID/W IN JANUARY 1995. SUBSEQUENT TO THE ECPR MEETING AFR/SA AND AFR/AM REVIEWED MALAWIIS REQUEST AND DETERMINED THAT IT MAY BE POSSIBLE TO ALLOCATE A PSC TO MALAWI IN FY 1996. AFR/SA WILL KEEP MALAWI INFORMED REGARDING THE REQUEST FOR AN ADDITIONAL PSC.

B. SINCE FTE/PSC LEVELS HAVE ALREADY BEEN DETERMINED FOR THE REGION, PARTICIPATING COUNTRIES IN THE REGIONAL RAIL RESTRUCTURING PROGRAM WILL NEED TO REVIEW CLOSELY HOW PROGRAM MANAGEMENT REQUIREMENTS CAN BE MET WITHIN THE APPROVED FTE/PSC CEILINGS AS THEY DEVELOP INDIVIDUAL COUNTRY ACTIVITIES. IT WAS NOTED THAT THIS PROJECT MANAGEMENT ISSUE HAS PLAGUED THE SARP PROGRAM FOR SOME YEARS AND WILL LIKELY ONLY BE RESOLVED ON A CASE BY CASE BASIS DURING THE ESTABLISHMENT OF A REGIONAL CENTER.

POSSIBLE USE OF THE REGIONAL CENTER'S PSC ALLOCATION TO IMPLEMENT REGIONAL PROGRAMS WILL BE ADDRESSED WHEN THE MANAGEMENT NEEDS AND RESOURCES OF THE REGIONAL CENTER ARE DETERMINED.

6. ISSUE 5: DELEGATION OF AUTHORITY TO USAID/MALAWI

A. WITH THE PAAD/PP REVISIONS REQUESTED IN PARA 3 ABOVE, AN ADEQUATE JUSTIFICATION FOR NPA MECHANISM WILL HAVE BEEN MADE. AS APPROVED BY THE ECPR, THE PROGRAM SHOULD BE DESIGNED AT AN OVERALL FUNDING LEVEL OF DOLLAR 20 MILLION

NPA AND DOLLAR 5 MILLION PROJECT ASSISTANCE, WITH AN ESTIMATED INITIAL OBLIGATION IN FY 94 OF DOLLARS 15 (DOLLARS 10 MILLION NPA AND DOLLARS 5 MILLION PROJECT) FOR THE MALAWI PROGRAM.

B. BASED ON USAID/MALAWI REVISING THE PAAD/PP AS RECOMMENDED IN PARA. 3 AND 6.A. ABOVE, AA/AFR HEREBY DELEGATES AUTHORITY TO THE MISSION DIRECTOR, USAID/MALAWI TO AUTHORIZE THE MALAWI PROGRAM (690-0276.12) IN AN AMOUNT NOT TO EXCEED DOLLARS 20 MILLION AND PROJECT (690-0277.12) IN AN AMOUNT NOT TO EXCEED DOLLARS 5 MILLION AND TO IMPLEMENT THE PROGRAM AND PROJECT AS OUTLINED IN PARA 6.A ABOVE. THIS AD HOC DOA SHALL BE EXECUTED IN ACCORDANCE WITH ALL THE TERMS AND CONDITIONS OF DOA 551 EXCEPT FOR THE DOLLAR AMOUNT LIMITATION.

C. AFR BUREAU EXPECTS TO BENEFIT FROM THE MALAWI EXPERIENCE IN THE DESIGN OF THIS PROGRAM. THEREFORE WE ANTICIPATE A POST-OBLIGATION BUREAU REVIEW OF THE PAAD/PP IN ORDER TO DISSEMINATE KEY LESSONS FROM THIS EXPERIENCE THROUGHOUT THE BUREAU.

7. DELEGATION OF AUTHORITY FOR SUBSEQUENT PROGRAM SUBMISSIONS.

A. SINCE THE ECPR MEETING ON JUNE 29, AFR HAS REVIEWED FURTHER ITS INVOLVEMENT IN RAIL ACTIVITIES IN SOUTHERN AFRICA IN RELATION TO CURRENT BUDGETARY CONSTRAINTS AND ATTAINMENT OF BUREAU TARGETS. AFR BUREAU VIEWS THE RAIL RESTRUCTURING ACTIVITY AS THE CRITICAL FINAL PHASE OF TEN YEARS OF US INVESTMENT IN THIS SECTOR IN SOUTHERN AFRICA; THIS PHASE IS ESSENTIAL IF WE ARE TO OBTAIN THE INTENDED WIDE SPREAD PEOPLE LEVEL IMPACT. WHILE WE ALL RECOGNIZE THE IMPORTANCE OF RAIL RESTRUCTURING AND TRANSPORT EFFICIENCY PROGRAMS MORE GENERALLY TO ECONOMIC DEVELOPMENT IN THE REGION (AND TO IMPROVING THE FOOD SECURITY AND INCOMES OF THE POOR), THE BUREAU IS FACING SOME SERIOUS DIFFICULTIES IN MEETING NEW AGENCY PRIORITIES IN ENVIRONMENT, POPULATION AND OTHER SOCIAL SECTORS. IT WILL THEREFORE BE DIFFICULT FOR US TO MAINTAIN THE PREVIOUSLY PLANNED LEVEL OF INVESTMENTS FOR TRANSPORTATION AND TELECOMMUNICATIONS. THEREFORE, WE HAVE TENTATIVELY DEFERRED ADDITIONAL STARTS UNDER THE REGIONAL RAIL RESTRUCTURING PROGRAM UNTIL FY 1996. DOLLARS 10 MILLION WILL BE REPROGRAMMED FROM THE REGIONAL RAIL RESTRUCTURING PROGRAM IN FY 1995 AND FY 1996. IN FY 1996, WE ANTICIPATE RESUMING INVESTMENT IN THE RAIL RESTRUCTURING PROGRAM WITH AT LEAST ONE NEW START DEPENDING ON THE NATURE OF THE ACTIVITY. AS WE SORT THROUGH AGENCY AND BUREAU STRATEGIC PRIORITIES AND BUDGETARY REQUIREMENTS (SOFT EARMARKS), WE WILL REASSESS THIS DECISION. THIS IS THE BEGINNING OF A LENGTHY DIALOGUE WITH THE FIELD.

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B. FOR ANY NEW STARTS IN FY 1996, MISSIONS ARE REQUESTED TO ADHERE TO THE GUIDANCE DEVELOPED AT THE JUNE 29 ECPR MEETING. AT THAT MEETING, ECPR CONCLUDED THAT INSUFFICIENT INFORMATION WAS PROVIDED IN THE REGIONAL PAIP/PID ABOUT THE REGIONAL FRAMEWORK OF THE PROGRAM OR THE CONSTRAINTS WHICH WILL BE ADDRESSED IN THE OTHER PARTICIPATING COUNTRIES (ZIMBABWE, ZAMBIA, AND MOZAMBIQUE). THEREFORE, AA/AFR RETAINS AUTHORITY TO REVIEW AND APPROVE SUBSEQUENT PAIP/PID SUBMISSIONS FOR INDIVIDUAL COUNTRY PROGRAMS.

C. THE LOCUS OF AUTHORITY FOR PAAD/PP AUTHORIZATION WILL BE DETERMINED DURING PAIP/PID REVIEW. THE DECISION TO DELEGATE AUTHORITY TO THE FIELD WILL BE BASED, INTER ALIA, ON THE EXTENT THAT THE PAIPS/PIDS ADEQUATELY DISCUSS THE REGIONAL FRAMEWORK FOR THE PROGRAM AND PROVIDE AN ACCEPTABLE CONSTRAINTS ANALYSIS, AS DISCUSSED IN ISSUE NO. 1, PARA. 2, ON RATIONALE FOR A REGIONAL APPROACH. ADDITIONALLY, FIELD DELEGATION WILL DEPEND UPON WHETHER A

STRONG LINK IS MADE TO PEOPLE-LEVEL IMPACT.

D. FIELD DELEGATION WILL ALSO DEPEND UPON WHETHER NPA IS PROPOSED. IF NPA IS PROPOSED THE FOLLOWING QUESTIONS WILL HAVE TO BE ANSWERED:

1) WHY IS NPA THE BEST CHOICE TO ACCOMPLISH THE INTENDED OBJECTIVES?

2) IF NPA PROPOSED, WHY CASH AND NOT CIP? IF CASH, HOW WILL IT BE TRACKED?

3) IF LOCAL CURRENCY IS GENERATED, HOW WILL IT BU USED AND TRACKED? IF NOT, WHY NOT?

E. IT WAS AGREED AT THE ECPR MEETING THAT USAID/SARP WOULD DRAFT AND PROVIDE TO THE INDIVIDUAL MISSIONS ANTICIPATED TO PARTICIPATE IN THIS PROGRAM, THE FRAMEWORK AS DISCUSSED IN ISSUE NO.1, PARA 2, ABOVE, FOR INCORPORATION INTO THE BILATERAL SUBMISSIONS. MISSION DOCUMENTS SHOULD ALSO CONFORM TO ALL OF THE GUIDANCE CONTAINED HEREIN FOR BOTH THE REGIONAL PROGRAM AND THE MALAWI PROGRAM.

8. ADDITIONAL GUIDANCE

IN ADDITION TO THE ABOVE ISSUES, SEVERAL CONCERNS WERE NOTED BY ECPR. PARTICIPATING MISSIONS SHOULD BE AWARE OF THESE CONCERNS IN PREPARATION OF PAADS/PPS.

A. ADDRESSING DFA OBJECTIVES

ECPR STRESSED THE NECESSITY OF CLEARLY LINKING THE PURPOSE STATEMENT OF EACH COUNTRY PROGRAM TO DFA OBJECTIVES IN TERMS OF PEOPLE LEVEL IMPACT.

B. VULNERABLE GROUPS

ECPR NOTED THAT ALTHOUGH CERTAIN GROUPS WILL BENEFIT FROM THE PROGRAM, MISSIONS SHOULD BE AWARE THAT OTHER VULNERABLE GROUPS MAY BE NEGATIVELY IMPACTED. PPS/PAADS SHOULD INCLUDE A DISCUSSION OF SUCH GROUPS WITH ANY NECESSARY ACTIVITIES AIMED AT MITIGATION.

C. RAILWAY REFORM LEGISLATION

IF LEGISLATIVE ACTIONS ARE REQUIRED TO ACCOMPLISH PROJECT/PROGRAM OBJECTIVES, FAA SECTION 611A(2) REQUIRES EACH MISSION TO STATE THE BASIS FOR ITS BELIEF THAT THESE ACTIONS WILL BE ACCOMPLISHED ON A TIMELY BASIS.

D. RELATIONSHIP BETWEEN USAID AND OTHER DONORS IN THE MALAWI COMPONENT.

ECPR NOTED THAT USAID/MALAWI PLANS ON-GOING COORDINATION WITH THE WORLD BANK AND ODA ON REFORM MEASURES. GIVEN THE COORDINATED NATURE OF THE PROGRAM USAID/MALAWI IS ADVISED NOT TO PROCEED WITH THE PROGRAM UNILATERALLY IF OTHER DONORS END THEIR PARTICIPATION, UNLESS USAID MALAWI CONDUCTS ADEQUATE ASSESSMENT OF THE PROGRAM AND AFTER CONSULTATION WITH USAID/W.

E. FINANCING OF FEASIBILITY STUDIES

THE TRADE AND DEVELOPMENT AGENCY HAS BEEN CHARGED WITH CARRYING OUT ANY U.S. GOVERNMENT FUNDED FEASIBILITY STUDIES UNLESS SUCH STUDIES ARE PLANNED BY USAID AS PART OF AN ONGOING DEVELOPMENT PROGRAM. USAIDS ARE REMINDED TO DISCUSS IN FUTURE PROJECT DOCUMENTS ANY PLANS FOR SUCH STUDIES.

F. INITIAL ENVIRONMENTAL EXAMINATION

USAIDS ARE REMINDED TO PROVIDE AN IEE WITH EACH BILATERAL SUBMISSION UNDER THE REGIONAL PROGRAM. SUCH AN IEE HAS ALREADY BEEN SUBMITTED BY USAID/MALAWI, AND HAS BEEN REVIEWED AND APPROVED BY THE BUREAUIS ENVIRONMENTAL OFFICER WITH CONCURRENCE FROM GC/AFR.

G. PREVIOUS EXPERIENCE WITH RAIL ACTIVITIES

THE ECPR NOTED THE OMISSION OF SUBSTANTIAL DISCUSSION OF THE IMPACT OF PREVIOUSLY IMPLEMENTED AND ONGOING SARP RAIL ACTIVITIES AND THEIR RELATIONSHIP TO THE REGIONAL RAIL RESTRUCTURING PROGRAM. USAID MISSIONS ARE ADVISED TO INCLUDE SUCH DISCUSSIONS IN INDIVIDUAL PAIPS/PIDS WHICH WILL BE SUBMITTED FOR USAID/W REVIEW.
CHRISTOPHER
BT
#5844

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INITIAL ENVIRONMENTAL EXAMINATION

I. PROJECT DATA

Project Location	: Malaŵi
Project Title and Number	: Malaŵi Railways Restructuring Project (690-0276.12) Malaŵi Railways Restructuring Program (690-0277.12)
Sub-grant Recipient	: Malaŵi Railways
Funding	: US $20,000,000 NPA US $ 5,000,000 PA
Life of Project	: 3 years
IEE Prepared by	: William Brands, Benson Phiri and Kurt Rockeman USAID/Malawi

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	
Negative Determination	X
Categorical Exclusion	X
Deferral	

SUMMARY OF FINDINGS:

A categorical exclusion is recommended for project training activities as per Reg16 216.2(c)(2)(i) and for all technical assistance and consultancies provided under the project as per Reg16 216.2(c)(2)(i) and (iii).

A negative determination is recommended for program activities.

CONCURRENCE:

Bureau Environmental Officer:
John J. Gaudet, AFR/ARTS/FARA

APPROVED: ✓
DISAPPROVED:
DATE: 7/19/94

CLEARANCE:

GC/AFR: [illegible] DATE: 7/2?/94

II. PROBLEM STATEMENT

Malaŵi Railways (MR) enjoyed ample traffic during the 1970's with freight traffic reaching its peak of around 1.35 million tons in 1973 and continuing within 15% of this peak up to 1981. This provided MR with an opportunity to achieve and then sustain a financially sound position. Virtually all imports and exports were carried by rail through Mozambique utilizing the ports of Nacala and Beira.

After 1981, the civil war in Mozambique seriously disrupted traffic operations to each of the ports. By 1985, both routes were completely closed. Traffic was consequently diverted from the Mozambican routes to those serving the port of Durban and thus increasing transport distances by 200 to 300 percent as well as the number of countries required to transit. This had important implications for reliability, loss and damage, time in transit, as well as the primary means of transport. MR traffic dropped by 61% by 1985 while the incremental cost to the Malaŵi economy of using the alternative routes amounted to an estimated 100-120 million dollars a year. CIF costs have continued to hover at around 40% since that time. The implications of these added costs adversely impacted all sectors of society. Costs for basic commodities such as petroleum and fertilizer rose while the costs of moving the major export crops ate into revenues.

Freight traffic on Malaŵi Railways, by 1985 limited to local traffic, continued to drop into the 1990's. Expecting a resumption of operations on the Mozambican railway networks, however, MR did not take steps to reduce or redeploy its manpower. It has remained for the last decade a bloated parastatal in the best tradition of such enterprises and a critical drain on the GOM's budget. Furthermore, surplus locomotives and wagons were neither offered on hire to other railways nor mothballed, nor were train operating schedules and frequencies reduced. The continued high operating costs meant that since the 1980's the revenues generated by MR have not been sufficient to cover even the operating costs; accordingly MR does not have the capacity to service its long or short-term debts, or to finance the replacement of its worn-out assets.

It is not surprising that in 1993 MR went bankrupt. Given the cutback in donor assistance to Malawi combined with economic downturn associated with the 1992 drought, the GOM was not able to continue bailing out the railway and is not now in a position to do so either. Sound economic management by the GOM in the face of this difficulty - and its desire to stick to the course of its structural adjustment program - forced the GOM to encourage Malawi Railways to restructure its operations.

MR developed a plan for restructuring and has begun its implementation. The Government of Malaŵi and MR have taken the lead in addressing many of the problems. Staff have been released, passenger surface curtailed, and the highly unprofitable Lake Services has been separated from Malawi Railways. Continued implementation of the restructuring plan, however, is severely constrained by lack of financing.

Now that the Mozambican Peace Accords are being implemented, the GOM has not only pushed for a restructuring program for MR, but has increased its pressure on Mozambique and its donors to ensure that the rehabilitation of the Nacala Line is completed. An efficiently functioning all-rail route to the Port of Nacala is the most economical of all the available international routes for most Malawian overseas traffic and will regain lost traffic if the route is a viable and safe alternative to trucks. Recent projections demonstrate that efficient operation of the corridor could represent cost savings of up to $30 million a year throughn a reduction in CIF costs.

III. PROGRAM DESCRIPTION

The specific purpose of the Malaŵi Component of the Regional Rail Restructuring Program is to reduce surface transport costs for smallholder inputs and exports crops through increased railway efficiency and reliability and inter-modal competitiveness.

The Malawi Railways Restructuring Plan encompasses three supporting objectives with corresponding action plans and project activities. The three supporting objectives proposed are: (a) revitalization of the Nacala Corridor; (b) restructuring and privatization of Malawi Railways; and (c) formulation of a comprehensive transport policy.

The program will be implemented in four phases. An initial restructuring effort is being implemented by Malawi Railways with its own resources and is likely to be complete in July 1994. During the second half of 1994, it is expected that Malawi Railways will implement a phase two restructuring prepatory plan designed to set the stage for more definitive restructuring actions in 1995. This will include activities aimed at valuing assets, drafting operations agreements between railways, and developing staffing plans and managerial systems based on a restructured railway. During phase three, Malawi Railways will modify the railroad companies legal and regulatory framework, implement an operations agreement between the Governments and Railways of Malawi and Mozambique, implement a retrenchment program, draft a comprehensive transport policy, and finalize a privatization plan. Under phase four , Malawi Railways will become a private company and marketing and investment plans will be implemented for sustaining the growth of traffic on the line.

Three of these phases are scheduled to be completed during the life of the USAID program and will result in disbursement of program funds. $20 million of the total proposed $25 million life-of-program funding will be disbursed in three phases as a cash transfer for budgetary support. Release will be contingent on satisfactory completion of agreed upon program activities. Project assistance totalling $5million will be required to provide up-front financing for support activities through the provisions of technical assistance and training. There is no commodity procurement planned for USAID financing.

The overall strategy is to reduce the international transport cost component of fertilizer, a critical agricultural input utilized by the majority of Malawi's predominantly rural population. Fertilizer is principally utilized in the production of hybrid maize (staple food crop) and tobacco (principal cash crop).

IV. POLICY REFORM - Special Issues

Policy reforms supported by this program are limited to organizational restructuring of Malawi Railways, and specified transport policy issues. These reforms are expected to have only a limited, and indirect impact, upon Malawi's physical environment.

USAID/Malawi is currently supporting a national environmental monitoring program (MEMP) under its Agricultural Sector Assistance Program (ASAP). The MEMP is being expanded within the design of ASAP Phase II to more fully measure the national environmental impacts of policy reform. The MEMP is focussed on intensive data collection and analysis within indicative catchment areas, and is specifically designed to measure the impact of policy reform on the environment through changes in smallholder cropping patterns and utilization of chemical fertilizers and pesticides. The major indirect environmental impacts (if any) expected as a result of restructuring Malawi Railways will occur within the agricultural sector in the use of fertilizer and agro-chemicals, and will be monitored and measured within the context of the MEMP. Therefore, USAID requirements for monitoring environmental impact as a result of policy change will be complied with fully through ongoing environmental monitoring activities.

V. ENVIRONMENTAL CONCERNS AND MITIGATION

This project/program is expected to have no direct impact on the environment. However, there are certain general, non-specific impacts connected with the local railway that will require attention.

A. General Environmental Impacts:

The following are general environmental concerns related to the project/program, but of no significant environmental impact:

1. Pollutant discharges to surface water adjacent to railroad workshops.

2. Oil-contaminated discharges into adjacent surface water.

3. Hazardous material loading and transportation.

4. Human waste discharges from passenger services.

5. Air pollution from idling and normal operations of locomotives.

B. Monitoring and Mitigation of General Impacts:

The following is a listing of Malaŵi Railways responsibilities related to the monitoring and mitigation of potential environmental impact:

1. Identify and correct sources of pollutant discharges to surface water adjacent to railroad workshops
2. Identify and correct defects in oil separation system which allow oil-contaminated discharges into the adjacent surface water.
3. Channel oil-contaminated water, which is currently discharged directly into surface water, through a properly functioning oil separation system.
4. Review locomotive idling and operational practices, and improve routine maintenance procedures to reduce smoke emissions.
5. Review and improve cargo handling procedures to ensure adequate protection in the loading and transport of hazardous materials.
6. Implement procedures for utilizing waste oil captured in the oil separation system or other effluent treatment facilities.
7. Improve the management of human waste disposal from passenger services.

C. Monitoring, Mitigation and Evaluation of the Impacts of Policy Reform

There is little or no data on the actual environmental impact of GOM development policies. In recognition of this situation, the Mission's Agricultural Sector Assistance Program (ASAP) Support Project is providing direct funding of $1.3 million for the establishment of an environmental monitoring and analysis capability within the GOM. The environmental mitigation, monitoring and evaluation activity is specifically designed to collect data on critical physical and social parameters and monitor the environmental impact of policy changes in five indicative watersheds throughout Malawi.

The Department of Research and Environmental Affairs (DREA) is implementing the Malawi Environmental Monitoring Plan (MEMP) to monitor the environmental impact of changes in smallholder cropping patterns as a result of agricultural policy reforms. Five catchment areas scattered throughout Malawi have been chosen for intensive data collection to measure the effects of changes in smallholder cropping practices on deforestation, soil erosion and water quality. Six line ministries are collecting and analyzing data within their particular operational mandates, and DREA is coordinating the effort, analyzing the data, and formulating policy options for policy makers.

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The information collected will serve as an indication of agricultural program impacts on deforestation, soil erosion, and water quality. These indicators will be analyzed, and utilized to develop interventions to mitigate any negative impacts resulting from the policy reforms. Therefore, the major indirect impacts of Malawi Railways restructuring on the agricultural sector (fertilizer, agro-chemicals) are expected to be captured within the ongoing MEMP program.

VI. RECOMMENDED ENVIRONMENTAL ACTIONS

The following are recommended environmental actions for the USAID component of the project.

A negative determination is recommended for program activities.

A categorical exclusion is recommended for project training activities (216.2 (c) (2)(i)).

A categorical exclusion is recommended for all technical assistance and consultancies provided under the project (216.2 (c) (2)(i) and (iii)).

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ANNEX E

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

SEP 23 1994

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: Joseph B. Goodwin, Director, AFR/SA

SUBJECT: Malawi Component of Regional Rail Restructuring Program (690-0276.12): Proposed Non-Project Assistance Cash Transfer

Problem: Your approval is requested for the use of the cash transfer disbursement method for the Malawi Railways Restructuring Program and to forward to Congress a request for an exemption to dollar separate account legislation pursuant to the provisions of Section 537 (b)(4) of the 1994 Foreign Operations, Export Financing and Related Programs Appropriations Act.

Discussion: The Malawi Railways Restructuring Program (MRRP) is a component of the Regional Rail Restructuring Program funded under the Southern Africa Regional Program. The Malawi component will be authorized in September 1994 with a three-year life-of-program (LOP) and a combination of NPA and project funding totalling $25 million ($20 million NPA and $5 million in project assistance). In FY 1995, this program will be subsumed under the Initiative for Southern Africa (ISA).

This Action Memorandum is concerned with the NPA component of MRRP which will support the reduction of surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and inter-modal competitiveness. Specific activities under the program will support Government of Malawi (GOM) and Malawi Railways-led efforts to: (1) improve the efficiency and reliability of the Nacala Corridor; (2) restructure and privatize Malawi Railways; and (3) formulate a transport policy that fosters a sound environment for commercially viable transport businesses and increased smallholders' income and well-being.

The following information is provided in accordance with the provisions of 1993 State 261639:

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A. INDIVIDUAL RESPONSIBLE FOR THE DECISION TO USE CASH: Cynthia F. Rozell, Mission Director, USAID/Malawi

B. AMOUNT:

Previous Obligations	None
FY 1994 Obligation	$10.0 million (NPA)
	$ 5.0 million (PA)
Life of Program	$25.0 million

C. DETERMINATION OF AMOUNT: The Mission's assessment is that $20 million in NPA and $5 million in project support is necessary to achieve the program objectives.

This funding will provide GOM budgetary resources necessary to liquidate the bankrupt railroad parastatal, structure and register a new private rail company, and operationalize management improvements along the Nacala Corridor with the Mozambican railroad. Special attention will be devoted to ensuring that this Malawian-led initiative will include an adequate social safety net for those individuals adversely impacted by restructuring. An economic analysis of the program and its proposed funding level has determined that the economic benefit:cost ratio is highly positive. The internal rate of return of the proposed investment is roughly 50% under the most conservative scenario.

D. WHAT THE TRANSFER WILL ACHIEVE: The purpose of the Malawi Railways Restructuring Program is to reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and resulting inter-modal competitiveness. The reduction of CIF margins paid for Malawi's imports is crucial to the Mission's strategy seeking to reduce poverty and increase agricultural productivity.

Funds under the program will allow the GOM sufficient budgetary support to lead the restructuring and privatization of Malawi Railways, the formulation of a transport policy that fosters a sound environment for commercial transport businesses and efforts to improve the efficiency and reliability of the Nacala Corridor.

These activities to be achieved by the GOM will result in: (1) a reduction in the transport margin on crucial farm inputs, and other imports and exports from a current high level of 41% to 35%; (2) a resumption of a minimum of international traffic to 320,000 tons on the Nacala Corridor; and (3) an approved transport policy aimed at creating a genuinely competitive environment in the transport sector in Malawi. Such outputs represent a minimum cost savings to the Malawian economy of 30 million dollars a year.

E. HOW SUCCESS WILL BE MEASURED: The Mission will measure the success of the Malawi Railways Restructuring Program using a variety of indicators aimed at measuring efficiency, reliability and commercial viability of Malawi Railways and the Nacala Corridor as well as the overall impact on costs of imported and exported goods. These indicators include among others: (1) a reduction in the average CIF costs as share of total price paid by smallholders for imported inputs; (2) a decrease in the difference between export price and the price received by smallholders for exported commodities; and (3) a reduction in the time required to move goods from Blantyre to Nacala.

F. CONSIDERATION OF ALTERNATIVE MEANS:

The Mission's decision to use the cash transfer disbursement mechanism is based on considerations related to the objective of this USAID program in Malawi, the leadership of the program by the Malawian Government and Malawi Railways, the fit of the program with other donor and government development efforts, and the needs of promoting a commercially viable transport sector. Because of the GOM's structural adjustment program and a political imperative to impose austerity on government expenditures, the GOM can no longer absorb the costs of subsidizing Malawi Railways which is already in serious debt to the government. Nor can it afford the costs associated with restructuring it, or of servicing the debt which it holds. The cash disbursement modality will provide budget support most efficiently and effectively to allow the GOM to privatize the railroad as quickly as possible. All foreign-exchange financed services required to achieve the objectives are being provided on a project basis through the complementary Malawi Railways Restructuring Program support project. There is no commodity procurement. In fact, since there is no foreign-exchange financed commodity specific to implementing the program, there is no justification for a CIP. In addition, the use of a CIP mechanism in Malawi would run contrary to USAID's commitment to the existing free exchange rate system. USAID/Malawi has used the cash transfer disbursement successfully for several years in implementing other sectoral programs, including the Girls' Attainment in Basic Literacy and Education Program (GABLE) and the Agricultural Sector Assistance Program (ASAP). The mechanism is well understood in the Malawian financial, commercial and government communities.

The Africa Bureau February 1, 1993 updated DFA Procurement Policy (p.6.) provides that cash, rather than a CIP, is appropriate "where host country foreign exchange allocation regimes are reasonably transparent and market-determined." This is the case in Malawi, as explained in paragraph G. below.

G. USE OF DOLLARS (how dollars will be spent):

One central element of Malawi's macroeconomic policy framework is the elimination of all exchange controls and the

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floating of the country's currency, the kwacha. USAID, long a strong advocate of a market-determined exchange rate system, feels that the existence and successful implementation of such a system in an environment characterized by careful government control over its financial budgeting, accounting and control procedures negates the need for direct involvement by USAID in foreign exchange allocation. Furthermore, because the current interbank market is free and has no exchange or administrative controls or restrictions, the Mission has determined that USAID specification of dollar uses in advance of disbursement would require greater GOM and Central Bank interference in the allocation and use of foreign exchange than is normal under the current system. This, combined with the demonstrated ability of the GOM to account for its own and USAID resources, provides the mission the confidence to know that USG dollar resources will be responsibly managed through the country's foreign exchange allocation system.

Reference cable 1990 State 50765, the Africa Bureau's policy on the use of this exemption, provides that USAID would favorably consider use of this exemption when specifying the use of dollars would be intrusive into an open, market-based FX allocation system. Malawi meets this standard.

Funds will not be obligated until it is determined whether interest mitigation measures apply in FY 94 under this exemption.

Therefore, pursuant to Section 537 (b)(4) of the 1994 Foreign Operations, Export Financing and Related Programs Appropriations Act, USAID proposes to exempt this program from the dollar separate account and tracking requirement for the following reasons: (1) foreign exchange in Malawi can be accessed by individuals and businesses on demand at market-determined rates, (2) uses of foreign exchange are not administratively determined, and (3) trade licensing arrangements are not aimed at restricting imports or allocating foreign exchange. Imposing a separate account and dollar tracking system would interfere with this open, nondirective system.

H. ACCOUNTABILITY:

USAID will disburse dollar resources upon successful completion by the GOM of each set of activities associated with a funding tranche. The dollars will be disbursed directly to the Reserve Bank of Malawi's account in the Federal Reserve Bank of New York. All disbursements will be against tranched conditionalities and phased results, which are directly linked to the expected end-of-program impacts. For each tranche of the program and prior to disbursement of funds associated with the previous tranche, the GOM will submit a letter of intent which outlines the actions the Government proposes to take during the subsequent phase to achieve the program results associated with that funding tranche. In this way, funding will be held accountable to program results.

The most recent RIG/A/Nairobi audit certification of the GOM's Office of the Auditor General has found it to be fully qualified to conduct and certify audits of USAID funds. Also, the Mission's most recent general financial assessment of GOM has certified that government budgeting and accounting systems were worthy of a high degree of confidence. Therefore, the budgeting, accounting and control systems governing the use of USAID funds are sound; they are the same used for all USAID resources (dollars and local currency) provided to the GOM.

I. STATUS OF MISSION NEGOTIATIONS WITH THE HOST GOVERNMENT:

The staff from Malawi Railways, the Ministry of Transport and Communications, and the Ministry of Statutory Bodies have participated at every stage of planning this program. The program design results from a Malawian initiative. Malawi Railways began implementing a tough restructuring of its management and operations on its own in 1993. However, the GOM through a formal letter from the Ministry of Finance requested donor support for the restructuring when it was agreed that the financing requirements were far in excess of its abilities to fund. Two analytical teams have subsequently worked extensively with Malawi Railways management and GOM officials in developing a viable program. Since the analytical work, USAID staff has held regular meetings with GOM and Malawi Railways officials. As the Principal Secretary of the Ministry of Finance (MOF) chairs the GOM committee on Malawi Railways Restructuring, MOF staff are kept abreast of all developments in this area. Full and formal meeting between USAID and the GOM to discuss the Malawi Railways Restructuring Program will be scheduled throughout the negotiation phase.

J. HOW THE PROGRAM FITS WITH THE MISSION PROGRAM STRATEGY:

The Malawi Railways Restructuring Program, through its efforts to reduce surface transport costs on smallholder inputs and export crops through increased railway efficiency and reliability and inter-modal competitiveness, contributes directly to the Mission's strategic objective to "increase agricultural productivity." It also supports USAID/Malawi's overall goal of "enhancing the economic well-being of the average Malawian household."

In sum, the cash transfer approach is well suited to our program objectives, to the liberalization of the Malawian foreign exchange market, to the Malawian business and financial environment, and to Mission management considerations.

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<u>Recommendation</u>: That you approve the use of the cash transfer mechanism in the non-project assistance component of the Malawi Railways Restructuring Program (690-0276.12) and include in the Congressional Notification language to request an exemption from the Separate Account requirement pursuant to Section 537(b)(4) of the 1994 Foreign Operations, Export Financing and Related Programs Appropriations Act.

Approve: Carol A. Peasley Jr

Disapprove: __________

Date: 26 Sept. 1994

Drafted:USAID/Malawi:WRBrands:AFR/SA:LAKeeys:X74289:li:9/9/94
SARP\DOCS\RAILNPA.MEM
Revised:9/20/94

Clearances:

AFR/SA:DThomas	(draft)	Date	9/9/94
AFR/SA:JTHale	(draft)	Date	9/9/94
AFR/DP:JGovan	(draft)	Date	9/12/94
GC/AFR:MAKleinjan	MAK	Date	9/20/94
PPC/POL:RMahoney	Rm	Date	9/23/94
DAA/AFR:CPeasley	CAP	Date	9/23

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RUEHLG/AMEMBASSY LILONGWE IMMEDIATE 4097
BT
UNCLAS STATE 265230

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: RAILWAY RESTRUCTURING: MALAWI RAILWAYS
RESTRUCTURING PROGRAM (690-0276/690-0277)

REF: STATE 252842

THE CONGRESSIONAL NOTIFICATION FOR ABOVE PROJECT FOR U.S. DOLS 15'000,000 EXPIRED ON SEPTEMBER 29, 1994 WITHOUT OBJECTION. OBLIGATION MAY NOW BE INCURRED.
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A.I.D. PROJECT STATUTORY CHECKLIST

Introduction

The statutory checklist is divided into two parts: 5C(1) - Country Checklist; and 5C(2) - Assistance Checklist.

The Country Checklist, composed of items affecting the eligibility for foreign assistance of a country as a whole, is to be reviewed and completed by AID/W at the beginning of each fiscal year. In most cases responsibility for preparation of responses to the Country Checklist is assigned to the desk officers, who would work with the Assistant General Counsel for their region. The responsible officer should ensure that this part of the Checklist is updated periodically. The Checklist should be attached to the first PP of the fiscal year and then referenced in subsequent PPs.

The Assistance Checklist focuses on statutory items that directly concern assistance resources. The Assistance Checklist should be reviewed and completed in the field, but information should be requested from Washington whenever necessary. A completed Assistance Checklist should be included with each PP; however, the list should also be reviewed at the time a PID is prepared so that legal issues that bear on project design are identified early.

The Country and Assistance Checklists are organized according to categories of items relating to Development Assistance, the Economic Support Fund, or both.

These Checklists include the applicable statutory criteria from the Foreign Assistance Act of 1961 ("FAA"); various foreign assistance, foreign relations, anti-narcotics and international trade authorization enactments; and the FY 1994 Foreign Assistance Appropriations Act ("FY 1994 Appropriations Act").

These Checklists do not list every statutory provision that might be relevant. For example, they do not include country-specific limitations enacted, usually for a single year, in a foreign assistance appropriations act. Instead, the Checklists are intended to provide a convenient reference for provisions of relatively great importance and general applicability.

Prior to an actual obligation of funds, Missions are encouraged to review any Checklist completed at an earlier phase in a project or program cycle to determine whether more recently enacted provisions of law included on the most recent Checklist may now apply. Because of the reorganization and consolidation of checklists reflected here, such review may be particularly important this year. Space has been provided at the right of the Checklist questions for responses and notes.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics Certification**

(FAA Sec. 490): (This provision applies to assistance provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance relating to international narcotics control, disaster and refugee relief assistance, narcotics related assistance, or the provision of food (including the monetization of food) or medicine, and the provision of non-agricultural commodities under P.L. 480. This provision also does not apply to assistance for child survival and AIDS programs which can, under section 522 of the FY 1994 Appropriations Act, be made available notwithstanding any provision of law that restricts assistance to foreign countries.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) has the President in the April 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without

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Congressional enactment, within 45 calendar days, of a resolution disapproving such a certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals and objectives established by the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or that (b) the vital national interests of the United States require the provision of such assistance?

Malawi is not a "major illicit drug producing country" or a "major drug transit country."

(2) with regard to a major illicit drug producing or drug-transit country for which the President has not certified on April 1, has the President determined and certified to Congress on any other date (with enactment by Congress of a resolution approving such certification) that the vital national interests of the United States require the provision of assistance, and has also certified that (a) the country has undergone a fundamental change in government, or (b) there has been a fundamental change in the conditions that were the reason why the President had not made a "fully cooperating" certification.

See A.1 (1) above

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

N/A

3. **Seizure of U.S. Property** (FAA Sec. 620(e)(1)): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to

N/A

discharge its obligations toward such citizens or entities?

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1994 Appropriations Act Secs. 507, 523): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

Malawi is not a communist country.

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

NO

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

NO

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

NO

8. **Loan Default** (FAA Sec. 620(q); FY 1994 Appropriations Act Sec. 512

NO

(Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1994 Appropriations Act appropriates funds?

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

N/A

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

NO

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

As of September 1994 Malawi was not in arrears.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1994 Appropriations Act Sec. 529; FAA Sec. 620A): Has the country been determined by the President to: (a) grant

NO

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sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons?

b. **Airport Security** (ISDCA of 1985 Sec. 552(b)): Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? NO

13. **Countries that Export Lethal Military Equipment** (FY 1994 Appropriations Act Sec. 573): Is assistance being made available to a government which provides lethal military equipment to a country the government of which the Secretary of State has determined is a terrorist government for purposes of section 40(d) of the Arms Export Control Act? NO

14. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? NO

15. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? NO Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the NO

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United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

NO

16. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Malawi was not represented at the meeting.

17. **Military Coup** (FY 1994 Appropriations Act Sec. 508): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

NO

18. **Exploitation of Children** (FAA Sec. 116(b)): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

NO

19. **Parking Fines** (FY 1994 Appropriations Act Sec. 574): Has the overall assistance allocation of funds for a country taken into account the requirements of this section to reduce assistance by 110 percent of the amount of unpaid parking fines owed to the District of Columbia as of September 30, 1993?

YES

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

Human Rights Violations (FAA Sec. 116): Has the Department of State

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determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? NO

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? NO

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? YES

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (a), (b), (c), (d), (e) and (f)

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(d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Improved transport routes will encourage U.S. private trade and investment. Technical assistance will be contracted from U.S. sources, including private organizations and universities

3. **Congressional Notification**

a. **General requirement** (FY 1994 Appropriations Act Sec. 515; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

CN cleared on September 29, 1994.

b. **Special notification requirement** (FY 1994 Appropriations Act Sec. 520): Are all activities proposed for obligation subject to prior congressional notification?

c. **Notice of account transfer** (FY 1994 Appropriations Act Sec. 509): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1994 Appropriations Act Sec. 537(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice

YES

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included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

The purpose of this assistance can be accomplished without legislative action. However, amendments to legislative will be encouraged to act as a safeguard against problem of difinition between an ol parastatal and a new railwa company.

6. **Water Resources** (FAA Sec. 611(b)): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer/Nonproject Sector Assistance Requirements** (FY 1994 Appropriations Act Sec. 537). If assistance is in the form of a cash transfer or nonproject sector assistance:

N/A

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not commingled with any other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Mission received exemption from dollar taking and separate bank account.

b. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result

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in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions

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on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(See A.1)

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

(See A.2)

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

GOM required to provide 25% host country contributio of total program costs.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

NO

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

b. **Textiles (Lautenberg**

Amendment) (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

N/A

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

N/A

14. **PVO Assistance**

a. **Auditing and registration** (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

PVO assistance is not envisioned for this program.

b. **Funding sources** (FY 1994 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

15. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? YES

17. **Abortions** (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? NO

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? NO

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? NO

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.) NO

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.) NO

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? NO

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? NO

18. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life? **Possibly. The development of a credit fund could be used for such purposes.**

19. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1994 Appropriations Act

Secs. 503, 505): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	N/A
b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	N/A
20. **Procurement**	
a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	YES
b. **U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?	Yes. DFA procurement regulations will be followed.
c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	N/A
d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A
e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a	N/A

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competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

DFA procurement regulations will be followed.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable?

YES

Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

N/A

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

YES

i. **Consulting services** (FY 1994 Appropriations Act Sec. 567): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

YES

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j. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? YES

k. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? **YES**

l. **Chemical Weapons** (FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production? **NO**

21. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? **N/A**

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? **N/A**

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c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — N/A

22. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

23. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — N/A

24. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — YES

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? — YES

25. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized — YES

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property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

26. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

YES

27. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

YES

28. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

DFA procurement regulations will be followed.

29. **Export of Nuclear Resources** (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology?

YES

30. **Publicity or Propaganda** (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

NO

31. **Marine Insurance** (FY 1994 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

YES

32. **Exchange for Prohibited Act** (FY 1994 Appropriations Act Sec. 533): Will

any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? NO

33. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement? NO

34. **Impact on U.S. Jobs** (FY 1994 Appropriations Act, Sec. 547):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? NO

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? NO

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? NO

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers**

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Amendment) (FY 1994 Appropriations Act Sec. 513(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

2. **Tied Aid Credits** (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

NO

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Program based on Malawian initiatives and supports capacity building and total Malawianization of management of railway.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the

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development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Reduced transport costs will support productive capacities and self-sustaining economic growth of Malawi.

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

The program will promote the development of private institutions and encourage regional cooperation by developing countries.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

YES

8. **Benefit to Poor Majority** (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes. It has been designed to benefit the poor majority through reduced transport costs on fertilizer, thus, benefiting the 1.8 subsistenc from families.

9. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

YES

10. **Disadvantaged Enterprises** (FY 1994 Appropriations Act Sec. 558): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

An HBCU will be considered to carry out one of the three major components of the program.

11. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

12. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

YES

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives

N/A

to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment

N/A

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indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

d. **Sustainable forestry:** If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

The Africa Bureau Environmental Officer approved the Initial Environmental Examination on July 17, 1994. A Negative Determination was given to program activities and a Categorical Exclusion for project activities.

13. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy

N/A

efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

14. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

15. **Deobligation/Reobligation** (FY 1994 Appropriations Act Sec. 510): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

16. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at

N/A

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least 3 percent per annum thereafter?

d. **Exports to United States** (FAA Sec. 620(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

17. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

(See B.6)

18. **Agriculture, Rural Development and Nutrition,** and **Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research,

Activity will increase productivity and income of rural poor through reduction of surface transport costs of fertilizer imports.

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has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

19. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

20. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource

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development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

Assistance will provide education and training to build capacity of railway staff to commercialize and then privatize a former transport parastatal.

21. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

N/A

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

c. research into, and evaluation of, economic development processes and techniques;

d. reconstruction after natural or manmade disaster and programs of disaster preparedness;

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

22. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? N/A

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY N/A

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so,

will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

5. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.)

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Annex H

Bibliography of Reports Contributing to Program Design

USAID - Privatization and Development Project

Technical Working Papers - Malawi Railways Restructuring - 5/94

Legal Review and Draft Agreements
Human Resources Development Report
Departmental Procurement Lists
Management Information Systems Development and Training
Environmental Assessment
Beneficiary Impact Assessment

Technical Working Papers - Malawi Railways Restructuring - 8/94

Financial Analysis
Housing Assessment
Draft Memorandum of Understanding Between GOM/MR
Draft Cooperation Agreement Between MR/CFM(N)
Organizational Analysis
Valuation of Lake Service Assets
Valuation of Railway Assets
Corporate Finance Assessment
Transport Policy Analysis Report

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Valuation of Railway Assets
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