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UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

PROPOSAL AND RECOMMENDATIONS

FOR THE REVIEW OF THE

DEVELOPMENT LOAN COMMITTEE

690-035

MALAWI - Road, Phase I, (Amendment)

AID-DLC/P-1084/2

UNCLASSIFIED

AFR/DF

JUL 1 1974

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

A.I.D. Loan No.: 690-H-002 & 690-W-007
Cap. Asst. Paper No. AID/DLC/P-1034/2
Project No.: 690-22-312-035

CAPITAL ASSISTANCE LOAN AMENDMENT AUTHORIZATION

Provided under: FAA Section 106

Malawi Roads Phase I

Pursuant to the authority vested in the Assistant Administrator for Africa of the Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize an amendment to increase the above-captioned loan to the Government of Malawi ("Borrower") by an amount not to exceed TWO MILLION Dollars (\$2,000,000) to provide additional funds to assist in financing a portion of the foreign exchange and local currency costs of final engineering, construction supervision, and road construction of the Chikwawa-Bangula Road. This loan amendment shall be subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment.

Borrower shall repay to A.I.D. the amount of the increase in the loan within forty (40) years from the date of the first disbursement thereof, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. interest on the disbursed balance of the amount of the increase in the loan, and any interest accrued thereon, at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Currency of Repayment.

Provision shall be made for repayment of the loan and payment of the interest in United States dollars.

3. Other Terms and Conditions.

- (a) Equipment, materials and services financed under this increase in the loan shall be procured from Malawi and from countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed for such equipment, materials and services.
- (b) The loan amendment shall be subject to such other terms and conditions as A.I.D. may deem advisable.

R. H. ...

Assistant Administrator for Africa

June 28, 1974

Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-1084/2

June 27, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: MALAWI - Road, Phase I, Amendment

Attached for your review are recommendations for authorization of an amendment to the loan to the Government of the Republic of Malawi in an amount not to exceed \$2,000,000 (Two Million Dollars) to provide additional funds to assist in financing a portion of the foreign exchange and local currency costs of final engineering, construction supervision, and road construction of the Chikwawa-Bangula Road.

We are not planning to have a formal Development Loan Staff Committee meeting on this loan amendment which is less than \$5.0 million. Please note your concurrence or objection is due by 2:00 p.m. Friday, June 28, 1974.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I - III

MALAWI ROADS PHASE I LOAN AMENDMENT

SUMMARY AND RECOMMENDATIONS

1. Borrower: Government of the Republic of Malawi (GOM)
2. Loan Amendment Amount: \$2,000,000
3. Terms:
 - A. Maturity: 40 years including a 10-year grace period
 - B. Interest: 2 percent per annum during the grace period,
3 percent per annum thereafter
 - C. Repayment: Interest and principal repayable in U.S. dollars
4. Financial Plan

A.I.D. Loan 690-H-002	\$ 7,737,800* -	
Proposed A.I.D. Loan Amendment	2,000,000 -	50/50 Share
Original GOM Contribution	1,202,200 -	
Increased GOM Contribution**	<u>2,489,000 -</u>	
Total	\$13,429,000	
5. Project Description: The project consists of final engineering, construction supervision and construction of the Chikwawa-Bangula Road. The construction includes upgrading the existing earth road to a bitumen surface road, realignment of three road sections reducing the road length from 59 miles to 52 miles, and construction of several bridges.
6. Purpose of the Loan Amendment: To provide a portion of the funds necessary to carry out the Chikwawa-Bangula Road construction project based on the bid prices for such construction.
7. Background: In October 1972 A.I.D. financed a feasibility study of the Chikwawa-Bangula Road to determine if the road should be upgraded to bituminous road. A.I.D.'s interest in funding this study

*\$662,200 for design of Lilongwi-Mchinji Road
**Includes estimated contingencies

stemmed from the extensive Shire Valley Agricultural Schemes projected to result in vastly increased agricultural production in the Valley and the consequent indicated need to upgrade the subject road, the backbone of the Valley's transport network. The study's findings supported the upgrading. Subsequently the GOM requested A.I.D. financial support for such a project and A.I.D. authorized Loan 690-H-002 which it was estimated would finance about 87% of the cost of such an undertaking. Subsequent rapidly inflating construction costs have resulted in an approximate 43% cost increase net of contingencies over the A.I.D. May 1973 estimate (see Sections I, III and V of this paper). The GOM has now requested that A.I.D. consider financing up to \$2,000,000 of this increase.

8. Export-Import Bank Clearance: Clearance for project received May 7, 1973. The proposed loan amendment is deemed to come within this clearance.
9. Country Team Views: Country Team strongly endorses the project.
10. Statutory Criteria: Satisfied (see Annex I).
11. Recommendations: Authorization of a loan amendment not to exceed \$2,000,000 to provide a portion of the funds necessary to undertake the Chikwawa-Bangula Road construction project.

CAPITAL ASSISTANCE COMMITTEE

	<u>AID/W</u>	<u>REDSO</u>
Loan Officer:	G. Thompson -	P. Guedet -
Engineer :	P. Stearns -	R. Fedel -
Lawyer :	H. Johnson -	W. Jones -
Desk Officer:	F. Scordato -	

I Introduction

A. Description and Background

The Shire Valley development scheme discussed in detail in the Malawi Roads Phase I Capital Assistance Paper of May 1973 (AID/DLC P-1084) includes some \$18.1 million of agricultural projects financed jointly by the IDA and the Government of Malawi. AID, IBRD and GOM officials held several official discussions prior to early 1973 about the proposed IDA/GOM agricultural projects, and in more general terms the need for a reliable road transport backbone for the Shire Valley.

In 1973 AID, in close collaboration with the IBRD and the GOM, financed a feasibility study of the Chikwawa-Bangula Road. This road, now unpaved and subject to serious maintenance problems during the rainy season primarily because of poor drainage, and subject to severe dust and corrugation problems during the dry season, is the Shire Valley's main access and egress link, its backbone. The study revealed the feasibility of upgrading the road to paved standards. On the basis of the study, the large agricultural investments in the Shire Valley and AID's own determination that its paving was technically and economically feasible, AID authorized the \$8,300,000 Malawi Roads Phase I loan in May 1973 (AID Loan 690-H-002).

Slightly over \$7.7 million of this loan was slated for final engineering construction and engineering supervision of the Chikwawa-Bangula Road; the remainder was slated for final design of another high priority road project in Malawi, the Lilongwe-Mchinji Road.

The original May 1973 CAP (Malawi Roads Phase I, AID DLC/P-1084) estimated the Chikwawa-Bangula project would cost \$8,940,000; the GOM was to contribute local currency (LC) financing of \$1,202,200 for the project; the remaining \$7,737,800 was to be financed by the AID loan proposed in the CAP. The loan was authorized on May 31, 1973 and the AID/GOM Loan Agreement was signed on June 21, 1973.

The U.S. engineering firm of Daniel, Mann, Johnson and Mendenhall (DMJM) carried out the detailed engineering design under the Phase I 690-H-002 AID loan. They submitted revised cost estimates of the road construction to AID in late January 1974 which were substantially above the preliminary cost estimates used in the May 1973 Phase I CAP. Even the DMJM revised estimates were substantially below the bid submitted by the low-bidding firm, Nello Teer, Inc.

We believe there are several factors which mitigate, to a large extent, the DMJM underestimates of the construction costs of the highway. The difference in the two DMJM estimates reflect price increases but we believe they do not fully consider the inflationary trend. The following points up the history of the rising cost estimates of this project:

Cost Estimates: Construction of Chikwawa-Bangula Road

1. January 1973 estimate (DMJM)	\$ 7,100,000
2. May 1973 estimate (AID)	7,815,000
3. January 1974 guess (AID) increase over original estimate	2,000,000 to 3,000,000
4. February 1974 estimate (DMJM)	8,254,000
5. Nello Teer low bid June 1974	11,186,000
6. June 1974 estimate (AID)	12,304,000

One can see that the Teer bid is 57% over the original DMJM estimate. The Teer bid is also 43% over the AID May 1973 estimate and even exceeded the February 1974 DMJM estimate by 36%. (Since 3 months has elapsed, 12% increase would be considered reasonable based on the current price index).

AID, in reaction to the embargo-caused shortages and general price inflation, made a guess this January that the bid price would be \$2 million to \$3 million above DMJM's first estimate. As can be seen, the bid price is actually \$4,086,000 higher.

AID feels entirely justified in suggesting the construction costs of the project may reach \$12,304,000 or higher (see Table IV section V), even given the possibility that negotiations with Nello Teer may result in a contract price reduction of about \$400,000-\$1,000,000, given the fact that the road passes over relatively flat terrain and through fairly good soils.

AID appears to have a better collective memory than the private U.S. engineering firms on the relative costs of doing business in Africa vis the U.S. AID believes the estimate made by DMJM does not completely consider uncertainties of supplies, lack of extensive competition, currency fluctuations, and escalating foreign wage and inflation rates. Even though AID estimates were higher than DMJM's the bid price was above AID's estimates.

It should be pointed out that there has been substantial price inflation on U.S. domestic highway projects in the past 18 months. The June 20, 1974 issue of the Engineering News Record reports that the Federal Highway Administration noted a 36% year-to-year rise in its bid price index between March 1973 and March 1974. The January to March 1974 increase alone was 11.7%. Recent 10% and higher wage settlements and increasing materials costs indicate that the March to June 1974 quarter index will probably show another substantial increase.

When one adds in the uncertainties of working in a foreign country as well as the general indications that construction costs are rising in Africa at a somewhat similar rate as those in the U.S., the Teer bid appears to be, on an overall basis, reasonable although there are still certain bid line items which may either be negotiated downward or require further justification by Teer before AID can agree to award of contract to Teer. These items total approximately \$1.5 million in costs which require additional justification.

The other bidder, Reynolds Construction Company, bid \$14,137,000. Their bid has been reviewed and appears way out of line, probably because of their lack of experience in East Africa.

It is thus very important for the GOM to be fully aware that it may in fact have to meet the costs shown in Table IV in Section III of this CAP, the worst-case estimate. This has been done through recent AID/W and REDSO cables.

In any case, the Teer bid has been reviewed by DMJM and AID engineers and is considered responsive and reasonable after the various factors of uncertainty and general cost increases noted above are taken into account and given the special situation of working in Malawi, a land-locked country. The GOM is now considering awarding the contract to Teer; from preliminary indications we expect its decision to be positive. AID is ready to agree to the award once the certain Teer bid line items are clarified (See Section III).

B. AID Development Objectives

Malawi, one of the world's least-developed countries, is making great strides in marshaling its resources towards rational and balanced economic development. Fixed investment accelerated from 8.7% of GDP in 1964 to 17.9% in 1970. Malawi plans to direct its scarce capital resources towards agricultural and rural integration projects such as the Shire Valley agricultural/transport scheme described at the outset of this paper and in more detail in AID CAP AID/DLC P-1084 merit donor support.

Also, the USG wishes to continue its support of rational economic development of the minority-ruled states of the Southern Africa region to allow them the choices and independence a stronger economy brings about.

C. The Borrower

The borrower will be the Government of Malawi. The project will be executed by the Ministry of Works and Supplies, Roads Department.

II. Economic Analysis

The original CAP (AID/DLC P-1084) determined the project's internal rate of return to be between 14.7% and 18.2%. This return was slightly lower than DMJM's earlier estimates which ranged from 17.6% up to 19.8%. The higher figures for both the AID and the DMJM estimates include the net benefits of the increased agricultural production the road would encourage.

As project costs have increased, so have the costs of users of road transportation. For instance, the price of gasoline in Malawi is now 76% higher than it was in January 1973. The price of an average truck in Malawi has risen somewhere between 20% and 30% in the same period. Other costs such as wages, tires, truck and auto repairs have also shown considerable increases. DMJM estimates are in the 25% to 35% range for most user-cost components other than gasoline.

AID undertook an estimated revised internal rate of return of the project based on the new cost estimates and road user-cost increases of 20% (which is somewhat below what it may actually be based on the above). High foreign sugar prices may stimulate large jumps in sugar production in the Shire Valley. This would increase traffic over the road and consequently improve its economic return. We did not feel we had the information to evaluate this possibility properly.

Using our conservative revaluation of road user benefits and the upward revised cost estimates the internal rate of return shows a considerable drop, to approximately 9.8% to 12.6%. This indicates the project, if it did not have other unquantifiable social and economic benefits, would still be marginally justified based on a 10% cost of capital in Malawi.

The laudable desire of the GOM to link the somewhat backward southern Malawi Shire Valley region into the stronger central region's economy is not quantified in the analysis. This road, along with the associated agricultural investment schemes, should have two positive spread effects, the linkage and easier commercial market access provided by the road combined with the small-holder farmer benefits directly related to the agricultural schemes.

The Bureau has discussed ways of recognizing such benefits in a quantitative way. We would encourage the investments in the Valley since they will directly and indirectly reach people outside or only marginally inside the money economy in Malawi. The fact that the project's return is now at the margin does not reflect the priority Malawi assigns in helping the peoples of the Valley area.

For our own project accounting we feel it is justified to assign an adjustment factor of 1.5 to the project's internal rate of return, thus raising it to about 15% or slightly higher. If it had been a road mainly serving the European population in Malawi we would probably consider an adjustment factor of 1 or less as justified. While the 1.5 factor in no way indicates Malawi's relative development priorities or choices, we feel we have to begin using such a factor to encourage projects which, on a broad social accounting basis, may be more beneficial to a country than others showing a higher return on a more narrow quantifiable basis. This policy determination by the Africa Bureau should not be construed as an attempt to direct Malawi's affairs; it is one way we are able to respond to economic determinations which can skew project approval decisions away from the most need in an economy.

Elsewhere in this CAP (see last paragraph of Section III and Section IV) the possibility of undertaking only minor modifications to the first 10 miles of the 52-mile road, which runs northward from Bangula, is discussed. This section carries the lightest traffic and is in fairly good shape. We do not feel the economics of the project would change much if this alternative were taken. The cost swings plus the light traffic indicate a cost/benefit trade-off, i.e., nothing lost nothing gained. Nevertheless, we hope there will be funds to complete this section as there is some traffic using the Bangula railhead.

III Technical Analysis

A. Bid Analysis

Section I discussed the general inflationary and uncertainty situations which are causing large bid price increases here and abroad, as well as more specific uncertainties facing Southern African countries. DMJM, keeping these and similar cost increasing factors in mind (for example, the price of steel reinforcing bar rose 55% in the U.S. last year), is in the process of a comprehensive analysis of the contractor's bids.

As mentioned earlier, two U.S. contracting firms submitted bids. The bids were opened on June 15, 1974. Nello Teer's bid of \$11,186,000 was about \$3,000,000 lower than the Reynold Construction Company bid. Two other interested contractors decided not to bid, evidently because of other commitments.

Some line items categories are way out of line with DMJM's revised February 1974 cost estimate, i.e., furnished housing and vehicles

are 50% above; clearing and grubbing is 46% above; structures are 73% above; culvert is 40% above; and asphalt paving is 43% above. On the other hand, Earthwork a major item is about equal (actually 2.4% less) than DMJM's estimate.

It is on these specific line items in the bid that DMJM will require clarification from Teer before it can recommend to the GOM that it award the contract to Teer. Nevertheless, DMJM advises us that it expects success in clarification of these line items, and perhaps success in certain bid price reductions on these line of items.

Needing clarification are Teer's dollar bid price for subbase, its local cost (kwacha) bid price for structures and culverts, its dollar bid price for furnishing asphalt and its dollar and local cost bid prices for contractor housing, vehicles and miscellaneous supplies.

Teer may be able to show to the satisfaction of DMJM, AID and the GOM that its bid prices adequately reflect the reasonable costs it may meet, or it may be willing to accept a lower negotiated price if Teer would agree to incorporation of an escalation clause for all steel products, that Teer can be shown that his price for subbase is unreasonably high given the contract guarantee that indicated sources meet specifications and other persuasion. Also as mentioned in Section V, Teer may be able to save something on POL costs, although this cannot be assured.

At any rate, the 10% contingency (see Table II Section V), coupled with the possibility of a lower negotiated bid price, provide reasonable assurance that the worst-case estimate financial plan (Table IV Section V) is probably the maximum financial liability the GOM would

have to bear, disregarding any potential claims.

B. Technical Soundness

AID engineers have closely followed the DMJM bid review process and are in agreement with the DMJM bid analysis. The AID technical analysis of the DMJM final design work has been completed and AID considers the design to be technically sound and meeting the requirements of Section 611(a) of the Foreign Assistance Act of 1961 as amended. Furthermore, the technical analysis of the bid has been found to be acceptable and sufficient for AID approval of an award of the contract to Nello Teer, Inc. once the line item clarifications mentioned under Section III.A above are clarified.

The AID analysis of the engineering design revealed that there are certifications by DMJM that sufficient local base and subbase materials of high quality exist as indicated in the tender documents. This reduces uncertainties as to the availability of suitable local materials. The assured availability of local materials items is an extremely important factor in assuring completion of the work at a reasonable cost.

IV Implementation Plan

The revised project implementation plan is estimated as follows. The final schedule as called for in the contract is not expected to vary significantly.

Award construction contract	July/August 1974
Contractor mobilization	August/September 1974
Start construction	October 1974
Complete construction	June 1976

V FINANCIAL ANALYSIS:

The revised financial requirements of the Chikwawa-Bangula Road project are outlined in Table II below. Table I shows the original requirements for comparison purposes. AID's proposed \$2,000,000 loan amendment will provide 59% of the additional basic project cost increase of \$3,371,000 under the revised financial requirements; the GOM will provide 41% or \$1,371,000. However, since there are certain shifts in the foreign exchange (FX) and local currency (LC) categories in the revised project financial requirements, and since the engineering design costs of the Lilongwe-Mchinji road are eliminated from the tables to provide a more easily understood determination of the implications of the increased costs of the projects, the reader will note that the GOM will have to provide an estimated minimum of \$1,659,000 of local currency financing (see Table III) or, on a worst-case basis, up to \$343,200 of FX and \$2,489,000 of LC in addition to the \$1,202,200 of LC it has already agreed to provide.

The proposed \$2,000,000 AID loan agreement amendment will not be signed until AID has firm indications from the GOM that it will in fact provide the additional funds necessary to complete the project or negotiate with Nello Teer, the low-bidding contractor who will be awarded the contract, a major downward revision in the scope of the project which we estimate could save up to \$1,000,000. (See Technical Analysis, Economic Analysis and the last paragraph of this section for details on this possible work scope revision.)

TABLE I

MALAWI ROADS PHASE I
CHIKWAWA - BANGULA ROAD

	<u>ORIGINAL (MAY 1973) FINANCIAL REQUIREMENTS</u>		
	<u>FX</u>	<u>LC</u>	<u>TOTAL</u>
Final Engineering Design	\$ 405,000	\$ 45,000	\$ 450,000
Construction Supervision	540,000	135,000	675,000
Construction	3,787,800	1,957,200	5,745,000
13% Quantity Contingency *	490,000	280,000	770,000
20% Price Contingency *	800,000	500,000	1,300,000
TOTAL	\$ 6,022,800	\$ 2,917,200	\$ 8,940,000

* Division between local costs (LC) and foreign exchange costs (FX) estimated for the two contingency items.

TABLE II

MALAWI ROADS PHASE I

CHIKWAWA - BANGULA ROAD

REVISED (JUNE 1974) FINANCIAL REQUIREMENTS

	<u>FX</u>	<u>LC</u>	<u>TOTAL COSTS</u>
Final Engineering Design	\$ 405,000	\$ 45,000	\$ 450,000
Construction Supervision	540,000	135,000	675,000
Construction *	8,306,000	2,880,000	11,186,000
4% Price Escalation Contingency **	332,000	115,000	447,000
6% Quantity Contingency ***	<u>498,000</u>	<u>173,000</u>	<u>671,000</u>
TOTAL (With Contingencies)	\$10,081,000	\$3,348,000	\$13,429,000
TOTAL (Without Contingencies)	\$ 9,251,000	\$3,060,000	\$12,311,000

* We feel there is a further implied contingency of 3½% of the contract cost (about \$400,000) since there are strong indications that small savings through minor modifications in the design of the road through negotiations with the low bidder, Nello Teer of Durham, North Carolina, can be achieved. Also we have been informed by DMJM that it believes the low bidder can obtain POL products, including bitumen at a probable savings of some \$300,000 over its estimate in the bid, if it negotiates a long term supply contract fairly soon.

** Since escalation clauses are incorporated only for POL, cement, and wage increases over the GOM's minimum wages, we feel the price contingency is sufficient to cover any further price escalations.

*** The road will cross certain low lying areas with inadequate drainage. This item allows mainly for some quantity increases in drainage structures and earthwork.

Note: AID/W ENGR/OPNS considers a 5% overall contract contingency sufficient to cover all price and quantity increases, primarily because of the lack of an escalation clause on steel products and high quality engineering work which went into the final road design.

TABLE III

Malawi Roads - Phase I

Chikwawa-Bangula Road

Revised Financial Plan (June 1974)

	<u>FX</u>	<u>LC</u>	<u>Total Cost</u>
AID Original Loan:	\$ 7,251,000	\$ 486,800	\$ 7,737,800
AID Proposed Loan: Amendment:	2,000,000		2,000,000
(SUB TOTAL)	(9,251,000)	(486,800)	(9,737,800)
GOM Original Contribution:	--	1,202,200	1,202,200
Proposed GOM Additional Contribution:	--	1,659,000	1,659,000
(SUB TOTAL)	-	2,861,200	2,861,200
TOTALS	\$ 9,251,000	\$ 3,060,000	\$ 12,311,000

The original financial plan (May 1973; see pg 27 AID DLC/P-1084) estimated that AID would provide \$6,022,800 in FX and \$1,715,000 in LC, a total of \$7,737,800 for this project. To adjust the FX and LC components of the low bidders bid we have now provided that AID will fund the entire FX components of final design, engineering supervision and construction costs thus AID's LC contribution has been revised downwards and shifted into the FX category. The reader can note from Table II that AID estimates the possibility of some \$830,000 in FX contingencies. If some or all of these actually occur, the revised estimated AID LC contribution of \$486,000 can be scaled down accordingly. Further, if negotiations with Nello Teer prove successful in lowering POL costs by \$300,000 and other costs by \$100,000, the FX component of these savings (such savings would be primarily in the FX category) would allow AID to shift the equivalent of the FX component of such savings to the LC category. We thus estimate that the GOM will have little or no potential FX liability, unless there are substantial claims accruing from the work in question.

On the other hand, since the proposed AID financing does not provide for the financing of project overruns, we have already advised the GOM that it may be responsible for providing up to \$343,200 in FX and up to an

additional \$486,800 in LC if all the estimated contingencies are actually required and negotiations in the contractor's bid result in no lowering of FX or LC bid prices.

Thus, assuming the worst-case situation, the GOM/AID financial contributions to the project could look like this:

Table IV

Chikwawa-Bangula Road

Revised Financial Plan (June 1974)

Worst-Case Situation

	<u>FX</u>	<u>LC</u>	<u>Total Cost</u>
AID Original Loan	\$ 7,737,800		\$ 7,737,800
AID Loan Amendment			
Firm	1,513,200		1,513,200
Contingency	<u>486,800</u>		<u>486,800</u>
(Subtotal)	\$ 9,737,800	\$ -	\$ 9,737,800
GOM Original Contribution	-	1,202,200	1,202,200
GOM Additional Contribution			
Firm	-	1,659,000	1,659,000
Contingency	<u>343,200</u>	<u>486,800</u>	<u>830,000</u>
(Subtotal)	\$ (343,200)	(\$3,348,000)	(\$ 3,691,200)
Total	\$10,081,000	\$3,348,000	\$13,429,000

The reader might note some apparent discrepancies between Tables III and IV. In Table IV because total project costs including contingency costs reach \$13,429,000 including FX of \$10,081,000, it is assumed that the original AID loan has to be used entirely for FX as does all the proposed AID loan amendment. The GOM thus has to pick up a potential FX liability of \$343,200. This table is illustrative, but does indicate the potential financing the GOM may be required to provide to complete the project. Under this assumption, the GOM might have to finance an additional \$2,689,000.

As an alternative, AID is proposing to suggest to the GOM that it consider the first 10 miles of the highway running north from Bangula, as it is in very good shape compared to the remaining 42 miles to the north and would require only minor modifications to provide good drainage characteristics. This modification would lower total project costs by an

estimated \$1,000,000 including approximately \$600,000 in FX costs. Such a modification would assure sufficient FX from the AID funds to cover all FX project costs and would lower the potential additional GOM contribution on a worst-case assumption basis from \$2,489,000 to \$1,489,000. We estimate that the not paying this section of the road would lower the projected project internal rate of return somewhat, but would still leave it at an acceptable level. (See Economic Analysis section.)

Economic Effects of the Dollar Loan

These remain as shown on page 29 of the original loan paper (AID C/P-1084).

I Impact on the Environment

The proposed project's environmental impact was reviewed in detail Annex XVII of the original loan paper (AID DLC/P-1084). Safeguards ring construction are built into the design and will substantially eliminate negative environmental problems. The road, once paved, will dust-free, a positive environmental factor.

CHECKLIST OF STATUTORY CRITERIA

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs
Appropriation Act, 1974.

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105;
§ 106; § 107. Is loan being made

a. for agriculture, rural development
or nutrition; No

b. for population planning or health; No

c. for education, public administration,
or human resources development; No

d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;

Yes

e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

No

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. FAA § 201 (b) (5), (7) & (8); § 208

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

Satisfied. Malawi has given appropriate emphasis to increasing food production. Road construction and improving road network will directly contribute. Malawi recently signed 2 loans with IBRD/IDA to develop agricultural schemes.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

Satisfied. Malawi has signed an Investment Guarantee Agreement with the U.S. It has established the Malawi Development Corporation which assists and encourages investment.

(3) Increasing the public's role in the developmental process.

Satisfied. GOM has established a corps of young pioneer groups now actively participating in Malawi's development. Developmental programs have been intended to benefit the general population.

- (4) (a) Allocating available budgetary resources to development.
- Satisfied. More than 95% of the country's budget is spent on recurrent and development expenditures. Almost all capital expenditures and a large percentage of development expenditures are used in development related programs, project and activities. See Malawi 1973-1980 plan.
- (b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11).
- Malawi does not divert its development resources for unnecessary military expenditures (See item 19 page 8 of this list) and does not intervene in the affairs of other nations.
- (5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.
- Satisfied: Malawi has a workable tax system. Malawi has no major land tenure problems and new lands are developed outside tribal holdings.
- (6) Willing to contribute funds to the project or program.
- Satisfied: the GOM will contribute a substantial sum to this project, 28% of the project cost.
- (7) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.
- Satisfied: The GOM has assumed responsibility for local costs of external assistance projects and its 1971-80 plan is considered a well planned response to the country's needs.
- B. Are above factors taken into account in the furnishing of the subject assistance?
- Yes.

Treatment of U.S. Citizens and Firms.

3. FAA § 620 (c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?
- Satisfied. No such indebtedness exists.
4. FAA § 620 (e) (1). If assistance is to a government, has it (including 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 discharge its obligations toward such citizens or entities?
- Malawi has not taken such actions.
5. FAA § 620 (o); Fishermen's Protective Act. § 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,
- Not applicable: Country is land locked.
- a. has any deduction required by Fishermen's Protective Act been made?
- Not applicable.

b. has complete denial of assistance been considered by A.I.D. Administrator?

Not applicable.

Relations with U.S. Government and Other Nations

6. FAA § 620 (a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?

Malawi furnishes no assistance whatsoever to Cuba, and has no ships or aircraft on international routes carrying the Malawian flag.

7. FAA § 620 (b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

Yes.

8. FAA § 620 (d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?

Not applicable.

9. FAA § 620 (f). Is recipient country a Communist country?

No

10. FAA § 620 (i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No to both (a) and (b).
11. FAA § 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? There has been no such action in Malawi.
12. FAA § 620 (l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason? Not Applicable.
13. FAA § 620 (n). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam? No.
14. FAA § 620 (q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country? Malawi is not in default on any FAA Loan.

15. FAA § 620 (t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
- Malawi and the U.S. have maintained diplomatic relations since Malawi's independence.
16. FAA § 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?
- Malawi is not in default on its U.N. obligations.
17. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
- No--
18. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?
- (a) and (b) Not Applicable.

Military Expenditures

19. FAA s 620 (s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

Answers, as follows:

- (A) About 4.5 percent
- (B) Negligible
- (C) Malawi has not purchased sophisticated weapons systems.

Conditions of The Loan

General Soundness

20. FAA s 201 (d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.

The lending terms of the loan are reasonable. The loan's interest rate does not exceed Malawi's legal rate.

21. FAA s 201 (b) (2); s 201 (e) Information and conclusion on on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

Satisfied: The GOM has applied for the funds and will use them for the project described in this paper.

22. FAA s 201 (b) (2). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

The GOM has the capacity to repay the loan. See CAP. AID DLC/P-2044 and AID-DLC/P 1974. Section VI.

23. FAA s 201 (b) (1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- The proposed loan amendment funds will apply to the earlier AID financed loan project Malawi Roads Phase I, and it would be extremely difficult for another funding source, private or public to participate.
24. FAA s 611 (a) (1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?
- Yes. Plans and cost estimates have been completed.
25. FAA s 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of loan?
- Not applicable. No legislative action is applicable.
26. FAA s 611 (e). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
- Yes: See Annex II of this paper.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA s 207; s 113
Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs;
- (a) No direct application through this loan, however integration of economy will be encouraged.
(b) The activity will encourage agricultural production.
(c) The activity will help improve the skills of several score Malawians employed during construction.
(d) No impact.

(e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (f) integrating women into the recipient country's national economy.

(e) The activity being financed, road construction and improvement, will be beneficial to Malawi's transportation and communication network.

28. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
- No-The road is entirely within Malawi.
29. FAA § 201 (b) (4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
- Sec. on economies in CAP A.I.D. DLC/P 1084 and Section II of this paper.
30. FAA § 201 (b) (9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
- See economic sections of CAP AID/DLC/P 1084 and the body of this paper.
31. FAA § 209;
Information and conclusion whether assistance will encourage regional development programs.
- See CAP AID DLC/P 1084 and the body of this paper. To the extent this loan strengthens Malawi's economy it will indirectly encourage regional development and trade.

32. FAA s 111. Discuss the extent to which the loan will strengthen the participation of urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.
- The activity being financed will have a direct and indirect beneficial effect on the rural poor through lower transport costs as well as through its encouragement of the agricultural investment schemes the GOM will undertake in conjunction with the road project.
33. FAA s 201 (f). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development.
- Satisfied: See original CAP AID/DLC-P 1084 and the body of this paper.
34. FAA s 281 (a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
- This loan should help these objectives in indirect ways, through improved access offered the people.
35. FAA s 281 (b). Describe extent to which program 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.
- The GOM's 1973-1980 plan includes this particular activity and the ancillary supporting projects. This plan is centered around promoting these activities, such as this particular one, which will improve the lives and incomes of people in the rural sector, thus helping the rural population participate in the development process.

36. FAA § 201 (b) (3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

The activity meets this criteria.

37. FAA § 601 (a). Information and conclusions whether loan 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.

- (a) The loan will encourage the growth of Malawi's agricultural exports. See AID DLC/P-1084 and body of this paper.
- (b) to ascertain indeterminate extent
- (c) rural crops in this area will have improved access to Markets.
- (d) Affect unknown
- (e) commerce will move more easily in the project area
- (f) affect unknown

38. FAA § 619. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

Malawi has been independent for 10 years. Nevertheless much of its external assistance is from Multilateral organizations and U.S. bilateral assistance is being made in concert with larger multilateral, bilateral development schemes. See AID DLC/P-1084.

Loan's Effect on U.S. and A.I.D. Program

39. FAA § 201 (b) (6). Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities

The proceeds of this loan will be used to purchase country code 941 goods and services. AID considers that most of these goods and services will most likely be purchased from U.S. contract contractors and engineering firms. These U.S. purchases along with reflows of the loan and other U.S. goods purchases by a stronger Malawian economy as a result of this activity will have a positive effect on the U.S. B.O.P.

and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

40. FAA § 202 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

Loan proceeds will pay for goods and services provided by private enterprise.

41. FAA § 601 (f). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Loan proceeds will be used to pay for services of a U.S. private contractor and a U.S. engineering firm. Possibly, the improved access provided by the road will encourage U.S. private enterprise.

42. FAA § 601 (d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

Yes:

43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and service financed by the loan.

The U.S. firm which will probably win the construction contract is not considered a small business firm, nor is the Engineering firm. However, these firms from time to time sub-contract with U.S. small business.

44. FAA § 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

45. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

No. Technical Assistance to be financed from this loan.

Loan's Compliance with Specific Requirements

46. FAA § 110 (a); § 208 (e). In what manner has or will the recipient country provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made?

The GOM will provide approximately 33% of the estimated increase in the cost of the activity this loan amendment is to be provided for.

47. FAA § 112. Will loan be used to finance police training or related program in recipient country? No
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No
49. FAA § 201 (b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year? Yes
50. FAA § 201 (d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes
51. FAA § 201 (f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise? Appropriate provisions made:
See AID DEC/P-1084
52. FAA § 604 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? Yes

53. FAA § 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? Not applicable
54. FAA § 604 (d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan? Malawi does not so discriminate
55. FAA § 604 (e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? Not applicable
56. FAA § 604 (f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable? Not applicable
57. FAA § 608 (a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items. Not practical in road construction projects of this type.

58. FAA s 611 (b); App. s 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962? Although this activity is not an activity as defined under this section of the FAA act appropriate benefit-cost computations have been made and show the activities economic feasibility. See annex III and AID DLC/P 1084.
59. FAA s 611 (c). If contracts for construction are to be financed what provision will be made that they be let on a competitive basis to maximum extent practicable? This requirement has been complied with under the original loan. See AID-DLC/P 1084.
60. FAA s 612 (b); s 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 United States are utilized to meet the cost of contractual and other services The GOM will provide up to \$2,040,000 of local currency contributions to the project.
61. App. s 113. Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury? No
62. FAA s 612 (d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? Malawi is not an "excess foreign currency" country.

63. FAA s 620 (g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? The loan amendment will restrict the use of the funds to Project purposes.
64. FAA s 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? No.
65. FAA s 636 (1). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States or any guaranty of such transaction? No.
66. App. s 103. Will any loan funds be used to pay pensions, etc., for military personnel? No.
67. App. s 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? Provision has been made.
68. App. s 107. Will any loan funds be used to pay UN assessments? No.

69. App. s 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7). AID Regulation 7 provisions will be met.
70. App. s 110. Will any of loan funds be used to carry out provisions of FAA s s 209 (d)? No
71. App s. 114. Describe how the Committee on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan. These committees were given formal notification on June 24, 1974.
72. App. s 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress? No
73. MVA s 901. b; FAA s 640 C.
- (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. (a) Satisfied: The loan amendment agreement will require such compliance.
- (b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates? No



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SURJ: CHIKWANA-BANGULA ROAD 611 (E) DETERMINATION

REF: STATE 134284

NAIROBI FOR REDSO

1. PER REQUEST REFTEL SUBJECT CERTIFICATION SIGNED BY RUC ON JUNE 24, 1974, READS AS FOLLOWS: QUOTE I, CHARLES D. WARD, THE PRINCIPAL OFFICER OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT IN THE SOUTHERN AFRICA REGION (OSARACT), HAVING TAKEN INTO ACCOUNT, AMONG OTHER THINGS, THE MAINTENANCE AND UTILIZATION OF PROJECTS IN MALAWI PREVIOUSLY FINANCED OR ASSISTED BY THE UNITED STATES (SPECIFICALLY THE LAKE SHORE ROAD), THE PERFORMANCE OF THE MINISTRY OF WORKS AND SUPPLIES WHICH HAS RESPONSIBILITY FOR MAINTAINING ROADS THROUGHOUT MALAWI, AND THE PREVIOUS ASSISTANCE FROM OTHER DONORS SPECIFICALLY DIRECTED TO ROAD CONSTRUCTION AND MAINTENANCE, DO HEREBY CERTIFY THAT IN MY JUDGMENT THE GOVERNMENT OF MALAWI HAS BOTH THE FINANCIAL CAPABILITY AND THE HUMAN RESOURCE CAPABILITY TO EFFECTIVELY MAINTAIN AND UTILIZE THE CAPITAL ASSISTANCE PROJECT, THE CHIKWANA-BANGULA ROAD, FOR WHICH ADDITIONAL FUNDING IS PROVIDED UNDER THIS SUPPLEMENTARY LOAN. END QUOTE.



Department of State

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2. POUCHING COPIES OF SIGNED DOCUMENT TO AID/W AND
REDSO/EA.
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Annex III
Page 1 of 2 pages
AID-DLC/P-1084/2

A.I.D. Loan No. :
Capital Asst. Paper No. AID/DLC/P-
Project No. :

CAPITAL ASSISTANCE LOAN AUTHORIZATION AMENDMENT

Provided under: FAA Section 106:

Malawi Roads Phase I:

Pursuant to the authority vested in the Administrator of the Agency for International Development (hereinafter called "A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize an amendment to increase the above captioned loan to the Government of Malawi ("Borrower") by an amount not to exceed Two Million Dollars (\$2,000,000) to provide additional funds to assist in financing a portion of the foreign exchange and local currency costs of final engineering, construction, supervision, and road construction of the Chikwawa-Bangula Road. This loan amendment to be subject to the following terms and conditions:

1. Interest Rate and Terms of Repayment. Borrower shall repay to A.I.D. the amount of the increase in the loan within forty (40) years from the date of the first disbursement thereof, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. interest on the disbursed balance of the amount of the increase in the loan, and any interest accrued thereon, at the rate of two percent (2%) per annum during the grace period, and three percent (3%) per annum thereafter.

2. Currency of Repayment. Provision shall be made for repayment of the loan and payment of the interest in United States dollars.
3. Other Terms and Conditions.
 - (a) Equipment, materials and services financed under this increase in the loan shall be procured from Malawi and from countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed for such equipment, materials and services.
 - (b) The loan amendment shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Assistant Administrator for Africa

Date