

PD - AAT - 566 45438

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(For Immediate Attention)  
PROJECT DOCUMENT AND MEETING NOTICE TRANSMITTAL

FOR ACTION: EA

Date 05/15/86  
*Agustin Wong*

FROM: PPC/PDPR/SI:WB  
SUBJECT: PAIP

MALAWI

612-0228

Document

Country

Project Number

TRANSPORT SECTOR GRANT

*1/12/86*

Project Title

\$	*****	\$	\$	\$
Amount-AID contrib.	Loan	Grant	Other	
Project (Issues) Meeting: FRI	05/16	10:00AM	3676	
Day	Date	Time	Room No.	
Executive Meeting: THUR	05/22	2:00PM	6320	
Day	Date	Time	Room No.	

Other Type of Meeting:

Day	Date	Time	Room No.
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Comments of PDPR/SI or Additional Information:

- Your division is responsible for assigning a PPC Project Review officer (PRO) for this project. Please review the document and take all necessary actions in accordance with current PPC guidance (See Eriksson to PPC Staff memo "PPCs Review of PIDs, PPs, HQs and PL 480 Proposals", dated August 26, 1982.) Please provide, at the earliest, copies of any PPC staff issues paper/memoranda (with notational comments if any made by the DAAA or AAA/PDPR) prepared on this project, citing the project number and title.
- PPC issue papers should be cleared with the appropriate PB regional coordinator and AAA/PDPR BEFORE the Executive Committee meeting at which time PPC is expected to present its position on a project. As a general rule, bureaus are required to provide PPC with project documents a week in advance before executive committee meetings, and if possible, at least seven calendar days before issues meetings. Exceptions may, however, have to be accommodated. If circumstances warrant, we may request via the AAA/PDPR, that bureaus delay executive meetings or advise them that PPC will respond within two working days after an executive committee meeting.

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- DAAA/PDPR (without attachment)

NOTICE OF MEETING

TO : See Distribution

FROM : AFR/PD/SAP, Wendy Stickel

SUBJECT: Malawi Transport Sector Grant PAIP (612-0228)

ISSUES

WHEN: 5/16/86  
WHERE: Rm. 3676 NS  
TIME: 10:00 pm

DAA/AFR/ESA:ELSaiers\* 6944 NS  
AFR/PD:IHausman (2) 2497 NS  
AFR/PD:AHarding 2744 NS  
AFR/PD/PS:LWilliams 2485 NS  
AFR/DP:JPatterson (3) 3913 NS  
GC/AFR:TBork 6889 NS  
AAA/AFR/PRE:HIMunson\* 6671 NS  
AFR/SA:RCarlson  
AFR/TR:KSherper 2497 NS  
AFR/TR:Divisions (4) 2485 NS

ECPR

WHEN: 5/22/86  
WHERE: Rm. 6320 NS  
TIME: 2:00 pm

PPC/PD:HHandler 3841 NS  
PPC/PDPR/SP:RSheppard (2) 3894 NS  
S&T/PO:GEaton (4) 308C SA-18  
SER/AAM/OS:MDarvin (2) 733 SA-14

Project Committee Members:

AFR/PD/SAP:EMGilbert  
GC/AFR:MAKleinjan  
AAA/AFR/PRE:HMunson\*  
AFR/DP:JWolgin

AFR/SA:RThompson  
AFR/TR/ENG:RAdams\*  
SER/AAM:GFuller

# Department of State

INCOMING  
TELEGRAM *KV*

PAGE 01 LILONGWE 01806 01 OF 00 091015Z 0700 057074 A103010  
ACTION AID-00

LILONGWE 01806 01 OF 00 091015Z 0700 057074 A103010

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ACTION OFFICE AFPO-04  
INFO AAAF-02 AFEA-03 AFCA-03 AFDP-06 FPA-02 AFTR-05 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPDC-01 C-02 CALI-02 CPS-02 CT-01  
PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /052 A4 309  
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INFO LOG-00 AF-00 CIAE-00 EB-00 DODE-00 L-03 /011 W  
-----144543 001016Z /30

P 090947Z MAY 86  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0015  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY NAIROBI PRIORITY

UNCLAS SECTION 01 OF 00 LILONGWE 01806

AIDAC

AID/W FOR AFR/DAF L. SAIBERS; AFR/PO N. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. WOLGIN  
NAIROBI FOR REDSO AND RLA  
NAIROBI FOR SARP

E.O. 12356: N/A  
SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP 012-0220

## 1. EXECUTIVE SUMMARY

THIS TELEGRAM CONTAINS USAID/MALAWI'S PROPOSAL FOR A U.S. DOL 3.5 MILLION TRANSPORT SECTOR GRANT. THE PURPOSE OF THE GRANT IS TO SUPPORT GOV EFFORTS TO UNDERTAKE IMPORTANT POLICY CHANGES WHICH WILL CREATE A TRANSPORT SECTOR ENVIRONMENT CONDUVIVE TO THE ESTABLISHMENT OF A MORE COMPETITIVE MALAWIAN BASED INTERNATIONAL TRUCKING INDUSTRY. THE US DOLS 3.5 MILLION IN FOREIGN EXCHANGE RESOURCES PROVIDED THROUGH THIS GRANT WILL HELP FILL THE CRITICAL EXTERNAL FINANCIAL REVENUE GAP, MUCH OF WHICH IS THE DIRECT RESULT OF INCREASED TRANSPORT COSTS. THE DISBURSEMENT OF THESE GRANT FUNDS WILL BE LINKED TO POLICY ADJUSTMENTS AFFECTING THE GROWTH AND DEVELOPMENT OF A MORE COMPETITIVE AND EFFICIENT PRIVATE SECTOR TRANSPORT INDUSTRY. THE US DOLLAR 3.5 MILLION WILL BE DISBURSED IN TWO TRANCHES OVER A PERIOD OF TWO YEARS. THE LOCAL CURRENCY GENERATED BY THESE DOLLAR RESOURCES WILL BE USED BY THE GOV TO PROVIDE CREDIT, TRAINING AND PUBLIC INFRASTRUCTURE WHICH ARE SUPPORTIVE OF THESE POLICY CHANGES. DOLLAR DISBURSEMENTS HAVE BEEN TRANCHED TO RESPOND TO PROGRESS IN MEETING POLICY PERFORMANCE TARGETS. THE INITIAL TRANCHE OF DOLS 2 MILLION AS A CASH TRANSFER FOR BALANCE OF PAYMENTS ASSISTANCE WILL BE CONDITIONED UPON THREE POLICY CHANGES.

- A. REDUCING DUTIES, LEVIES, SURCHARGES AND OTHER TAXES ON HEAVY DUTY VEHICLES, EQUIPMENT AND SPARE PARTS.
- B. ESTABLISHING A MECHANISM FOR PROVIDING CREDIT TO THE INDUSTRY.
- C. DEVELOPING AN INDUSTRY WIDE TRAINING PROGRAM.

THE SECOND TRANCHE OF DOLS 1.5 MILLION WILL BE CONDITIONED UPON PROGRESS BEING MADE IN THE FOLLOWING AREAS.

- A. EXPANSION IN LENDING TO PRIVATE TRUCKERS.
- B. INCREASED ACCESS TO FOREIGN EXCHANGE (FX).

C. PROGRESS IN NEGOTIATING BILATERAL AND REGIONAL TRANSIT AGREEMENTS.

D. ESTABLISHMENT OF A SOUND ANALYTICAL BASE FOR FUTURE POLICY DECISIONS.

THE LOCAL CURRENCY COUNTERPART FUNDS FROM THE US DOLS 3.5 MILLION WILL BE USED TO REINFORCE THESE POLICY CHANGES. THESE INCLUDE FUNDS FOR CREDIT, TRAINING, AND TRAFFIC SAFETY PROGRAMS.

THIS PAIP IS ORGANIZED AS FOLLOWS:

- PART I MACRO-ECONOMIC CONTEXT
- PART II IMPACT OF TRANSPORTATION ON ECONOMIC RECOVERY
- PART III STRATEGY FOR ADDRESSING TRANSPORT CRISIS
- PART IV PROPOSED GOV POLICY AND PROGRAM FRAMEWORK
- PART V THE PROGRAM GRANT
- PART VI USES OF LOCAL CURRENCY GENERATIONS
- PART VII PROGRAM IMPACT
- PART VIII PROGRAM DESIGN AND IMPLEMENTATION

THE CABLE CONCLUDES WITH ACTIONS REQUESTED OF AID/W IN RESPONSE TO THIS PAIP SUBMISSION. OF PARTICULAR IMPORTANCE IS MISSION REQUEST FOR FIELD AUTHORIZATION OF PAAB.

## 2. MALAWI TRANSPORT SECTOR PROGRAM GRANT PAIP.

### PART I. MACRO-ECONOMIC CONTEXT

A. THE MALAWI ECONOMY CONTINUED IN 1985 ALONG THE PATH OF ECONOMIC RECOVERY WHICH BEGAN IN 1982. REAL GROSS DOMESTIC PRODUCT GREW IN 1985 BY AN ESTIMATED 2.8 PERCENT--DOWN FROM 4.3 PERCENT IN 1984 AND 4.4 PERCENT IN 1983. THE LAST THREE YEARS WERE IN MARKED CONTRAST

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# Department of State

## INCOMING TELEGRAM

PAGE 31 LILONG 01806 02 OF 09 091500Z 0705 097075 A105346  
ACTION AID-00

LILONG 01806 02 OF 09 091500Z 0705 097075 A105346

DEBT HAS SEVERELY LIMITED AND RESTRICTED THE SUPPLY OF PRIVATE SECTOR CREDIT.

ACTION OFFICE AFPO-04

INFO AAF-02 AFEA-03 AFSA-02 AFDP-06 FPA-02 AFTR-05 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPDC-01 C-02 CALI-02 CPS-02 CT-01  
PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /002 AA 300

INFO LOG-00 COPY-01 AF-00 CIAL-00 EB-00 DODE-00 L-03  
/012 V

101460 091514Z /45 30

P 090047Z MAY 86  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0816  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY HARARE PRIORITY

UNCLAS SECTION 02 OF 09 LILONGWE 01806

AIDAC

AID/W FOR AFR/DAI L. SAIBERS; AFR/PO R. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. VOLGIN  
NAIROBI FOR REDSO AND RLA  
HARARE FOR SAMP

E.O. 12333: N/A  
SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (012-0228)

TO THE 1970-81 PERIOD IN WHICH GROSS DOMESTIC PRODUCT PER CAPITA DECLINED MORE THAN 10 PERCENT, CURRENT ACCOUNT AND BUDGET DEFICITS REACHED RECORD LEVELS, AND MALAWI WAS FORCED TO IMPORT ITS BASIC FOOD CROP MAIZE. THE 1970-81 ECONOMIC DOWNTURN AND THE 1985 DECLINE IN THE RATE OF ECONOMIC GROWTH WERE LARGELY THE RESULT OF EXOGENOUS FORCES OVER WHICH MALAWI HAD LITTLE, OR NO, CONTROL SUCH AS DETERIORATING TERMS OF TRADE, LOSS OF TRANSPORTATION ROUTES THROUGH MOZAMBIQUE, HIGHER PETROLEUM PRICES AND DROUGHT. THESE FACTORS EXPOSED SOME FUNDAMENTAL WEAKNESSES IN THE ECONOMY WHOSE RESOLUTION WOULD BE CRITICAL TO MEDIUM AND LONG TERM ECONOMIC GROWTH.

B. BRIEFLY THESE WEAKNESSES INCLUDE THE FOLLOWING:

(1) EXPORTS DURING THE LAST TWO DECADES HAVE BEEN NARROWLY CONCENTRATED IN THREE AGRICULTURAL COMMODITIES: TOBACCO, TEA AND SUGAR. THESE PRODUCTS HAVE HAD A HISTORY OF VOLATILE PRICE MOVEMENTS COMBINED WITH LOW DEMAND ELASTICITIES. FURTHERMORE, ALL THESE AGRICULTURAL COMMODITIES HAVE A RATHER LOW ECONOMIC VALUE PER UNIT OF VOLUME OR WEIGHT. CONSEQUENTLY, THE FOREIGN EXCHANGE EARNED BY THESE CROPS HAS DROPPED SHARPLY IN THE FACE OF SUBSTANTIALLY HIGHER TRANSPORT COSTS.

(2) WHILE INVESTMENT RATES ROSE RAPIDLY IN THE FIRST DECADE AND HALF AFTER INDEPENDENCE, SOME OF THESE INVESTMENTS, PARTICULARLY IN THE LATE 1970'S, WERE IN PROJECTS THAT REQUIRED LARGE CAPITAL INVESTMENTS WITH LOW ECONOMIC RETURNS AND DID NOT CONTRIBUTE TO EXPANSION OF ECONOMIC PRODUCTIVE CAPACITY. FURTHERMORE, PUBLIC AND PARASTATAL ORGANIZATIONS EXPANDED AND DIVERSIFIED TOO QUICKLY AND TOO BROADLY.

(3) MALAWI'S DEBT SERVICING REQUIREMENTS ARE ONEROUS. IN 1985, THE DEBT SERVICE RATIO WAS 23.6 PERCENT. ALTHOUGH THE DEBT BURDEN HAS BEEN AFFECTED BY APPRECIATION OF THE DOLLAR AGAINST THE KWACHA AND RISING INTEREST RATES IN THE EARLY 1980'S, THE MAIN CAUSE WAS THE SUBSTANTIAL BORROWINGS IN THE LATE 1970'S AND EARLY 1980'S COMBINED WITH PARASTATAL LOSSES. FINANCING THIS

(4) GOVERNMENT ITSELF GREW VERY RAPIDLY AND BECAME THE FOCAL POINT FOR ECONOMIC GROWTH. THE EXPANSION OF GOVERNMENT WAS PARTICULARLY PRONOUNCED IN FOUR AREAS. FIRST, THE TAX PAYMENTS TO GDP ROSE FROM 10 PERCENT AT THE BEGINNING OF THE 1970'S TO 19 PERCENT BY THE END OF THE DECADE. SECOND, GOVERNMENT EXPENDITURES CLIMBED SHARPLY, KEEPING AHEAD OF REVENUES. EXPENDITURES WENT UP FROM 23 PERCENT OF GDP IN 1973 TO 34 PERCENT IN 1981. THIRD, THE PUBLIC SECTOR'S SHARE OF TOTAL FIXED CAPITAL FORMATION ROSE FROM 54 PERCENT IN 1973 TO 70 PERCENT BY 1979. FOURTH, THE SHARE OF GOVERNMENT OFFICIAL ENTITIES IN DOMESTIC CREDIT INCREASED FROM 10 PERCENT IN 1970 TO 44 PERCENT IN 1980.

PART II. IMPACT OF TRANSPORTATION ON ECONOMIC RECOVERY

A. WHILE MANY DEVELOPING COUNTRIES HAVE FACED DETERIORATING TERMS OF TRADE, RISING INTERESTS RATES, DROUGHT, AND A DOWNTURN IN THEIR EXPORT MARKETS, MALAWI HAS FACED THE ADDITIONAL BURDEN OF THE COLLAPSE OF ITS TRADITIONAL TRANSPORT ROUTES. THE RELIANCE ON SOUTH AFRICAN PORTS RATHER THAN THE CLOSER PORTS OF MOZAMBIQUE HAS GENERATED INCREASINGLY SEVERE STRAINS ON THE NATIONAL ECONOMY.

B. TRADITIONALLY MALAWI RELIED UPON ITS TWO RAIL LINKS THROUGH MOZAMBIQUE TO THE PORTS OF BEIRA (650 KM) AND NACALA (815 KM) FOR TRANSPORT OF MOST OF ITS EXTERNAL TRADE. UNTIL 1981 BETWEEN 85 PERCENT AND 90 PERCENT OF LL IMPORTS AND EXPORTS WENT VIA THESE ROUTES. FOR REASONS BEYOND MALAWI'S CONTROL, OPERATIONS OVER THESE RAIL LINKS HAVE BEEN SERIOUSLY INTERRUPTED, FORCING THE USE OF INLAND ROAD AND ROAD-RAIL ROUTES INVOLVING

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## INCOMING TELEGRAM

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: ACTION AID-00

LILONG 01006 03 OF 09 091031Z 9101 057076 A105129

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: ACTION OFFICE AFD-04  
INFO AAFA-02 AFEA-03 AFEA-03 AFD-06 FPA-02 AFTR-05 PPPB-02  
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PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /052 A4 309  
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PROCEDURES ARE BEING CLARIFIED AND STREAMLINED.  
INSTITUTIONS TO PROMOTE EXPORTS ARE BEING STRENGTHENED.  
TAX STRUCTURES ARE UNDER REVIEW TO INSURE THEY DO NOT  
INHIBIT PRODUCTION OR DISCOURAGE INVESTMENT.  
INCREASINGLY, PRIVATIZATION AND GREATER EFFICIENCY HAVE  
BECOME PERFORMANCE INDICATORS OF THE STRUCTURAL  
ADJUSTMENT PROCESS.

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P 090947Z MAY 86  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0017  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY HARARE PRIORITY

F. IN SUM, THE ECONOMIC RECOVERY AND GROWTH STRATEGY  
PURSUED BY THE MALAWI GOVERNMENT EMPHASIZES (1)  
DIVERSIFYING AGRICULTURAL OUTPUT, ESPECIALLY TRADEABLE  
EXPORT COMMODITIES; (2) LIMITING THE GROWTH AND  
IMPROVING THE EFFICIENCY OF THE PUBLIC SECTOR; AND (3)  
PROMOTING A GREATER ROLE FOR THE PRIVATE SECTOR. THE  
GOM HAS DEMONSTRATED A FIRM COMMITMENT TO POLICY  
REFORM. THE ECONOMIC PROGRESS MADE AND THE RESOLVE TO  
ADDRESS THESE WEAKNESSES IN THE PAST FOUR YEARS IS  
INDEED IMPRESSIVE CONSIDERING THE WORSENING EXTERNAL  
TRANSPORT CRISIS.

UNCLAS SECTION 03 OF 09 LILONGWE 01006

AIDAC

AID/W FOR AFR/DAA L. SAIGER; AFR/PO M. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. WOLGIN  
NAIROBI FOR REDSO AND RLA  
HARARE FOR SARP

### PART III. STRATEGY FOR ADDRESSING TRANSPORT CRISIS

E.O. 12356: N/A  
SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (012-0220)

INSTANCES OF 2,700-3,000 KMS AND INLAND TRANSPORT COSTS  
INCREASES OF 100 TO 300 PERCENT. FOR EXAMPLE,  
FERTILIZER AND SUGAR, MAKING UP A QUARTER OF MALAWI'S  
EXTERNAL TRADE, ARE NOW SHIPPED TO/FROM RSA AT COST OF  
DOLS 100-150 PER TON COMPARED TO DOLS 33 PER TON THRU  
BEIRA/MACALA (1983 COSTS). ANOTHER MAJOR IMPORT, FUEL,  
COSTS DOLS 200 TO SHIP INLAND COMPARED TO DOLS 30 PER  
TON IF RAILED IN FROM MOZAMBIQUE PORTS. BY LATE 1984,  
MALAWI MOVED 85 PERCENT OF ITS EXTERNAL TRADE OVER THESE  
LONGER, MORE EXPENSIVE ROUTES. THESE ALTERNATIVE ROUTES  
ARE THEMSELVES UNSTABLE AND SUBJECT TO UNPREDICTABLE  
DELAYS AND INTERRUPTIONS. THE NECESSITY FOR ENROUTE  
MODAL CHANGES TOGETHER WITH THE POLITICAL AND TECHNICAL  
DIFFICULTIES OF TRANSITING THREE INTERNATIONAL BORDERS  
ENROUTE ADD TO THE COMPLEXITIES, COSTS AND UNRELIABILITY  
OF THE TRANSPORTATION SYSTEMS.

A. THE GOM HAS ADOPTED A TWO-PRONGED STRATEGY FOR  
COPING WITH THE TRANSPORT CRISES. FIRST, BECAUSE OF THE  
INSTABILITY AND UNCERTAINTY WITHIN THE REGION, PRIORITY  
IS GIVEN TO KEEPING OPEN MULTIPLE LINKS TO MAJOR  
SEAPORTS AND MINIMIZING THE COST ASSOCIATED WITH USING  
THESE ROUTES. SECOND, EFFORTS ARE UNDERWAY TO DEVELOP  
THE INSTITUTIONAL CAPACITY TO SCHEDULE, CONTROL AND  
EFFECT VITAL FREIGHT MOVEMENTS INTO AND OUT OF MALAWI  
THROUGH NEIGHBORING PORTS AND TRANSIT POINTS.

B. THE FIRST PART OF THIS STRATEGY IS BEING PURSUED  
LARGELY THROUGH THE PUBLIC SECTOR AND INVOLVES  
DEVELOPING THE INFRASTRUCTURE NEEDED TO EFFICIENTLY  
UTILIZE MULTIPLE TRANSPORT ROUTES TO SEAPORTS. ELEMENTS

C. THE CIF MARGIN ON IMPORTS HAS INCREASED FROM 22  
PERCENT IN THE SEVENTIES AND 23 PERCENT IN 1980 TO 40  
PERCENT BY 1984. IBRO CONSERVATIVELY ESTIMATES THE  
ADDITIONAL ECONOMIC COST OF USING RSA PORTS OVER THOSE  
IN MOZAMBIQUE TO BE AT LEAST DOLS 50 MILLION ANNUALLY, A  
COST EQUAL TO ABOUT 20 PERCENT OF THE VALUE OF EXPORTS.

D. WITH THE ASSISTANCE OF THE IMF, IBRD, USAID AND  
OTHER WESTERN DONORS, GOM IS STEADILY MAKING THE  
REQUIRED ECONOMIC POLICY REFORMS NEEDED TO RESTORE  
HEALTH TO THE NATIONAL ECONOMY. HOWEVER, THE IMPACT OF  
THESE POLICY REFORMS IN THE NEAR TERM HAS BEEN ADVERSELY  
AFFECTED BY THE HIGH COST AND UNCERTAINTY OF COMMERCIAL  
TRANSPORTATION.

E. THE STRUCTURAL ADJUSTMENT PROGRAM WHICH COMMENCED IN  
THE EARLY 1980'S HAS GRADUALLY BROADENED AND DEEPENED.  
THE REFORM PROGRAM CONTINUES ITS MAIN FOCUS ON IMPROVING  
ECONOMIC INCENTIVES AND PRODUCTIVE EFFICIENCY.  
AGRICULTURAL PRICE POLICIES CONTINUE TO ENCOURAGE  
INCREASES IN AND DIVERSIFICATION OF OUTPUT. TO IMPROVE  
CLIMATE FOR PRIVATE SECTOR GROWTH, PRICE CONTROLS ARE  
GRADUALLY BEING ELIMINATED AND THE FOREIGN EXCHANGE  
ALLOCATION SYSTEM IS BEING FOCUSED ON THE PROMOTION OF  
COMPETITION IN INDUSTRY. REGULATORY AND LICENSING

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INCOMING  
TELEGRAM

PAGE 01 LILONG 01000 04 OF 09 091030Z 9110 057077 A10513  
ACTION AID-09

LILONG 01000 04 OF 09 091030Z 9110 057077 A10513

ACTION OFFICE AFPD-04  
INFO AAAF-02 AFEA-03 AFCA-01 AFDP-06 FPA-02 AFTR-03 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPOG-01 C-02 CALI-02 CPS-02 CT-01  
PPR-01 AFPE-04 AFDA-02 KELO-01 PRE-06 /052 AA 309

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TO SECSTATE WASHDC PRIORITY 0818  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY HARARE PRIORITY

UNCLAS SECTION 04 OF 09 LILONGWE 01000

AIDAC

AID/W FOR AFR/DAA L. SAIBERS; AFR/PD M. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. WOLGIN  
NAIROBI FOR REDSO AND RLA  
HARARE FOR SAMP

E.O. 12333: N/A  
SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (012-0220)

OF THE STRATEGY INCLUDE: (1) IMPROVING AND MAINTAINING  
ROAD AND RAIL LINKS TO THE PORT OF DURBAN VIA LUSAKA  
AND/OR HARARE; (2) DEVELOPMENT OF A NEW TRANSIT CORRIDOR  
(NORTHERN CORRIDOR) THROUGH NORTHERN MALAWI AND TANZANIA  
TO THE PORT OF DAR ES SALAAM; AND (3) SUPPORT OF EFFORTS  
TO REHABILITATE RAIL AND ROAD SERVICE TO THE MOZAMBIQUE  
PORTS OF BEIRA AND MACALA. THE GOM HAS SUPPORTED AND  
CONTRIBUTED TO REGIONAL TRANSPORT PLANNING  
EFFORTS TO DEVELOP AND IMPROVE THE REGION'S TRANSPORT  
INFRASTRUCTURE BOTH BILATERALLY AND THROUGH REGIONAL  
FORUMS SUCH AS SATCC. IN THE ABSENCE OF REGIONAL  
AGREEMENTS, GOM RECOGNIZES THE NEED FOR BILATERAL  
AGREEMENTS INSURING CONTINUED UTILIZATION OF THESE  
ROUTES IN A COST EFFICIENT MANNER AND WITH A FAIR  
DISTRIBUTION OF TRAFFIC. ON A REGIONAL BASIS, GOM HAS  
WORKED CLOSELY WITH UNCTAD IN ITS EFFORTS TO RATIONALIZE  
NATIONAL TRANSPORTATION SYSTEMS WITHIN THE REGION AND TO  
STANDARDIZE AND SIMPLIFY SHIPPING DOCUMENTATION AMONG  
SADCC COUNTRIES.

C. THE SECOND PART OF THE STRATEGY IS TO DEVELOP A  
MALAWIAN CAPACITY TO PLAN, MANAGE AND CARRY OUT VITAL  
FREIGHT MOVEMENTS INTO AND OUT OF THE COUNTRY THROUGH  
REGIONAL PORTS AND TRANSIT POINTS. GOM IS RELYING ON  
THE PRIVATE SECTOR TO PROVIDE TRANSPORT SERVICES, WHILE  
LIMITING GOVERNMENT'S ROLE TO ONE OF STRATEGIC PLANNING,  
COORDINATION AND PROMOTING THE DESIRED TYPE OF PRIVATE  
SECTOR TRANSPORT OPERATIONS AND GROWTH.

D. IN 1982 WITH MILLIONS OF DOLLARS OF FERTILIZER AND  
OTHER IMPORTS STUCK IN BEIRA, MALAWI RECOGNIZED THAT IT  
WAS IMPERATIVE TO ACQUIRE GREATER CONTROL OVER FREIGHT  
MOVEMENTS IN AND OUT OF THE COUNTRY. THIS CONTROL OVER  
FREIGHT MOVEMENTS IS CENTRAL TO MAKE SHIPPING COST MORE  
EFFICIENT OR TO REDUCE FX EXPENDITURES. FOR EXAMPLE,  
EFFORTS ARE BEING MADE: (1) TO REDUCE THE NUMBER OF  
EMPTY BACKHAULS ON LOADS DELIVERED TO MALAWI AND (2) TO  
ALLOW MALAWIAN TRANSPORTERS A SHARE OF THE MARKET. TO  
ACQUIRE THIS CONTROL, THE MALAWI INTERNATIONAL TRANSPORT  
COMPANY (MITCO) WAS ESTABLISHED TO BOOM FREIGHT SERVICES  
TO AND FROM MALAWI. ITS OPERATIONS HAVE BEEN  
COMPETITIVE AND EFFICIENT. FREIGHT RATES HAVE BEEN

CONTAINED AND EFFICIENCY HAS INCREASED AS EVIDENCED BY  
THE REDUCTION OF EMPTY BACKHAULS. OTHER ELEMENTS OF  
THIS PART OF MALAWI'S STRATEGY INCLUDE (1) DEVELOPING A  
MALAWIAN INTERNATIONAL TRUCKING INDUSTRY; (2)  
ENCOURAGING IMPORTERS TO SHIP GOODS ON A FAS OR FOB  
BASIS RATHER THAN CIF BASIS; AND, (3) ENCOURAGING THE  
PRIVATE SECTOR TO HANDLE FREIGHT MOVEMENTS ALONG THE  
NORTHERN CORRIDOR.

E. WHILE PROGRESS HAS BEEN MADE IN IMPLEMENTING OTHER  
ELEMENTS OF THE STRATEGY, PERFORMANCE IN CONTROLLING  
FREIGHT MOVEMENTS HAS BEEN LESS IMPRESSIVE. MALAWI'S  
INTERNATIONAL TRUCK FLEET IS NOT MUCH LARGER, ALTHOUGH  
THE AVERAGE AGE OF THE FLEET HAS BEEN SIGNIFICANTLY  
REDUCED AND TRUCKING OPERATIONS ARE MANAGED MORE  
EFFICIENTLY. GROWTH OF A PRIVATE TRANSPORTATION  
INDUSTRY IS CONSTRAINED BY: (1) THE HIGH COST STRUCTURE  
OF A MALAWIAN BASED TRUCKING OPERATION; (2) LIMITED  
ACCESS TO FOREIGN EXCHANGE AND CREDIT; AND, (3)  
INSUFFICIENT TECHNICAL AND MANAGERIAL SKILLS. THE  
EFFORTS BEING MADE TO COPE WITH THE TRANSPORT CRISIS  
GENUINELY COMBINE PUBLIC AND PRIVATE SECTOR RESOURCES IN  
A BALANCED RELATIONSHIP. THE PROGRESS MADE THUS FAR HAS  
NOT BEEN EASY BUT, IT IS EVIDENT THAT THE PRIVATE AND  
PUBLIC SECTORS ARE ESTABLISHING A COOPERATIVE WORKING  
RELATIONSHIP AND A STRONGER, BETTER DEFINED NATIONAL  
TRANSPORTATION POLICY FRAMEWORK.

#### PART IV. PROPOSED GOM POLICY AND PROGRAM FRAMEWORK

A. THE GOM IS PLANNING FOUR MAJOR ADJUSTMENTS TO ITS  
TRANSPORT POLICY TO FURTHER DEVELOP MALAWI'S  
INTERNATIONAL ROAD TRANSPORTATION INDUSTRY AND TO REDUCE  
THE TRANSPORT COST BURDEN ON THE ECONOMY.

(1) FIRST, THE INDUSTRY HAS TO BE COMPETITIVE WITHIN A

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# INCOMING TELEGRAM

PAGE 01 LILONG 01000 05 OF 00 001046Z 9240 057078 A105154  
ACTION AID-00

LILONG 01000 05 OF 00 001046Z 9240 057078 A105154

ACTION OFFICE AFPO-04

INFO AAF-02 AFEA-03 AFSA-01 AFDP-06 FPA-02 AFTR-05 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPOG-01 C-02 CALI-02 CPS-02 CT-01  
PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /052 A4 300

INFO LOG-00 COPY-01 AF-00 CIAE-00 EB-00 DODE-00 /000 V  
-----149665 001129Z /23

P 000047Z MAY 86

FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0019  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY HARARE PRIORITY

UNCLAS SECTION 05 OF 00 LILONGWE 01000

AIDAC

AID/W FOR AFR/DA A. SAIBERS; AFR/PO M. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. VOLGIN  
NAIROBI FOR REDSO AND RLA  
HARARE FOR SARP

E.O. 12336: N/A

SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (612-0220)

REGIONAL SYSTEM. HOWEVER THE COST STRUCTURE FOR A MALAWIAN BASED TRANSPORTER IS SUBSTANTIALLY HIGHER THAN COMPARABLE OPERATIONAL COSTS FOR SOUTH AFRICAN OR ZIMBABWEAN FIRMS. THE HIGHER COST STRUCTURE RESULTS FROM A NUMBER OF FACTORS SUCH AS TAXES AND DUTIES LEVIED ON VEHICLES, SPARE PARTS, AND FUEL; HIGH INSURANCE PREMIUMS; SEASONALITY IN DEMAND FOR TRANSPORT SERVICES; MALAWI'S GEOGRAPHIC LOCATION; AND REGIONAL TRADE FLOWS. SOME OF THE FACTORS CONTRIBUTING TO THIS COST STRUCTURE ARE EXOGENOUS; OTHERS, HOWEVER, CAN BE INFLUENCED BY GOVERNMENT POLICIES AND PROGRAMS. TO IMPROVE THE COMPETITIVENESS OF MALAWIAN OPERATORS, THE GOM IS CONSIDERING A REDUCTION IN THE DUTY AND TAX ASSESSED ON HEAVY-DUTY TRUCKS, SPARES, AND TIRES. GOM IS TRYING TO FACILITATE FUEL PURCHASES FOR THE INDUSTRY OUTSIDE OF MALAWI THROUGH BILATERAL AGREEMENTS AND ARRANGEMENTS WITH THE RESERVE BANK. TO REDUCE INSURANCE COSTS IN THE FUTURE, GOVERNMENT IS PLANNING AN IMPROVED PROGRAM OF VEHICLE INSPECTION AND SAFETY AIMED AT GETTING VEHICLES IN POOR MECHANICAL CONDITION OFF ROADS. A NEW CATEGORY OF DRIVER'S LICENSE FOR INTERNATIONAL TRUCKERS IS BEING ESTABLISHED TO IMPROVE DRIVER COMPETENCY WHICH SHOULD ALSO REDUCE INSURANCE COSTS AND ACCIDENTS. THESE MEASURES WILL RENDER THE MALAWI BASED INDUSTRY MORE ABLE TO COMPETE WITHIN THE REGION.

(2) SECOND, MALAWIAN TRANSPORTERS REQUIRE BETTER ACCESS TO FINANCIAL RESOURCES INCLUDING CREDIT AND FOREIGN EXCHANGE (FX). WHILE FX ALLOCATIONS ARE MADE FOR PURCHASES OF VEHICLES, IT IS DIFFICULT UNDER CURRENT PROCEDURES TO PROMPTLY OBTAIN FX TO COVER OPERATING EXPENSES SUCH AS SPARE PARTS, TIRES, TRAVEL, AND PERMIT FEES FOR NEIGHBORING COUNTRIES. THE LACK OF TIMELY ACCESS TO FX ALSO REDUCES THE OPERATIONAL EFFICIENCY OF THE MALAWIAN TRANSPORT INDUSTRY.

(A) APART FROM THE FX PROBLEM, NO CREDIT IS AVAILABLE DOMESTICALLY ASIDE FROM A SMALL AMOUNT OF SUPPLIERS CREDIT. RISK AND UNCERTAINTY COMBINED, WITH LOW PROFIT MARGINS HAS TENDED TO RESTRICT PRIVATE SECTOR LENDING IN THE TRANSPORT SECTOR.

(B) GOM IS CONSIDERING SEVERAL ACTIONS WHICH WILL RESULT IN LOWER COST STRUCTURES AND GREATER PROFITABILITY,

THEREBY ENCOURAGING FURTHER INVESTMENT. THESE INCLUDE ENCOURAGING PRIVATE FOREIGN CAPITAL TO INVEST IN THE INDUSTRY AND SEEKING DONOR ASSISTANCE TO INCREASE THE AMOUNT OF CREDIT AVAILABLE TO THE INDUSTRY. TO FACILITATE INDUSTRY ACCESS TO FX, CONSIDERATION IS BEING GIVEN TO PROVIDING TRANSPORT FIRMS WITH AN FX REVOLVING ACCOUNT BASED ON PROJECTED REQUIREMENTS. THESE STEPS WILL LEAD TO THE ESTABLISHMENT OF A STRONGER FINANCIAL BASE FOR THE EXPANSION AND DEVELOPMENT OF PRIVATE MALAWIAN TRUCKING INDUSTRY.

(3) THIRD, THE GOM VIEWS ITS ROLE AS FACILITATING THE PRIVATE SECTOR OPERATIONS OF THE ROAD TRANSPORT SYSTEM. AT PRESENT, BASIC ORGANIZATIONAL AND INSTITUTIONAL INFRASTRUCTURE REQUIRED FOR A MORE EFFICIENT REGIONAL ROAD TRANSPORT NETWORK DOES NOT EXIST. LONG STANDING INTERNATIONAL AGREEMENTS GOVERN INTERNATIONAL FREIGHT MOVEMENTS BY RAIL BETWEEN MALAWI AND MOZAMBIQUE BUT NO SUCH AGREEMENTS EXIST BETWEEN MALAWI AND ITS NEIGHBORS FOR ROAD TRANSPORT.

(A) TO DEVELOP THE INDUSTRY WITHIN ITS REGIONAL CONTEXT, GOM HAS EMBARKED ON BILATERAL AND REGIONAL NEGOTIATIONS TO SEEK AGREEMENTS WHICH REGULATE INTERSTATE ROAD TRANSPORTATION OPERATIONS, ASSURE AN EQUITABLE SHARING OF TRUCK TRAFFIC AND MAKE FREIGHT TRANSIT PROCEDURES MORE EFFICIENT. OF SPECIAL IMPORTANCE ARE AGREEMENTS WITH THE GOVERNMENT OF TANZANIA (TANGOM) APPLICABLE TO THE TRANSPORT OPERATIONS ALONG THE NORTHERN CORRIDOR AND WHICH GOVERN TRANSITING GOODS THROUGH TANZANIA.

(B) GOVERNMENT CAN FACILITATE THE INDUSTRY'S ACCESS TO BUSINESS BY ENCOURAGING IMPORTERS TO SHIP FOB RATHER THAN CIF AND FOR EXPORTERS TO SHIP ON A CIF RATHER THAN FOB. IN CASES WHERE IMPORTS ARE SHIPPED ON AN FOB BASIS

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# Department of State

INCOMING  
TELEGRAM

PAGE 01 LILONG 01806 06 OF 09 091054Z 9265 057800 A105162  
ACTION AID-00

LILONG 01806 06 OF 09 091054Z 9265 057800 A10516

ACTION OFFICE AFDP-04

INFO AAAP-02 AFEA-03 AFSA-03 AFDP-06 FPA-02 AFTR-05 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPOC-01 C-02 CALI-02 CPS-02 CT-01  
PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /032 AA 300

INFO LOG-00 COPY-01 AF-00 CIAE-00 EB-00 DODE-00 /000 V  
-----146073 091132Z /23

P 00047Z MAY 86  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0020  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY NAIROBI PRIORITY

UNCLAS SECTION 06 OF 09 LILONGWE 01806

AIDAC

AID/W FOR AFR/DAA L. SAJERS; AFR/PD R. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. WOLGIN  
NAIROBI FOR REDSO AND RLA  
NAIROBI FOR SARP

E.O. 12356: N/A  
SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (612-0220)

(I.E. FERTILIZER), MALAWI HAS BENEFITTED. YET THE  
PRIVATE SECTOR, PERCEIVING SOME FINANCIAL DISADVANTAGES,  
HAS BEEN RELUCTANT TO CHANGE THE BASIS ON WHICH FREIGHT  
IS SHIPPED. FURTHER ANALYSIS IS REQUIRED BEFORE GOM CAN  
PROMULGATE POLICIES RESULTING IN THE DESIRED CHANGE IN  
THE PATTERN OF SHIPPING PRACTICES, YET IN A MANNER NOT  
DISRUPTIVE OF COMMERCIAL RELATIONSHIPS.

(4) FOURTH, THE TRUCKING INDUSTRY HAS NO IN-HOUSE  
TECHNICAL AND MANAGEMENT TRAINING CAPACITY. AT PRESENT,  
THE INDUSTRY IS NOT IN POSITION TO MAKE THE SUBSTANTIAL  
INVESTMENT IN TRAINING WHICH IS REQUIRED. PUBLIC  
INSTITUTIONS EXIST WHICH CAN PROVIDE TRAINING IN  
AUTOMOTIVE AND MECHANICAL SKILLS AND BUSINESS ACCOUNTING  
AND MANAGEMENT SKILLS. WITH ASSISTANCE, THESE  
INSTITUTIONS CAN DEVELOP APPROPRIATE TRAINING PROGRAMS  
AND PROVIDE THE TYPE OF TRAINING NEEDED BY THE  
INDUSTRY. GOVERNMENT IS EXPLORING VARIOUS OPTIONS TO  
PROVIDE MATERIAL AND FINANCIAL SUPPORT TO THESE  
INSTITUTIONS TO TRAIN MANPOWER FOR THE TRANSPORT SECTOR.

B. IN SUM, EACH OF THE ABOVE AREAS OF POLICY CHANGE CAN  
POTENTIALLY REDUCE THE COST AND DEGREE OF RISK WHICH  
CURRENTLY CONSTRAIN THE GROWTH OF THE MALAWIAN ROAD  
TRANSPORT INDUSTRY AND WHICH IMPEDE GREATER PRIVATE  
SECTOR INVOLVEMENT IN THE INDUSTRY.

## PART V. THE PROGRAM GRANT

A. THE PURPOSE OF THE PROPOSED GRANT IS TO SUPPORT GOM  
EFFORTS TO UNDERTAKE THE FOUR POLICY CHANGES DISCUSSED  
IN PART IV WHICH WILL CREATE A TRANSPORT SECTOR  
ENVIRONMENT CONDUCTIVE TO THE ESTABLISHMENT OF A MORE  
COMPETITIVE MALAWIAN BASED INTERNATIONAL ROAD TRANSPORT  
INDUSTRY. THE US DOLLAR 3.5 MILLION IN FOREIGN EXCHANGE  
RESOURCES PROVIDED THROUGH THIS GRANT WILL HELP FILL THE  
CRITICAL EXTERNAL FINANCIAL REVENUE GAP, MUCH OF WHICH  
IS THE DIRECT RESULT OF INCREASED TRANSPORT COSTS. THE  
DISBURSEMENT OF THESE GRANT FUNDS WILL BE LINKED TO  
POLICY ADJUSTMENTS AFFECTING THE GROWTH AND DEVELOPMENT  
OF A MORE COMPETITIVE AND EFFICIENT PRIVATE SECTOR  
TRANSPORT INDUSTRY.

B. THE US DOLLAR 3.5 MILLION WILL BE DISBURSED IN TWO  
TRANCHES OVER A PERIOD OF TWO YEARS. THE LOCAL CURRENCY  
GENERATED BY THESE DOLLAR RESOURCES WILL BE USED BY THE  
GOM TO PROVIDE CREDIT, TRAINING AND OTHER SUPPORT LINKED  
TO THESE POLICY CHANGES AND THE EFFICIENT GROWTH OF THE  
INDUSTRY. DOLLAR DISBURSEMENTS HAVE BEEN TRANCHED TO  
RESPOND TO PROGRESS IN MEETING POLICY PERFORMANCE  
TARGETS.

(1) THE FIRST DISBURSEMENT OF DOLS 2 MILLION IS TIED TO  
MEETING THREE POLICY CHANGES WHICH ARE CRITICAL TO THE  
ESTABLISHMENT OF AN EFFICIENT INDUSTRY. CONDITIONS FOR  
FIRST DISBURSEMENT ARE EXPECTED TO BE MET WITHIN THREE  
MONTHS OF SIGNING THE PROGRAM GRANT AGREEMENT. THESE  
CHANGES AND THE INDICATORS TO RELEASE THESE OF FUNDS ARE:

(A) SUBSTANTIALLY REDUCING DUTIES, LEVIES, SURCHARGES  
AND OTHER TAXES ASSESSED ON HEAVY-DUTY TRACTORS,  
SPAREPARTS AND TIRES. TRIGGERING MECHANISM WILL BE  
ISSUANCE BY GOM OF A REVISED POLICY AND REGULATIONS  
WHICH WILL LEAD TO A REDUCTION IN EXCISE CHARGES ON  
THESE ITEMS.

(B) INCREASING THE AMOUNT OF CREDIT AVAILABLE TO THE  
INTERNATIONAL ROAD HAULAGE INDUSTRY. TRIGGERING  
MECHANISM WILL BE A POLICY STATEMENT FROM GOVERNMENT  
SETTING FORTH THE TERMS AND CONDITIONS (1) UNDER WHICH  
IT IS PREPARED TO ONLEND FUNDS TO INTERMEDIATE CREDIT  
INSTITUTION (ICI), AND (2) WHICH APPLY TO GOM FUNDS  
CHANNELLED TO SUBBORROWERS BY THE ICI.

(C) DEVELOPING AN INDUSTRY-WIDE TRAINING SYSTEM.  
TRIGGERING MECHANISM WILL BE A POLICY STATEMENT FROM  
GOVERNMENT DESCRIBING THE TYPES OF TRAINING REQUIRED FOR  
THE DEVELOPMENT OF THE INDUSTRY, THE TYPES OF TRAINING

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# Department of State

INCOMING  
TELEGRAM

PAGE 01 LILONG 01006 07 OF 09 091101Z 9271 057002 A105164  
ACTION A10-00

LILONG 01006 07 OF 09 091101Z 9271 057002 A105164

ACTION OFFICE AFPO-04

INFO AAAF-02 AFEA-03 AFSA-03 AFDP-06 FPA-02 AFTR-03 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPOG-01 C-02 CALI-02 CPS-02 CT  
PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /052 A4 339

INFO LOG-00 COPY-01 AF-00 CIAE-00 EB-03 DODE-00 /009 W  
-----146301 091133Z /23

P 000947Z MAY 86

FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0021  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY NAIROBI PRIORITY

UNCLAS SECTION 07 OF 09 LILONGWE 01006

AIDAC

AID/W FOR AFR/DA A. SAERS; AFR/PO M. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. VOLGIN  
NAIROBI FOR REDSO AND RLA  
NAIROBI FOR SARP

E.O. 12958: N/A

SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (012-0220)

PROGRAMS WHICH IT INTENDS TO PROMOTE OR CAUSE TO BE  
ESTABLISHED, THE MAJOR INSTITUTIONS PROPOSED TO BE  
INVOLVED IN PROVIDING THIS TRAINING AND HOW GOVERNMENT  
INTENDS TO MANAGE AND COORDINATE SUCH TRAINING. THE  
POLICY STATEMENT SHOULD ALSO INDICATE HOW GOVERNMENT  
WILL SUPPORT THIS TRAINING PROGRAM.

(2) THE SECOND DISBURSEMENT OF DOLS 1.5 WILL BE MADE ON  
BASIS OF SATISFACTORY PROGRESS ON THE FOLLOWING POLICY  
CHANGES;

(A) ESTABLISHING A MECHANISM TO PROVIDE CREDIT TO  
MALAWI'S INTERNATIONAL TRUCKING INDUSTRY. PROGRESS  
INDICATORS FOR INCREASING CREDIT WILL INCLUDE: (1)  
WHETHER THE MECHANISM OR INSTITUTION IS FULLY  
ESTABLISHED; AND (2) WHETHER CREDIT OPERATIONS ARE  
UNDERWAY.

(B) INCREASING ACCESS TO FX. PROGRESS INDICATORS WILL  
INCLUDE MORE RAPID AND INCREASED ACCESS TO FX: (1) FOR  
ESSENTIAL OPERATING COSTS (I.E. PERIODICAL ALLOCATIONS  
OF FX BASED ON FIRMS PROJECTED FX NEEDS), AND (2) TO  
FINANCE VEHICLE AND EQUIPMENT PURCHASES.

(C) NEGOTIATING BILATERAL TRANSPORT AGREEMENTS.  
PROGRESS INDICATORS WILL INCLUDE AGREEMENTS HAVING BEEN  
SIGNED OR DOCUMENTED PROGRESS IN NEGOTIATING SUCH  
AGREEMENTS.

(D) NEGOTIATING REGIONAL TRANSPORT AGREEMENTS. PROGRESS  
INDICATORS WILL INCLUDE SADCC, UNCTAD OR OTHER REGIONAL  
AGREEMENTS CONCERNING ROAD TRANSPORT OR FREIGHT  
MOVEMENTS BY ROAD AND RAIL WITHIN THE REGION. THESE  
INCLUDE AGREEMENTS ON CUSTOMS DUTIES, VEHICLE OPERATING  
STANDARDS, LOAD WEIGHTS, ETC.

(E) ESTABLISHING AN ADEQUATE ANALYTICAL BASE FOR FUTURE  
POLICY DECISIONS. PROGRESS INDICATORS WILL INCLUDE: (1)  
A DATA BASE FOR PROVISION OF INFORMATION ON INCREASING  
PROCUREMENT ON AN FOB BASIS FOR MAJOR IMPORTS AND  
SELLING ON A CIF BASIS FOR MAJOR EXPORTS; AND (2) AN  
INFORMATION BASE ON PERFORMANCE OF MALAWIAN  
INTERNATIONAL TRUCKING INDUSTRY AND PROBLEMS FACING

INDUSTRY.

THE PROGRESS REVIEW FOR THE SECOND TRANCHE IS LIKELY TO  
OCCUR BETWEEN THE FOURTH AND SIXTH MONTH OF THE PROGRAM.  
THE REVIEW OF PROGRESS WILL BE CONDUCTED BY USAID AND  
THE GOM.

## PART VI. USES OF LOCAL CURRENCY GENERATIONS

A. THE MALAWIAN KWACHA EQUIVALENT TO THE AMOUNT OF U.S.  
DOLLAR DISBURSED FOR BALANCE OF PAYMENT SUPPORT WILL BE  
DEPOSITED IN A SPECIAL ACCOUNT SET UP BY THE GOM IN THE  
RESERVE BANK OF MALAWI. FUNDS DEPOSITED INTO THIS  
ACCOUNT WILL BE USED TO FINANCE ACTIVITIES UNDERTAKEN BY  
THE GOM TO PROMOTE THE EXPANSION OF MALAWI BASED  
INTERNATIONAL ROAD TRANSPORT CAPACITY. FIRST PRIORITY  
USE OF THESE FUNDS WILL BE TO EXPAND THE SUPPLY OF  
CREDIT AVAILABLE TO THE PRIVATE SECTOR, INCLUDING  
WORKING CAPITAL NEEDED BY MALAWIAN OPERATORS ENGAGED IN  
BUSINESS START-UP. SECOND PRIORITY FOR THE USE OF THE  
LOCAL CURRENCY WILL BE TO FINANCE MANAGEMENT AND  
TECHNICAL TRAINING PROGRAMS FOR THE INDUSTRY. SPECIAL  
EFFORT WILL BE GIVEN TO PROVIDING TRAINING TO INCREASE  
THE EFFICIENCY AND EFFECTIVENESS OF MALAWIAN  
TRANSPORTERS IN ORDER TO MAKE THEM COMPETITIVE WITH  
FOREIGN BASED HAULERS. THE THIRD PRIORITY USE OF THESE  
FUNDS WILL BE THE EXPANSION OF THE COMMERCIAL VEHICLE  
SAFETY AND INSPECTION PROGRAM, ENFORCEMENT OF WEIGHT  
RESTRICTIONS ON MAJOR HIGHWAYS AND AT MAJOR BORDER  
POSTS. THE FOURTH AREA OF PRIORITY FOR USE OF LOCAL  
CURRENCY GENERATIONS WILL BE PROGRAM MANAGEMENT AND  
ADMINISTRATION COSTS.

## PART VII. PROGRAM IMPACT

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INCOMING  
TELEGRAM

PAGE 01 LILONG 01806 08 OF 09 091110Z 9319 057083 A105173  
ACTION A10-00

LILONG 01806 08 OF 09 091110Z 9319 057083 A10517

ACTION OFFICE AFPO-04

INFO AAAF-02 AFEA-03 AFSA-01 AFDP-06 FPA-02 AFTR-05 PPPB-02  
GC-01 GCAF-01 GCFL-01 PPDC-01 C-02 CALI-02 CPS-02 CT-01  
PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06 /052 A4 309

INFO LOG-00 COPY-01 AF-00 CIAE-00 EB-00 DODE-00 L-03  
/012 V

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P 000947Z MAY 86

FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 1022  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY NAIROBI PRIORITY

UNCLAS SECTION 08 OF 09 LILONGWE 01806

AIDAC

AID/W FOR AFR/DAF L. SAITERS; AFR/PD M. GILBERT; AFR/SA  
R. THOMPSON; AND AFR/DP J. WOLGIN  
NAIROBI FOR REDSO AND RLA  
NAIROBI FOR SARP

E.O. 12336: N/A

SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (612-0228)

A. THE PROPOSED SECTOR GRANT WILL IMPROVE THE POLICY  
FRAMEWORK WITHIN WHICH AN EFFICIENT MALAWIAN  
INTERNATIONAL ROAD TRANSPORT INDUSTRY CAN BE DEVELOPED.  
THE PROGRAM WILL ENHANCE THE GOV'S ROLE AS A FACILITATOR  
WHILE ENABLING THE PRIVATE SECTOR TO EFFICIENTLY OPERATE  
THE INDUSTRY. THE GRANT WILL ALSO PROMOTE THE  
DEVELOPMENT OF AN EFFICIENT REGIONAL TRANSPORT SYSTEM.  
WITHIN THE THREE-YEAR LIFE OF THE GRANT, THE FOLLOWING  
FIVE KEY IMPACTS ARE EXPECTED:

(1) THE RELIEF ON SURTAXES, LEVIES AND DUTIES CHARGED ON  
VEHICLE PURCHASES AND SPARE PARTS IS EXPECTED TO REDUCE  
CURRENT OPERATING COSTS TO THE INDUSTRY BY ABOUT 10-12  
PERCENT.

(2) MALAWIAN TRANSPORTERS WILL HAVE THE POTENTIAL TO  
INCREASE THEIR SHARE OF THE MARKET FROM ABOUT 15 PERCENT  
TO ABOUT 40-45 PERCENT RESULTING FROM IMPROVED CONTROL  
OF TRAFFIC FLOWS AND RECIPROCAL TRAFFIC SHARING  
AGREEMENTS WITHIN THE SOUTHERN AFRICA REGION. THIS WILL  
ENABLE MALAWI TO GAINFULLY EMPLOY AN INTERNATIONAL FLEET  
OF ABOUT 150 VEHICLES COMPARED TO CURRENT FLEET OF 45  
VEHICLES.

(3) ASSUMING THAT 30 PERCENT OF TOTAL FREIGHT CHARGES  
HAULED BY MALAWIANS ARE MALAWIAN SOURCE COSTS, THE  
POTENTIAL FOREIGN EXCHANGE SAVING PER 1000 TONS OF  
FREIGHT MOVED BY MALAWIAN TRUCKERS IS ABOUT US DOLS  
15,000. WHEN MALAWIANS' SHARE OF THE TRAFFIC INCREASES  
BY THE TARGETED 250,000 TONS PER ANNUM, THE ANNUAL FX  
SAVINGS WOULD BE US DOLS 3.5 TO 4 MILLION.

(4) TRAINING PROGRAMS FOR THE INDUSTRY ARE EXPECTED TO  
RESULT IN AT LEAST A 10 PERCENT INCREASE IN PRODUCTIVITY  
AND A REDUCTION IN INSURANCE PREMIUMS.

(5) A MORE EFFICIENT REGIONAL TRANSPORT SYSTEM  
FACILITATING THE PROVISION OF ROAD TRANSPORT SERVICES  
AND FREIGHT MOVEMENT WITHIN THE REGION.

B. THESE POLICY CHANGES WILL ALSO HAVE A POSITIVE  
IMPACT ON OTHER USAID AND BILATERAL/MULTILATERAL DONOR  
INVESTMENTS IN THE MALAWIAN TRANSPORT SECTOR. THE

POLICY FRAMEWORK SUPPORTED BY THIS GRANT WILL RESULT IN  
IMPROVED RATES OF RETURN ON OTHER RELATED TRANSPORT  
INVESTMENTS. AS SUCH, THE INCREASED RATE OF RETURN  
ATTRIBUTED TO THIS PROGRAM SHOULD SERVE AS AN INCENTIVE  
TO INCREASE OR LEVERAGE ADDITIONAL FUNDS FROM OTHER  
DONORS FOR INVESTMENT IN THE TRANSPORT AND PRIVATE  
SECTORS. THE NATIONAL TRANSPORT POLICY FRAMEWORK  
INFLUENCED BY THIS PROGRAM WILL ALSO RESULT IN A MORE  
DIVERSIFIED NATIONAL TRANSPORT SYSTEM MORE RESILIENT TO  
EXTERNAL SHOCKS WHICH THE FUTURE MAY HOLD FOR SOUTHERN  
AFRICA.

C. THIS INVESTMENT OF DOLS 3.5 MILLION AND ITS  
POTENTIAL IMPACT SHOULD BE VIEWED WITHIN THE BROADER  
CONTEXT OF OTHER AID INVESTMENTS PLANNED FOR THE  
TRANSPORT SECTOR WHICH INCLUDE: AN INSTITUTIONAL  
STRENGTHENING GRANT OF DOLS 1.5; A SOUTHERN AFRICA  
REGIONAL PROGRAM GRANT (SARP) OF DOLS 10 MILLION FOR THE  
NORTHERN CORRIDOR INVESTMENT PROGRAM; AND A SECOND SARP  
GRANT OF DOLS 1.2 MILLION TO UNCTAD TO ASSIST SADC  
COUNTRIES DEVELOP MORE MORE EFFICIENT REGIONAL TRANSPORT  
SYSTEMS. AID FINANCING IN ROAD TRANSPORT WILL BE JOINED  
BY SIMILAR AMOUNTS OF FINANCING FROM THE WEST GERMAN AND  
POSSIBLY THE BRITISH GOVERNMENTS. THE NORTHERN CORRIDOR  
INVESTMENT PROGRAM IS EXPECTED TO COST NEARLY DOLS 90  
MILLION. PARTICIPATING DONORS INCLUDE THE BRITISH  
GOVERNMENT, IBRD AND THE EEC. OTHER MAJOR SECTOR  
INVESTMENTS UNDERWAY INCLUDE FUEL TRANSHIPMENT POINT AT  
NGHINJI, BLANTYRE-MWANZA HIGHWAY AND COMPLETION/  
IMPROVEMENTS IN MALAWI'S MAIN NORTH/SOUTH HIGHWAY.

## PART VIII. PROGRAM DESIGN AND IMPLEMENTATION

A. USAID REQUESTS BUREAU REVIEW OF PAIP AS QUICKLY AS  
POSSIBLE BUT PREFERABLY BEFORE THE END OF MAY. MISSION  
HOPES THAT AID/W REVIEW CAN BE COMPLETED AND ECPR CABLE

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# Department of State

INCOMING  
TELEGRAM

PAGE 01 LILONG 01006 09 OF 09 091114Z 9344 057004 A105179  
ACTION A10-00

LILONG 01006 09 OF 09 091114Z 9344 057004 A105179

612-0210 (MCTP) FOR REOB UNDER SECTOR GRANT. (NOTE:  
REMAINING DOLS 300,000 FOR SECTOR PROGRAM GRANT ARE  
UNOBLIGATED FY 86 FUNDS).

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ACTION OFFICE AFPO-04  
INFO AAAF-02 AFEA-03 AFSA-03 AFDP-06 FPA-02 GCAN-02 AFTR-05  
PPPB-02 GC-01 GCAF-01 GCFL-01 PPDC-01 C-02 CALI-02  
CPS-02 CT-01 PPR-01 AFPE-04 AFDA-02 RELO-01 PRE-06  
/054 AA 300  
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E. IF NECESSARY, DEALLOT/REALLOT FY 86 DOLS 300,000.

F. SUBMIT CNS FOR BOTH DEOB/REOB AND SECTOR GRANT ASAP.

INFO LOG-00 COPY-01 AF-00 CIAE-00 EB-00 DODE-00 L-03  
/012 W

G. USAID WOULD STILL APPRECIATE CABLE RESPONSE TO  
LILONGWE 0910.  
NOLMES

-----146664 001151Z /43

P 000047Z MAY 86  
FM AMEMBASSY LILONGWE  
TO SECSTATE WASHDC PRIORITY 0023  
INFO AMEMBASSY NAIROBI PRIORITY  
AMEMBASSY HARARE PRIORITY

UNCLAS SECTION 09 OF 09 LILONGWE 01006

AIBAC

AIB/W FOR AFR/DAA L. SAIBERS; AFR/PO M. GILBERT; AFR/SA  
B. THOMPSON; AND AFR/DP J. WOLGIN  
NAIROBI FOR REDSO AND RLA  
HARARE FOR SARP

E.O. 12350: N/A  
SUBJECT: TRANSPORT SECTOR PROGRAM GRANT PAIP (612-0220)

TRANSMITTED PRIOR TO MORGAN GILBERT'S DEPARTURE FOR TOY  
IN SOUTHERN AFRICA. EXPECTED USAID AND WEST GERMAN  
ASSISTANCE HAS GENERATED CONSIDERABLE OPERATIONAL  
MOMENTUM WHICH WE WOULD LIKE TO MAINTAIN. PLEASE ADVISE  
MISSION REGARDING DEOBLIGATION/ REOBLIGATION  
PROCEDURES. IF POSSIBLE, WE WISH TO EXECUTE DEOB AND  
REOB WITH CON SIMULTANEOUSLY. MISSION REQUESTS AIB/W  
APPROVAL TO EXECUTE PAAD AUTHORIZATION IN THE FIELD.

B. FUNDING FOR THIS GRANT WILL BE SECTION 100  
APPROPRIATIONS CURRENTLY OBLIGATED IN GRANT AGREEMENT  
NUMBER 612-0210 AS AMENDED PLUS THE DOLS 300,000 IN  
CURRENT FY FUNDS WHICH HAVE NOT YET BEEN OBLIGATED.

C. PAAD CAN BE PREPARED BY MISSION STAFF WITH  
ASSISTANCE OF REDSO/ESA RLA. MISSION WOULD LIKE TO  
COMPLETE THIS PAAD IN SAME TIMEFRAME AS NORTHERN  
CORRIDOR PROJECT PAPER AND AERP II PAAD DEVELOPMENT.  
GIVEN COMPLEMENTARITY AMONG THESE ACTIVITIES, THIS WILL  
PERMIT A MORE EFFICIENT USE OF AFR/PO AND OTHER DESIGN  
TEAM PERSONNEL.

D. WITHIN CON, PRIMARY IMPLEMENTATION RESPONSIBILITY  
FOR GRANT PERTAINS WITH THE MINISTRY OF TRANSPORT AND  
COMMUNICATIONS AND THE MINISTRY OF FINANCE. WITHIN  
USAID THE PROGRAM WILL BE MONITORED AND MANAGED BY  
PROJECT DEVELOPMENT OFFICER. THE MANAGEMENT STRUCTURE  
DEVELOPED FOR THE MCTP (612-0210) WILL BE USED TO MANAGE  
THE GRANT.

END PAIP

3. SUMMARY OF AIB/W ACTIONS REQUESTED:

- A. EPCR REVIEW BY 5/23/86.
- B. ECPR CABLE RECEIVED 5/30/86.
- C. FIELD AUTHORIZATION OF PAAD UNDER OGA 1/0 REVISED.
- D. ADVISE PROCEDURES FOR DEOB DOLS 3.2 MILLION FROM

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