

## EXECUTIVE SUMMARY

The focus of the facilitation audit has been the procedural or operational constraints to external trade and international transportation services. The three main areas of focus are: a) procedures and regulatory requirements for international trade transactions (e.g. customs), b) efficiency and market structure of transport services and infrastructures, c) measure costs and delays. This report sets to explain the bottlenecks and recommend policy actions and technical assistance options to facilitate trade and transport to and in Malawi.

### *Malawi has only indirect connections to global markets.*

Malawi is a small, landlocked country whose main developmental challenge in trade depends on transit solutions in neighboring countries to access gateways to international markets. Compared to other landlocked countries in Sub Saharan Africa, Malawi enjoys a rather favorable logistical position because its main economic and population center, Blantyre, is only about 300 km from the sea, as the crow flies. Historically this relative proximity spurred early development: Southern Malawi and Blantyre used to enjoy a direct railroad link of 530 km to the port of Beira, a distance comparable to that of Nairobi or Johannesburg to their ports.

This advantage proved fragile and has been essentially wiped away by regional and global developments. The upheaval in Mozambique in the 1980s essentially cut off Malawi from this traditional trade route. The country started to rely on very long land routes through Tanzania or South Africa for its imports as well as its exports. In addition, during this period, trade patterns changed radically. First the development of tobacco crops, the geographical center of Malawian production moved north. Second, after the end of apartheid in South Africa, Malawi became more economically integrated and dependent on South Africa for imports and exports. Long overland trucking routes became a natural and sustainable option.

Today, Malawi essentially relies on three relatively long land routes to access international gateways: the road to Durban, 2300 km, the road to Beira, 800km and the railroad to the port of Nacala in Mozambique, also 800 km. Still, the port of Durban in South Africa, remains the regional gateway even when going through Mozambican ports served by feeder ships. Most of the freight, which is containerized, goes through Durban either as the gateway or the port of transshipment for the Mozambican ports. Except for oil product and certain bulk commodities

Malawian traders pay high transportation costs for imports and exports. In 2004, minimal transport charges to Blantyre are 90 USD/ton from Johannesburg, 45 USD/tons from Beira or 60-70 USD/tons from Nacala. These charges are substantial especially when it comes to the transportation of commodities such as oil or fertilizer. They are caused by the length of the routes and the high unit costs of transportation, which are due to the difficulty in organizing back-loads from Malawi (volume imbalance between imports and exports). Increased oil prices will push the costs even higher. However unit costs of

transport for imports compared favorably to those supported by other landlocked countries in Africa, reflecting the dominance in sub-regional international freight of the South African Industry.

***Small and unbalanced trade volumes constrain the logistical options.***

The trade volume of Malawi is small in absolute terms. As a comparison, all Malawi road traffic can be supported by a flow of eight trucks per hour in daytime. The small volume means that efficient logistics cannot be built on an independent strategy for Malawi but rather depends on a cost and time efficient road or multimodal connections to South Africa, available for Mozambique, Zimbabwe or Zambia.

One of the main problems for Malawi in terms of trade logistics is the imbalance between imports and exports. The volume of exports (300 kilotons/yr) is far below the level of imports (about 1 million tons/yr). Furthermore there imbalance between corridors. Imports goes through Beira alongside with Durban and to a lesser extend through Nacala. But exporters prefer to ship through Durban' route more reliable in terms of timeliness and effectiveness than Mozambican corridors. Despite known delays, such as in Beitbridge, the land route compare very favorably with the combined land-sea route to Durban that goes through logistically unfriendly ports in Mozambique and support substantial additional cost and delays in shipping, usually ignored in corridor comparisons. For private operators reliability is often more constraining than cost.

In this respect, the mission found that the government and donors' emphasis on the Nacala corridor for Malawian logistics relies on a weak business case not supported by the business community. While not without merit, the Nacala initiative appears to be driven by developmental objectives that are not necessarily consistent with trade and transport facilitation benefits. Nacala may be a reasonable option for liquid or bulk product (oil and fertilizer), which do not go through Durban, it is a very indirect and unreliable route for the core of the trade (containers) or time sensitive product, even compare to the not so efficient port of Beira. Even very ambitious (and unlikely) operational improvement in railroad and port operations may not alter the pattern and make the route attractive to a majority of trade operators.

Previous studies have strongly advocated the Nacala project and validated the high cost investment in the rehabilitation. It is unfortunate that none look at the full picture and the whole trade route through South Africa. Given the scarcity of aid resources, it could be very important to have a rigorous and independent assessment of multimode solutions to link Malawi with the World through South Africa, taking in account recent development along the different corridors in the sub-region.

***Internal logistics in Malawi is not efficient.***

The unit costs are higher for transportation inside Malawi. As a comparison, unit costs of long hauls inside Malawi are at least twice as high as in South Africa (6 cents tons per km vs. 3 cents in 2004). Price are even higher for shorter distances. Direct sources of cost

include underutilization of the national fleet of trucks resulting from the unavailability of back loads and seasonal flows (e.g. tobacco, fertilizers). Organizational problems, with shippers and trading operators also contribute to the problem. For instance, the current logistics of tobacco bales at the auction floors leave trucks queuing for days at a time contributing to the underutilization.

The road transport sector is surprisingly strong, consolidated and organized, for a country the size and the level of development as Malawi. It is dominated by qire big, over 100 vehicles, professionally managed trucking companies. But those companies, are essentially in a small protected domestic markets and are not quite up to compete on long distance regional market with larger South African or Zimbabwean operators. There are rumors that a cartel behavior of the trucking industry is causing higher costs. Clearly, the domestic freight market is very shallow market that cannot be efficient because of its mere size. Real gains can come only from a market integration. Malawi, like its neighbors, does not open its domestic market according to the SADC's third party rule. The opening of the market not only reciprocity but thorough preparation, so that for instance local haulers enter into regional alliances that make them access new markets and develop new services.

***Road policies have been weak.***

Road Fund and maintenance policies. The main road infrastructure of Malawi is in good condition. This is the result of active donors' support, notably that of the European Union. Unfortunately, the government has not been able to establish a sustainable maintenance policy and the road conditions are deteriorating rapidly. A road fund should at least fund routine maintenance and part of the periodic maintenance. Under present (2004) conditions, the Malawian road fund does not for two reasons. It has neither the financial autonomy, neither the operational autonomy required for successful operation: resources that should be allocated to the fund (e.g. fuel levy) are tapped by the general budget.

Furthermore, there is no funding strategy for rural roads hence rendering most tertiary roads impassable during the rainy season and cut off the poor farmers access to the markets.

***Despite the modernized customs, trade facilitation faces many obstacles in Malawi.***

The Malawi Revenue Agency (MRA) started implementing a successful customs modernization process including the implementation of ASYCUDA ++ at the border post. In its current form, the MRA is a well functioning institution, with competent and well-trained staff, The revenue performance has been impressive, but MRA needs to educate its staff on trade facilitation objectives and develop adequate performance indicators. In some areas like national transit (most goods are cleared in Blantyre) or physical inspection (MRA maintains a 100 percent rate of physical inspection), the MRA may reach the same objectives while lessening the burden on private operators.

Many problems are caused by the lack of professionalism or proactivity by the private sector. This is specially true with clearing agents who, in majority, are not able to provide seamless services at the border. Agents are numerous (500), face little entry requirement and have only a nominal professional body. Payment systems are rudimentary, at a time when MRA is deploying ASYCUDA++, which allows for electronic payment.

Public Private partnerships are key for facilitation. Unfortunately, there is no facilitation forum in Malawi in which MRA, other agencies, and representative private stakeholders could discuss practical facilitation issues, on a regular basis. Such a body will be the proper framework to develop consensual practical improvement. Promising is the fact that MRA has engaged into a conventional approach with some large importers to streamline their trade.

The National Bureau of Standards is singled out as the major problem in facilitation by many stakeholders. The NBS is mainly responsible for ensuring the product quality and safety of nonagricultural imports. The way this agency operates hampers trade, without justification with regards to the core missions. NBS appears to be very much driven by generating its own revenue. For instance, the NBS does not recognize certificates of major supplying countries such as South Africa. There is no arrangement for reputable companies with recurrent imports, and goods are tested each time for a fee. Good testing increases costs, delays (multi-days), and losses (for food products).

### ***Lack of cross-border cooperation in Transit facilitation.***

International cooperation has direct relevance for trade and transport facilitation. For COMESA countries, for instance, there are single customs documents, coordinated customs cooperation (with Zambia), and insurance systems in place. In the SADC areas, there are ambitious projects as a carnet/bond system for transit and ultimately the extension of the customs union (SAKU). Even though these objectives are desirable, they are complex undertaking that cannot be implemented in the short run

In the short term, considerable gains can be achieved by targeting transit bottlenecks, within a bilateral cooperation framework. For Malawi, the priority is to enhance the dialogue with Mozambique either in a bilateral way or, when relevant, with other countries such as Zambia or Zimbabwe. Mozambique has its own regulations and procedures. Harmonization between the two, three or four countries in area such as documentation or transit fees could bring direct benefits. Cost and delays can also be improved dramatically by streamlining the procedures to initiate transit in Mozambique, which today results in severe congestion in the ports (e.g. Beira). Transit time in Mozambican ports can take ten days to several weeks.

Unfortunately, there is no today adequate bilateral (or trilateral) forum to address those issues. Such a cooperation should involve public agencies and public stakeholders and build on the work of the national facilitation forum, existing or, in the case of Malawi, to be created.

*The business environment is not conducive of trade and transport facilitation.*

The Banking industry in Malawi is not well developed. Most payments are in cash and access to credit is limited and expensive. This is clearly a constraint for trade operations and a source of major delays. For instance, customs brokers usually pay duties in cash at border posts. The MRA is currently working with Stanbic and the National Bank of Malawi to establish a system of electronic duty payments. This will not only help reduce delays but also put pressure on brokers and importers to modernize their operations. It will also contribute to cleaning the profession of customs brokers, which has a low barrier of entry and too many “suitcase” operators whose practices do not serve the cause of facilitation.

Fiscal policies put a burden on domestic transport activities. Malawi taxes capital goods such as trucks. Trucks, tires and spare parts are subject to a 25% duty and 17.5% surtax increasing the cost of these crucial inputs for the economy. In addition, Malawi started charging a domestic transport surtax of 17.5% on June 2003. This surtax, which is a form of VAT replaced an excise tax. As such it contributes to the central budget and is not earmarked for the road fund. In practice, many companies, including smaller local transporters have trouble mastering the VAT process of collection and deduction (e.g. tires, spare parts) which falls upon the declarant. While, companies collect the tax for the MRA, many are unable to redeem paid VAT or implement exemption such as transport of fertilizers. It means that MRA over-collects this surtax at the expense of the end consumer.

Business attitudes in Malawi are not facilitating trade, generally speaking. . The business and administrative culture are not founded on trust and cooperation, improper practices are pervasive. Beyond solving specific problem, the actions to be taken must promote cooperation mechanism between various public and private participants to make the solutions sustainable, monitor progress, create awareness and provide training.

### **Suggested Actions**

The report acknowledges that not all problems related to trade and transport can be solved by the Malawi Government initiatives. Fundamentally, Malawi is very constrained by its situation vis à vis South Africa, which is not only its main trading partner but also the gateway to the global markets. Many solutions to the problems identified lie in regional or bilateral cooperation with transit countries such as Mozambique.

However, there are certain actions that the government of Malawi can initiate to facilitate trade and transport building on existing assets. Malawi has managed a successful customs modernization program with the MRA. Malawi hosts rather organized and well managed transport and trading companies, local or foreign, which will support sound and sustainable domestic policies. Unfortunately, many previously recommended actions are still under revision or could not be carried out due to budgetary limitations. Persistence and consistency will be key for success and credibility with the stakeholders...

Furthermore, the analysis for this report suggests that the performance can be improved by policy actions combined with training and technical assistance.

The full list of recommended actions is in the action matrix below. Some of them may be already in recent policy packages, such as the recently approved Transport Action Plan. Key, and not always easy, tasks that require immediate attention are:

1. The creation of a facilitation body that will include major participants (MRA, truckers, customs brokers, NRA, banks, major importers/exporters), which will identify problems, monitor performance indicators and provide training.
2. The consolidation of the road fund (cf. Transport Action Plan).
3. The evaluation and reform of the National Bureau of Standard.
4. The engagement of Mozambique in bilateral (or trilateral with Zambia) facilitation talks.
5. Review the tobacco auction process to eliminate the associated truck congestion.
6. An independent review of the potential of multimodal solutions to link with South Africa, including the Nacala and Beira corridors.
7. Continue implementing ASYCUDA ++ to increase efficiency of border posts. Introduce electronic payment system for customs duties.

### POLICY AND TECHNICAL ASSISTANCE MATRIX SUPPORTING MEASURES

Short term= within 12 months, Medium term = within 2 years, Longer term = 2 to 5 years

Themes	Action recommended	Requirements			Time frame and agencies
		Implement existing policy	Policy/legislation change	Technical assistance	(leader)
<b>TRADE FACILITATION IN MALAWI</b>					
<b>Customs and Border Posts</b>					
Private-Public Dialogue	Create, under the MRA, a private-public facilitation committee to enhance the communication between public and private sector.	X	X	X	Short Term MRA, Ministry of Transport, Private Sector Associations
Inspection Agencies	Reassess the missions and operational procedures of the National Bureau of Standards		X	X	Short Term Inter-ministerial (Commerce, Industry)

Themes	Action recommended	Requirements			Time frame and agencies
		Implement existing policy	Policy/legislation change	Technical assistance	(leader)
Customs procedures	Introduce trade facilitation oriented training for MRA agents and introduce voluntary customs compliance and clearance facilitation. Develop Code of Conduct for MRA employees.	X		X	Short term <u>MRA</u>
Automation of procedures	Full deployment of ASYCUDA ++ including transit modules. Provide training to agents. Set up electronic payment systems for customs clearance	X		X	Ongoing, <u>MRA</u> Reserve Bank of Malawi, Banks
Clearing agents	Enhance requirements at entry for clearing agents to improve professional conduct .	X	X		Short Term <u>MRA</u> , Clearing and Forwarding Association
<b>TRANSPORT POLICIES AND LOGISTICS IN MALAWI</b>					
Infrastructure: sustainable funding of Road maintenance	Allocate fuel levy to feed directly into the road fund (no tapping by the general budget) and guarantee fund's autonomy. (cf. Transport Action Plan)	X			Short Term, <u>Ministry of Finances</u> Ministry of Transport
Infrastructure: Rural roads	Improve funding for feeder roads to increase passage during the rainy season	X		X	Medium Term <u>Ministry of Transport</u> , Ministry for Local Development and Rural Works
<i>Increase competition in the road sector</i>	<i>Cf. below third party rule</i>				
Tobacco Logistics	Modify the tobacco auction system as recommended by previous World Bank study to heavy stop congestion and storage of tobacco in trucks		X		Short Term <u>Tobacco Association of Malawi</u>
Statistics and indicators	Improve data collection of traffic flows – there is no data collection at this point and the current registration systems do not allow for data analysis	X		X	Short Term <u>Ministry of Transport</u> Road association
Training in transport and logistics	Support institutions like Institute for Logistics Training to improve operational know –how and management capacity of transport professionals.	X		X	Short Term Donors, <u>Institute of Logistics Training</u> , Road Transport Association, Clearing and Forwarding Association
<b>TRANSIT FACILITATION : BILATERAL AND REGIONAL MEASURES</b>					

Themes	Action recommended	Requirements			Time frame and agencies
		Implement existing policy	Policy/legislation change	Technical assistance	(leader)
Transit Corridors	Conduct an independent comparison of the long term potential and investment needs of transit corridors (Nacala, Beira, Durban), taking in account existing projects in transit countries. It should be a roadmap of the future of multimodal links to the South African hub and further to World market, with a view to help the discussion with the governments of transit countries notably Mozambique			X	Medium Term <u>Donors</u> Ministry of Transport, Ministry of Commerce, Ministry of Finances
Transit	Enhance bilateral cooperation with Mozambique on transit procedures for a number of issues including harmonization of transit documentations and border hours, and speed up the processing in ports of transit goods for Malawi.		X	X	Short Term <u>MRA</u> , Ministry of transport stakeholders
Transit	Harmonize transit charges with the Zambia and other neighboring countries to prevent mutual increase in transit costs		X		Short Term <u>Ministry of transport</u> Ministry of Finances
Transport services	Initiate discussions to implement SADC third party rule on a regional level in order to open markets and alliances to Malawian operators while increasing competition in the domestic market.		X	X	Medium Term <u>Ministry of Transport</u> Road transport association.
Transit/customs	SADC bond and carnet system		X		Medium/Long Term
Customs Union	Extension of SAKU		X	X	Long term
<b>BUSINESS ENVIRONMENT</b>					
Finance	Encourage the use of electronic payment systems by the private sector, notably clearing agents and importers.			X	Medium Term <u>Reserve Bank of Malawi</u>
Finance	Encourage financial intermediaries to provide loans for the transport sector to upgrade truck fleets		X	X	Medium Term Reserve Bank of Malawi
Fiscal policies	Facilitate the implementation of the 17.5% VAT-like surtax on domestic transport service. Small transport operator should be educated to master the basic principles of collection, declaration and exemption.		X		Short Term <u>MRA</u>
Fiscal policies	Reduce duty and tax for trucks, which as capital goods should not be taxed heavily		X		Short Term <u>MRA</u>