

MALAWI TRADE AND TRANSPORT FACILITATION AUDIT

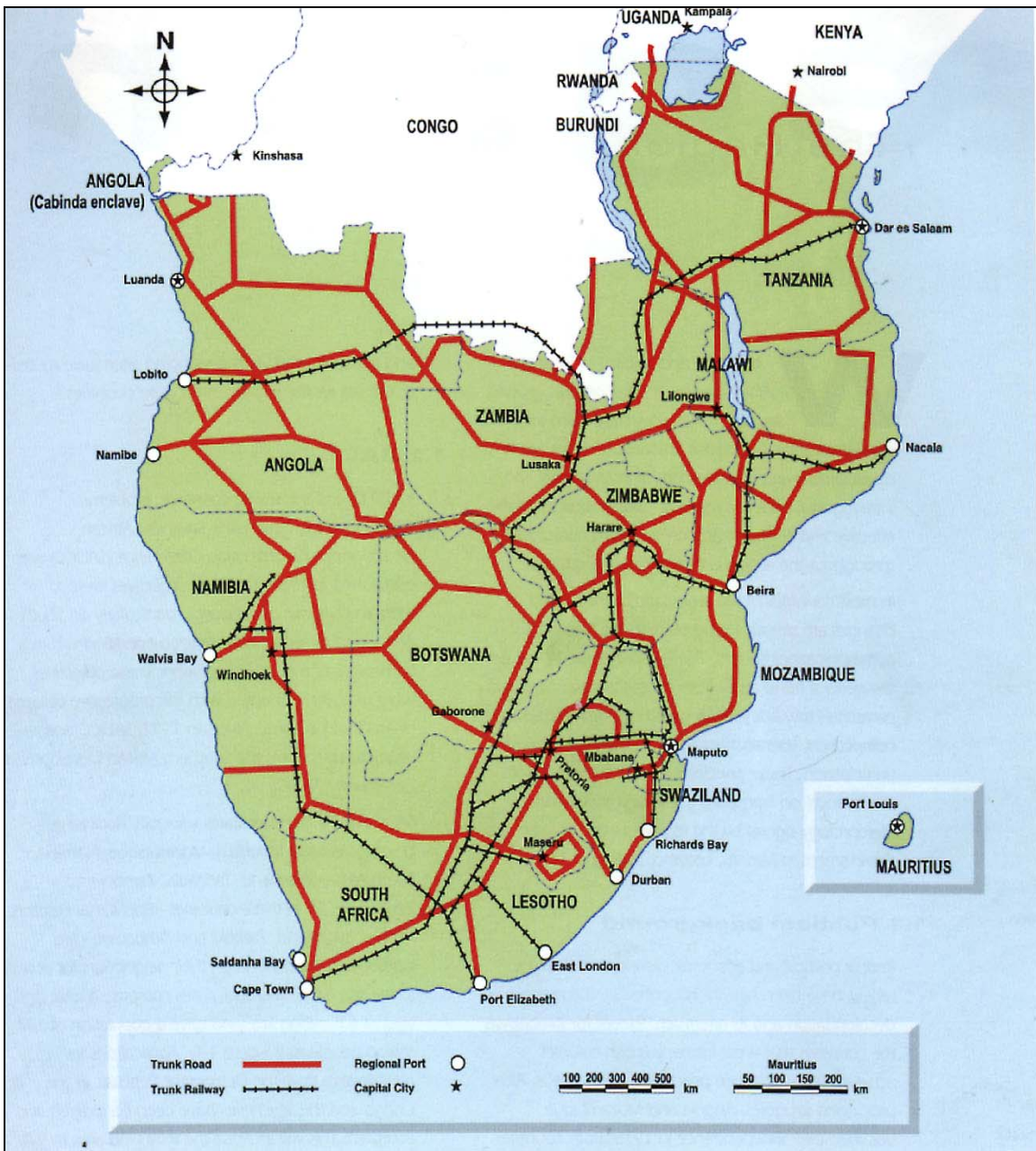
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Malawi Trade and Transport Facilitation Audit

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The principle of a Trade and Transport Facilitation Audit (TTFA) was decided at the Trade workshop in Lilongwe, on September 2003. This report has been prepared by the World Bank International Trade Department. It is based on the data collected and interviews carried out during a mission in Malawi (March 2004) by Mrs. Zeynep Ersel and Mr. Jean-François Arvis from the World Bank, assisted by Mr. Daniel Giblin (consultant) and Mr. Charles Kaira (consultant).

This document also benefited from the information provided by two subsequent and similar audits carried out under Bank supervision in Zambia (June 2004) and Mozambique (July 2004).

TRADE AND TRANSPORT FACILITATION AUDITS (TTFA)

The facilitation audit establishes a diagnosis, as comprehensive as possible, of 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 analysis is carried out through a series of interviews of private sector operators and public agencies, according to the methodology published by the World Bank in *Trade and Transport Facilitation: a Toolkit for Audit, Analysis and Remedial Action, World Bank 2001*. It results in a comprehensive analysis of the present situation and a remedial action plan, which break the ground for future trade or transport facilitating projects.

EXECUTIVE SUMMARY

Malawi is a small, landlocked country whose development 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 good logistical position. Its main economic center, Blantyre, is only about 300 kms from the sea, as the crow flies.

Southern Malawi and Blantyre used to have a good railroad connection (530 km) to the port of Beira in Mozambique, which is also the gateway to Zimbabwe and Zambia. However, upheaval in Mozambique in the 80s essentially cut off Malawi from its traditional trade routes. The country started to rely on very long land routes through Tanzania or South Africa for its supplies as well as its exports. In addition, during this period trade patterns changed radically. First, with the development of tobacco crops, the geographical center of exports 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. This made long trucking routes a 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 and the railroad to the port of Nacala in Mozambique, both about 800 km.

Malawian trade logistics is even more complex due to a series of imbalance in flows. The economy depends on exports of agricultural commodities, especially tobacco (120 kilotons/yr), sugar (90 kilotons/yr), and tea (50 kilotons/yr) as well as on a promising garment industry. However, the volume of exports (300 kilotons/yr) is far below the level of imports (about 1 million tons/yr). Furthermore, while Beira and to a lesser extent Nacala are favored routes for imports, exporters prefer to ship through Durban, South Africa. This route is more reliable in terms of timeliness and effectiveness compared to the closer but less logistically friendly ports in Mozambique. Indeed, for exporters delays are often more constraining than costs and are a serious obstacle for developing new services.

Malawian traders pay high transportation costs for imports and exports. 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 high mainly because of the length of the route 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). However unit costs of transport for imports compared favorably to those supported by other landlocked countries in Africa.

The unit costs are higher for transportation inside Malawi because of the shorter distances and the underutilization of the fleet resulting from the unavailability of back loads and seasonal flows. As a comparison, unit costs inside Malawi are at least twice as high as in South Africa (6 cents tons per km vs. 3 cents). There is no strong evidence that a cartel behavior of the trucking industry is causing higher costs, despite that many stakeholders

report this fact. In fact the mission found that Malawian trucking companies are well organized and well managed and even though they are not competitive at the regional level, they operate with a sound cost structure.

The trade volume of Malawi is small in absolute terms and this is another factor that constrains policies to improve trade logistics in the country. For example, all Malawi road traffic can be supported by a flow of eight trucks per hour in daytime, while all exports of Malawi can fit in five cargos. The small volume means that efficient logistics cannot be built on an independent strategy or investment for Malawi but rather should depend on a cost/delay-effective connection of main trade routes available for neighboring countries such as Mozambique or Zimbabwe.

In this respect, the mission found that the government and donors' emphasis on the Nacala corridor relies on a weak business case. While not without merit, the Nacala initiative appears to be supply driven and based on developmental objectives that are not necessarily consistent with trade and transport facilitation benefits. For a number of reasons linked with operational efficiency (railways vs. road rates, and performance of Nacala port), it is not clear that this multimodal route can become attractive for importers and exporters. In fact, reestablishing the historical Sena line from Beira would be a much more credible multimode solution. This may become an option again as Mozambique recently started the rehabilitation of the Sena line. Given governmental commitments and recent donors' support to the Nacala project (such as OPIC support for rehabilitating the 77 km stretch in Mozambique), the missions' findings suggest an urgent independent assessment of the potential and conditions for sustainable multimode solutions for Malawi, including both Nacala and Beira. Previous studies have strongly advocated the Nacala project; unfortunately they have been based on disputable, or incomplete assumptions.

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, an issue that goes much beyond trade and transport facilitation. The road fund does not have the financial and operational autonomy it needs. Meanwhile, there is insufficient funding for rural roads that would link the majority of off-road populations to main roads and therefore link the farmers to the markets.

One of the best assets of Malawi is the successful customs modernization implemented in the last two years by the Malawi Revenue Authority (MRA). MRA is a well functioning institution, with competent and well-trained staff, although not always with trade friendly, procedures or attitudes. 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 or physical inspection (MRA maintained a 100 percent rate), the MRA may reach the same objectives while lessening the burden on private operators.

International cooperation has already brought some benefits to trade facilitation. For COMESA countries, for instance, there are single customs documents, coordinated customs cooperation, and insurance systems in place. These structures need to be strengthened. One of the main cooperation issues is with Mozambique, which has its own procedures and documentation requirements. The issue of harmonization in Mozambique has to be implemented within the SADC framework. There are other SADC projects being planned such as a carnet system or a customs union but, even though these objectives are desirable, they are complex reforms that cannot be implemented in the short run. Harmonization is a first and much easier step in the same direction.

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.

Another agency involved in border crossing is The National Bureau of Standards (NBS), which is responsible for ensuring the product quality and safety of nonagricultural imports. The activities of the NBS are criticized by a number of stakeholders. The mission team found that NBS implements its duties in a way that hampers trade, and that is not justified by its core objectives. For instance recurrent imports from known companies are tested each time, which creates delays and cost money for the importers. The mission team recommends a reassessment of present working practices.

Ultimately, a facilitating environment will require changing business attitudes and promoting cooperation between various public and private participants to solve problems, monitor progress, create awareness and provide training.

Suggested Actions

The suggested measures are provided below. These can be split into two broad categories: trade specific and more generic measures. Most of the priority actions do not require investments but policy actions.

Trade Specific Measures

- Create a facilitation body that will include major participants (MRA, truckers, customs brokers, NRA, banks, major importers/exporters), who will identify problems, monitor performance indicators and provide training.
- Assess the operations of the National Bureau of Standards.
- Have an independent review of the potential of multimodal solutions including the Nacala corridor. Donors should make this review a condition for further support to the Nacala initiative.

- Further international cooperation to ease transit operations, especially with Mozambique.

Non Trade Specific Measures

- Improve road maintenance policy (Road Fund).
- Introduce performing payment systems that will be available to participants to trade related transactions, such as the MRA, customs brokers and importers.

CHAPTER 1 TRADE AND TRANSPORT OVERVIEW

Malawi is a landlocked country with an area of 118,484 square kilometers. Bordered by Tanzania, Mozambique and Zambia, it is a narrow territory with a total length of about 1000 km running from North to South. The Northern half of the country is bordered on the East by Lake Malawi, which is 570 kilometers long and occupies 24800 square kilometers in Malawi. The Lake is Africa's third and the world's twelfth largest lake. Because of the lake and other natural features, the habitable area in Malawi is estimated at barely over 46,256 square kilometers.

Malawi is surrounded by much bigger neighbors and its small economy depends on its neighbors for access to the sea and international markets. For this reason, Malawi suffered for more than two decades from the chronic instabilities in the neighboring countries like the civil war in Mozambique and the political turmoil in Zimbabwe.

Malawi is divided into three regions: The Southern Region (south of the Lake) is the most densely populated (47 percent of the population) and economically active region in the country. It harbors the largest cities like Blantyre and Limbe. The Central Region also harbors a large part of the population (41percent) as well as the capital city Lilongwe. This region produces tobacco, which is the main export of Malawi. The Northern Region Mzuzu is sparsely populated with only 12percent of the population.

The northern region and most of the central region are separated from the Indian Ocean by Lake Malawi and 600 km of the very underdeveloped provinces of Northern Mozambique and Southern Tanzania. The closest port, Dar es Salaam, is 1000 km distant from the Northern border of Malawi. In contrast, the Southern Region is very much an enclave in the Mozambican region of Zambezi. Much of this Southern region is a corridor centered along the Shire River, which is a branch of the Zambezi River. **As a matter of fact, the South East border is only about 200 kilometers from the sea, as the crow flies.** This makes Malawi one of the landlocked countries closest to the sea.

For decades, Malawi established trade routes, benefiting from this closeness. Early investments in export commodities and good political relationships between Portugal and the pre and post independence government in Malawi have been favorable to economic development especially in the Blantyre area. The main outlet for the exports was Beira Port in Mozambique, thanks to the railways going through Sena Bridge on the Zambezi River.

The relatively mild logistical constraint changed dramatically during the last quarter of the century for a number of reasons. The most important reason was the civil war in Mozambique, which forced Malawi to rely on the northern corridor route to Tanzania or even a longer route through Zambia, Zimbabwe and South Africa. In addition during this period trade patterns changed radically. First, with the development of tobacco crops, the center of gravity of Malawian exports moved north. Second, with political changes in

South Africa, Malawi became more economically integrated and dependent on South Africa for imports and exports and this made rather long trucking routes a sustainable option.

Today, the majority of exports and imports are transported by truck to Beira in Mozambique (the much shorter railroad to Blantyre-Beira has not been repaired) or Durban in South Africa, or by train to Nacala in Mozambique with a small amount of imports and transit traffic still going through Dar-Es-Salaam in Tanzania. The road network in and out Malawi is good and can handle the traffic, despite some maintenance problems. Until now, the railroad network could handle only a fraction of the traffic and suffers from major disruptions, such as a chronically weak 77 km section on the Mozambican side of the border. Since last year the train traffic to Lilongwe has been interrupted by a washout near Salima.

TRADE

The Malawi economy is an open economy dependent on international trade. Agriculture is the mainstay of the economy contributing about 40 percent of Gross Domestic Product (GDP) and over 80 percent of export earnings.

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------------------|------|------|------|------|------|------|
| GDP (US\$bn) | 1.8 | 1.6 | 1.7 | 1.8 | 1.6 | 1.6 |
| GDP per capita (US\$) | 161 | 143 | 145 | 153 | 132 | 132 |
| Real GDP growth (% change YOY) | 4.0 | 1.7 | 1.5 | 1.7 | 1.7 | 2.6 |
| Current account balance (US\$m) | -158 | -73 | -60 | -201 | -58 | -53 |
| Current account balance (% GDP) | -8.8 | -4.5 | -3.6 | -11 | -3.6 | -3.2 |
| Goods & services exports (% GDP) | 27.4 | 27.0 | 27.5 | 28.9 | 29.7 | 30.2 |
| Inflation (% change YOY) | 44.8 | 29.6 | 27.2 | 14.7 | 9.5 | 13.3 |

According to the IMF, Malawi exports in 2003 were US\$ 434.1 million and imports were US\$ 624.1 million.

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|------------------|-------|-------|-------|-------|-------|
| Total exports | 447.1 | 401.8 | 426.5 | 421.1 | 404.6 |
| Domestic exports | 416.4 | 392.5 | 414.2 | 391.0 | 395.9 |
| Tobacco | 274.6 | 246.8 | 254.5 | 232.7 | 218.2 |
| Tea | 39.3 | 36.9 | 35.5 | 33.4 | 35.9 |
| Sugar | 23.1 | 39.2 | 34.6 | 44.3 | 45.5 |
| Cotton | 5.3 | 7.1 | 4.4 | 3.4 | 5.7 |
| Groundnuts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | |
|-----------------------------------|------|------|------|------|------|
| Rice | 2.5 | 1.6 | 1.2 | 0.7 | 1.3 |
| Coffee | 8.9 | 5.2 | 3.9 | 2.4 | 2.7 |
| Pulses | 6.5 | 2.2 | 0.9 | 2.9 | 7.1 |
| Maize (extraordinary export only) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (non-traditional exports) | 56.1 | 53.4 | 79.1 | 71.1 | 79.5 |
| Re-exports | 30.7 | 9.3 | 12.3 | 30.1 | 8.7 |

Source: IMF

The top three exports of Malawi, in terms of both value and volume, are tobacco, tea and sugar. They account for nearly 90 percent of total exports. Tobacco alone accounts for about 70 percent of total exports. Export earnings have been decreasing since mid-90s and have dropped from a peak of US\$537m in 1997 to an estimated US\$404m in 2003, mainly due to falling tobacco and sugar prices. In the recent years, textile production has grown significantly (due to AGOA) and now textiles are the largest non-agricultural export. The largest export partner for Malawi is the US where most of the tobacco is processed.

Malawi imports more than it exports, for consumption or for inputs to the agricultural sector (fertilizers) and the manufacturing sector. The manufacturing industry currently comprises of sugar, cement, textiles, cold storage, tea processing, shoe production, milling, edible oils, and other light industries with the main industries being textile and apparels. All machinery and electronic appliances are imported. South Africa is Malawi's primary supplier of imported goods. Fuel, fertilizers and paraffin are the largest imports in terms of value and volume. According to the IMF, in 2002, 44 percent of Malawi's imports came from South Africa and 13 percent came from Zambia. These statistics do not capture the large volume of informal trade, which is estimated at 50 percent of formal, recorded trade.

| Malawi's principal export destinations, 2002 | Malawi's principal import sources, 2002 |
|---|--|
| 1 United States 17.3% | 1 South Africa 44.0% |
| 2 Germany 13.6% | 2 Zambia 12.7% |
| 3 South Africa 10.2% | 3 United States 5.6% |
| 4 Egypt 6.2% | 4 India 4.2% |
| 5 Japan 5.9% | 5 United Kingdom 3.7% |

Source: IMF and government data

VOLUMES OF TRADE

Export volumes are well documented for the main commodities despite the occasional inconsistencies with the sources and year-to-year variations (the highest volume is tobacco with about 120,000 tons, followed by sugar 90,000 tons and tea 50,000 tons). Unfortunately, the mission team could not find a unified comprehensive source for import volumes (tons or cubic meters). However, combining information from various

sources, it is possible to present a picture. The main sources used in this report are customs statistics, official statistics (for main commodities) and private sector sources such as forwarders.

In the future it would be very helpful to combine various sources in a single annual document as part of public/private initiatives for trade and transport facilitation. This would provide the government, donors, and stakeholders with reliable information about the trade routes.

The Customs (MRA) recorded the following figures for 2002 and 2003, in thousands of tons.

| | Exports | Imports |
|------|----------------|----------------|
| 2002 | 319 | 840 |
| 2003 | 492 | 987 |

According to the National Statistical Office and professional sources, the volumes for main commodities were:

Exports volumes (2002):

- Tobacco 119500 tons
- Sugar 86600 tons
- Tea 51700 tons
- Cotton 11600 tons

Imports (2002)

- Petroleum products 200 millions liters
- Fertilizers 149000 tons
- Clinker (not found)

Other imports, especially food, consumer goods, manufactured goods and inputs for local industries are shipped in containers. Based on truck traffic, the mission estimated the corresponding TEU value at 30000 (very broadly), which is also consistent with the tonnage given by the customs.

Beside the high ratio (2.5) between imports and exports, there are other imbalances in the trade logistics. The overlap between export and import routes is not very good, Durban being relatively more important for exports. Based on indications from forwarders and transport operators, the mission team's estimates of the distribution of flows between the three main routes are as follows:

| Transport corridor | Exports | Imports |
|---------------------------|----------------|----------------|
| Durban | 50% | 35% |
| Beira | 25% | 35-45% |

| | | |
|--------|-----|--------|
| Nacala | 25% | 10-20% |
| Others | | 10% |

Another source of imbalance is the difference in logistical requirements between importers and exporters. Exporters are shipping low-density commodities to be repackaged in South Africa; thus they prefer forty feet containers. Conversely, importers prefer more steady flow of small shipments in twenty-foot containers. Forwarders face a deficit of 40-footers and an excess of 20-footers to satisfy the demand.¹

One important conclusion is that the volume of trade for Malawi is small and Malawi is not generating enough traffic by itself to justify its own gateways. For instance petroleum imports do not fill a tanker, tea exports hardly fill an ordinary cargo and the container traffic of Malawi is only a fraction of the capacity of the port of Beira. This means that efficient logistics for Malawi must take advantage of volume generated by other countries' trade.

¹ As most containers have to return empty southbound, shippers have typically to pay a deposit for the box, which amounts to about \$5000.

CHAPTER 2 INFRASTRUCTURE AND TRANSPORT SERVICES

There have been extensive reviews of the transport sector in recent years including a transport section for the Integrated Framework study and the PPIAF report on the Nacala Corridor Initiative. The present document does not go into a detailed review of the infrastructure or the transport sector. Only the issues that are more directly relevant for trade have been revisited during the mission.

ROADS

There have been significant improvements in Malawi's road network over the past years and the road network is denser than that of other African countries. The road network consists of 15450 km of different types of roads and an estimated 10,000 km of non-classified roads.

This is in part due to donor's support to the development and rehabilitation of main roads in recent years. Most of the main roads are paved (2500 km) and they serve as the major international and national freight and passenger routes. These roads are generally in good condition. Unfortunately due to inadequate funding of maintenance and heavy axle load, the road is deteriorating.

Since its inception in 1998, rehabilitation and maintenance of roads is the responsibility of the National Road Administration (NRA). However, the NRA is poorly funded and can only do routine maintenance. As in many other countries in sub Saharan Africa, road works are financed by a Road Fund replenished by various fiscal sources, mostly including fuel levies (about 10 cents per liter). The golden rule of the road fund is that it should be able to finance routine maintenance and most of the periodic maintenance. In African LDCs, new roads or rehabilitations are funded by donors' contributions (notably the EU and the World Bank for Malawi).

These objectives have not been achieved in Malawi for a number of reasons:

- The Ministry of Finance is apparently keeping a substantial part of the money collected.
- The road fund has been marred by procurement problems and has little financial freedom.
- There is a tense dialogue on those issues between the government and the donors.

As a result, the road fund can provide only 25 percent of maintenance needs. Despite donors' intervention, the backlog in periodic maintenance is growing. This means that Malawi trade related infrastructure might be less efficient and will need costly rehabilitation in the future.

Other proposals such as toll roads or bridges to increase the funding have been abandoned

Another major problem is the funding of the secondary and tertiary network. The disparity between paved and unpaved roads networks results from the past emphasis on capital investments in the paved networks and urban areas. More than 85 percent of Malawi's population lives in rural areas and they are dependent on secondary and tertiary roads for transporting their goods. The quality and funding of this network is problematic.

The vast majority of secondary and tertiary roads are unpaved, gravel or earth roads. These roads and the river crossings are not well maintained. This results in high transport costs and renders certain regions in the country inaccessible during the rainy season. The road network inventory, undertaken in September and October 2000, of a 50 percent (7,717 km) sample of Malawi's road network reported that 70 percent of all surfaced roads are in good condition, while only 12.5 percent of the gravel or earth roads are in a good condition.

Improved rural infrastructure can provide all year access to key collection areas to connect farmers to markets and therefore improve, through increased trade, the living standards of small farmers. Rural accessibility and mobility is seriously compromised by the poor condition of the rural road network. During the rainy season accessibility to the collection points can be extremely difficult and delivery or collections can face up to 5 days of vehicle delays.

There have been initiatives to improve rural transport (see chapter 4). So far, these initiatives have been partial and sometimes marred by lack of funding. The main challenge is to maintain access in rainy or flooded conditions. To eliminate bottlenecks at river/stream crossings and slippery road sections requires the construction of drifts and culverts and the transport of gravel to the most slippery sections where vehicles slide. Currently, the NRA does not have the necessary funding to upgrade the rural roads and most remote feeder roads do not fall under the jurisdiction of the NRA.

HAULAGE AND LOGISTICS SERVICES

Both international and indigenous transport companies are operating in Malawi. International operators are mostly from South Africa and Zimbabwe and are capturing most (70 percent according to some industry sources) of international trade logistics. Local companies are providing Malawi logistics, which is somehow a protected market, as Malawi does not adhere to the third party rule. Locals are also providing international services for the closest destinations such as Beira in Mozambique.

The Malawi haulage sector is dominated by handful of medium sized haulage companies operating 100 vehicles or more. Despite some industry complaints, it is generally considered that there is government support and protection to the sector. Hauling companies seem well connected in business and political circles to maximize their commercial opportunities: a cartel behavior has been mentioned in few interviews. The companies are represented by a dynamic Road Transport Association. The rest of the sector consists of familial or small companies (10-20 that are not very commercially efficient and not competing with the organized sector.

Malawi is not a very competitive market environment for transport. The market for load is shallow and seasonal. Back load is inherently difficult to organize and is not actively sought. As a consequence, fleet utilization is sub-optimal. The under utilization and availability of trucks and trailers results in higher transportation prices in the market (this point is developed in chapter 5). By contrast, Regional truckers seek to collect export loads in Malawi and market their services at very low prices to prevent empty running returns, the hauler's profit having been generated on the highly priced import leg.

Liberalization of the transport sector will certainly reduce the cost as other SADC operators may sell their service to carry loads inside Malawi. Obviously, there is some reticent opposition to the implementation of such a "third party rule", which is in the SADC protocol (see next chapter). At the same time, the mission team found that the perception is that in the future the hauling sector will be strong enough to reap the benefit of some form of multilateral liberalization.

The strong point with the Malawian haulers is that they are open-minded, well-managed, private companies. The transport sector in Malawi has benefited from external skills and investment by foreigners, especially Asians, and this is to be encouraged. Furthermore, there should also be training and education of ethnic Malawians to encourage their participation in the industry. Most of the companies have rather proactive Human Resource management. They provide training for their drivers, pay them well through incentive schemes and build loyalty whilst monitoring drivers' time to prevent abuse, such as sales of fuel and conveying passengers for gain (a classical way for unscrupulous driver to make more than their salaries at the expense of timeliness).

HUMAN RESOURCE MANAGEMENT IN THE TRUCKING SECTOR

One of the interviewees trained its drivers in 'defensive' driving and offered good remuneration packages consisting of 4,000 Kwacha as a basic salary, 0.18 Kwacha per km driven, 300 Kwacha per trip for feeding, and 200 Kwacha night allowance per day out of station. Thus a driver driving 5000 km a month will earn 9000 Kwacha plus an addition to the 4000 Kwacha basic salary plus a further 6000 Kwacha night allowance, giving a total of 19,000 Kwacha (US\$180) per month. The drivers remain for as long as 10 years with an average stay of 3-4 years. The company permits each driver to manage his personal trip time, with drivers having to answer for delays. Each driver is allocated a 'horse,' which he is required to keep in good running order and for which he manages the fuel consumption. There is reward at the end of each financial year for 'horses' with minimum operating costs.

One of the main handicaps of Malawian haulers is the size and lack of international partnerships. This is a condition to operate on long distances. Long hauls require backup maintenance equipment or facilities to maintain and repair the fleet. This is a practical constraint that prevents Malawians from operating, for instance, on the road to South Africa.

To develop their businesses Malawi truckers should aim to be regional players by applying a market-led approach and seeking international contracts. Building long term partnerships in neighboring countries will permit them to set up hubs outside Malawi and expand business opportunities rather than apply a restrictive, short term localized approach. This is not only a private sector issue. In order for this strategy to be viable, Malawians must find reciprocal conditions in other countries, which is an intergovernmental matter. At present, Malawian operators find that regulations are rigid for setting up business in neighboring countries whereas in Malawi it is much simpler for large foreign companies to do so.

The modernization of the sector will also help the emergence of more sophisticated logistics services. For instance, intermodal services are needed to reap the benefits of railroad or lake transportation (see below). In Malawi such an example is provided by Malawi Cargo Center (MCC), a company with public interest, which was created to overcome the logistical constraints at the time of the war in Mozambique. The MCC provides a useful model for intermodal logistics development along the Dar es Salaam Corridor. From Dar es Salaam, MCC is a forwarding and clearing agent for countries other than Malawi. MCC Ltd. has a specialized facility at Dar es Salaam port where it manages direct deliveries, which thus are not required to go through port formalities. The facility is a “one stop office” with customs clearing agents available for processing cargo destined for Malawi and other neighboring countries such as Zambia and the Democratic Republic of Congo.

Although not entirely sector specific, an apparent obstacle on the road to modernization is the mobilization of financing for the equipment.

The Malawian haulers borrow at high (40 percent plus) interest rates, receive payments in the depreciating Kwacha and must change the Kwacha to foreign currency to pay for the assets and operational costs. In addition, the credit risk may be high for the Bank as there are several mitigating factors such as accidents, sale of asset without bank knowledge, fast depreciation due to poor maintenance and bad driver behavior, all of which could lead to a bad loan. However, although the mission team heard this complaint several times, it seems that the most established companies are finding loans (up to three years) from the local banking system.

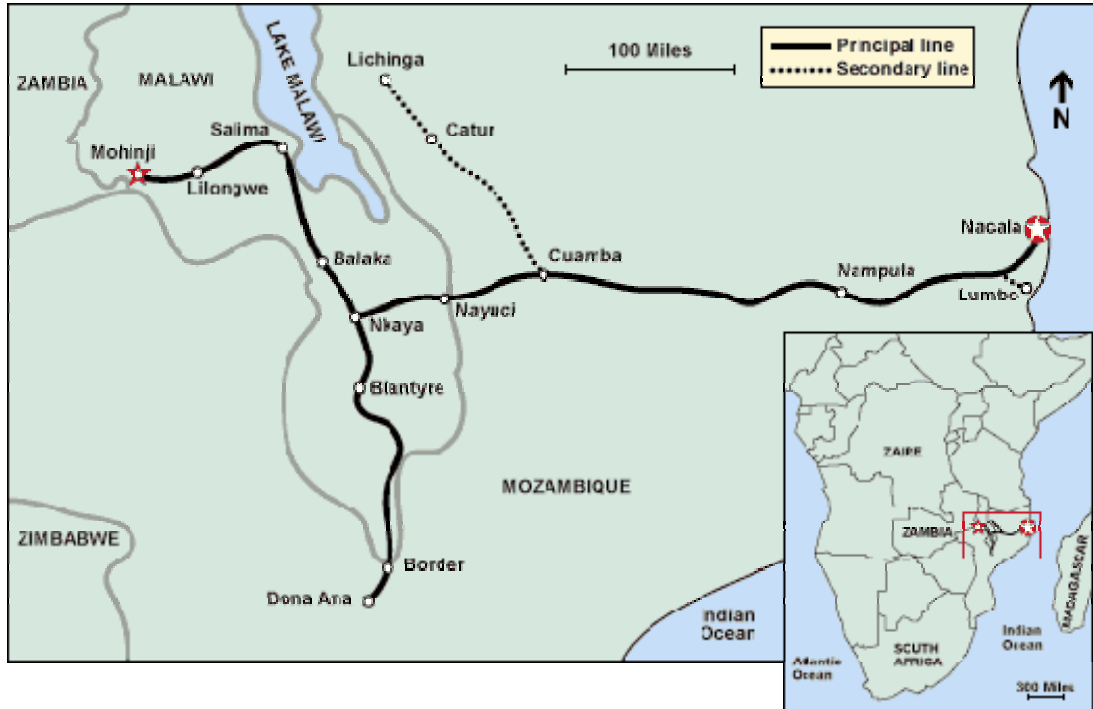
Due to limited resources, local trucking companies buy reconditioned vehicles that have very short life, usually 5 years, and are associated with high operating costs because of their average age of about 10 years. Although those vehicles are bought at rather low prices (20-30000 USD for a tractor), they are heavily taxed. An imported second hand truck can attract 25 percent duty, 35 percent surtax and excise of 30 percent. Operating costs (fuel and maintenance) are comparatively higher, another handicap in the long run. In comparison, South African companies usually acquire only new vehicles thus reducing their operational costs; can borrow under better conditions; and operate with a more stable currency.

RAILROADS

In principle, railways are economic over long distances and can help reduce congestion on roads and at ports. The railroad played an important role in the development of Malawi. Through the Nacala corridor initiative, the Government is hoping that improved operations from the port of Nacala will lower the cost of transportation and stimulate economic development. Chapter 6 will review this important topic in more detail.

Malawi has a total of 797 km of single-track (1067 mm gauge) railroad within the countries' borders, of which 757 km is operational. The rail network serves the Southern half of the country, South of Lilongwe. It starts from the Mozambique border, branching to the Sena line in Mozambique in the south, through Blantyre up to the port of Chipoka, and the town of Salima on the lake. From there, the line runs west through Lilongwe to Mchinji and the Zambian border. In Nkaya, mid way between Blantyre and Salima, a branch goes east to the Mozambican border (Nayuchi/ Entre Lagos) to reach the Nacala line in Cuamba.

Below is a representation of the Nacala railroad.



Source: CAER

The condition of the railroad is very inconsistent:

- 225 km between Salima and the Zambian border is in new condition being built or having been rebuilt recently through a Canadian grant.
- The line between Blantyre and Salima as well as the branch from Nkaya to the border is generally in good acceptable condition although it needs some re-ballasting² and repair.
- For the last year a washed out bridge South of Salima prevented operations to Salima and Lilongwe. The bridge is being repaired under a DFID grant. The mission team did not discover why no temporary solution, such as a Bailey bridge used for roads in the same area, has been put in place to allow some traffic to Lilongwe.
- The tracks south of Blantyre (a 209 km section) are in a poor condition. The most southern section 80 km south of Machanga is no longer in use and needs rehabilitation as some sections have been washed out by floods.
- In Mozambique, a 77km section located in a flood area between Cuamba to Entre-Lagos has been in very poor condition, causing many interruptions. It is being rehabilitated (see chapter 6).

In practice, during the last year the railways have been operating between Blantyre and the port of Nacala in Mozambique or locally in the populated area around Blantyre.

² The local and ubiquitous granite is a perfect material for ballast.

There has been limited seasonal traffic around Lilongwe. Even before the cut, the line from Lilongwe to Zambia knew very limited use. Apparently it was built by donors in the hope that traffic will come from the extension into Zambia as part of the Nacala Development Corridor project (cf. chapter 6).

The Central East African Railway Company Ltd (CEAR) is the concessionaire for operation in Malawi. Its shareholders include:

- The Railroad Company of America (based in Pittsburgh, it is a dedicated investor in railways in developing countries)
- Edlow Resources (USA)
- MANICA (a large logistics provider based in Mozambique)³
- CFM, which owns 49 percent of CEAR
- Small investors

The Mozambican operator of the Nacala line is a different company with the same share structure (see chapter 6).

CEAR has two responsibilities:

- Operate on a commercial basis the Malawian part of the cargo traffic from/to Blantyre or Lilongwe and to the port of Nacala in Mozambique. CEAR pays the equivalent of 500,000 USD in concession fees per year.
- Run subsidized local passenger and goods lines to serve rural areas in the Southern Region (Blantyre).

CEAR operates with a staff of about 500. The CEAR has a rolling stock that includes 14 mainline locomotives, 5 shunting locomotives, over 125 covered wagons, 60 flat wagons that can carry containers, low sided wagons, 90 tankers and 24 passenger coaches.

The rail track in Malawi has the capacity to carry five times (up to 1 MT per year internationally vs. about 100kt of imports and 50kt of exports today). CEAR is implementing a plan to improve the maintenance of the infrastructure and the availability of the rolling stock. According to CEAR, the present levels are 90 percent for locomotives and 75 percent for the rolling stock. CEAR estimates that it needs 10 more locomotives to meet its capacity objectives. Speed is limited to 15-20 km/hour in many sections. CEAR plans to improve maintenance so that the norm will be 50 km/hour. CEAR is also preparing a plan to better cope with the consequence of wash out on the infrastructure (cf. the problem between Nkaya and Salima).

CEAR's rolling stock control is being enhanced with further development of the ACIS (Advance Cargo Information System). However, there are significant operational delays on the line due to infrastructure problems and rolling stock availability as well as handling, transfer and documentation issues at Nacala port.

³ Manica name is also present in other countries in Africa, including Malawi. However, there is no more functional or capitalistic relationship between this forwarder and Manica Mozambique.

Shippers tend to complain that the current quality of service, security improvements and the rate structure are not attractive compared to road transport. The overall impression is that CEAR has an engineering led management structure and a traditional railway culture that emphasizes the volume of traffic rather than the quality of services. Typically, CEAR favors large shipment of bulk, non time sensitive material (e.g. clinker), and has little appetite for investing in and marketing more integrated logistics services that can attract new shippers who are importing or exporting containers with time constraint.

CEAR Statistics

| | 2000 | 2001 | 2002 |
|--------------------------|-------|-------|-------|
| Freight: 1000tonsxkm | 79747 | 66238 | 64036 |
| Passengers (thousands) | 418 | 362 | 660 |
| Passengers XKm thousands | 24789 | 21883 | 42323 |

Source National statistical office 2003

| | 2002 | 2003 |
|----------------|--------|--------|
| Exports (tons) | 90466 | 82017 |
| Imports (tons) | 190606 | 137899 |
| Local (tons) | 174269 | 33322 |

Source National statistical office and CEAR 2004⁴

LAKE TRANSPORTATION – CHIPOKA PORT

Lake Malawi has played a very important role in transportation of goods and passengers in the late 1980s and 90s as part of the northern corridor to Dar es Salaam. However, after the end of the civil war in Mozambique, this traffic declined drastically. Lake transport currently plays a marginal role in the transport of goods. The mission team found that the present equipment is very under-utilized. Restoration of an effective marine transport system on Lake Malawi can reduce transport costs for local distribution to the north, and also for imports through the Dar es Salaam corridor. The ships on the lake can accommodate 700 tons of cargo, sailing the 400kms from Chipoka to Chiluba in the North

The port in Chipoka is the focal point of Lake activities. It is the only port connected to the railroad network with a small container terminal. The port is 6 meters deep and is capable of docking two 3000tons boats. There is one single pier that is 60 meters long with a gantry crane for containers, in working order, to transfer containers from train to boat (two sidings available). At the time of the mission those facilities, although in working order, have not been used for months. There is only one container boat in Malawi anchored in Monkey bay. Currently the port does not handle any containers. As of March 2004, the last container had come one year ago and the last bulk cargo came two months ago. The port was very active during the conflict in Mozambique with 45 full time staff members. It appears clearly that reaping the potential of lake transport for trade logistics implies seamless multimodal operations (train or road), which was obviously not the case.

To improve services, the Government of Malawi decided to concession both Malawi Lake Services and Lake Malawi Ports and to define a priority strategy.

⁴ Imports in 2002 were inflated by maize shipments for the World Food Program, while the core of local traffic was clinker from a quarry in Malawi, the production of which went down.

Malawi Lake Services was concessioned in early 2002, to Glens Waterways, in a 20-year agreement. The concession includes 7 operational vessels for passenger and freight services on the lake (three passenger ships, two barges, container ship and fuel vessel), the shipyard at Monkey Bay (which incorporates full engineering facilities) and a floating dock at Monkey Bay.

Glens Waterways is currently preparing a medium term strategy that acknowledges the shift in transport mode to road transport (particularly for sugar, timber and fuel which have traditionally been the strong cargo). Included in the medium term strategy will be an assessment of the potential relationship between the Lake Services (and the Monkey Bay port) and the possible development at Liwonde of a logistics center (in the context of the development of the Nacala corridor).

Lake Malawi Ports have also been earmarked for concessioning and the preferred operator is also Glens Waterways. The Privatization Commission is busy with the process of concluding the terms of the concession. Generally, the concessionaire will operate the ports, whilst the Malawi government will remain responsible for the assets and infrastructure. In this regard the Malawi government has earmarked Nkhata Bay, Chipoka and Monkey Bay as priority ports for upgrading and is seeking funding for the improvements.

The lake transport will continue to provide welcome passengers and freight (bulk) transportation, serving local communities along the lake. It is much less certain that it can significantly contribute again to the logistics of trade. This is not so much a matter of investment (facilities exist and are essentially in working order) but of enabling very efficient multimodal operations, primarily in Chipoka. Such an outcome requires the highest quality of services not only from Malawi Lake Services, but also from the railroad company and the haulers.

AIR TRANSPORTATION

Air transportation has very important potential to better link a landlocked country, such as Malawi, to its markets. Although this seems trivial, international operators or local business people should find easy connection in and out of Malawi. In addition, there is an imbalance between air cargo coming in and going out of the country, which can pave the way to niche markets exports of fresh products.

Malawi has two main international gateways: Lilongwe International Airport and Chileka (Blantyre).

Passengers through the main airports of Lilongwe and Chileka totaled 208 000 in 2001, with 4000 tons of freight in the same year (only 0.3 percent of trade in volume).

Air Malawi is the national carrier and is wholly owned by government. Air Malawi has three aircrafts – a B737/300, an ATR 42 and a 12-seater Cessna Turboprop –that provide

regional (Johannesburg, Nairobi, Dar es Salaam and Harare) and domestic (between Lilongwe and Blantyre and to Lake Malawi) scheduled services, as well as charters.

International connections are provided primarily by:

- British Airways and its regional associates (Comer from Johannesburg to Blantyre) and Regional Air from Nairobi to Lilongwe).
- South African Airways: daily connections to Blantyre and Lilongwe
- Kenya Airways from Nairobi to Lilongwe.

Ironically the mission team took the last weekly intercontinental operated by British Airways, connecting Lilongwe with London. This flight has been cancelled due to poor passenger demand. Therefore Malawi is internationally accessible only via the regional hubs, primarily through South Africa or Kenya. This is a much longer trip, although British Airways mentioned that its agreement with associates would minimize the inconvenience.

There is no doubt that the absence of intercontinental connections is very prejudiced toward the goal of linking Malawi to markets. There is some economic justification for this cancellation. However it is reasonable to think that it might have been otherwise. Many other “small” countries in Africa are served by flights from Europe. The mission team had only indirect information regarding past and ongoing discussions between the government and the carriers. It can be only inferred from the result that the importance of the European link had not been taken enough into account compared to other local or regional concerns.

The Government considers a commercialization plan for airports (management contracts). With respect to *Lilongwe International Airport*, whose operational elements are already commercialized, the government intends to rehabilitate the runways, taxiways and part of the airport at an estimated cost of US\$ 6,2 million. Also requiring attention is the rehabilitation and replacement of the telecommunications equipment at an estimated cost of US\$ 1.2 million.

Chileka Airport at Blantyre is wholly run by the government and the intention is to commercialize the operation of the airport as a stand-alone business. In addition, a new terminal building is required to enable the airport to handle current and projected traffic. The runway is also in need of rehabilitation and widening.

The Government of Malawi has decided to proceed with the privatization of Air Malawi as a group including Air Cargo Ltd (air freight) and Lilongwe Handling Co (providing ground services). The mode of privatization being recommended is to invite a strategic partner to recapitalize Air Malawi and dilute the government’s shareholding. This process has recently commenced.

CHAPTER 3 CUSTOMS AND TRANSPORT RELATED PROCEDURES

INTERNATIONAL COOPERATION IN THE AREA OF TRADE AND TRANSPORT FACILITATION

Malawi is a member of the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC). Both regional groups include neighbors of Malawi, with some degree of overlapping. SADC is the group covering best the trading or transit partners of Malawi. However, COMESA has probably been more influential than SADC in promoting TTF measures, despite the fact that South Africa is not a member and that Mozambique and Tanzania slipped out of the agreement.

| | COMESA | SADC |
|--|--|---|
| Membership by neighboring countries | Zambia Zimbabwe Tanzania (until 2000) Mozambique (until 1998) | Zambia Zimbabwe Mozambique Tanzania |
| Other countries in the regional organization | Namibia, Swaziland, Angola DR Congo, Kenya, Uganda, Mauritius, Comoros, Madagascar, Seychelles, Egypt Djibouti, Ethiopia, Eritrea, Sudan | Angola SACU countries (South Africa, Lesotho, Botswana, Swaziland Namibia) Mauritius Seychelles |

Both institutions have undertaken various initiatives to facilitate trade, transport and transit, with some degree of complementarily and cooperation between the two organizations.

Among other activities, COMESA programs have been focusing on four areas directly relevant for TTF:

- Trade, customs and monetary harmonization.
- Investment programming and private sector development.
- Infrastructure development.
- Information networking.

Within the first program area COMESA has been promoting a number of facilitation mechanisms. To be effective, these mechanisms have to be adopted by member states, a process that is done unevenly depending on the topic and the country. The key facilitation mechanisms are:

1. The harmonized commodity description coding systems (HS).
2. The Common valuation system

3. The COMESA Customs Declaration Document (COMESA-CD) adopted in 1997.⁵
4. COMESA Customs Bond Guarantee Scheme. Introduced in 1990, it should have allowed transit operators to execute bonds from countries where they are based to guarantee customs duties for transit in other member countries.
5. Harmonized road transit charges, introduced in 1991
6. COMESA Carrier's license, introduced in 1991.
7. Harmonized axle loads and maximum dimensions for vehicles.
8. COMESA yellow card schemes (=mutual vehicle insurance recognition).
9. Advance Cargo Information System (ACIS developed by UNCTAD).
10. Automation in customs (ASYCUDA)
11. Common statistical rules and regulations (CSR)
12. Ex-Trade (External Trade Statistics).
13. Common Tariff Nomenclature.

As far as Malawi is concerned, SADC contribution on trade and transport facilitation includes essentially the 1998 Protocol on Transport, Communication and Meteorology. The protocol has a very comprehensive scope.

Chapter 3 deals with transport. Its main provisions are:

- An integrated transport policy (art 3.2) based on the principle of
 - freedom of transit
 - the equality of treatment of service providers of any member states, with regards to procedures.
- Support for effective intermodal transport (art 3.4), including simplified and harmonized measures for clearance, pre-clearance and transit.
- Creation of institutional framework (art 3.5) such as Corridor institutions.

Chapter 4 deals with road policies

Chapter 5 deals with road transport.

- Art 5.3 stipulates the principle of progressive liberalization of international transport in the SADC region. This liberalization is very much left to goodwill of the member states. It is supposed to go in three phases of further integration of the transport market:
 - Phase 1 allows international transport by carriers if they cross their home territory on the route.
 - Phase 2 allows third party transportation on defined transit routes.
 - Phase 3 no restriction
- Art 5.4 stipulates the harmonization of documents and the principle of reciprocity and mutual recognition of documents.

Chapter 6 deals with road traffic.

- Article 6.3 stipulates harmonizes standards for testing and weighing vehicles.
- Article 6.6 stipulates harmonized axle loads.

⁵ For instance on of the problem the mission noted is that trade documents in Mozambique are not compatible with those of Malawi or Zambia because Mozambique shifted out of COMESA before harmonizing its documentation.

COMESA has been setting rather detailed harmonization mechanisms. In contrast, the SADC protocol set policy goals that have yet to be translated into mechanisms. This allows some degree of complementarity and synergies between the two schemes. SADC protocols do not cover customs, as there is a customs union SACU for a SADC subgroup. This means for instance that for a non-COMESA non-SACU member such as Mozambique, the proper reference in customs transit is rather COMESA.

Unfortunately, the deployment of these regional schemes is far from complete. This is especially true for the SADC protocol, the implementation of which is totally dependent upon the willingness of governments, some of which are inclined to maintain old schemes and maintain local interests. For instance, the degree of liberalization of the transport market is very limited. Malawi does not adhere to third party rules, as local haulers are not believed to be able to sustain a full opening of the market. The most important features that are being implemented are:

| Protocol/Instrument | COMESA | SADC (SATCC) |
|--|--|--|
| COMESA-CD | Yes implemented in Malawi | No harmonization |
| Customs automation (ASYCUDA) | Yes | |
| Customs Bond Guarantee schemes | Not in place | |
| Insurance Yellow Card Scheme | In place | Working with COMESA to assist non-COMESA countries to adopt harmonized system based on Yellow Card and SACU fuel levy system |
| Axle-load standards | Under harmonization by COMES/SADC Technical Committee | Under harmonization by COMES/SADC Technical Committee |
| Vehicle dimension | Under harmonization by COMES/SADC Technical Committee | Under harmonization by COMES/SADC Technical Committee |
| Vehicle Gross Mass Weight (GMW) limits | 56 tons | 56 tons (Mozambique still 48 tons) |
| Transit Traffic Road Charges | \$10 per 100km being applied in several countries. (To be reviewed in conjunction with SADC) | Country specific charges agreed (based on harmonized methodology). Consultant being engaged to facilitate review of charges and establishing implementation manual. To be completed within |

| | | |
|---------------------------|---|---|
| | | 2004. |
| Driver Licensing & Permit | Under harmonization by COMES/SADC Technical Committee | SADC Drivers License being implemented in several countries. Driver training, testing and licensing systems under harmonization by COMES/SADC Technical Committee |
| Single Carrier Permits | Under harmonization by COMES/SADC Technical Committee | Under harmonization by COMES/SADC Technical Committee |

CUSTOMS (MALAWI REVENUE AUTHORITY)

The Malawi Revenue Authority (MRA) is the Government Agency responsible for assessing, collecting and accounting for revenues. The MRA reports to the Ministry of Finance and includes customs and tax operation. The MRA was created recently with significant donor's support, including contributions by the European Development Fund for equipments and facilities. In two years MRA established itself as an efficient revenue generator. For instance, the revenue collected at the main border post, Mwanza, tripled after the reform.

Revenue Collected at the Two Main Border Posts (in millions of Kwachas)

| | 2002 | 2003 |
|--------------------------------|-------------|-------------|
| Lilongwe International Airport | 313 | 295 |
| Mwanza | 708 | 2,270 |

Source MRA 2004

MRA controls the Lilongwe and Blantyre International Airports, an inland depot in Blantyre as well as border posts including:

Malawi/ Mozambique

Chiponde / Mandimba

Dedza / Ulongwe

Mulanje / Milange

Mwanza / Zobue

Tanzania/ Malawi

Kisumulu [Kyela] /Songwe

Zambia / Malawi

Chipata/ Mchinji

Mwanza on the Main road to Mozambique and South African is by far the most important border facility.

Statistics of Imports for the Two Main Border Posts (in millions of Kwachas)

| | 2001 | 2002 | 2003 |
|--------------------------------|-------------|-------------|-------------|
| Lilongwe International Airport | 1,044 | 5,153 | 5,952 |
| Mwanza | 3,101 | 10,337 | 18,435 |

Source MRA 2004

The mission team visited the Mwanza border post, Mchinji border post, the inland depot in Blantyre and the headquarters in Blantyre. It found courteous, very knowledgeable and disciplined personnel. The facilities were well kept, whether new (Mwanza) or in renovation (Mchinji).

However, MRA's agents are not always seen as "facilitators" by trade operators. From the interviews, it is clear that the MRA staff are competent and well trained, but have not been instructed yet on trade facilitation. It is also apparent that many problems originate from the practices and business attitude of private operators. Getting the right balance between facilitation and control requires the use of good systems and people as well as continuous improvements in the system to increase accurate throughput and reduce the extended delays at the border post, which most transport companies complain about.

Mwanza and the Inland Depot

Mwanza border post is located at 120 km from Blantyre, on the road to Tete in Mozambique. It is a very modern facility, equipped with ASYCUDA that contrasts with the much older building in Zobue, 8 km further on the Mozambique side of the border.

The border station, manned by 60+ agents, is opened for 24 hours to passenger traffic and from 6am to 5pm to cargo traffic. There are discussions with the Mozambique side to open the border 24 hours a day.⁶

There are three types of clearing options at the border:

- inspection and clearing of the goods directly at the border
- goods sent to a bonded warehouse in Blantyre for clearance. The warehouse can be the MRA Inland Depot or in some cases to the shippers depot.
- international transit through Malawi (not cleared in Malawi)

The majority of shipments are cleared in Blantyre. The typical process is as follows:

1. A broker, usually coming from Blantyre brings the documentation to the customs office.

⁶ Although, 24 hours opening is considered trade facilitating, the impact of such a measure in Malawi is unclear as trucks are not driven at night for a number of reasons.

2. After verification it is keyed in the ASYCUDA system by a private contractor working for the customs, in a separate facility for a few large importers.
3. There is usually a 100 percent inspection of the goods including those in national transit, within a reasonably proper inspection dock.
4. Duties are paid or transit document issues.

According to the MRA, the customs intervention proper (steps 3-4) does not take more than one or two hours. The full process takes longer. Given that everything is in order, a truck is cleared in 3 hours to one day. Apparently the major causes of delays are the lack of preparedness of customs brokers, and improper documentation (see below).

Malawi will implement the transit module of ASYCUDA to manage the national transit from the border to bonded warehouse. A similar, but ad hoc, system was in place. At the time of the visit, brokers had an outstanding bond value for the customs, which is debited to up to 100 percent of the customs duties of the shipment until the transit documents are discharged.

Each day, between 40 to 50 vehicles are processed at Mwanza. The majority of trucks are to be cleared in Blantyre, and are allowed 3 hours and thirty minutes of travel time between Mwanza and the Blantyre MRA Central Examination Centre. There is an MRA checkpoint mid way (apparently not a source of congestion). This delay is considered too tight. It does not allow for breakdowns such as flat tires. When a driver calls MRA to explain the problem, a 50,000 Kwacha fine is still imposed. Also this delay is creating de facto shorter daily windows for clearance. A truck in national transit must be released for national transit in the morning to be cleared in the afternoon.

The other border post visited by the mission team, Mchinji, is located 110 km from Lilongwe at the Zambian border and is a strategically positioned border crossing post for Malawi and Zambia. The Zambian border post is Mwami. These two border posts are only 12 km apart. It receives much lighter traffic than Mwanza, typically 90 trucks a month carrying regional commodities. The post was being renovated and relocated next to the Zambian post. The co-location will help fight smuggling and improve cooperation between agencies to the benefit of the customer. The Zambian side has already smoothly implemented ASYCUDA since September 2001, which helped to reduce the clearance time from two hours to twenty minutes.

Automation and Future Developments in Customs

Full implementation of ASYCUDA at all MRA facilities, will extend the benefits already observed in Mwanza. It will release customs personnel for other activities such as fraud prevention and security checks on nearby unmanned border crossing routes where most major fraud occurs and where smugglers, often equipped with mobile phones, can speedily get information to other smugglers that custom/police checks are occurring thus making it difficult for customs officers to carry out surprise checks.

MRA should also reap the potential from ASYCUDA for statistics and indicators. International experience⁷ suggest that customs officers should be provided with key performance indicators that would help them monitor and benchmark their activities from the perspective of revenue collection in trade facilitation. MRA indicated that they to implement performance indicators as part of the deployment and upgrade of ASYCUDA. Information technology should also be used to introduce risk analysis and selectivity in order to reduce the rate of inspection.

This means also that the MRA should make a better use of the contributions of the Pre Shipment Inspection scheme (PSI). The PSI company is Intertek Testing Services (ITS) from the UK. There are movements in this direction. Some of large and recurrent flows have set up more streamlined clearance procedures in their own depot based on the PSI.

Sensible and consistent use of MRA instruments can help stimulate the national and regional marketplace. Future development of e-commerce is to be encouraged, as this would provide a coordinated approach to customs and make the systems more efficient. Benefits would accrue in trade facilitation by stimulating Malawi industry, agriculture and transport modes to compete internationally, as well as by enabling the authorities to fight fraud and other irregularities more effectively.

The MRA has submitted project proposals to the value of \$30m to the Ministry of Finance, for future expenditure. On one hand, it is vital that the MRA has the ability to retain high quality staff such as graduates and lawyers. They also need capital and operational investments in technology and equipment to improve communication between their teams. On the other hand, the MRA presently retains 25 percent of the sums collected for its investments and operations. (a high ratio but justified considering the capital investment yet needed by the MRA and the good return on investment so far).

Business Attitudes and Delays

In Mwanza, the mission found around sixty trucks waiting to cross into Malawi. There was no queue to leave Malawi and a very short one in Zobia in both directions. Interestingly, the reasons for delays given by the truckers were mostly independent of the Customs. Most truckers were waiting for customs brokers to bring the documents or pay the duties. Others were waiting for other trucks from the same company to form convoys for security or convenience reasons. These observations point to a number of issues, including the integrity of business practices in Malawi and the professionalism of clearing agents.

Low standards of business ethics have been mentioned as a major problem for international transaction. Fraud is a problem as it impacts trade facilitation and reduces revenue, which in turn increases the burden on the poorest working people in Malawi. For instance, it has been suggested that up to 70 percent of the invoices presented at

⁷ One such example is provided by the Trade and Transport Facilitation for Southern Europe program (TTFSE): www.ttfse.org

Mwanza border post are false and prepared by organized criminal organizations in South Africa.

The MRA has held workshops aimed at educating taxpayers and encouraging cooperation from operators in respect to the Withholding Tax. In order to encourage shippers who avoid payment to become compliant, it is necessary to use all the tools available to the MRA to collect taxes. However it is also necessary to conduct a review of both the taxation strategy and the structure of taxation rates. An independent Tax Tribunal should be established to arbitrate between the MRA and the taxpayers.

It is said that there are more than one hundred clearing agents in Malawi. This is a relatively high number considering the small scale of operations (not even a declaration per day and per broker). The entry requirement into the profession is relatively low, a personal capital of 100,000 Kwachas. This organization of the profession is not conducive of trade facilitation. Few of the registered agents can provide quality services, with integrity and modernized operations. Most of the registered agents are “suitcase” businessmen who are not qualified but have connections. Many problems in facilitation come from the lack of reliability of those operators. Most brokers rely only on cash payments, and are unreliable when it comes to being present at the border

Today, due to the dominance of small operators, the Clearing and Forwarding Agents Association lacks representative strength to participate actively in trade facilitation discussions with the MRA and suggest improvements. However, Clearing and Forwarding Associations and other stakeholders should be able to make inputs to and cooperate with the MRA and other agencies.

Modernizing the profession is of high priority and will require increasing the entry requirements. Clearing agents must be interviewed, and properly trained in customs procedures. It should also be ensured that they have sufficient funds available at the border post to deal with the traffic they handle, as they know in advance what traffic is moving towards them. At the same time, the proposed introduction of modern payment system for duties, if managed with proper incentives, will help phase out operators who are unable to implement the automated procedures.

TRAFFIC REGULATIONS

Overloading of trucks is an endemic problem in Sub-Saharan Africa. In Malawi the enforcement body is the National Road Agency (NRA). An excess ton-axle load attracts a fine of US\$20 and increases geometrically with each additional excess axle-load.

Currently the many weighbridges are not strategically located and can be easily bypassed through alternative routes where a lot of damage is caused. The weighing equipment tends to be outdated and not regularly calibrated, which makes it useless. There are both fixed and portable weighbridges. At each border post, there should be only one weighbridge managed by the authorities from the two neighboring countries. This would minimize delays and fraud as well as standardize axle-load readings. Fraud is widespread; enforcers are also reportedly corrupt. Furthermore, it is reported that sometimes drivers connive with police to rip off truck owners on the pretext that their vehicles are over-loaded

Few avenues for better implementation can be considered:

- The Road Traffic Act implementation should be brought under one unit and not managed by separate entities like Police, Judiciary and the NRA, as is the case now.
- Introduce self-regulation for axle-load control by installing private weigh bridges at loading points which will be licensed to issue a certificate of compliance, leaving the NRA to spot check to catch the offender. The penalties should deter would be offenders.

Transportation of goods is slowed by the multiplication of controls and checks, which sometimes go beyond the legitimate needs of normal procedures and extend the transit time within Malawi. The cases of customs and axle load control have been already mentioned. Other checkpoints are manned by the police, the Ministry of Agriculture or Trade and Industry officials, requiring the issue of special permits or licenses. Truckers naturally complain about the police.

One apparently serious concern is the absence of a working appellate channel to the police (or MRA) for interpretation of regulations. Officers act as prosecutor and judge. Furthermore there is inconsistent interpretation between officers. One such example is provided with insurance certificates. Trucking companies buy block insurance for their fleet. The Malawi Police demand the original insurance certificate per individual vehicle, which is not possible for the driver to provide. Police rarely recognize the, otherwise legal, certified copies of block insurance certificate, sometimes imposing a fine as high as 5000 Kwacha for each vehicle. There is a need for all traffic officers in Malawi manning the police check points to undergo module training on the interpretation of the traffic regulations. This will help eliminate non-uniformity in interpreting the traffic laws by police officers.

Transit Through Neighboring Countries

The most important country of transit for Malawi is Mozambique, with some flows going through Zambia and Tanzania. The mission team observed that the discharge of transit documents at the exit from the transit country into Malawi is apparently a smooth process. Transit is not hindered by stringent procedures, such as the formation of convoys, which is observed in other regions in Africa.

Mozambique is trying to improve its procedures. In 2002 a new Regulation on Transit was issued by the Minister of Planning and Finance. In the global guarantee system the amount of the needed guarantee is about 10 percent of the customs value. Traders comment that the implementation of this law still faces many obstacles. Unfortunately, Mozambique left COMESA before harmonizing a number of procedures such as on customs or insurance documents. Therefore there are a number of procedures that has to be redone in Mozambique (and also South Africa), while there is a single document with several pages for transiting into a COMESA country.

A carnets system project is being developed that would be applicable to SADC countries. This would be a major and very desirable improvement. However, the international experience suggests that there has not been, as of yet, a successful substitution or regional adaptation of the TIR carnet system. This is especially true in countries such as Malawi where the financial system is not developed enough to match the sophistication of a mutually recognized guarantee system, which is the core of carnets system. Consideration of a customs union is also underway, which will be an even more transit friendly solution, with no internal boundaries to a common customs tariff and economic policy. This is also a solution that requires major and multilateral reforms.

Harmonizing documents with Mozambique will be a first and easier step. It means that Mozambique would have to adopt the COMESA documentation.

One of the recurrent complaints regarding transit pertains to the inconsistent structure of transit fees applicable to non-foreign trucks in the country of transit:

- \$10 for 100 kms, Zambia/Zimbabwe
- \$15 for 100kms in Malawi
- \$30 for 100 kms in Mozambique thus making it more expensive for a Malawi truck to move to Beira than a Mozambique truck to move to Blantyre.

(Those figures, quoted by transporters are high compared to the operating costs and could not be backed by official sources).

PAYMENT SYSTEMS FOR INTERNATIONAL TRANSACTIONS

The Banking sector is not very developed in Malawi. Confidence in the banking system is gradually being raised, however, the private sector generally prefers not to use the banking system for normal transactions, preferring instead to operate in cash. This includes transactions between corporations. There are 8 commercial banks operating in Malawi, with the two main concerns being the National Bank of Malawi and Stanbic (an affiliate of Stanbic in South-Africa). Banks handle accounts in Kwachas as well as foreign

denominations. The time needed to process a check is typically two days from the time of deposit by the customer. The banks are working on a system to fully automate check payments and are developing a Real Time Gross Settlement System that would allow transfers in a day. Checks must be certified in order to be accepted and banks' main customers may obtain a card certifying checks up to a certain level. To fill the gap and expand the reach of the banking system, the Reserve Bank has developed a cash card, called Malawi Switch.

The macro-economic environment is not conducive to private sector development in general, and trade activities in particular. First, the government debt is creating a heavy burden on the financial sector. Treasury bills (interest rate of 45 percent in early 2004) are attracting liquidity from the banks at the expense of private sector needs. It is therefore difficult for importers or transport companies to pre-finance their operations. Instability in the Kwacha/Dollar rate causes risk uncertainty at the expense of transport or trade operators, most of whose revenue are in the local currency.

The Reserve Bank of Malawi dropped the exchange control approval for international payments; a procedure remains for investments. Despite this simplification, the overall payment system for imports takes typically a few days. Typically the Bank takes at best 2-3 days to process an invoice including:

- Creation of an exchange control number
- Creation of PSI number and transfer to the PSI company (Intertek)
- Payments to the seller overseas are done on proof of the PSI.

Exporters who are able to generate foreign reserves are permitted to have a foreign denomination account. Other importers have to bring the counter value in Kwachas.

Improvement in the payment of duties can also greatly benefit trade facilitation, as the manual payment will be gradually phased out. The banks and Customs should cooperate more, for example, in integrating with ASYCUDA systems on electronic banking and certified check payments, which are still outside the ASYCUDA system. Not only this will speed up the clearance of goods, but it would also put pressure on clearing agents.

NATIONAL BUREAU OF STANDARDS (NBS)

In addition to Customs, other agencies are involved in clearing goods at the border. The National Bureau of Standards is one these agencies. During interviews with various stakeholders, including private shippers or donors, the mission team found that the activity of the NBS is widely perceived as a major issue in facilitation.

The NBS is responsible for testing a number of non-agricultural products. (The full list is provided in annex 2). This test applies as an additional procedure, beyond customs diligence for the clearance of goods.

The NBS is a parastatal organization that receives most of its income from inspection fees (it receives only 4.5 million Kwacha from Ministry of Finance out of a budget of about 80 million). The inspection fee is about 1 percent of the FOB value. NBS also

provides tests on export products, on a voluntary basis. Typically the export products tested include macadamia nuts, cherries, tea and grains (e.g. pigeon peas, rice etc.)

There are mobile labs to conduct testing at the borders, but most of the testing is done at the headquarters in Blantyre at the Inland Clearing House. The agency has 150 employees with branches in Lilongwe and Mzuzu. Due to the fact that NBS has no permanent facilities at the border,⁸ this procedure can create substantial additional delays for importers.

If the importer or the forwarder has a bonded warehouse, NSB allows the cargo to be sent to the bonded warehouse. Otherwise, the cargo is kept within the borders until the testing is done. Food products, salt, wheat flour, edible, oils and fertilizers are tested the most. The duration of the tests depends on the product. For example, the tests for fertilizers take around 3-4 days whereas tests for salmonella take between 5-8 days.

The mission team found that this testing activity has a disproportionate negative impact on trade, with respect to its social value. The main rationale for the testing activity in Malawi is to protect consumers against the importation of fraudulent or substandard products. The NBS should concentrate on its main mission and not hinder the immense majority of legitimate imports. There are a few examples that show that NBS does not always operate this way:

- At the time of the mission, the World Food Program was in open conflict with the NBS, which considered that WFP shipments needed to be tested for a fee. It seems that this is not an isolated case.
- NBS has a memorandum of understanding with Kenya and Zambia for accepting test results but there is no agreement with South Africa (the main source of imports) or Mozambique. Therefore, all the products from South Africa and Mozambique are tested again.

NBS operations need to be completely reassessed to refocus the NBS and make its operation trade friendly. At present, there is suspicion that the NBS has a revenue, rather than a public safety oriented, strategy. Large recurrent shipments of known products are commonly targeted. This is not acceptable given the fact that NBS' collections are not budgetary revenue but are supposed to cover NBS operating costs only. Once refocused on its mission, there are very simple solutions to streamline this activity so that it is trade friendly:

- Certification of main importers, to avoid repeated control of same shipments.
- Test of samples sent beforehand.

ENABLING A BUSINESS ENVIRONMENT CONDUCTIVE TO TRADE AND TRANSPORT FACILITATION

⁸ There are currently negotiations with the get office space at the key border posts.

The mission team found that Malawi has the foundations to build a trade and transport-facilitating environment. The institutions in charge, such as the MRA, are strong, and the procedures while could be perfected are functional, despite the serious reservations towards the NBS. Mostly the issue is the lack of trust between the various participants. (e.g. customs and traders) and the bad business attitude. Therefore, it should be possible, within the present institutional environment to initiate a cooperative behavior to promote Trade and Transport Facilitation. It should be a combination of an ad hoc platform for dialogue, definition of a code of conduct, training, and performance monitoring. Some of these initiatives are already under way. International experience suggests that they could be catalyzed by an umbrella Trade Facilitation Organization that links all the participants.

The outcome would be to reduce isolationism and orient customs personnel, shippers, agents and the trucking industry towards a set of common objectives whilst encouraging debate on solutions to the problems that delay the efficient and speedy movement of goods across borders. Training and awareness is also essential. The Institute of Logistics has recently commenced a Diploma course at the Polytechnic in Blantyre. The target groups are transport operators/managers, clearing agents and forwarders. Encouraging higher standards of professionalism and qualification requirements will improve standards of performance and conduct among key managers and supervisors across the sector.

The MRA is best qualified to take a lead role. At the same time it would require a step up on the dissemination of the trade facilitation message among a staff that have been essentially revenue focused. The MRA should encourage greater dialogue with the transport sector, individually and through forums to educate, understand and resolve issues in the market place.

The first step would be to have quarterly trade facilitation meetings with the MRA, transporters and clearing agents, to discuss issues that have arisen in the previous quarter. Presently, the transporters have no such forum. This forum can be later extended in membership and activities to become a full-fledged trade and transport facilitation organization. References on organization are provided by UNECE's guidelines "Creating an Efficient Environment for Trade and Transport – Guidelines to recommendation No. 4, National Trade Facilitation Bodies " (ECE/TRADE/256, 2000)

CHAPTER 4 LOGISTICS COSTS AND DELAYS

Beside Malawi, there are fourteen landlocked countries in Africa. Malawi's geographical location is one of the most favorable. Only Zimbabwe, Lesotho and Swaziland are closer to their natural coastal gateway. The distance between the economic center of Malawi, Blantyre, and the closest port, Beira, is 560km (by rail), which is comparable to major inland cities in Eastern and Southern Africa (table below). As a matter of fact, Blantyre is no further to the sea than Zurich or Geneva.

| Centre | Port | Distance (km) |
|--------------|---------------|-----------------------|
| Blantyre | Beira | 560 (rail)/800 (road) |
| Harare | Beira | 560 |
| Johannesburg | Durban/Maputo | 570 |
| Nairobi | Mombasa | 485 |

Historically, Blantyre and the southern Malawi region were able to develop economically by taking advantage of this proximity to a port and the efficient railway operations along the traditional Beira line. Unfortunately, the civil war in Mozambique disrupted the traditional trade routes and Malawi had to rely on longer routes and essentially switch to road transport. This is when the Northern Corridor (Dar es Salaam-Mbeya-Mzuzu-Lilongwe) with a total distance of 1663 km was developed. The route to South Africa via Zambia and Zimbabwe was even longer (2900 km).

Peace and reconstruction in Mozambique did not result in a reversal to previous trade routes to Mozambican ports. There are rehabilitation efforts on the lines in Mozambique but the Beira line has not been rehabilitated yet. The line to the port of Nacala in Northern Mozambique has been re-established but has failed to pickup much traffic until now. Malawi is still very dependent on the long land routes to Durban or Beira. These land routes are much longer than the old rail line (800 km vs.560 for Beira). The road traffic is seen as an expensive option for the business community but there are no guarantees that the multimodal routes will be a cheaper and sustainable alternative. The next section will look into the details of this very central issue.

The remainder of this section will analyze the observed costs and cost structure as well as the impact of logistics on various commodities. For a number of activities, predictability and reliability of transportation is at least as important as unit cost of transportation.

INTERNATIONAL COSTS

The costs of shipping goods in and out of Malawi have been reviewed in several reports since 2001.⁹ The mission team updated the cost information by interviewing forwarders, exporters and importers and found that the prices did not vary much during the period.

⁹ USAID 2001 report on SADC freight transport corridors, WFP/World Bank drought recovery project 2002 and DTIS 2003.

Actual prices differ substantially from quotes, as large importers and exporters are able to get substantial discounts. It should be noted that the prices might have gone up since April due to the recent surge in crude oil prices and the high impact of fuel prices on operating costs.

MAIN TRENDS

- a) Costs reflect the imbalance between imports and exports. Shipping goods out of Malawi is down to 50 percent cheaper than shipping goods in.
- b) Beira is typically the preferred route for imports (hailed by Malawian truckers) and Durban for exports (hailed by South African truckers).
- c) A combination of rail and sea transport would, in theory, be the cheapest option. However, **the Nacala rail route does not appear to be cheaper** (compare to Beira by road) for a number of importers, and it is much less reliable in terms of delays. **This observation is not consistent with previous findings** that supported the cost effectiveness of the rail corridor from Nacala, notably compared to the truck transportation to Beira (cf next section).

The latest transport cost review for Southern Africa (2001) found the following costs of transportation for Malawi.

| | Distance | TEU | Equivalent cents |
|------------|----------|------|------------------|
| Durban out | 2323 | 2075 | 6.4 |
| Durban in | 2323 | 1386 | 4.3 |
| Beira out | 830 | 800 | 6.9 |
| Beira in | 830 | 400 | 3.4 |

Source USAID SADC Regional Freight Transport Corridors Report

Typical rates or costs per ton of imports quoted by importers during this audit are somehow lower than those of the 2001 report. It should be noted that the 2001 report converted TEU to TKM using a very conservative 14 tons per TEU. A more realistic 20 tons yields the same results as observed during the mission.

| Route | Cost per ton imported | Equivalent cents/TKM |
|-----------------|-----------------------|-----------------------|
| Joburg Blantyre | 90 | 4.5 |
| Beira Blantyre | 45 | 5 |
| Nacala Blantyre | 60-70 | 7 to 10 ¹⁰ |

Those rates are higher than transportation cost in developed countries or in South Africa (3 cents or less). However these costs should not be considered too high given that:

¹⁰ A recent TTF audit for Mozambique indicated a cost of TKM for the Nacala line of 6.4 to 7.4 TKM. However, it should be noted that different importers might get different price depending on the product.

- There are few back-load opportunities for long distance hauling, given the imbalance in trade.
- The costs are lower than domestic transport costs for Malawi or for most Sub-Saharan African countries (usually at least 6 cents).
- The costs are lower than international trade costs for other landlocked countries in Africa as observed by recent TTF audits (typically from 6 to 10 cents for imports).

| | Distance | TEU | Cents per TKM |
|------------------|-----------------|------------|----------------------|
| Durban to Joburg | 578 | 225 | 2.8 |
| Cape to Joburg | 1402 | 562 | 3.1 |

Source: USAID SADC Regional Freight Transport Corridors Report

MAIN CAUSES OF COST AND DELAYS

Malawian trade faces several problems that are beyond the control of consignees/shippers or the transport operators. They include:

- From the perspective of operators the working culture at the ports in Mozambique is not trade facilitating, especially at the Nacala Port. Officers do not seem too eager to clear the cargo and the working hours are short with long breaks. Therefore, clearing cargo through these ports can take 1-2 weeks and even then the clearing process is very difficult. Cargo that goes through this port seems to go through a “black-hole.” Usually the clearing agent does not know when the cargo will be loaded for its inland leg to Malawi.
- After the cargo leaves the ports it faces a number of problems:
 - An unreliable Nacala railway network on the Mozambique side, exacerbated by the poor condition of the rail line (Cuamba-Entre Lagos (77 km)) over the flood valley, (before rehabilitation). The average transit time for Nacala-Blantyre is three weeks with the shortest transit time being one week.
 - There is no practical back up road for the railroad from Nacala port. Only a relatively small section (Nampula-Nacala section of 190 km) of the 900 km road to Mulange and Blantyre is in a good enough condition for trucking.
 - The road from the port of Beira to Malawi is fair with a 220 km section in weaker condition South of Changara on the Mozambique side. The average transit time is 2-4 days from Beira to Blantyre.
 - There is a tendency for rail management to give priority to fuel, cement, and clinker, leaving other customers with unreliable services, while they are importing containers and more time sensitive items.
- The logistics at the Durban Port is reliable but the cargo released must cross three borders and six border posts. The major cause of delay is the notorious queue for trucks waiting to clear at Breitbridge, which can be as long as five km.
- It appears that there are quite a number of checks (roadblocks) along the route. They tend to extend the transit time and the cost of operations (including through illegal payments). It is difficult to document these types of payments but their impact is

estimated to be 5 percent in extra costs. In other countries in Central and Western Africa, where TTF audits have been conducted recently, this is a major impediment to trade and transport. On a positive note, this seems like a lesser constraint in Malawi.

There are a few reasons that explain the preference for Durban in terms of exports. The first is the greater reliability of logistics in Durban compared to the unpredictability of Mozambique ports. In this respect, Nacala is considered as less friendly than Beira. The second reason is the vocation of the ports in Mozambique. When exporting to Europe or North America, Mozambique ports essentially provide feeder services to Durban. This causes further delays and wipes out most of the cost advantage of shorter land routes (table below). Obviously, this issue of cost of shipping in Mozambique goes beyond the scope of this audit.

Forwarders' Quotations for Exports of Forty-foot Containers

| | | To port | Feeder to Durban |
|------------|------|---------|------------------|
| Via Beira | Road | 1750 | 400 |
| Via Nacala | Rail | 1785 | 400 |
| Via Durban | Road | 2500 | |

Updated from a table in the DTIS report.

Comparisons of Costs and Delays on Land Routes

| Route | Cost/Delay | For imports | For exports |
|----------------------------|--|---|---|
| Durban by Truck 2300 km | Nominal: 3 days Typical: from/to boat: 10-15 days road transit 4-5 days | Mostly for South African imports. Problem= crossing Zimbabwean border at Beitbridge. | Preferred route for exports despite distance: <ul style="list-style-type: none"> • Excellent logistics at the port • Warehousing of bulks in • Better compliance with container security requirements. |
| Beira by Truck 800 km | Nominal: 3 days Typical: road transit 2-4 days | Preferred route for imports of containers (except imports of products from South-Africa). | Less preferred for exports due to: <ul style="list-style-type: none"> • Road access congestion at the port. • Port less |

| Route | Cost/Delay | For imports | For exports |
|---------------------------|---|--|---|
| | | | logistical friendly than Durban. |
| Nacala by Train 800 km | Nominal: 4 days Typical From/to boat: up to 30 days. Rail transit 10 days (repair of Entre Lagos section will improve the situation) | Less preferred and apparently more expensive except for non time sensitive and bulk products like petroleum, clinker... Issues are <ul style="list-style-type: none"> • Low productivity in the ports and non-business friendly environment • Nacala is served by feeders from Durban also calling at Beira, which means increased cost and delays (4 days and 250USD/TEU) • Unreliability of railroad transport (may improve after current rehabilitation) | Some tobacco is exported by this route. |

OPERATING COSTS IN THE TRUCKING INDUSTRY

Domestic transportation charges in Malawi are higher than international charges, whether the transportation is done by international transporters (e.g. South African route) or a Malawian transporter (Beira route). Local charges are typically 30 percent to 40 percent higher than the international ones. A typical charge for Johannesburg to Blantyre (about 2000 km) is US\$90 per ton while the charge for Blantyre to Mzuzu (700 km) is US\$40 per ton, a 30 percent difference. Furthermore, while the typical long distance TKM in Malawi was around 6 cents in April 2004, charges for shorter trips were much higher.

The mission team often heard the argument that Malawi suffers from expensive internal logistics due to a cartel behavior by the largest local trucking companies. Against this common understanding, the findings are:

- When it comes to internal transport, Malawi obviously suffers from its geographical location. However the unit cost (e.g. TKM) of transportation are not especially high. The 6 cents TKM is the minimum found in African LDCs (source USAID report 2001 and various TTFAs)
- Malawi has rather good transportation companies, which are privately owned and competently managed. They provide quality services.
- The internal market is shallow, unbalanced (no organized market for back-loads) and seasonal. There is naturally limited potential for active competition.
- Although there is soft evidence of a cartel behavior (captive markets by haulers), it is not much to blame for high costs, and it is probably the reflection of the shallowness of the market rather than truly uncompetitive practices.

Truckers operating regionally generate their profits from the highly priced import leg. To prevent empty returns they seek to collect export loads in Malawi by offering cheap rates. This reduces the international haulage prices compared to local transportation.

By contrast, the local transport market is very limited because many flows are only one-way or seasonal. For instance, fertilizers are sent north and tobacco is sent to south but at different times of the year, while petroleum product shipment is only one-way.

Most transport contracts are acquired by haulers through single sourcing due to a historic relationship with clients. Tendering is rare and local firms have a tendency to underbid to eliminate others from the market. There is some evidence of a haulers road cartel with political connections in Malawi. Such occurrence should be discouraged. Increasing competition is part of the solution. Competition in the market should be a level playing field. There needs to be a review of public tenders and Public/Private sector relations to ensure that bidding is fair and transparent. Competition might come from the implementation of the SADC third party rule. Today operators registered in one country are prevented from transporting freight between a second and third country. Thus there is less competitive pressure.

Ultimately, reduction in internal transportation cost will come from an improvement in the utilization of the fleet. Too many vehicles can be found standing idle and there is a significant amount of empty vehicles and equipment tied up in queues at border posts and tobacco auctions. Incentives on the industry may come from competitive pressure. However it is unlikely that there will be enough competition soon to compensate for the shallowness of the market. The intervention of commercial services such as third party logistics is the market response to the problem, but again there may be enough interest to develop those services in Malawi soon enough.

Therefore, the alternative to achieving the economic objective is some form of cooperation between transport operators, free of bureaucratic and political influences.

This cooperation can take the form of informal networking between operators, using modern communications to reduce empty running. This should be encouraged by large shippers, who have a direct interest in the results.

As mentioned in section 2, haulage companies in Malawi are comparatively large and well managed entities, with rational human resource and investment policies. At a time when the market is not expanding, they have been able to reduce costs and are achieving good profitability (30 percent) that allows them to invest. However, compared to their competitors from more advanced countries, Malawian operators need to spend more money on variable costs (fuel and maintenance) because they have difficulty investing in modern equipment due to reasons explained in the previous section.

| Estimated Cost Structure of Malawi Road Haulers on SADC Corridors Compared to South Africa Haulers | | |
|---|--|---------------------------------------|
| Cost item | % of total costs for Malawian Haulers | % of total cost for SA Haulers |
| Salaries | 15 | 16 |
| Fuel | 45 | 32 |
| Tires | 8 | 5 |
| Repairs and Maintenance | 16 | 9 |
| Permits and licenses | 5 | 16 |
| Capital costs and depreciation | 11 | 22 |

Source: Malawi_ Nacala Corridor Initiative Final Strategy Document, 2003

When the market is more open and favorable to developing their businesses, Malawi truckers should aim to be regional players by applying a market-led approach and seeking international contracts. Building long-term partnerships in neighboring countries will permit them to set up hubs outside Malawi and expand business opportunities rather than applying a restrictive, local approach.

In the long run, Malawi has the potential to have an open and competitive transport sector that is internationally connected, which would contribute to reducing national and international logistics costs.

THE CASE OF RURAL LOGISTICS

Over 60 percent of Malawi's population experiences food shortages and severe poverty with low yield/productivity. There is a strong dependence on maize for food and tobacco as a cash crop, both of which are vulnerable to weather and market forces. Diversification away from these two main crops is a key national aim, whilst still achieving food targets and income from agricultural exports. Farmers are being encouraged to develop a business-minded approach that meets their household requirements and contributes to the country's economy. Logistics is a key constraint to achieving these objectives, as many farmers have no easy access to inputs such as

fertilizers, or to markets to sell their crop. The cost of bringing goods in and out can become prohibitive especially in terms of accessing villages located off the main roads.

NASFAM (National Small Farmers Association of Malawi) precisely tries to link farmers to markets and to the service providers including those for transport of fertilizers and the finished products. It can also arrange tenders for services for its members at the group level. Typically a contract is for one year. Ton-kilometer price typical of six Kws/TKM for long distances but increase to 15 for shorter journeys (less than 40 km), the price is even higher for smaller trucks (5-10 tons) that serve off-road villages. Lack of back-loads is a problem and a contributing factor to increased price levels.

Few transport operators wish to take their 5-10 ton trucks to inaccessible rural destinations, leaving only pickups operated or hired by intermediaries to deliver seeds and fertilizers at very high prices. They also buy the produce at very low farm-gate prices claiming that transport costs are very high. For instance, one of the interviewees, Rab Processors, buys maize from an intermediary at 18 Kwachas per kg while the intermediary buys from the farmer at the farm-gate at 10 Kwachas or less. The collector who sells to the intermediary takes two Kwachas while the intermediary takes six Kwachas. However, if the transport infrastructure were to improve and 5-10 ton trucks could reach the farmers at the collection points, the farm-gate prices could go up by 25 percent to 30 percent, benefiting the farmer directly and thereby reducing poverty as the farmer would re-invest in larger cultivated areas. Rab processors have bypassed intermediaries in respect to 25 percent of their business with smallholder farmers with benefits to both the processor and the farmer.

The World Food Program (WFP) introduced its Logistics operations in 2002 and has focused on significantly increasing capacity by applying flexible integrated logistics systems and establishing warehousing at strategic locations, with additional temporary systems that expand or contract according to operational need. WFP identified transport operations as the weakest link and has augmented the commercially available transport with other donors providing a fleet of vehicles, forklift trucks, and temporary storage. The extension of special operations will include road rehabilitation and a bridge component with the aim of getting food through to the most remote of rural sites. The WFP will require additional support in regard to increased trucks, improved communications, and road conditions improvements. Probably, there is a need for synergy between the Donors and the commercial contractors to avoid aid dependency and to encourage greater involvement and response from the commercial private haulage sector.

IMPACT OF LOGISTICS COSTS ON COMMODITIES IMPORTS AND EXPORTS

Tobacco

Malawi's burley tobacco production has fallen in recent years. Malawi produced 142.3 Ktons of burley tobacco in 2000, but production was 102 Ktons in 2003, a 28.3 percent drop in production, which equated to a loss of US\$ 43m. Malawi tobacco farmers face

major problems in respect to: high transport costs, sales costs, bank charges, local currency devaluation and low selling prices for the tobacco at the auction floor.

Auction Holdings Ltd is a legal monopoly. This means that all Tobacco has to be auctioned to the international buyers or brokers. Auction Holdings Limited charges a commission for use of its auctions, 3.95 percent as well as a tax on Hessian bags (for packaging tobacco). Various organizations, from the World Bank to the Tobacco Exporters' Association of Malawi (TEAM) have sought to reduce the commissions and reduce the monopoly.

Auction floor products are physically auctioned on the floor, which causes major physical constraints during the auction season (March to November) and contributes to the excessive waiting time of vehicles in the vicinity of the auction. Each ball is auctioned (typically a ball is 150 kg which means 600000 items auctioned every year). The main floor is in Lilongwe; other floors are in Mzuzu and Kasungu. This encourages growers to participate in price variation tactics according to the floor location, creating further uncertainty in transport planning.

Tobacco is a profitable crop and so is an attractive traffic item for haulers in Malawi. However, during the peak period, major congestion and delays occur at the auctions due to a lack of coordination on the part of growers and intermediaries who organize the transport rather than the logistics professionals. Tobacco can wait for up to 10 days at the auction floor with no demurrage payments resulting in loss of revenue earning time for haulers and adding to the inefficiencies of the transport sector.

A June 2003 World Bank document reported the following cost structure of tobacco exports (Steven Jaffee 2003):

| | |
|-----------------------------|-----|
| Floor value ¹¹ | 157 |
| Land transport Durban | 15 |
| Ocean freight+ insurance | 22 |
| Processing, charges, profit | 106 |
| Cost at destination | 300 |

Note: US cents per kg (2001 prices)

Therefore, transportation amounts to 24 percent of the equivalent floor value of 1 kg exported or 1/3 of the floor value of auctioned product (with a 70 percent yield). To this amount, one should add the cost of pre-auction logistics, which was not assessed (see the section on rural logistics).

¹¹ Given an average yield of 70 percent this amount corresponds to the floor value of 1.4 kg auctioned for 1.kg exported.

Tea

Tea is Malawi's second largest export crop. The tea crop is highly seasonal due to weather conditions, and it is usual for 80 percent of the crop to be produced between December and May. Malawi produces about 50,000 tons of tea yearly, of which 95 percent is exported and mainly used in blending. Malawi is in the top 15 tea producing countries in the world. Until 1968 tea used to be the main export of Malawi, but tobacco has since replaced tea as the main export cash crop. Prior to 1999, the association provided logistical services such as providing inputs (e.g. fertilizers) or arranging transport services to members. The association moved out of operations at that date and tea estates or intermediaries (for small farmers) now directly arrange transportation.

The main role of the Tea Association of Malawi is to run the auctions every Tuesday during the season. The auction is very different from tobacco:

- There is no auction fee.
- There is no legal auction monopoly only 40 percent is auctioned, the rest being bought directly by companies.
- The tea is not physically brought to the auction floor.

The tea is catalogued by two brokers who prepare a document (with weight and grade of tea for each lot) sent to buyers one week before auction. Lots of tea is shipped by growers to warehouses in Blantyre within one week of the auction, with 150-200 lots auctioned every Tuesday in season. There are about 28 buyers, whether international companies or agents.

The buyers arrange transportation of tea exports, usually in bulk to Durban. Consigners prefer to containerize in Durban because it is a gateway that is reputedly more compliant with the Container Security Initiative than Mozambican ports). The cost of transportation is \$0.3 per kg, or typically 40 percent of the auction floor value of the tea. The association also deals with coffee.

Imported Consumer Products

Although Malawi is a poor country, it hosts a supermarket chain, Shoprites, from South Africa. Shoprites distributes products imported from South Africa, for 2/3 of the sales. Goods are brought in 40-foot containers from the logistics center in South Africa, with a frequency of 3 to 5 shipments a week. Shoprites has been able to negotiate with the MRA some form of certification that speeds up the clearance procedures. Goods are inspected by ITS in the Shoprites depot in South-Africa, and ITS seals the containers, which are then opened at the company's facilities in Blantyre. MRA agreed to the streamlined clearance procedures after approving the inspection in South Africa.

Nevertheless, the order cycle is typically 20 to 30 days, and the Company needs to stock the equivalent of three months sales, which is a high value for a supermarket.

Textile and Clothing

Malawi has become a significant textile and clothing producer in Southern Africa. According to certain estimates, it is the fourth producer after South Africa, Mauritius, and Zimbabwe. Malawi benefits from the AGOA provision (extended until 2009) and 90 percent of the production is targeted to the North American market. Most of the production is concentrated in the Blantyre area. There are about 30 firms employing 11000 workers.

For this industry, the transport cost is not negligible (shipping a container costs 5500 USD while its typical value is 75000 USD). However, this is not as much a problem as the timeliness and reliability of shipments. Therefore controlling the logistic circle from port to port is crucial to maintaining competitiveness, especially in comparison to other LDCs in the region that are closer to ports, such as Lesotho. The typical circle takes 35 to 40 days:

- Importing from Beira; boat to factory taking 10 to 15 days including 2-3 days in customs.
- Processing
- Exporting through Durban (more reliable than road to Beira), which takes 10-15 days.

Petroleum Products

Prices for petroleum products are still controlled by the Government although the fuel pump prices allow for limited competition among the dealers. Transport costs are factored into the price of fuel. The pricing structure established by the Petroleum Control Commission includes FOB at the ports and government revenues (PCC levy, road fund levy, Malawi Bureau of Standards levy, Energy Fund, IBLC recovery, import and excise duty, distribution costs, and Price Stabilization Fund). Since August 2003, any gains realized from FOB, transportation costs, etc. are not passed over to the consumer, but rather are deposited into the Safety Net Fund.

Before the Mozambique war, a consortium of oil companies imported petroleum products. However, when the Kwacha was floated in 1994/95, importations became too expensive, and that is when PCC took over the importation of petroleum products. During the war PCC used especially the Dar es Salaam corridor. The corridors now used by the PCC are: Beira-Blantyre, Nacala-Blantyre, and Dar es Salaam-Mbeya-Chilumba (800 km by rail to Mbeya and then 350 km by road).

The Beira route is shortest in distance but the Beira port facilities are congested. On the Nacala road, there is not enough rolling stock capacity. In 2002, the route achieved only 30 percent of the planned movement of petroleum imports and a negligible output in 2003. However, Nacala has oil jetties and, despite its inefficiencies, can be the natural "oil terminal for Malawi. Problems exist in port administration and inadequate handling of equipment.

The Dar es Salaam corridor is the longest and most expensive. However, for strategic reasons, the route is kept active to avoid single source dependence and a repeat of the effects of war in a neighboring country. The route handles 15 percent of imports as such and supplies the northern part of the country.

The typical cost of transport along those corridors amount to 0.06 USD/liter. The total import of petroleum products was 200 million liters in 2002. Such quantities cannot justify the pipeline construction project included in the program of the Nacala Development Corridor. However, this volume justifies the use of railroads to transport petroleum (equivalent of 15 tanks a day). Rail transport is also preferable to road for safety reasons. Major accidents have already happened, fortunately without many casualties.

CHAPTER 5 TRANSPORT AND DEVELOPMENT CORRIDORS

Recent years saw increasing expectations that improving the railway operations from the port of Nacala, in Northern Mozambique would ease transport cost and facilitate the access of Malawi to world markets. The government of Malawi and its Mozambican counterparts, backed by various donors have been pushing for investments on this corridor as part of a Spatial Development Initiative. Will this infrastructure fulfill its promise of facilitating trade and transport? Are the investments planned by government and donors justified from this perspective?

BACKGROUND

The Nacala route started in the 1970s with the Lichinga –Nacala rail track. Later a derivation was created from Cuamba in Mozambique to connect to the Beira-Sena-Blantyre-Salima line at Liwonde (in fact Nkaya), which is 90 kilometers north of Blantyre. This track was later extended from Salima on the lake to Lilongwe and further to Mchinji at the Zambian border. Even though it was a longer route for Blantyre than Beira-Sena line, the Nacala line provided a somewhat feasible alternative for central Malawi. The distances by rail can be seen from the following table.

Railroad distances from ports to main centers in Malawi. (in kms)

| | By Beira railroad | By road from Beira | By Nacala railroad |
|------------------------|------------------------------|-------------------------------|-------------------------------|
| Beira corridor Border | 350 | | 1008 |
| Nacala corridor Border | 748 | | 610 |
| Blantyre | 559 | 802 | 798 |
| Nkaya (junction) | 647 | | 711 |
| Chipoka (port) | 792 | | 856 |
| Lilongwe | 930 | 984 | 994 |

Unfortunately this route was only operational for a short period before the war broke out in Mozambique. After the war, the Nacala line was rehabilitated but the line did not gain the expected traffic. The railroad has been inefficient due to low speeds (10 km/h) of the trains, inadequate traction equipment and wagon capacity. In addition, operations at Nacala Port suffered from poor productivity, inadequate multimodal facilities, and outdated handling equipment. The best equipment that the port has is an oil jetty.

The problems got worse during the 1999 floods, which damaged a section of the 77 km between Cuamba and the Malawi border. Train operations have been very unstable in this area. Several derailments caused delays at the expense of the reliability of operations. Finally the line from Liwonde to the Chipoka and Lilongwe was interrupted in 2003 by the wash away of the Riviri Bridge.

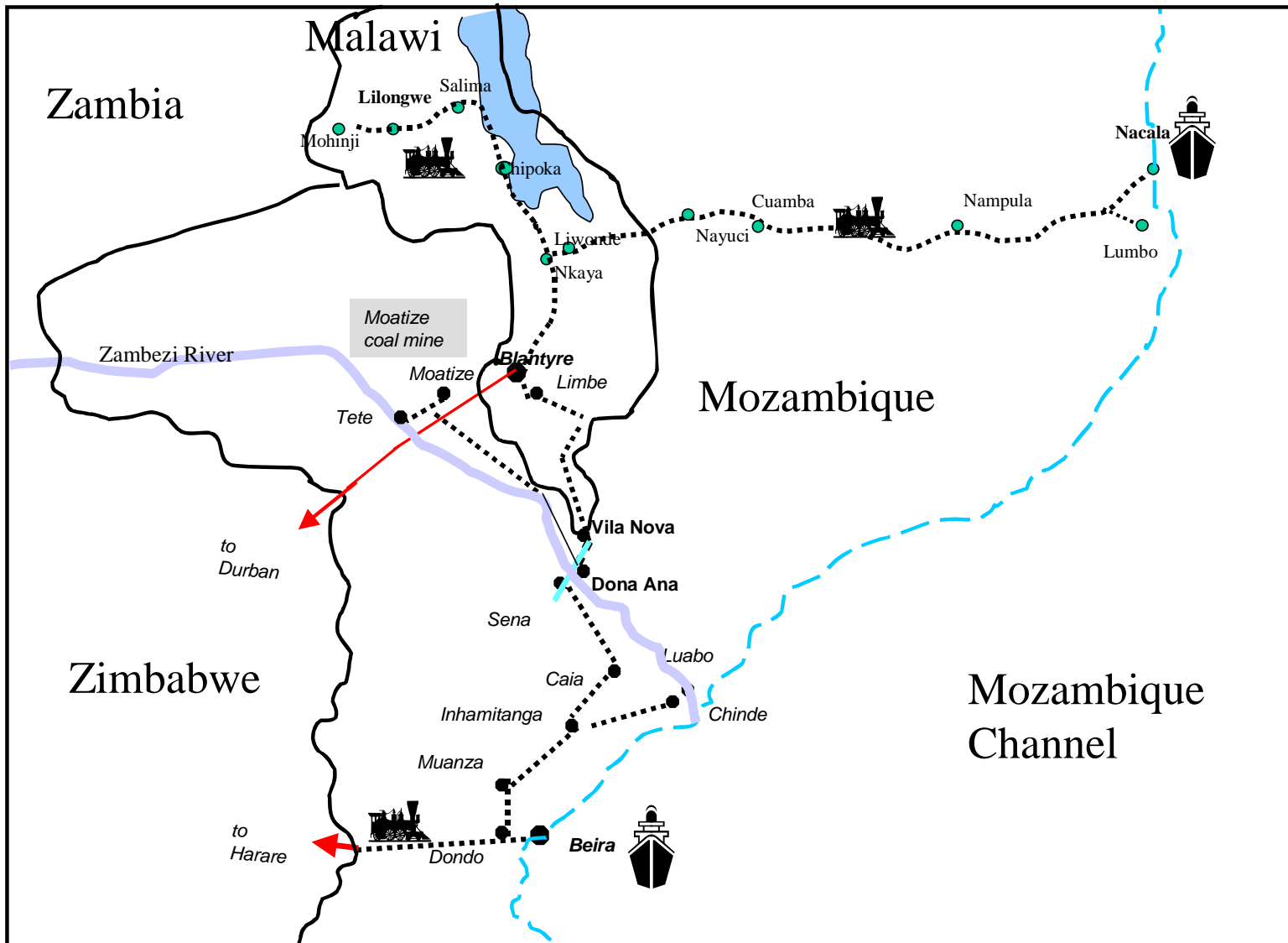
To rehabilitate the line Malawi and Mozambique governments agreed to a joint concession. The networks in Malawi and in Mozambique have been concessioned to the same group of companies but in different companies. The main shareholders are American companies, MANICA and the CFM. Manica is positioned to get in concession the handling operations in Nacala.

As mentioned earlier (section 3 and 5) the traffic on the Nacala line increase very slowly with 200 kilotons of imports and 90 kilotons of exports in 2002.

THE NACALA CORRIDOR SPATIAL DEVELOPMENT INITIATIVE

It is against this background that in 2000 the idea of the Nacala Development Corridor was born. The objective is to develop the untapped economic potential of specific geographical areas by upgrading their key infrastructure. This will be done through “anchor projects” based on public/private partnerships and projects in natural resources, agriculture, mining, manufacturing or tourism. Therefore the scope is much wider than transport and trade facilitation.

A Secretariat has been set up in the Ministry of Transport and Public Works in Malawi. The Secretariat receives technical assistance from South Africa and liaises with the Governments of Mozambique and Zambia. Using PPIAF funding, a report was prepared and a donor conference was held in 2003. Several economic projects in mining and agriculture have been lined up as Build-Operate-Own (BOO) and Build-Operate-Transfer (BOT). These projects will be launched through a PPP window and OPEC is a potential investor. The projects that are considered through this initiative include the privatization of Chileka Airport (passenger and cargo handling capacity), constructing a dry port at Liwonde, concessioning the Nacala-Blantyre line to a single operator, constructing a fuel pipeline (400 thousand tons pa) and a refinery at Liwonde, rehabilitation of the Salima-Lilongwe-Mchinga rail line and possible extension of this rail line into Zambia.



Spatial Development Initiatives and Transport Corridors in Southern Africa

The concept of development corridors in Mozambique experienced a revival in the mid-1990s when the Spatial Development Initiative (SDI) was introduced by the South African government. The idea behind SDI was to attract export-driven investments and stimulate public-private partnerships in underdeveloped areas. South Africa was ready to integrate into the world economy after the apartheid and Mozambique had emerged from a devastating 16 years of civil war. South Africa was looking for export-led growth and Mozambique was facing the challenge to rebuild its economy. The result was the formulation by the Development Bank of South African (DBSA) of a plan to develop the Maputo Corridor in order to restore trade and investment ties that had been destroyed during the apartheid in South Africa and the civil war era in Mozambique.

SDI was expanded to other countries and corridors. As the SADC region faces serious economic and developmental challenges with growth rates of less than 2 percent over the last three years and deepening poverty, the success of the Maputo Development Corridor has stimulated the emergence of a wide range of SDIs. These SDIs are being implemented through co-operation among Southern African governments who want to unlock their countries' potential by creating more favorable conditions for export-driven private investment and their integration in the world economy. The SDI methodology is becoming an integral part of SADC's programs and the Development Bank of Southern Africa (DBSA) has established a dedicated African Partnerships unit (NEPAD – New Partnership for Africa's Development) to strengthen inter-government and public-private sector relationships in the context of SDI.

REASSESSMENT OF THE BUSINESS CASE FOR NACALA

The promotion of the Nacala concept has been supported by studies commissioned by donors and/or the corridor organization. The common arguments in favor of Nacala are that:

- It has a substantial cost advantage over other existing routes including transport by road from and to the port of Beira.
- The Nacala port is a deep-water port that can accommodate larger vessels than Beira and save on dredging costs. However some investments for improving the handling are needed.
- There is a market potential for the extension of the line into Zambia.

Among others, the following documents include a comprehensive analysis of the Nacala corridor:

- The 2002 Emergency drought recovery project (WFP and World Bank), which includes a detailed comparisons of transport cost for grain and corn shipments for the WFP.

- The August 2003, “Final Strategy Document for the Nacala Development Initiative” supported by the PPIAF for the Government of Malawi.

The WFP/World Bank document provides a cost comparison between imports by road from Beira and multimodal operations from Nacala. The typical cost advantage of Nacala over Beira is 40 percent to 50 percent.

| Destination | Northern Route | Beira | Nacala | South Africa |
|--------------------|-----------------------|--------------|---------------|---------------------|
| Lilongwe | 115-124 | 87-101 | 64 | 125 |
| Blantyre | 122-137 | 76-80 | 60 | |
| Liwonde | 120-132 | 76-90 | 55 | |
| Mzimba | 96-100 | 111 | 84 | |
| Transport time | 5-6 days | 2 days | 3 days | |

Note: USD/ton

Source WFP and World Bank 2003

The World Bank mission, which went to Malawi in March 2004, reviewed some of the data and interviewed a number of participants and stakeholders. It came as a surprise, given constant official support especially by donors, that the business case for the corridor is not as strong as expected.

While there is strong government commitment and donor support for the project, the private stakeholders clearly did not consider the corridor as the solution to reduce logistical costs for Malawi. This is especially true among the business community in Blantyre, whose attitude is at best a polite support to a project that eventually benefits central Malawi but has little benefit for Blantyre and southern Malawi. There may be several explanations for this lack of support. Given recent experience, the railroad is unreliable and operations in Nacala have a bad reputation (poor equipment and lack of commercial attitude) and there is no cost advantage when shipping in and out of Blantyre.

This project is perceived as government driven and in some quarters there is a question mark as to why the governments chose to reconstruct the Nacala line instead of the Beira line given that the distance is shorter and the port of Beira handles more traffic and is more efficient than Nacala. Both ports are operating far below capacity. These qualities make the Beira line a superior logistical solution for Malawi. It seems that this choice emerged in the early 90s from immediate post war politics in Mozambique (Nacala region was pro-government, while the Zambezi valley was a rebel stronghold) and a supply driven approach by some donors.

The World Bank mission team cannot support the core arguments in favor of the Nacala corridor, for the following reasons:

- It is not true that the Nacala corridor is the shortest route for Malawi. Both Lilongwe and Blantyre are closer to Beira than Nacala by train and at the same distance by road.
- Forwarders' quotes for imports or exports (see previous chapter) show that the cost advantage for shipping containers through Nacala (rail) instead of Beira (road) is not substantial. Importers' data point to a substantial advantage for Beira by road. This observation does not necessarily contradict the observations of the WFP, as transport vessels and shipping arrangement are specific for the WFP. It is also plausible that Nacala might be a viable solution for some bulk or liquid products like fuel and maize, but not for containers.
- The cost comparisons do not take into account the maritime cost, which are very high along the Mozambican coast (see previous section).
- Beira is a larger and more productive port than Nacala and much preferred by the private sector. Truck congestion is the main problem reported by operators.

The advantage of a deep-water port in Nacala is irrelevant as both Nacala and Beira are served by coastal vessels or feeder boats mainly for Durban. This maritime factor, ignored in previous studies, causes a substantial cost handicap for the Nacala solution. Nacala is 1000 km further away from Durban, and the trip takes around 4 more days. The corresponding cost of shipping is substantial (250 USD by TEU) as can be seen from the following tables.

Costal of shipping by TEU

| Line | Tariff in USD |
|-----------------------|---------------|
| Maputo – Dar-es-Salam | 845 |
| Maputo – Beira | 995 |
| Maputo – Nacala | 1230 |
| Maputo – Quelimane | 1340 |

Source World Bank TTFA Mozambique 2004

Comparison of the two ports (2002)

| Beira | Nacala |
|---|---|
| Capacity: 2,500,000 tons/year | Capacity: 1000,000 tons/year |
| Tons per year: 1,650,000 | Tons per year: 790,000 (?) |
| Including containers 350 000 tons | Including containers 28,000 tons |
| Container handling capacity 100,000 TEU | Container handling capacity: 30,000 TEU |

Radical Improvement in Quality of Services are Needed

Seamless multimodal operations present a high potential for the development of landlocked countries, especially for Africa where distances are long and operating costs

are high (around 6 cents per ton/km in 2003 compared to 3 cents for developed countries).

In Africa, the examples of successful multimodal operations are to be found in Western Africa like CAMRAIL. Experience shows that high quality of services is necessary for successful multimodal operations. The important factors to ensure high quality of service include:

- Clear understanding of responsibilities for the concessionaire regarding maintenance, rehabilitations etc.
- Commercially competitive and service minded concessionaire
- Clean and well organized multimodal facility in ports and land terminals
- Experienced investors interested in transferring know-how and technology.

This is especially important in Malawi where there are competing international transport solutions. Unfortunately, current arrangements in Malawi present several problems:

- The concessionaire in Malawi still has the old non-commercially oriented engineering style of thinking. Unlike other concessions, the foreign investor is not present to transfer know how and provide management skills to stimulate a leap in the quality of operations or to supervise new investments that can make the railroad attractive for forwarders, exporters and importers.
- Due to the delays, transit between Nacala and Blantyre can take up to 20 days.
- There are no acceptable multimodal facilities of CAER in Blantyre, but many forwarders (SDV, Manica) have their sidings (not visibly much used). There is a project for an inland clearing depot in Liwonde, but it is of a higher priority to improve the facilities in Blantyre and Lilongwe.
- As mentioned previously, the rail charges are competitive. This is also true when prices are benchmarked against other operations in Mozambique (Beira or Maputo corridors).

Mozambique: Prices for transport of containers by rail (in US dollars)

| Line | Km | Full container | Full container/km | Empty container |
|------------------------|-----------|-----------------------|--------------------------|------------------------|
| Maputo–Ressano Garcia | 88 | 59.20 | 0.67 | 25.00 |
| Maputo – Goba | 74 | 50.70 | 0.69 | 35.00 |
| Maputo – Chicualacuala | 534 | 159.50 | 0.30 | 101.60 |
| Beira – Machipanda | 319 | 210.00 | 0.66 | 190.00 |
| Nacala – Entre Lagos | 618 | 745.00 | 1.21 | 225.00 |

Source: Official prices Mozambique Railways

Another handicap is the remoteness of Nacala for Malawian businessmen. Consignees using Nacala tend to track their cargo as soon as a ship calls at a port, which is a negative

statement of the quality and reliability of services in Nacala. Because Nacala airport is reserved for military use, Nampula airport, which is 190km away, serves as the closest airport to the port. Until recently, traders had to spend 24 hours to fly from Chileka airport (Blantyre) to Nampula via South African Airlines, at a cost of \$1500. Newly established direct flights make this trip possible in 45 minutes for a cost of \$ 250.

An improvement may come from the concessioning of facilities on both sides of the border to one entity, by merging the CEAR and the Mozambican counterpart into one company operating on both sides. At this time it seems that there are internal problems within the concession holder Corridor for the Development of the North (CDN). CDN consists of the Railroad Development Corporation from the US, Edlow resources (a Bermuda-based investment fund), CEAR, Manica Freight Services Mozambique, a number of smaller local investors in Mozambique and CFM.

Due to ongoing problems, it is unlikely that this consortium will be operational soon. The governments may choose to launch a new tender.

THE BEIRA CORRIDOR

The Port of Beira is the natural freight port for Malawi and Zimbabwe, but can also play an important role for Zambia, Botswana and Congo.

Since 1998 the Port of Beira has been managed by Cornelder Mozambique with 70 percent of the shares held by Cornelder Holding and 30 percent by the Mozambique Railways. The Multi Purpose Container Terminal has a capacity of 100,000 TEU per year, but in 2001 only 30 percent of its capacity was used.

The terminal has a storage place of 200,000 sq. meters for 3,117 TEUs and a bonded transit warehouse of 8,400 sq. meters. The General Cargo Terminal has a capacity of 2.3 million tons with five covered warehouses of 15,000 sq. meters and 12,000 sq. meters of open space. Multimodal operations are reasonably efficient. In the past year, Beira Corridor transported more than 1 million tons by rail between Beira and Machipanda (border with Zimbabwe) (Giersing, 2003).

Currently, there are projects under implementation for the rehabilitation of Sena line, which links Beira with the left Bank of Zambezi River. This line is used to handle the majority of Malawian cargo before the war. For instance, in 1981, Sena line carried 1.9 million tons of cargo including 500,000 tons for Malawi.

In 2004 the Government of Mozambique has selected RITES/IRCON as the preferred bidder for the rehabilitation and operation of the Beira Railway System comprising the Sena and Machipanda lines. The concession is for 25 years and the fees include an entry fee of 2 million US dollars; an annual fixed fee of 1 million US dollars from year 11 to 25; and an annual variable fee assessed as 3.0 percent of the company's gross revenue for traffic up to 300 million net-ton/km and 5 percent between 300 million and 1 billion net ton/km and 7.5 percent for traffic over 1 billion net ton/km.

The line requires thorough rehabilitation, but according to a recent study (Giersing, 2003) it would be feasible to upgrade the line gradually depending on the amount of traffic.

Reactivation of this line is creating new opportunities for Malawi. CEAR is concessionaire up to the junction with the Sena line at Dona Nova, a few kilometers south of the border in Mozambique. To be able to use the Sena line the following rehabilitation and new construction is necessary:

- Construction for a few kilometers in Mozambique to connect to the junction.
- Rehabilitation of the railroad (the first 77 km of the 209 km tracks to Blantyre have not been used for years).

Further analysis is necessary to judge whether this rehabilitation makes sense in terms of cost or whether there is a risk of competition from the Nacala line. However, the development of transportation projects in Mozambique implies that it is urgent for Malawi to seriously consider the potential of reinstating the Beira connection.

Ultimately, the Nacala concept appears to be a supply driven and politically oriented initiative which makes sense in absolute terms for the development of areas along the corridor (SDI objective). However, there is also evidence that the Nacala project is unlikely to improve logistical costs for Malawi. Reducing such costs would require major rethinking, to take other land and maritime routes into account and provide the multimodal service level expected by the private sector.

A way forward will be to commission an independent review under World Bank supervision to identify the conditions and potential for multimodal operations along the two corridors. Given the present donors' support to the Nacala project on the ground of its trade facilitation potential, this review is urgent.

CHAPTER 6

CONCLUSION AND ACTIONS PLANS

Malawi is facing very serious logistical constraints to both international trade and domestic transportation. Shipments follow long land routes and the unit cost of transportation is higher than other countries in Southern Africa. This is in part due to the market structure and the difficulty of organizing back-loads. However, and despite rumors, there is no strong evidence that a cartel behavior by the trucking industry is the cause of the costs.

Delays may even be more worrisome than costs and are a serious obstacle to the development of new activities and services. In practice, importers and exporters prefer the fastest and most reliable road (i.e. by road to Durban) rather than the cheapest route (by train to Nacala or road to Beira). An importer of consumer goods mentioned that he has to maintain three months of inventories. Garments manufacturers, who operate in EPZ within AGOA provisions, experience transit time of 10 days in and out between the nearest port and the factory.

The small size of the economy is also a constraint. Trade volumes of Malawi are small and cannot generate much economies of scale. A flow of eight trucks per hour in daytime can support Malawian trade, while all exports of Malawi can fit in five cargoes. This has important policy implications in that efficient logistics for Malawi cannot be built on an independent strategy or investment but rather must depend on effective access to main trade routes through neighboring countries such as Mozambique or Zimbabwe.

The government and donors have invested in multimodal solutions to provide an alternative to road transport and lower costs. Heavy emphasis has been placed on developing the Nacala corridor as the main gateway for Malawi. There is also a proposal for reactivating the lake transport. The mission team found that its potential for multimodal transportation is much less certain than previously asserted. While there are potential benefits, the business case for the Nacala corridor is weak and the underlying hypothesis from previous studies do not appear to be realistic. Furthermore, if multimodal solutions are to succeed at all, the planned investments on the Beira corridor in Mozambique have a better potential. A reassessment is necessary as the Nacala project is likely to attract development finance on the basis of previous analysis.

Against this background, Malawi has a number of positive factors on which to build a more facilitating environment. First, the Malawi Revenue Authority has implemented a successful customs modernization program, with well working if not always trade friendly procedures. International cooperation already brought some benefits to trade facilitation (e.g. customs documents, customs cooperation) and needs to be deepened, especially as Mozambique has not yet harmonized a number of procedures with its neighbors. There is also a dynamic road transport sector with well-managed medium size companies that will eventually be able to compete in a less protected environment. Finally the road infrastructure is good, but needs a more proactive maintenance policy.

Ultimately, a facilitating environment will require changing business attitudes and promoting cooperation between various public and private participants in order to solve

problems, monitor progress, increase awareness and provide training. Facilitation will also benefit from more generic improvement in the investment climate, notably in the financial area. The underdevelopment of the banking system and the unavailability of modern payments systems are major sources of delay and inefficiency.

Detailed suggested measures are provided in the action matrix. These measures can be split into two broad categories: trade specific and more generic measures. Most of the priority proposals do not require investment. As a summary, the priority measures are:

TRADE SPECIFIC MEASURES

- Create a facilitation body that will include the major participants (MRA, truckers, customs brokers, NRA, banks, major importers/exporters), which will identify problems, monitor performance indicators and provide training.
- Assess the operations of the National Bureau of Standards.
- Have an independent review of the potential of multimodal solutions including the Nacala corridor. Donors should make this review a condition for further support to the Nacala initiative.
- Further international cooperation to ease transit operations, especially with Mozambique.

NON TRADE SPECIFIC MEASURES

- Improve road maintenance policy (Road Fund).
- Introduce performing payment systems available to participants to trade transaction such as the MRA, importers and clearing agents.

ACTION PLAN MATRIX

| OBSERVATION | OBJECTIVES | SUGGESTED ACTIONS |
|--|---|---|
| <p>Infrastructure</p> <ol style="list-style-type: none"> 1.The business case for Nacala Corridor needs to be revisited. 2.Projected investment in Mozambique on Beira Corridor will allow the re-establishment of the shorter Sena line to Blantyre 3.Main roads are in good condition but there are problems with regular maintenance and feeder roads | <ol style="list-style-type: none"> 1.Donors and the governments of Malawi and Mozambique need a clear understanding of the potential of multimodal operations before any further investment is committed. 2.Both Nacala and Beira lines require an extensive study to define the most adequate operations and concession arrangements considering the volume and shippers constraints 3.The efforts to stabilize the road fund should continue | <ol style="list-style-type: none"> 1.An independent study should be commissioned by donors. 2.Revisit donor support to the road fund to enhance financial sustainability and better routine maintenance to limit the cost of periodic maintenance |
| <p>Transport Services</p> <ol style="list-style-type: none"> 1. Utilization of existing fleets is poor and backloads are not available 2. The trucking companies are well managed but still not very strong internationally 3. Development of logistics services is desirable 4. The third party rule (SADC) is not implemented among different modes of transport 5. Air transport is expensive and there | <ol style="list-style-type: none"> 1. Some form of cooperation between firms is needed to better organize the backloads. This could be in the form of cooperation between shippers and haulers. This will also encourage the intervention of third party logistics providers. 2. Malawian haulers should engage in international operations and extend their range of operations (towards multimodal) in anticipation of the future implementation of 3rd party rule. 3. Take into account the benefit of intercontinental flights in discussions with the government | <ol style="list-style-type: none"> 1. Support training initiatives like the Logistics Institute of Blantyre. 2. Discuss the issue of backload management in the public-private forum (see below) |

| OBSERVATION | OBJECTIVES | SUGGESTED ACTIONS |
|---|---|--|
| are no intercontinental flights | | |
| <p>Customs and Trade Facilitation</p> <ol style="list-style-type: none"> 1. MRA is efficient in collecting revenues but uses extensive paper based system that slows the processing (even when ASYCUDA is in place). MRA is not facilitation oriented 2. Border delays are extended by non-customs practices (e.g.: National Bureau of Standards) 3. Cumbersome clearing agent procedures and lack of regulation of entry 4. Inadequate payment systems. 5. Tight constraints on national transit (Mwanza-Blantyre). 6. Transit provisions in third countries: despite some progress, many problems remains, notably with respect to transit in Mozambique (non-harmonized documentation and procedures, excessive and non-transparent | <ol style="list-style-type: none"> 1. Avoid duplicate and unnecessary inspections at the borders 2. Focus National Bureau of Standards on its core missions 3. Modernize payment systems for customs 4. Regulate the profession of customs brokers. 5. Create an trade facilitation forum to link MRA and other government agencies with private sector representatives 6. Harmonize border hours and border crossing documents with Mozambique | <p>Short term actions:</p> <ul style="list-style-type: none"> • Reassess the operation of the National bureau of Standards. • Improve transit from Mwanza to Blantyre. • Develop and publish indicators of performance (e.g. time release) based on ASYCUDA data • Set up an agency with members from related government agencies and private sector and start by quarterly meetings to establish a dialogue. • Extend working hours at border posts <p>Medium term actions:</p> <ul style="list-style-type: none"> • Streamline and facilitate physical inspection process for large importers with regular imports (e.g.: supermarkets) • Set up electronic payment options for customs clearance procedures. • Improve professional capacity of customs brokers by training and monitoring. • Establish single |

| OBSERVATION | OBJECTIVES | SUGGESTED ACTIONS |
|---|---|--|
| <p>fees and security issues)</p> <p>7. Integrity, Fraud and smuggling</p> | | <p>documentation with Mozambique within the SADC framework</p> <p>Long term</p> <p>Establish a carnet system and customs union within SADC</p> |
| <p>Business Environment</p> <p>Financial sector problems are non-specific to transport sector but very important for the development of the sector</p> <ol style="list-style-type: none"> 1. Financial system issues (small banking system, high interest rates) 2. High taxes (on imported equipment etc) 3. Problems with access to credit 4. Problems linking private sector with the automatic payment systems (cash is preferred method of payment) | <ol style="list-style-type: none"> 1. Improve and facilitate banking procedures. 2. Promote transfer of payments via banks instead of cash payments in person | <ol style="list-style-type: none"> 1. Provide training and technical assistance in financial systems and improve the capacity of MRA and related government agencies to process electronic payments 2. Increase public training and awareness programs |
| <p>Sector Specific</p> <p>Tobacco (auction system – transport to the auction area is problematic-</p> | <p>Improve the logistics for tobacco auctions</p> | <p>Review procedures of the tobacco auction floor to avoid the congestion created by the aberrant logistics (The World Bank already</p> |

| OBSERVATION | OBJECTIVES | SUGGESTED ACTIONS |
|--|-------------------|--|
| trucks are held for several days before unloading) | | recommended a modification of the auction system as part of the Tobacco chapter of the DTIS) |

ANNEX 1
DONOR ACTIVITIES IN CUSTOMS

EU supported the installation of ASYCUDA systems in Malawi Customs through ASYCUDA Phase II Project (8 ACP MAI 010). The initial closing date for the project was September 2002 but the implementation took longer and the completion date was extended until December 2004. This project contributed to the physical infrastructure at the border posts as well as to the purchase of equipment.

ANNEX 2
NATIONAL BUREAU OF STANDARDS:
IMPORTS CUSTOM MONITORING SCHEME

Only the designated products are checked:

1. Afridev hand pumps
2. Fertilizers
3. Edible Cooking Oils
4. Galvanized Iron Sheets
5. Mosquito Coils
6. Cement
7. Primary Dry Cells
8. Safety Wood Matches
9. Skin Care Products
10. Toothpaste
11. UPVC pipes and fittings
12. Wheat flour
13. Bottled and canned beer
14. Paints
15. Flexible electrical cords
16. Salt
17. Sprints
18. Food products
19. Poultry, meat and meat products
20. Fish and fish products
21. Rice
22. Leather Shoe
23. Laundry Soap
24. Toilet Soap

ANNEX 3
LIST OF AGENCIES INTERVIEWED

1. Air Cargo Limited
2. British Airways
3. Central African Road Services
4. Central East African Railways Company Limited (CAER)
5. Clearing and Forwarding Malawi and Combine Cargo Malawi
6. Clothing and Textiles Association of Malawi
7. Cross Border Agency-South Africa
8. Department of Road Traffic
9. Development Bank of Southern Africa
10. DFID
11. European Union
12. Freight Forwarders Association of Malawi
13. Imani Developments Limited
14. Malawi Cargo Centers Limited
15. Malawi Confederation of Chambers of Commerce and Industry
16. Malawi Export Promotion Council
17. Malawi International Transport Company
18. Malawi Investment Promotion Agency
19. Malawi Lake Services
20. Malawi Revenue Authority
21. MAERSK Malawi
22. Ministry of Commerce
23. Ministry of Finance
24. Ministry of Transport and Public Works
25. Nacala Development Corridor Authority
26. National Action Group/DFID
27. National Bank of Malawi
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33. R. Gaffar Transport
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