1. This CAS provides a sound assessment of Malawi’s economy and future development challenges. I concur with the Bank’s strategies toward reducing poverty in Malawi while noting that this CAS is somewhat less optimistic and less ambitious (and perhaps more realistic) than the previous CAS of 1996. Malawi will need to go beyond monetary adjustments to an in-depth restructuring of the economy. Another challenge during the CAS period will be containing public expenditures and ensuring the country’s macroeconomic stability. With general elections just nine months away, it may be difficult for the government to live within the budget.

2. The government’s stated development priority is poverty reduction. As such, there has been a shift in resources in favor of social services. The quality and composition of expenditures however, are a major concern. An in-depth analysis of the Malawi budget has shown that considerable resources are used for non-essential activities such as travel. In addition, the government lacks clear expenditure monitoring and control procedures. When was a Public Expenditure Review last done? Recently, the government adopted the Medium-Term Expenditure Framework (MTEF) process as the expenditure allocation mechanism. We concur with Bank’s approach to focus on improving the MTEF process. Related to the MTEF process is civil service reform. Progress on civil service reform has been disappointing, and is unlikely to gain momentum before the elections. We urge the Bank to engage the government in serious discussions on this issue after the elections.

3. The CAS portrays the Bank operating on a base-case scenario with an annual level of some $113 million, consistent with a GDP growth rate of 4 to 6 percent. The Government, however, seeks 10 percent annual growth as part of its 20-20 vision of middle income status by the year 2020. A wide disparity of expectations exists among the donors and government. Some donors advocate fertilizer and other input subsidies which would tend to maintain a low level subsistence agricultural sector. Others emphasize the need for considerably more direct foreign investment to supplement Malawi’s meager savings and to bring in new capital and ideas. While the Government wants high growth, it seems that much of its regulatory environment tends to inhibit growth. Moreover, the collapse of the Malawi Kwacha since August 20, 1998 does not auger well for a stable macroeconomic framework this financial year. While implications of this collapse are not yet fully understood, the impact on inflation and the budget will certainly be outside of the base case macroeconomic framework parameters elaborated in the CAS. There is a need to reconsider the management of the exchange rate.

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4. It is daunting that Malawi will need to grow at an annual average of 5.3% just to keep the number of poor from increasing. In light of this, is enough being done on the population/family planning front? What about the impact of AIDS on health sector demands and growth rates?

5. The CAS notes that in early 1998, the government approved a package of revenue and expenditure measures designed to restore fiscal balance. Provided the government implements these measures successfully, the IMF hopes to restore the third year of the ESAF by November. Given our commitment to allocate IDA based on performance, it seems to me that non-resumption of the ESAF should be one of the key triggers to the low-case lending scenario. I would appreciate Management comment on this point.

6. Although corruption has not been of major concern in Malawi, reports of corrupt practices are rising. We understand that a large number of complaints from the public are being investigated by the anti-corruption bureau with no charges as yet. Structures to promote governance are still weak. The Government must be more accountable in terms of use of public funds. We commend the Government for requesting Bank support to attack corruption. I encourage the Bank to closely monitor developments in this area and to work with the Government and other donors to develop strategies to combat corruption and promote good governance. I would appreciate staff comment on any observations from the recent mission that went to Malawi to review the corruption/governance situation.

7. We would welcome more information on the reference in para. 51 to a possible regional program for the national audit function. What will this program entail? Why is it necessary? Does the Government have in place a functioning system for reporting to civilian authorities audits of military expenditures?

8. The agriculture sector has experienced far-reaching reforms with smallholders benefiting from the liberalized crop production and marketing systems. Issues still remain in maize pricing through a price band and the role of the government-owned agricultural development and marketing corporation (ADMARC). Government needs either to implement its decision to commercialize ADMARC or revisit its decision on the future of ADMARC. We agree with Bank’s approach on land reform.

9. The collapse of the currency because of low world market prices for tobacco, Malawi’s primary cash crop, argues for diversification in the agricultural sector, primarily into products with a higher income elasticity of demand, so that the economy will be less subject to external shocks. We note that the Bank’s Impact Evaluation Report on the agricultural sector suggests livestock and horticultural products as appropriate areas for such diversification. We are pleased that the Bank has begun incorporating this analysis into its programs.

10. I understand that Malawi is a country of focus under the Bank’s rural development initiative, yet a rural development strategy will not be completed until the year 2000. I also understand from the CAS that the Bank is working with IFAD in this area. What is the timeline for Malawi achieving results under the rural development initiative?

11. Public parastatals account for 20 percent of Malawi’s GDP. Their influence on the economy is considered to be greater than 20 percent of GDP because of the oligopolistic nature of the formal sector and vertical as well as horizontal integration of control and management. The three conglomerates: the press holdings, the Malawi Development Corporation (MDC) and the agricultural development and marketing corporation (ADMARC), dominate in almost all sectors of the economy including banking. The Bank should assure that divestment of parastatal
companies results in a genuine increase in the diversity of control. We encourage the authorities to accelerate their privatization program. We are pleased that IFC will play a role in this program as well as in the area of microfinance and SMEs.

12. The financial sector remains narrow with a limited number of indirect instruments. The two major commercial banks need to be separated from the conglomerates and made independent and prudentially more responsible. I understand that the government is committed to bringing in more players in the financial system but recent initiatives involve MDC taking positions in two new banks even as it sells some of its shares in the commercial bank. The foreign exchange market is liberalized with a number of foreign exchange bureaus operating in the market. The sudden collapse of the kwacha raises questions as to how the so-called interbank exchange market works. The rural sector remains heavily under-served. We would encourage the Bank to review the entire regulatory framework of the financial sector to re-examine some existing privileges accorded to government owned and/or controlled financial institutions.

13. The Government recognizes the high cost of operating an inefficient and dilapidated infrastructure. The establishment of the National Road Authority (NRA) fund and the review of power and telecommunications bills to allow more players in these areas are positive steps. I commend the Bank on their work in this area.

14. The government’s new emphasis on free primary education led to a significant increase in enrollment rates. Most donors feel that the policy has not created the “right pyramid” for progression. With little or no expansion at the secondary and tertiary levels, the system is failing to adequately absorb primary graduates, while Malawi suffers an acute shortage of trained manpower and management personnel at all levels. (At 11 percent, Malawi’s secondary enrollment is the lowest in Sub-Saharan Africa.) I would appreciate staff comment on whether and how the Bank will assist the Government in addressing this problem.

15. I noted a brief discussion of gender issues in the CAS and that the government has recently adopted an action plan. I would appreciate further elaboration from staff on what the Bank is doing to support the Government in the implementation of this action plan.

16. I understand from our USAID mission that donor coordination in Malawi is good at the level of information sharing, but that more might be done at the program level. Most donors continue to pursue their individual programs that are sometimes conflicting. Inadequate program collaboration stretches the limited capacity available within the government. We very much welcome the Bank’s attempt to pursue a sectoral approach both in terms of policy and program investment.

17. The CAS indicates that the government will take greater control of aid coordination, so that uncoordinated demands from the donor community will not deplete capacity. Does the Government have the capacity at the present time to coordinate aid? How does the Bank envision its role in this effort?

18. I think we need to be cautious not to exacerbate the situation of government agencies stretched to meet donor coordination demands. The CAS notes that Malawi’s portfolio performance is negatively affected by uncoordinated demands of the donor community as well as by capacity constraints stemming from the loss of life due to AIDS, inefficiencies in the civil service, and the general scarcity of skills in Malawi (stemming from restrictive education policies of the past). At the same time, there is the need for the Bank to be selective and focus its efforts for maximum impact. Yet attachment 3 shows that the Bank is involved in every sector except for one, governance. Where is the Bank’s comparative advantage in Malawi? Where can we have maximum impact given the current capacity constraints? What is the role of the Africa Capacity Building Initiative in addressing these constraints?
19. We tend to agree with OED that more attention might be paid to addressing systemic weaknesses in the civil service that have broad implications for advancing the poverty reduction strategy. Capacity constraints affect results in all areas, so having just noted (para. 18) that we may be undertaking more than counterpart capacity can effectively support, I wonder whether we can afford not to address strengthening the civil service. Isn’t this a prerequisite for progress in other sectors?

20. It seems from the CAS that extensive consultations were conducted during its development that appear to have been supported (if not encouraged) by the Government. Given this process, can we assume that the Government will grant permission to release the CAS in full to the public?