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Statement by Juan L. Cariaga

Malawi - Country Assistance Strategy

Introduction

We would first of all express our appreciation to staff for this overall very well prepared CAS candidly describing developments in Malawi during recent years and its current situation, as well as the serious challenges ahead. However, there are aspects of this presentation which leave us with some uncertainty regarding both the country's performance and the Bank's strategy.

Malawi has made considerable progress in developing its democratic commitments since 1994, improving macroeconomic performance and implementing structural reforms. In addition, we welcome inclusion in the Bank's strategy of input from various elements of civil society and donor countries, as well as broad consultations with Malawi's authorities.

While we are therefore pleased to support the Bank's overall strategy and the suggested lending levels, we would also like to offer some specific comments on this CAS that we hope will serve to clarify the concerns we and perhaps others also have.

Economic Considerations

Economic growth for the period 1995-1997 was remarkable by any standard. Moreover, the very impressive 9% growth for this period was broader and more diversified than ever before and benefited many of the population most in need.

Nevertheless, the pace of reform has now slowed. Of even greater concern is the weakening of expenditure control, with a resulting fiscal deficit for 1997/1998 of 9.7%, more than two points over target. This regression apparently caused suspension of disbursements under the IMF ESAF. In addition, portfolio performance has been mixed, with some improvements, but also deterioration in FY97 that remains worrisome.
We therefore welcome the package of revenue and expenditure measures the government has approved which are intended to restore fiscal balance, and the agreement reached with the IMF that will allow restoration of the third year of the ESAF by November 1998.

However, a more detailed explanation of the conditions that led to this breakdown of “expenditure discipline” as well as information on where funds have been spent and the commitment of the authorities to remedial action would have been useful for our understanding of this situation. We would appreciate staff providing additional clarification of these issues.

**Food Security**

Our concern for the importance of restoring Malawi’s growth is based on a recent analysis which “… indicates that at present population growth rates, Malawi will need to grow at an annual average of 5.3% just in order to keep the number of poor from increasing.” This stark figure emphasizes the importance for the country – one of the world’s poorest – of maintaining strong rates of growth in order to alleviate poverty. At the same time, recent growth has been more widely spread than in the past, and it is liberalized agricultural policies that have allowed smallholder agriculture to make this contribution.

In fact, smallholder agriculture is expected to be the most important source of growth over the near term. Therefore, we believe that this is where efforts should most logically be concentrated, while at the same time seeking to include medium and larger scale agricultural producers in productive and equitable growth. If food security is considered to be not only actual supply, but to encompass also infrastructure development, access, training and social development, then we have a model against which to measure our overall strategy.

**Gender**

Related directly to progress in food security is the situation in Malawi where 92 percent of the active labor force is in the agriculture sector, with women a majority. As elsewhere, women are inadequately rewarded for their participation in the country’s economic activities because of a lack of access to education and training, as well as constraints in land ownership and credit.

As we know, gender discrimination is not only a matter of social justice, but also of development. The elimination of gender inequalities improves productivity and social benefits, and finally reduces poverty. Investment in women’s education also reduces child mortality and fertility levels. These two social indicators are very high in Malawi and additional efforts are needed.

However, it is not clear how, or whether the lending strategy will directly address these problems and additional clarification would be most appreciated.
Objectives and Main Themes of the CAS

Malawi faces continuing challenges because of its narrow economic base, historical patterns of ownership and small land holdings, limited foreign and domestic investment, high population growth, climate and inadequate educational levels. In view of our previous observations, we are generally able to endorse the CAS' goals of creating broad-based, labor intensive growth, fostering environmental sustainability and gender-equitable human development. Equally important are the crosscutting themes of improving public sector management, strengthening policy frameworks, implementation and donor coordination. These are the areas for focus to achieve the gains needed for poverty alleviation.

As such, we agree with the Bank's support for Malawi's promotion of smallholder-based growth, recognizing that constraints may not be those of the agricultural sector itself, but rather inadequate internal transport, weak institutions and services and the need for a broader rural development strategy. We note, however, that by addressing these issues, as well as those of gender, the Bank is contributing to progress in the broader issue of food security.

With respect to the Growth Study view that a shift must begin now to labor-intensive industry and tourism by addressing the main constraints to private sector development, we do not disagree, and recognize the logic of this. Nevertheless, we urge that these efforts not detract from those areas where progress has been most apparent, while also supporting continued public services reform and macroeconomic stability. Insofar as these policies also contribute to increasing private sector activities they are doubly welcome.

Risks to the Proposed Strategy and Conclusion

The challenges Malawi faces are serious, and the conditions that led to the impressive growth of 1995-1997 need to be enhanced. That this was the case in the recent past gives us cause to be hopeful it can be replicated.

Finally, we would like to wish the government of Malawi and its people success in the implementation of this essential program and that progress will allow moving to the higher case scenario.