The two-year period between the Board’s discussion of the last CAS and now has witnessed significant developments in the implementation of Malawi’s development program. While the authorities have been able to forge ahead with policies that have in part contributed to strong, broad-based growth of about 9% in 1995-97, and have successfully managed the democratic transition with all its attendant problems, certain developments in the past two years, even as recently as within the last month, have made it difficult for the country to reap the full benefits of its policies and programs.

Malawi is a country whose recent history is generally one of good policies and at the same time bad luck. The country’s long history of experience with reform programs has been characterized by the implementation of bold policies whose effects have been partially negated by external shocks. This year, for example, the 28 percent decline in tobacco prices over those realized in 1997 will result in a sharp drop in the country’s export earnings. Equally, the depreciation of both the South African Rand and the Zimbabwe dollar, has resulted in a drastic realignment of the Malawian Kwacha — a necessary development if the country is to remain competitive and given that the two countries are Malawi’s biggest trading partners in both volume and value terms. The role of the Bretton Woods institutions, as well as that of the international community at large, will therefore be critical in assisting the country to manage the effects of these two events. As far as the Bank Group is concerned, flexibility in the implementation of some of the parameters contained in the present CAS, particularly in the base case scenario and lending program, will in my view be necessary in view of recent developments.

My authorities have recently reaffirmed their commitment to the broad and central goal of poverty alleviation as highlighted in this year’s Budget Speech. They also acknowledge that the difficult transitional problems, which are ably outlined in paragraph 22 of the CAS, have made it difficult for the country to vigorously pursue this objective. Nevertheless, with new and well-articulated approaches, including critical structural reforms, and with timely support from their development partners, they are determined to implement programs that will continue to generate broad-based and labor-intensive growth. The new strategy, outlined in Box 3 and para 23, and which places heavy reliance on small holder and rural growth, is in line
with the long-term objectives outlined in the country's recent Vision 2020, whose achievement, the authorities readily concur, will be difficult if external shocks persist. I believe the CAS is in line with the country's development agenda, and can help the country in achieving these long-term objectives if, as noted above, it is flexibly implemented.

Malawi is a land-locked country whose performance also partially depends on the availability and cost of external transport routes. Its membership in the Southern African Development Community (SADC), the Common Market of Eastern and Southern Africa (COMESA) as well as its participation in the Cross Border Initiative (CBI) indicates its high level commitment to addressing regional issues, particularly transport and trade issues, in collaboration with its neighbors. I wish to urge the Bank to implement its recent regional strategy for Southern Africa in a timely manner so that the land-locked countries such as Malawi may derive benefits from it.

Having made these general remarks, I would now like to comment on a few specific issues:

First, the new democratic dispensation has ushered in a new age where decision-making processes may take much longer to be completed than in the past. This is a result of the length of time needed to consult various groups and stakeholders before decisions are made. The CAS itself acknowledges that for the country to own its programs, this consultative process must take place. It should not come as a surprise, therefore, if after an early and vigorous start, reforms appear to have slowed down. My authorities are determined to pick up the pace of reform as and when they address specific related issues including capacity issues. They are also determined to improve on the implementation of current programs and projects.

Second, as noted above, the role of Malawi's development partners will be critical in the near-to-medium term. To derive maximum benefit from external assistance, however, it is extremely important that enhanced levels of aid coordination take place. The on-going Bank initiative to improve partnerships has as one of its objectives placing the government in the driver's seat. In its Board statements this chair has persistently emphasized this point. In Malawi, however, it appears that donor activities are not conducive for the government to take the lead in most, if not all, aid coordination activities. Paragraph 55 gives this impression and I would welcome some comments from staff on how the proposals of the Partnerships Initiative will be weaved into the Bank's activities in the country.

Third, on the issue of selectivity, I would agree with the general principle that Bank efforts should be focussed where they yield maximum results. However, equally important is the need to aggressively address relevant problems where existing projects are not performing well so that suitable conditions can be created for the resumption of lending in future to these areas. Paragraph 39 does not give the impression that this is indeed the Bank's intention, although to its credit, it remains open to working closely with government on various fronts.

Fourth, the importance of promoting the development of a microfinance strategy and policy framework in a country like Malawi cannot be overemphasized. I therefore wish to commend the Bank for joining the Government and other development partners in the collaborative efforts in this subsector, a subsector which in a liberalized environment can play a
critical role in the development of the private sector. I hope this will also be one of the areas in which IFC can play an increasingly important role.

Fifth, the intensified level of collaboration which has characterized the country's relationship with the Bank since the democratically elected government ascended to power in 1994 has demonstrated that the role of the resident mission should be strengthened. Such a role should, in my view, include the devolution of decision-making from headquarters to the field, and certainly a much greater role in the supervision of projects and programs, as well as in the procurement process.

Finally, debt remains a stumbling block to Malawi's development prospects. By the CAS' own admission, the country's external debt service, at 25 percent of fiscal revenues, constitutes a substantial burden given Malawi's enormous development agenda. Although the CAS argues for its sustainability beyond the year 2001, recent developments and their fiscal implications would, in my view, require a reexamination of the issue of the country's eligibility for the HIPC Initiative as well as other mechanisms that would help the country to substantially reduce its debt burden. My authorities consider this issue as one of utmost importance and accordingly would request the staff to give it a high priority in their work program.

In closing, I wish to commend the staff of both the Bank and the Fund for working closely with my Malawian authorities during the past few years and particularly during recent difficult times. The months ahead promise to be equally challenging and the Bank's leadership among the country's development partners will be essential in mobilizing the necessary support.