We express our overall support for the proposed assistance strategy which we find to be in line with the Government's principal objectives, both immediate and longer-term. The strategy is, in the short term, to help mitigate the social consequences of the crisis and prevent the erosion of social sector achievements in the short to medium term. The CAS also proposes a wide range of non-lending instruments assisting the Government's efforts to restore growth and confidence, and enhance Malaysia's competitiveness over the medium term.

We are pleased to note the participatory manner in which this first full CAS for Malaysia since 1993 has been prepared. The CAS consultations and discussions involved high-level policy-makers, Government officials, parliamentarians, private sector representatives, academics, NGOs, including civil society organizations and special interest groups, and other donors. Strong emphasis on partnership and participation seems particularly relevant, given the necessity of speedy full-fledged Bank re-engagement in this country after it was hit by an unprecedented economic crisis.

The Government's consistently proactive approach to crisis management is commendable. Its preemptive measures in response to the crisis have culminated in a comprehensive National Economic Recovery Plan (NERP) which focuses on restoring growth by reviving domestic demand, preventing the erosion of gains in the social sectors, and protecting the poor and other vulnerable groups. At the same time, many specific policies and measures within the NERP framework continue to evolve, whilst the degree of uncertainty in the domestic and external environment remains high.

As the CAS paper suggests, the Government tends to base its policy response on over-optimistic assumptions, particularly concerning the growth recovery. The latter issue was one of the most debated during the recent CAS consultations, and we would appreciate more detailed information on the substance of Bank/Government discussions relating to Malaysia growth prospects.
The CAS document recognizes Malaysia’s remarkable growth record in the pre-crisis period and its impressive achievements in reducing poverty, improving quality of people’s lives and enhancing social services. In the aftermath of the crisis, growth and poverty reduction trends have been reversed, unemployment has increased sharply, and the gains made in the health and education sectors have been put under threat. At this stage many data on the social impact of the crisis and on the new poverty situation are still emerging. We expect that the Participatory Poverty Assessment (FY00) will provide a comprehensive picture of the current state of affairs and serve as a solid analytical basis for the Bank’s future operations in social sectors.

We understand that Malaysia tries to meet its large financing needs resulting from the crisis by relying primarily on domestic sources. However, to finance the recovery package the Government also has to mobilize substantial additional funds from external sources, including the World Bank. The size and composition of Bank lending envisaged in the CAS differ noticeably from what the Government requested, namely $2.7 billion, including $700 million in fast-disbursing funds (para. 56). We would be interested in Staff comments in this regard.

The proposed base case lending program envisages Bank investment loans mainly in the social and related sectors. What kind of other investment operations, if any, might be expected under the high case scenario? What are the likely fast-disbursing loans, should the high case scenario materialize?

While the overall set of high- and low-case triggers seems appropriate, we wonder (i) how flexible the scheme is, particularly in terms of contingencies for adjustment lending, and (ii) whether Table 4 lists the triggers in the order of their priority.

We welcome the introduction of a preliminary framework for monitoring country and Bank performance on the CAS, as well as the intention to make it more detailed. We look forward to the presentation of a refined monitoring framework and its results in the CAS progress report.

Finally, we endorse the proposed Social Sector Support Project and Education Sector Support Project which accompany the CAS, as well as Year 2000 Technical Assistance Project which goes under the streamlined procedure.

In conclusion, we would like to commend the Staff for preparing the CAS document and three above-mentioned projects.