Statement by Finn Jonck  
Date of Meeting: December 21, 2000

MALAWI: CAS Progress Report; Interim PRSP and Joint Staff Assessment; HIPC Decision Point Document

Interim PRSP
We agree with the overall conclusion that the I-PRSP provides a sound basis for IDA and IMF concessional assistance.

We commend the Government of Malawi for having prepared an I-PRSP with strong local ownership based on a consultative process with the participation of many varied stakeholders. The strategy builds on existing strategies for poverty reduction and economic growth like the Malawi 2020 Vision etc. The I-PRSP, however, remains work in progress and we look forward to the presentation of the full PRSP. We note that the proposed timeframe for the elaboration of the full PRSP seem to be rather short. We wonder whether the timeframe will allow for continued high quality participatory process.

We believe that the strategy provides a starting point for alleviating poverty in Malawi. Important gaps exist in the framework and further work needs to be done by the Government in the coming months. The main challenge ahead will be to consolidate the sector approaches and strategies with sound macro-economic policies, such as fiscal policies, monetary policies and privatization. In doing this, the analysis of the results of the household surveys, including the effects of macro-economic decisions on the poverty situation in the country, will be crucial.

We would like to stress the need for a stronger commitment from the Government of Malawi to enhance the economic growth in the country by removing structural impediments.

Malawi should improve its public expenditure management. Implementation of recent initiatives to address the problems, e.g. Medium-Term Expenditure Framework, Integrated Financial Management Information System and PER, requires swift action and must be followed closely. More attention should be paid to this issue in the PRSP.

Malawi is over-dependent on tobacco as a source of export revenue. The issue of export diversification needs therefore to be addressed on an urgent basis. Economic diversification, including mining and tourism, should be explored.
Income distribution in Malawi has become more unequal from an already highly unequal starting point. The PRSP should focus more on the issue of distribution and of reducing inequalities. This crucial aspect is almost completely lacking in the document.

We are concerned about the private sector’s access to capital. Major reason of concern is the crowding out of productive investment by current practice of financing budget deficits on the capital market. Oligopolistic structure of financial market also needs to be addressed.

The gender aspects and the fight against HIV/AIDS need to be further strengthened and should be given particular focus in the implementation of the PRSP as well as in monitoring. Gender is crucial in understanding Malawi’s agriculture and should be explicitly included in the PRSP for increasing agricultural production.

Although the I-PRSP places considerable weight on governance we think that more attention should be given to the fight against corruption.

The environmental situation requires more attention due to the fact that the population has doubled in 30 years. There is a tension between the rapid population growth and the objectives to sustainable development that needs to be addressed.

The I-PRSP does not sufficiently address issues of infrastructure, particularly in relation to agricultural sector. Feeder roads are needed to promote growth in small-scale agriculture. Electrification and secondary roads are also necessary to diversify the economy and increase export base.

We think that donor coordination needs to be improved. We also wish to stress the importance of increased adherence by the donors to government procedures in order for the expenditure programs to run smoothly. Commitments made in this area during the CG meeting in May 2000 need to be monitored. In this respect the Independent Monitoring Group must work effectively.

Malawi receives substantial amounts of ODA. In order to avoid future debt problems, it would be sensible for Malawi to reduce its lending and increasingly rely on grants that are available in substantial amounts.

**HIPC Decision Point**

We agree that Malawi is eligible for debt relief under the enhanced HIPC initiative and has reached decision point. We also agree that interim assistance should be provided between decision and completion point as described in the Decision Point Document.

We broadly endorse completion point triggers outlined in Box 2 of the document. Still, we would reiterate what we have expressed during the discussions on other HIPC cases recently, i.e. that the quantitative targets for the education and health sectors should be interpreted flexibly provided that other important triggers more linked to the commitment to reform and the quality of policies are met.
On the substance, we would have preferred more attention in the triggers to aspects relating to equity in the distribution of economic growth and access to health care and education. In this regard, the implementation of the Essential Health Care Package should have been included. Also, mainstreaming of HIV/AIDS activities in line ministries and initiatives for appropriate education on sexually transmitted diseases at all levels in the education sector should have been given priority.

Country Assistance Strategy Progress Report

We welcome this CAS Progress report, which gives a candid and comprehensive overview of the situation in Malawi and the Bank’s lending program. It is of course disappointing that the reform process in Malawi has been slower than anticipated in the 1998 CAS. However, this outcome does not surprise us. When the 1998 CAS was discussed this chair warned that the timeframe for the reform agenda was too optimistic.

Like two years ago we believe that the Bank should be more strategic and selective in determining the level, type and sectoral composition of its support to Malawi. The document reflects on this important issue in paragraph 30. Our preliminary response to the four aspects identified for consideration in this paragraph is that:

First, higher levels of Bank resources should go to fewer sectors to achieve real sectoral transformation.

Second, Malawi should seek assistance from grant making donors and the Bank should function as a lender of last resort. Further consultations are needed between the donor community and the Government to assess what should be the Bank’s role in the social sector.

Third, although this chair is supportive of programmatic approach we see reason to move carefully ahead with this type of Bank lending to Malawi.

Donor coordination and cooperation is an extremely important issue, which is touched upon in the CAS. As mentioned above more work is needed in this field.

The gender perspective must receive substantial attention in the Bank’s lending program and non-lending services. It is important to include women in political decision-making, to increase their access to health care and education, and to safeguard their legal rights and protections. It is also important that women have better access to land and credit in the agricultural sector.