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**MALAWI: CAS Progress Report; Interim PRSP and Joint Staff Assessment; HIPC Debt Initiative and Decision Point; 3RD Fiscal Restructuring and Deregulation Program and Technical Assistance Project**

We welcome the opportunity to discuss in a comprehensive way the progress made under the current country assistance strategy and the third fiscal restructuring and deregulation program as well as the issues associated with the interim PRSP including the Joint Staff Assessment and the HIPC debt initiative in support of the government of Malawi's macroeconomic management and reform program and poverty reduction strategy. In this connection, we recall that Malawi was the first additional candidate countries added to the revised HIPC list of 1999 which we were pleased to support.

**Malawi CAS Progress Report**

The overall objective of the 1998 CAS of far-reaching and sustained poverty reduction and in particular, the four supporting pillars remain appropriate. In fact, this objective and accompanying priorities are consistent with those articulated in the I-PRSP. In this regard, we support the Third Fiscal Restructuring and Deregulation Program (US\$55.6 million) and Technical Assistance Project (US\$3 million). The program and project are closely linked to the priorities of the I-PRSP, including the focus on improved public sector management, implementation of the National Safety Net Strategy; and support to private sector development through liberalization of telecommunications, the financial sector, and petroleum imports and retail marketing. We also welcome the Bank's intention to provide technical assistance to the government of Malawi to support its PRSP process.

Looking forward to the next CAS, we support and indeed welcome the intention of staff to base the CAS on the PRSP. This is entirely appropriate given the importance of country ownership and leadership in development. The issues raised by staff concerning the Bank's involvement (such as, sector coverage, division of labour among donors and type of lending instruments) deserve careful consideration to ensure that the World Bank Group is broadly and fully engaged in the process. Without prejudice to the outcome of the full PRSP, we would emphasize the following principles in guiding staff in the preparation of the next CAS: (i) country ownership; (ii) donor coordination and division of labour based on comparative advantage; and (iii)

selectivity in terms of sectors, choice of lending/non-lending instruments and projects/program support. Improved donor coordination can, we believe, help to resolve the issue of the appropriate division of labour. We fully support staff's intention to explore the potential for a shift towards greater programmatic lending.

We note with considerable disappointment that gender issues have yet to receive adequate attention and priority by the Bank. As in the original CAS, gender equality goes almost completely unnoticed, not only in the analysis and reports on progress, but also in the Bank's activities on the ground in Malawi. This is a surprising and regrettable oversight, given the Bank's considerable influence, its formal commitment to gender equality and the undisputed benefits associated with fully engaging all stakeholders, especially women, in the development process. Conversely, we are encouraged by the comments on gender, described in Director Kaijuka's statement, to the effect that the government of Malawi are promoting gender issues through education initiatives and have taken action to address the problem of gender discrimination.

In August 2000, we supported Malawi's eligibility for HIPC debt relief and further agreed that Malawi could reach its decision point at end-2000, following the adoption of an I-PRSP and approval of a new Poverty Reduction and Growth Facility (PRGF) arrangement. In tracking progress since then, we welcome the efforts of the government of Malawi in reaching the decision point at this time. The government's strong commitment to reform and poverty reduction is evident in the I-PRSP, as is its commitment to use debt relief savings for critical social investments.

As a general observation, we believe that for poor countries such as Malawi which are willing to undertake the necessary steps to improve the lives of its people, it is vitally important that the international community give full support to their efforts.

We agree that the I-PRSP provides a sound basis for the development of a full PRSP and for Bank and Fund debt relief and concessional lending. Since the economic program to be supported by the new PRGF arrangement is consistent with the I-PRSP's priorities, we support the arrangement. The economic program rightly aims to reduce inflation to 5% and to raise real GDP growth to at least 4.5%. The country assistance strategy (CAS) progress report appropriately supports the I-PRSP's priorities and includes technical assistance related to the PRSP preparation. We believe that the provision of technical assistance is a necessity given the limited capacity in the country and the obligation that we have to provide assistance to implement a country owned, national poverty reduction strategy.

Subject to approval of PRGF arrangement and the satisfactory I-PRSP, we support an immediate decision point for Malawi and a debt relief package worth US\$643 million in present value terms for a debt-to-exports target of 150%. We further support the extension of interim debt relief and front-end loading of debt relief to the extent possible, and subject to its absorptive capacity and the adoption of a plan governing the use of debt relief savings productively.

We have the following specific comments about some aspects of the I-PRSP and the HIPC

Decision Point document.

### **Interim Poverty Reduction Strategy Paper (I-PRSP)**

First of all, despite capacity and resource limitations, the authorities have done an admirable job in establishing and implementing the framework of consultation. The three-stage participatory process (mobilization, preparation and validation) is well designed and appropriately sequenced to ensure wide ownership of the process. This process has led to a satisfactory I-PRSP based on broad consultations and should lead to the development of a quality PRSP. In fact, Canadian field representatives in Malawi have been playing an active role in the development of this I-PRSP, by participating in planning meetings and providing feedback on previous iterations. We have a seat on the Gender and Empowerment Technical Working Group. In addition, we are interested in participating in the HIV/AIDS Technical Working Group, both as bilateral donor and also by playing a significant coordinating role. Canada is helping with PRSP-related costs and will provide additional technical assistance, as required.

The Malawi I-PRSP, while very basic in scope, does cover the key areas for achieving coherent economic growth and poverty reduction, particularly the important linkage between increasing cash crop exports and smallholder agricultural production in the context of rural poverty reduction. The I-PRSP also outlines the essential steps for creating a conducive regulatory framework for private sector expansion. Overall, the document provides a useful starting point for the elaboration of a full PRSP. We note with concern, however, the Malawi authorities' checkered record for following through on previous economic plans (which are viewed as being too ambitious and broad in the CAS document). In this regard, the strategy could benefit from greater prioritizing and costing of concrete interventions. Moreover, the full PRSP should contain both overall strategies and specific implementation plans and details, including the objectives, targets, timetable, costs and the actors responsible for their implementation.

There are a several areas which are not covered in any depth in the I-PRSP but which merit closer examination in the full PRSP. First, the consultation process should include the Malawi business community. Reference is made to consultations with the "private sector", but given the importance to the overall growth strategy of manufacturing and export diversification, we urge the Malawi authorities to ensure that the business community is included. Similarly, Malawi might consider including a representative of its Ministry of Commerce and Industry on its PRSP Steering Committee. Second, it would be useful to include an analysis of possible market opportunities for Malawi exports resulting from regional integration (such as the Common Market for Eastern Southern Africa or COMESA) and the recent preferential trade initiatives by developed countries for least developed countries (i.e. United States' Africa Bill).

While it is encouraging to see that some HIPC resources have been earmarked for the Ministry of Gender, Youth and Community Services, we note with concern that gender is virtually absent from the I-PRSP analysis, apart from noting the low level of schooling of poor women-headed households and a footnote including women in the listing of vulnerable groups. A lot of work will need to be done in this area in order to integrate the gender-poverty nexus throughout the entire PRSP analysis and resulting policy- and decision-making processes. We hope that our

work in the Gender and Empowerment Working Group will provide us with an opportunity to bring these issues into the open, but the support of all donors to this effort will be essential.

We are also concerned that the export and GDP growth projections over the next twenty years (HIPC, Box 1) are overly optimistic and do not take into account the high probability of exogenous shocks, particularly poor rainfall and the shrinking tobacco market. In the HIPC document (page 31, table 5), tobacco exports are forecast to grow in value by 150% over the next twenty years and to maintain their 60% share of Malawi's exports. By showing no change in the relative significance of the tobacco industry in Malawi to 2020, the HIPC document seems inconsistent with the I-PRSP, which includes export diversification as a goal and rightly notes the uncertain future of the tobacco industry. Given the importance of tobacco to the economy and poverty reduction, the PRSP should include a rigorous examination of the long-term prospects of tobacco exports as well as smallholder cash crop substitutes for tobacco.

### **HIPC Initiative Document**

Despite the very tight schedule for bringing countries to the decision point in December, we find this document to be succinct, while covering all the relevant aspects required for informed decisions on the choice of triggers as well as the level of debt relief. The document's focus on a subset of the I-PRSP's priorities that can be addressed relatively soon and that can contribute to ensuring debt relief savings has a strong impact is especially appropriate.

Regarding reforms required prior to the floating completion point, we agree that the policy actions in Box 2 represent a limited, concrete, and critical set of policy actions. The triggers are broadly consistent with Malawi's I-PRSP (and sector-specific documents) and have a discernible link to poverty reduction. Given the concerns over governance, poor expenditure management and reporting, we welcome the inclusion of specific triggers (i.e., quarterly expenditure reporting and the implementation of the Integrated Financial Management Information Systems in four pilot ministries) to improve expenditure management and governance. Quarterly public reporting of expenditures, including in areas financed by HIPC resources, is especially appropriate in the HIPC context to ensure transparency and appropriate public scrutiny on the use of HIPC (and other government) resources. Given the enhanced focus of poverty reduction of the HIPC framework, the emphasis on policy actions, including concrete targets for HIV/AIDS, in the social sectors is entirely appropriate. The conditions related to land reform, micro-credit and safety net programs to protect the poorest are expected to have a positive impact on poverty and the quality of life of the poor.

On the PRSP trigger, we welcome the authorities' intention to complete the "prioritized and costed poverty reduction strategy" by June 2001 with a view to reaching the HIPC completion point in 2002. We would reiterate the importance of broad-based participation of the poor and other stakeholders in transforming the I-PRSP into a dynamic and stakeholder-driven PRSP. In this regard, while we welcome the authorities' intention to officially submit the I-PRSP to all stakeholders in mid-January next year as part of the validation process, we underline the importance of ensuring that all stakeholders fully "buy into" the final strategy.

Table 4 (Indicative Use of HIPC Resources) does not appear to reflect spending on HIV/AIDS. Our field representatives report that the government is considering a commitment of US\$625,000 or more for HIV/AIDS for 2000/01 drawn from interim debt relief and a larger annual allocation thereafter. Since the only Health allocation cited is for drugs, we would like to clarify whether or not the US\$625,000 comes from the US\$8.7 million which remains unallocated in 2000/01. Further, as there does not appear to be unallocated funds in future years, can we assume that HIV/AIDS funds will be sourced from the modest allocation to "Primary Health Care". We have concerns that even this modest amount may be in doubt in light of what funds are available. The situation is further complicated by the imminent separation of the National AIDS Control Program from the Ministry of Health and Population. **We would appreciate clarification from staff on whether or not HIPC resources will be available for allocation to HIV/AIDS and, if so, at what level?**

We take this opportunity to extend to the government of Malawi our best wishes for continued success in their economic restructuring and reform efforts and in creating the conditions for equitable growth and sustained poverty reduction in the future.