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THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND
THE INTERNATIONAL MONETARY FUND

MALAWI

Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative

Prepared by the Staffs of the World Bank and the International Monetary Fund[1]

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2000)

Currency Unit	=	Malawi Kwacha (MK)
MK1	=	US$ 0.0125
US$ 1	=	MK 80
SDR 1	=	US$1.279

MEASURES

Metric System

FISCAL YEAR

July 1 to June 30
(as of July 1998)

ABBREVIATIONS AND ACRONYMS

ACB	Anti-Corruption Bureau
ADMARC	Agricultural Development and Marketing Corporation
BHA	Better Health for Africa
CHAM	Christian Health Association of Malawi
CMS	Central Medical Stores
CS-DRMS	Commonwealth Debt Reporting Management System
DAMD	Debt and Aid Management Division
DFID	Department for International Development
DPP	Department of Public Prosecution
DSA	Debt Sustainability Analysis
ESAF	Enhanced Structural Adjustment Facility
HIPC	Heavily Indebted Poor Countries Initiative
HRD	Human Resource Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management and Information System
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
MANEB	Malawi National Examination Board
MIE	Malawi Institute of Education
MK	Malawi Kwacha
MOF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NACP	National Aids Control Program
NDF	Nordic Development Fund
NPV	Net Present Value
NSNS	National Safety Net Strategy
ODA	Official Development Assistance
PAC	Public Accounts Committee
PCC	Petroleum Control Commission
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RBM	Reserve Bank of Malawi
SGR	Strategic Grain Reserve
STD	Sexually Transmitted Diseases
STI	Sexually Transmitted Infections
UNDP	United Nations Development Program
WEO	World Economic Outlook

I. INTRODUCTION

1. This paper proposes approval by the Executive Boards of IDA and the IMF of a decision point for Malawi under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Total assistance of $643 million in net present value (NPV) terms is proposed to be provided to Malawi within the context of the Enhanced HIPC Initiative framework, allowing for a 44 percent reduction in the stock of outstanding external debt after traditional debt relief mechanisms.

2. In August 2000, the Boards of IDA and the Fund made a preliminary determination that Malawi was eligible for assistance under the Enhanced HIPC Initiative on the basis of an unsustainable stock of external debt at end 1999 and a track record of implementing macroeconomic and structural reforms in the 1995-99 period.[2] Directors also agreed that Malawi could reach the decision point subject to the completion of an interim PRSP that provides a sound basis for concessional IDA/Fund lending and upon agreement on a new PRGF arrangement.

3. Agreement has subsequently been reached with Fund staff on a program that could be supported under the Poverty Reduction and Growth Facility and with IDA staff on an adjustment credit. In addition, an interim PRSP has been produced by the Malawian authorities, in which they articulate their commitment to poverty reduction and outline a road map for the preparation of the full-fledged PRSP. The authorities have begun a broad based participatory process with the main stakeholders and civil society for formulating their poverty reduction strategy and expect to finalize the PRSP by mid-2001. A first year progress report on the implementation of the PRSP, continued progress in macroeconomic performance, and the implementation of agreed measures to reduce poverty and accelerate growth will serve as a basis for reaching the completion point under the enhanced HIPC Initiative.

4. The rest of this paper is organized as follows. Section II reviews the key challenges to poverty reduction and growth in Malawi in order to set the agreed completion point triggers in context. Section III presents the Debt Sustainability Analysis. A discussion of the amount and profile of assistance under the Enhanced HIPC Initiative is offered in Section IV, including an outline of the potential uses of assistance received under the Initiative. Section V presents the measures and conditions agreed with the Malawian authorities to ensure an effective utilization of the resources released through debt relief, and Section VI proposes the main issues for Board discussion.

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[2] "Malawi – Enhanced Initiative for Heavily Indebted Poor Countries – Preliminary Document" IMF, EBS/00/148, July 20, 2000 and "Malawi – Preliminary Document on the Initiative for Heavily Indebted Poor Countries" World Bank, IDA/R2000-142, July 21, 2000.

II. POVERTY REDUCTION AND GROWTH: KEY CHALLENGES

5. Poverty in Malawi is widespread, reflecting inherent structural weaknesses, two decades of modest growth, and the limited success of anti-poverty policies.[3] Most social indicators are worse than the average for sub-Saharan African (Table 1). Poverty is closely associated with occupational status, education, gender and household demographics along with a range of other factors. The poorest households typically concentrate on cultivating local maize in contrast to wealthier households who tend to produce hybrid maize along with other crops and have a larger share of their income from non-farm activities[4]. Less than 1 percent of female household heads who belong to the poorest 20 percent of the population complete primary school. Poor households also tend to be larger with a smaller share of earners compared to better-off households.

Table 1. Selected Social Indicators in Malawi and Other Countries

	Malawi	Sub-Saharan Africa	Low-Income
GNP per capita, 1999 (Atlas method, $)	180	500	410
Population with access to safe water (percent)	47	54	70
Immunization rate for measles (percent under 12 months)	87	58	80
Life expectancy at birth (years)	42	50	63
Infant mortality (per 1000 live births)	134	92	68
Women at ante-natal care clinics who have HIV (percent)	31	12	..
HIV/AIDS, adult prevalence rate (% age 15-49, latest year available)	15.96	7.58	1.23
Illiteracy rate (percent of people aged 15 and above)	41.8	40.5	31.3
Pupil:teacher ratio, primary	58.8	40.9	39.3

Source: 2000 World Development Indicators and Human Development Indicators, UNDP.
Data are most recent estimates.

[3] The inherent structural impediments revolve around Malawi's landlocked position, limited natural resources, dependence on subsistence agriculture, population pressures, susceptibility to HIV/AIDS, low levels of human capital and poor infrastructure. Growth in real GDP per capita averaged –1.3 percent during the 1980s and 1.4 percent during the 1990s.

[4] Out of the poorest 20 percent of rural households, 51 percent cultivate local maize while 42 percent of the wealthiest 20 percent of rural households do so. In contrast only 26 percent of the poorest rural quintile cultivates hybrid maize whilst 42 percent of the top rural quintile does. The poorest quintile of households in Malawi only derives 1.5 percent of its household income from non-farm business sales while the wealthiest quintile derives 14.6 percent of its income from this source.

6. As summarized in the interim PRSP (IPRSP) as well as the preliminary HIPC document, a significant number of policy reforms has been implemented in recent years with the goal of reducing macroeconomic imbalances, broadening market-oriented reforms and improving outcomes in the social sector. In the macroeconomic domain, the period under the 1995-99 ESAF program showed a notable improvement compared with the early 1990s: (i) inflation was nine percentage points lower on average; (ii) real GDP grew at an average rate of 6 percent per annum compared with 0.3 percent in the first half of the 1990s; (iii) the fiscal deficit was lower on average by around 2 percentage points of GDP; and (iv) external reserves reached a level sufficient to cover 3.3 months of imports, from only 1.7 months of imports in the earlier part of the decade. At the same time, due to the enactment of a wide range of structural reforms during this period, the agricultural marketing system was liberalized (including the elimination of quotas for tobacco production), budgeting procedures were improved, controls on interest rates and foreign exchange were abolished, a privatization program was launched, and barriers to trade substantially reduced. Furthermore, a number of efforts were taken to address poverty directly including the launch of the Malawi Social Action Fund, various food-for-work programs, the distribution of farm inputs or "starter packs" to rural households, the introduction of universal free primary education, and the increase in the recurrent budget's share of health and education spending.

7. In 2000, real GDP growth is projected at 3.2 percent. Twelve-month CPI inflation fell in the first half of the year, from 28 percent at end 1999 to 22 percent at end-June 2000, but rose subsequently to 30 percent by September 2000 reflecting a mid-year increase in liquidity, a sharp depreciation of the exchange rate against the US dollar, and petroleum price increases. Monetary management weakened in mid-year, with short-term treasury bill yields temporarily dropping below the 12-month inflation rate. Beginning in late September, sizeable open-market operations mopped up the excess liquidity and yields started to rise again. A major policy initiative to improve the control of public spending and borrowing was announced in March 2000, with a view to improving the monitoring and control of spending commitments, clarifying the responsibilities of ministries and officials, and formalizing financial limits for parastatals. Further progress in expenditure management was also made with a joint government-IDA Public Expenditure Review that has served as an input into the 2000/01 budget and that is expected to provide a sound analytical basis for the continuing process of re-allocating resources towards critical social sectors.

8. Notwithstanding the progress recorded above, there is a clear recognition that steadfast policy commitments and actions will be needed on a number of fronts. Outlined below are the key policy areas in which intensified reform efforts will be critical. These areas for policy action are not meant to be exhaustive but instead represent a subset of the Government's overall poverty reduction strategy – outlined in the IPRSP – that can be addressed relatively soon and that can contribute to ensuring that expected assistance under the HIPC Initiative has a strong impact.

A. Macroeconomic Stabilization and Market Liberalization

9. A stable macroeconomic environment with low inflation, limited government recourse to funds from the banking system, a competitive exchange rate, and an open trading regime is central for raising Malawi's growth prospects and – both directly and indirectly – contributing to poverty reduction. Moreover, as highlighted in the IPRSP prepared by the Malawian authorities, macroeconomic stabilization is indispensable to raising levels of private saving and capital formation and to thereby fostering private sector led development.

10. Consistent with these objectives, the economic program to be supported under the Poverty Reduction and Growth Facility (PRGF) seeks to raise real GDP growth to at least 4.5 percent, reduce inflation to 5 percent, and increase gross international reserves to about five months of imports of goods and non-factor services. The central objectives of **fiscal policies** over the medium term will be to reduce the aggregate demand pressures that have manifested themselves in high inflation and a large external imbalance; and to lower the stock of outstanding domestic debt. This will ease the pressure on real interest rates and encourage private sector growth. To generate the public savings needed to support the medium term growth objectives, fiscal policy will continue to focus on: (i) maintaining the strong revenue record of the last and current fiscal year, through improvements in tax administration and by safeguarding the performance of the Malawi Revenue Authority; (ii) improving the monitoring and control of public spending; (iii) restraining the growth of non-priority expenditures; and (iv) minimizing future instances of transfers to the budget of large losses incurred by public sector entities. To meet the latter objectives, public expenditure management, including the monitoring of budgetary and parastatal operations, will be strengthened, as is highlighted in sections that follow.

11. An immediate priority for **monetary policy** is to ensure that liquidity conditions remain consistent with achievement of the agreed targets for reserve money through open market operations. Over the medium term, broad money stock (M2) will remain the nominal anchor and the primary tool for reducing inflation. Reserve money targets specified within the context of the PRGF will provide the framework for the central bank's monetary policy operations.

12. **External sector policies** will continue to seek an adequate level of international reserves coverage over the medium term. Consistent with the use of money as the nominal anchor, the exchange rate will continue to be market determined, and interventions by the central bank will be limited to meeting the net international reserves target and to smoothing exchange rate movements. Following upon the extensive trade liberalization process that has already been undertaken, the government will ensure that barriers to trade remain low and that the tariff structure is streamlined. A cautious move towards removing export surrender requirements is expected over the medium term.

13. As has been noted in Malawi's preliminary HIPC document and IPRSP, wide-ranging **liberalization** measures will be needed to complement the macroeconomic stabilization actions outlined above and to stimulate private sector growth. In particular, over the medium

term, it will be imperative to: (i) maintain competitive conditions in the marketing of key commodities such as grain, fertilizers, and petroleum; (ii) accelerate the privatization of enterprises that continue to operate under public ownership; and (iii) reduce oligopolistic structures in the financial system so as to raise the efficiency of financial intermediation. A number of these structural issues are being addressed as part of IDA's adjustment credit and the IMF's PRGF arrangement.

B. Strengthening Public Expenditure Management

14. Public expenditure management in Malawi has long been characterized by weaknesses in a number of areas. A large build-up of domestic arrears,[5] weak recording of parastatal and other public sector units' accounts, and incidents of fraud and misappropriation of public funds have been some of the recent manifestations of weaknesses in public expenditure management. Moreover, past instances of government resorting to promissory notes and suppliers' credits indicate that there may have been insufficient parliamentary scrutiny when liabilities were initially incurred and inadequate recording of current spending.

15. To ensure that scarce public funds are deployed towards productive ends, a few corrective actions have already been undertaken and several others are expected over the medium term. A significant step towards prioritizing public resources took place during a joint Government-IDA Public Expenditure Review whose preliminary recommendations were included in the 2000/01 budget. Future progress relies heavily on the implementation of a **new system for monitoring and controlling spending**, which is intended to track all commitments being incurred by spending units on a systematic and timely basis. Besides serving as a tool for budget management, this new system – whose successful operation comprises a key performance criterion under the PRGF arrangement – is intended to prevent the re-emergence of domestic arrears. In addition, an Integrated Financial Management Information System (IFMIS), which will allow for an improved tracking and assessment of budgetary flows, will be introduced in four pilot ministries within this fiscal year. **Increased fiscal transparency** is also to be sought through two key measures: the quarterly public reporting of data on spending levels for priority items (discussed below) and improved monitoring of the major parastatals – through a recently established unit in the Ministry of Finance – by way of tighter financial controls, a tracking of their outstanding liabilities, and a regular publication of their accounts. The introduction of IFMIS in the four ministries and the quarterly reporting of expenditure data are both completion point triggers outlined in Box 2.

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[5] Domestic arrears of 1.2 percent of GDP were identified by the Auditor-General in December 1999, accumulated between end-March 1998 and end-October 1999. Any remaining arrears are to be cleared within FY 2000/01.

C. Improving Governance

16. Weaknesses in governance remain major problems in Malawi, manifesting themselves in a number of recent cases of fraud, corruption, and the misappropriation of public funds. The Malawian government has stated its full commitment to the prevention of further abuses and intends to proceed with the prosecution of all identified offenders in corruption cases. To this end, it has encouraged the work of the Anti-Corruption Bureau (ACB), the Department of Public Prosecutions (DPP), and the Auditor-General, and the operation of the Parliamentary Public Accounts Committee (PAC). In October 2000, a report by the PAC included evidence by the Auditor-General of misuse of funds at the Ministry of Education. Three ministers were subsequently dropped from the cabinet.

17. Following through with on-going investigations of corruption is critical in order to meet the parallel objectives of prosecuting individuals involved and recovering funds due to government. In this regard, the government intends to support the ACB and the DPP in their investigations of those responsible for irregularities at the Petroleum Control Commission (PCC) and in the recovery of misappropriated funds, as highlighted in the 1998 PCC audit. The government also intends to pursue the recovery of at least MK 150 million in cases of large-scale customs duties evasion, alongside the levying of appropriate fines and the prosecution of individuals involved. Finally, a number of cases of disputed contract awards will be advanced either through further investigations or action to prosecute guilty parties.

18. Over the medium term, to prevent future abuses and as safeguards against corruption, the government also intends to take the following actions: (i) separate the functions of fiscal management and audit under new legislation; (ii) establish under the new legislation the independence of the Auditor-General through appropriate terms for appointment, tenure, staffing, compensation, financing, and reporting responsibility; (iii) consider ways of speeding the prosecution of cases of fraud, corruption, and misappropriation of funds; and (iv) enact a new Procurement Code and establish a Procurement Authority which will decentralize procurement to the purchasing agencies.

D. Raising the Quality of Education

19. The Government introduced free, universal primary education in 1994 resulting in a sharp increase in primary enrolments. However, this commendable increase in primary access, which incidence analysis shows to have been pro-poor,[6] has also had a negative effect on the overall quality of education.[7] The share of education in the budget has fluctuated

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[6] The poorest 20 percent of the population received 22 percent of public resources in primary education in 1997/98 while the richest 20 percent received 16 percent. For 1990/91 the figures were 15 percent and 24 percent respectively (Table 3).

[7] The pupil to qualified teacher ratio is around 120:1 while the pupil:teacher ratio is 60:1. The primary repetition rate is 17 percent and drop-out rate is around 20 percent. The transition rate from primary to secondary is very

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since 1993/94 but the overall emphasis on the sector is reflected by the increase in the share of education in discretionary spending[8] from 15.7 percent in 1993/94 to a budgeted 21.8 percent in 1999/00 (Table 2).

Table 2: Trends in Social Expenditures and Historical Debt Service

	93/94	94/95	95/96	96/97	97/98	98/99	99/00
Education expenditure							
Share in total expenditure	10.3	12.2	15.4	17.0	18.6	12.2	12.4
Share in recurrent expenditure	11.1	10.5	16.0	17.6	18.3	13.2	15.6
Share in discretionary recurrent expenditure	15.7	16.8	21.7	26.1	28.5	23.6	21.8
Share in development expenditure	6.6	18.0	22.7	8.5	19.4	10.6	12.8
Share in GDP	3.4	4.3	5.4	3.9	5.5	3.7	3.4
Health expenditure							
Share in total expenditure	5.9	8.8	11.1	7.6	7.2	10.3	10.3
Share in recurrent expenditure	6.7	7.3	9.7	8.5	7.2	6.0	9.1
Share in discretionary recurrent expenditure	9.5	11.7	13.2	12.6	11.2	10.7	12.7
Share in development expenditure	4.1	18.0	16.3	3.6	7.3	22.6	12.3
Share in GDP	2.1	3.0	2.6	1.9	2.1	2.6	2.2
Memorandum items							
In US dollar millions:							
Total Health and Education expd.	90	96	148	139	161	112	99
External debt service	80	91	91	89	98	96	92
As percent of GDP:							
Total Health and Education expd.	5.5	7.3	8.0	5.8	7.6	6.3	5.6
External debt service	4.9	6.9	4.9	3.7	4.6	5.4	5.2

Note: Discretionary recurrent expenditure refers to recurrent expenditure less statutory expenditures.
Figures for 1993/94 to 1998/99 are actuals; figures for 1999/00 represent budget allocations.
Figures for education expenditure include both Ministry of Education and other subventions to the education sector (e.g. University of Malawi, MANEB, etc.)

20. The Ministry of Education has prepared a sector strategy document (Policy Investment Framework) which identifies a number of factors which contribute to the poor quality of education. One such factor is the relative **lack of qualified teachers** in the system. Due to the rapid expansion of primary enrolments, around half the current teaching force are not fully trained (many have received in-service training). Malawi's six teacher training colleges are not currently producing enough teachers to even replace the 5,000 or so teachers lost annually due to AIDS and attrition. Hence improving the teacher training system, in terms of both the number of teachers produced and the quality of teacher training, is a high priority for the sector. The authorities have committed to enrolling at least 6,000 teachers per

low and hence the gross enrolment rate at secondary is only about 19 percent with a dropout rate, at the secondary level, of around 17 percent.

[8] Discretionary recurrent spending is defined as total recurrent minus 'statutory expenditures' (i.e. interest on debt, pensions and gratuities and Office of the President)

annum in their teacher training colleges as well as instituting annual in-service training for primary teachers.

21. The Policy Investment Framework also points to the acute shortage of **teaching and learning materials** as a key determinant of the poor quality of education. The Government has increased the share of the budget going to teaching and learning materials[9] but it is essential that intra-sectoral budgetary reallocations are accompanied by institutional improvements. The leakage of teaching and learning materials in the supply chain is a serious problem and as such the Ministries' plan to work with textbook suppliers to pre-package textbook consignments so that textbooks are delivered directly to each school is an important step in reducing textbook theft from warehouses.

22. There are large disparities in resource allocation between primary and secondary schools, and between boarding and non-boarding secondary schools.[10] Moreover, the benefits of public subsidies to secondary education largely accrue to better-off households (Table 3).

23. Given the need to use public spending equitably, the Government is committed to a phased reduction in boarding subsidies in secondary schools (except for 'special needs' education).[11] The completion point triggers in Box 2 reflect the Government's commitments towards a minimum floor for education spending in the budget, teacher training, access to teaching and learning materials and the elimination of boarding subsidies.

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[9] The allocation for teaching and learning materials increased from 7.9 percent to 9.1 percent in the education recurrent budget between 99/00 and 00/01.

[10] The relative unit cost ratio between a primary and secondary student is around 1:10. Real unit costs have been maintained for secondary boarding schools but fallen significantly for secondary day schools between 1993/94 and 1999/00. Exam pass rates are 25 percent lower in day schools.

[11] The Government allocation for boarding has fallen from 16.1 percent of total secondary education recurrent expenditure in 1999/00 to a budgeted 8.7 percent in 2000/01. The School for the Blind and Deaf is an example of 'special needs education'.

Table 3: Incidence of Public Education Expenditure by Level and Quintile

	Education spending benefiting:				
	Poorest 20%	2nd	3rd	4th	Richest 20%
1997/98					
All	16	19	19	20	26
Primary	22	22	21	19	16
Secondary	12	18	16	22	33
1990/91					
All	10	13	16	24	38
Primary	15	18	20	23	24
Secondary	7	11	14	28	41

Notes: All education data for 1997/98 refers to primary, secondary and university public education spending only. All education data for 1990/01 also includes other tertiary education (primary teacher education and technical training). Sources: 1997/98 Malawi data from IHS 1997/98 and MoE (1998), all other data is taken from Castro-Leal (1996), table 14 pp24 and table A.8 pp42.

E. Improving Health Outcomes

24. Malawi's poor health outcomes are reflected in high mortality and morbidity rates[12] (the infant mortality rate is 134 per 1000 compared to 92 for Sub-Saharan Africa), one of the highest HIV/AIDS rates on the continent (31 percent HIV prevalence for women in ante-natal clinics compared to a 12 percent average in Sub-Saharan Africa), and endemic malnutrition (around 30 percent of children under five are underweight). These outcomes have prevailed even in the context of favorable budgetary trends: the share of health expenditure in total expenditure rose from 5.9 percent to 10.3 percent and the share in discretionary recurrent expenditure rose from 9.5 percent to 12.7 percent between 1993/94 and 1999/00 (Table 2).

25. Malawi's National Health Plan and other sector documents indicate that a critical factor behind such poor outcomes is the **serious shortage of medical personnel**, particularly in rural areas. The severity of the problem manifests itself in vacancy rates ranging from 33 percent to as much as 80 percent in some positions resulting in extremely high ratios of population to medical personnel.[13] A complex set of factors account for the staffing shortage including low salaries, attrition to more lucrative jobs, sickness or death mainly from HIV/AIDS, and the training institutions' limited capacity to produce fresh graduates. The

[12] This is particularly the case for preventable diseases such as malaria, respiratory infections, diarrhea, and ailments associated with childbearing and childhood.

[13] The doctor:population ratio is 1:32,000 in Malawi compared to 1:11,000 in Zambia and a Better Health for Africa standard of 1:9,000. The nurse: population ratio is 1:4,900 compared to a BHA standard of 1:2,000.

Government has put together a long-term Human Resource Development (HRD) Plan which addresses these issues.[14] In this context, the Government has committed to raise the output of medical personnel in three areas where vacancy rates are the highest: nursing, medical assistants and radiography technicians and the targets are outlined in Box 2 as completion point triggers.

26. Another key problem in the health sector is the population's limited **access to drugs and medical equipment**. This is largely due to institutional weaknesses, namely the inefficient operation of Central Medical Stores (CMS), the Government body responsible for procuring and distributing drugs. In addition, even though the last budget saw Government expenditure on drugs and medical supplies move closer to Better Health for Africa (BHA) standards,[15] budgetary resources for drugs and medical supplies remain inadequate. Hence, for the period ahead, the allocation of increased resources to the drugs budget will need to take place alongside structural reform of the CMS. The Government has committed to a two stage restructuring of the CMS at the end of which the CMS ought to be a streamlined, semi-autonomous body recapitalized through multi-donor contributions. The first phase of CMS restructuring, which is the basis for a completion point trigger (see Box 2), involves reviewing the Essential Drugs List on the basis of vital health needs, preliminary work supporting the creation of the CMS as a Trust, and the development of information systems to monitor compliance with agreed policies and financial allocations.

F. Fighting HIV/AIDS

27. Malawi has one of the highest HIV prevalence rates in Sub-Saharan Africa with around 16 percent of the working age population and 31 percent of women in ante-natal clinics HIV positive.[16] The devastating socio-economic impact of such a high rate has manifested itself in, amongst other things, a decline in average life expectancy from 52 in the early 1990's to around 42 now and around a quarter half a million children becoming AIDS-orphans. Moreover, the spread of AIDS – if not reversed through concerted policy and behavioral changes – could seriously reduce Malawi's growth potential.[17]

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[14] Project Financing Proposal for Human Resources Development in the Health Sector, Ministry of Health and Population, Government of Malawi, March 2000.

[15] The 2000/01 budget allocation for drugs and medical supplies was $1.17 per capita, based on exchange rates prevailing at the time, close to the BHA recommended norm of $1.25

[16] Working age population is here defined as 15-49 year olds. HIV prevalence is estimated at 25.3 percent in urban areas and 11.2 percent in rural areas.

[17] Estimates of the impact of HIV/AIDS on economic growth vary widely depending on methodology, econometric specifications and other assumptions. Estimates range from 0.7 to 2 percent of GDP foregone each year. See Arndt, Channing and Jeffrey D. Lewis (2000), "The Macro Implications of HIV/AIDS in South

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28. The Government has developed a costed National Strategic Framework for HIV/AIDS which details planned interventions in HIV prevention and mitigation. Approximately $110 million has been pledged by donors to support the Five Year Strategic Plan which is estimated to require $161 million.

29. The Strategic Framework will be implemented by the **National AIDS Control Program** (NACP) which is currently under the Ministry of Health. The Government recently decided to make the NACP an autonomous entity outside the control of any specific Government body but the implementation of the decision to grant it autonomy is proving to be slow.[18] If the fight against HIV/AIDS is to have any success, not only should the NACP be autonomous but it also needs to be fully staffed[19] and functional.

30. As in many countries, insufficient behavior change interventions and a limited availability of **preventive services** have led to a failure in slowing the spread of the HIV virus in Malawi. In particular, shortages of blood testing kits frequently frustrate these efforts[20] and a focused effort to ensure an adequate and timely supply of testing kits is currently an important priority for the National AIDS Control Program (NACP). An effective Behavior Change Communication Strategy is a critical part of Malawi's HIV/AIDS prevention measures and the NACP is in the process of developing indicators to monitor progress in this area. Improving condom access is an important part of the fight against HIV/AIDS; as such the NACP has committed to ensuring that at least 75 percent of all condom outlet points have condoms in stock at any given time.

31. Another priority area of intervention for the NACP, reflected in the completion point triggers in Box 2, is the management of HIV related conditions and **mitigating the impact of HIV**. The syndromic management[21] of sexually transmitted diseases (STDs) is a key component of the fight against AIDS and hence the NACP has set itself the target of ensuring syndromic treatment of STDs in all Central, District and CHAM hospitals.

Africa: A Preliminary Assessment," Africa Region Working Paper Series No. 9. Washington, DC, The World Bank; and Bonnel, R (2000), "What Makes an Economy HIV Resistant?" World Bank.

[18] Based on the recommendations of the Cabinet Committee on HIV/AIDS.

[19] A staffing review is currently underway.

[20] This was clearly identified in the 1999/00 National Aids Control Programme's Annual Performance Review. There are currently around 1,500 testing kits, each allowing 100 tests to be done. The NACP has set itself the target of increasing this to 2,500.

[21] Syndromic management of STDs involves training all health staff in recognizing and dealing with HIV/AIDS, providing drugs and developing mitigation instruments (such as information, education and provision of condoms).

G. Strengthening Land and Credit Markets

32. While there are many components of Malawi's pro-poor growth strategy, equitable access to land and credit are two crucial ingredients, as has been outlined in the IPRSP.

33. **Providing equitable and secure access to land:** The Government of Malawi is considering significant land policy reforms to address demographic pressure on land resources,[22] inequality in access to land, tenure insecurity, and deficient land administration. For over three years, a Presidential Land Commission carried out extensive consultations on these issues and on this basis Government has prepared a Draft New Land Policy. The government has already prepared a Strategic Action Plan which describes the process of implementing the land policy reform process and modernizing the land administration system.

34. The proposed land policy addresses the main challenges of tenure security (for all tenure regimes), land administration, land market transactions, community participation, and natural resources management. In particular, the proposed land policy would formalize customary tenure by declaring that all land in Malawi be defined as customary land, to be managed by traditional authorities according to custom, except for freehold titles and Government land. Furthermore, in response to the growing assertion of individual property rights, family allocations within customary tenure will be converted into titles known as 'customary estates'. This Land Policy is consistent with the on-going decentralization process as it significantly shifts the balance for dealing with land issues from the Central government to the Districts and traditional authorities. Government intends to have Cabinet approval of the draft new land policy by December 2000 and Parliamentary approval of the corresponding legislation and regulations before the end of 2001.

35. **Ensuring access to micro-credit**: Access to credit, particularly by poor rural households, is a critical ingredient of rural sector growth. The micro-credit system in Malawi is composed of a number of disparate initiatives which range from providing credit to specific occupational groups (e.g. tobacco farmers) to those which lend in specific geographical areas – interest and recovery rates vary widely as well. There are currently around twenty micro-finance institutions in Malawi with a combined total of around 550,000 clients, with three institutions covering over 90% of the clients.[23]

36. As discussed in the IPRSP, the Ministry of Commerce has drawn up a Microfinance Policy, following widespread consultation and review. The policy aims to promote best practices amongst micro-finance institutions in order to expand client outreach, promote

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[22] Population density is around 121 per square kilometer but on arable land population densities can reach as high as 400 per square kilometer, making it one of the most densely populated countries in Africa.

[23] The formal banking sector is dominated by two large banks whose services to poor rural borrowers are limited.

sustainability, improve coordination and increase capacity. It also proposes a peer-regulatory structure for the industry and the establishment of a monitoring system which can track lending volumes, number of clients and areas covered with a view to improving coordination of micro-finance activities. These elements are expected to spur an expansion in micro-credit outreach while ensuring the sustainability of the industry.

H. Creating an Effective Safety Net

37. While Malawi has a number of safety net programs, these have not been integrated into a coordinated strategy. As a result, the existing programs and projects are characterized by a duplication of efforts, gaps in coverage, and cost ineffectiveness. To address this weakness, Government has designed and adopted a National Safety Net Strategy (NSNS), drawing on a joint Government/donor collaborative study.[24] The strategy aims at targeting the poorest 20 to 30 percent while being fiscally sustainable. It intends to address both chronic poverty – targeting those who cannot look after themselves[25] and the rural landless – as well as transient poverty resulting from shocks such as droughts. The strategy sets out medium term objectives in terms of both the type and size of safety net programs. The four main components of the strategy are public works, targeted distribution of agricultural inputs, targeted nutrition programs and direct transfers.

38. The newly created Safety Net Implementation Committee will ensure the rationalization and prioritization of both new and existing safety net programs. To this end, the Committee will advise on the programs to be implemented on the basis of their consistency with the strategy and on the basis of the gaps identified. It will also set up a monitoring and evaluation system to measure the extent that this takes place and their effectiveness in meeting the strategy's objectives.

39. A recent important development illustrating Malawi's progress in this area was the scaling down and targeting of the previously universal agricultural inputs ('Starter Pack') program. This program provided free packs of fertilizer and seeds to all small holder farmers in rural areas (2.9 million households in 1999/2000). In line with the objective of improving public expenditure allocation and the goals of the National Safety Net Strategy, the Government has decided to reduce the size and cost of the program and to target the poorest 1.5 million households. This program will be further targeted next season, in line with the Safety Net strategy.

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[24] The findings of the study are reflected in IDA Report 19974 – MAI, "Malawi – A Safety Net Strategy for the Poorest", December 1999.

[25] The elderly, disabled, female headed households and orphans without family support,

III. DEBT SUSTAINABILITY ANALYSIS

40. The debt sustainability analysis, prepared jointly by the Malawian authorities with the staffs of the IMF and the World Bank, is an update of the one presented in the preliminary HIPC document. The loan-by-loan reconciliation for the DSA has been virtually completed, with nearly 99 percent of the debt stock as of end December 1999 reconciled.[26]

41. Malawi's stock of external debt at end 1999 is estimated at $2,608 million in nominal terms, including $17.4 million in arrears.[27] In net present value terms,[28] total debt before the application of traditional debt relief mechanisms is estimated at $1,482 million, equivalent to around 82 percent of GDP, 269 percent of exports of goods and non-factor services, and 516 percent of government revenues. The structure of debt is virtually unchanged from that presented in the preliminary HIPC document. Malawi's main creditors are multilateral institutions, which are owed 74 percent of the total debt in NPV terms, including 51 percent to the World Bank, 11 percent to the African Development Bank and 5 percent to the IMF. Bilateral debt is owed mostly to Japan, with 18 percent of total debt, and exposure to non-Paris Club bilateral creditors and commercial creditors is very limited at two and three percent of total debt respectively.

42. Under the enhanced HIPC Initiative, eligibility is assessed on the basis of a country's stock of debt after the full application of traditional debt relief mechanisms at the decision point. In Malawi's case, traditional debt relief from bilateral creditors offers only limited debt relief, owing to an early cutoff date and the largely concessional nature of its bilateral debt exposure.[29] The full use of traditional debt relief mechanisms reduces Malawi's stock of debt from $1482 million to $1469 million, equivalent to 267 percent of exports of goods and non-factor services.

43. The DSA is based on macroeconomic assumptions described in Box 1 and Table 5. The baseline scenario for the balance of payments and macroeconomic outlook assumes a continued implementation of sound fiscal and monetary policies and an intensification of structural and social reforms. Conditional on this policy environment, real GDP growth is projected to rise to 4.5 percent per annum by 2003, from 3.2 percent in 2000, and increase steadily to 6 percent per annum by 2020 on the basis of a stable macroeconomic

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[26] Debt to the PTA Bank and South Africa is pending reconciliation as well as a few commercial loans.

[27] Since end-1999, around $5.4 million of arrears have been settled and the outstanding stock of arrears at end-October 2000 is estimated at $12 million, of which $8.2 million is owed to the PTA Bank, $0.4 million to South Africa (as noted above these amounts have not been reconciled) and $3.3 million to commercial creditors.

[28] From here on, unless stated otherwise, all references to debt stocks are in net present value terms.

[29] Traditional debt relief involves a 67 percent NPV reduction on pre-cutoff date non-ODA debt. For Malawi, 85 percent of bilateral debt was contracted on ODA terms. The cutoff date is June 1982; all non-Paris Club bilateral and commercial debt was contracted after this date.

environment, improved volume and yield growth in agriculture, the expansion of the non-traditional (primarily manufacturing) sector, and the build up of tourism and mining industries. To support the projected growth rates, a gradual rise in gross domestic investment is forecast, financed by higher public and private savings. A continuation of the strong revenue effort of recent years is expected to allow revenues (excluding grants) to reach a medium term level of 20 percent of GDP by 2004. Expenditures over the medium term are expected to average 27 percent of GDP, comprised increasingly of spending on the social sectors as well as key public goods.[30]

44. Despite a gradual reduction in Malawi's receipt of official grants to around 6 percent of GDP, from the current level of 7 percent of GDP, the current account deficit (including grants) is projected to improve over the projection period due to an improvement in the services balance. The capital account is projected to register strong surpluses in light of continued concessional disbursements from multilateral and bilateral donors as well as some private capital inflows in the form of foreign direct investment (reflecting recently improved prospects for mineral exploration). Gross international reserves are targeted at 4.5 months of imports cover after 2003, in order to maintain a sufficient cushion for the periodic external shocks faced by the Malawian economy.

45. On the basis of this illustrative macroeconomic scenario outlined above, and even after the full use of traditional debt relief mechanisms, Malawi's external debt and debt service indicators are projected to be unsustainable. Without assistance under the HIPC Initiative, the NPV of debt-to-exports ratio would remain above 150 percent through 2017 while the NPV of debt-to-revenue ratio would remain above 250 percent until 2004.[31] Debt service payments after traditional relief mechanisms but before assistance under the HIPC Initiative average $104 million in the 1999-2009 period, and $125 million in the 2010-19 period, equivalent to 18 and 13 percent of exports of goods and non-factor services respectively. The debt-service to revenue ratio is projected to average 16 percent in the 1999-2009 period and 6 percent in the 2010-19 period.

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[30] As a share of GDP, there is a 3 percentage point decline in interest expenditures between 2000/01 and 2003/04; non-interest expenditures are maintained as a share of GDP during this period. Including extra expenditure as a result of assistance under the HIPC assistance, non-interest expenditure rises as a share of GDP (Table 9).

[31] Malawi does not qualify for assistance under the fiscal criteria of the enhanced HIPC Initiative, which requires thresholds of 15 percent and 30 percent of GDP for the fiscal and export ratios respectively to be satisfied.

Box 1. Malawi: Macroeconomic and Balance of Payments Assumptions

GDP Growth

Real GDP is projected to grow by an average of 3 percent in 2001, rising to 4.0 percent in 2002 and 4.5 percent in 2003. Thereafter, real GDP growth is projected to rise steadily towards 6 percent real GDP growth by 2020.

Current Account

Export volumes are projected to grow at a rate of 4.6 percent over the 2001-20 period. This reflects an average growth in tobacco exports of about 3 percent and an average growth in non-traditional exports of 7 percent per year over the projection period.

Import volume growth is projected to average 4.6 percent in the 2001-03 period, and around 4.9 percent for the remainder of the projection period.

The terms of trade are projected to improve by an average annual rate of around 2.0 percent between 2001 and 2003, and by an average annual rate of 0.9 percent in 2004 and 2005; thereafter, the terms of trade trend is projected to remain relatively flat. These projections reflect prospects for tobacco and oil prices from the Fund's World Economic Outlook (WEO) and the Bank's Commodity Division as well as partner country prices.

Official grants are expected to fall slightly from their level of around 7 percent of GDP in 2000 to 6 percent of GDP by 2002 and remain near that level throughout the projection period. The small residual financing gaps remaining after HIPC Initiative assistance are expected to be fully covered through bilateral grants.

Capital Account

Around 90 percent of new borrowing is expected to be made on IDA terms which have a grant element of around 75 percent. The remaining 10 percent of concessional borrowing is projected to be from bilateral creditors carrying a grant element of 40 percent.

Foreign direct investment is expected to average about US$54 million in the 2000-09 period, and US$150 million in the 2010-20 period, reflecting improved prospects for mineral exploration.

IV. PROFILE OF ASSISTANCE AND POTENTIAL USES OF HIPC INITIATIVE RESOURCES

A. Assistance under the HIPC Initiative

46. Assistance under the HIPC Initiative is targeted to reduce the net present value of debt to 150 percent of average exports in the three years prior to the Decision Point. For a decision point in 2000, the stock of debt at end 1999 after traditional debt relief mechanisms and the three year average of exports of goods and non-factor services during 1997-99 is utilized. On this basis, the total amount of assistance to Malawi under the HIPC Initiative is

$643 million in NPV terms.[32] This is equivalent to around $1.0 billion in nominal terms (Table 2). Based on proportional burden-sharing, multilateral creditors will provide 74 percent of the assistance, or $480 million in NPV terms, including $331 million by the World Bank and $30 million by the IMF. The common reduction factor for all creditors is 44 percent of their exposure in NPV terms at end-1999 after traditional debt relief mechanisms. For bilateral creditors, who are expected to provide $163 million of assistance, calculations by the staff show that creditors would need to take action on post-cutoff date ODA debt in order to meet their share of assistance under the HIPC Initiative.

47. The assumptions on the delivery of assistance are based on a decision point in December 2000 and, for illustrative purposes, on a completion point in December 2002, at which time all creditors would deliver the remaining required debt relief. To facilitate the debt relief computations, interim assistance is assumed to start as of January 2001. The following specific assumptions were made in projecting the amounts and modalities of assistance from the main creditor groups:

- **IDA:** IDA assistance of $331 million is proposed to be delivered over the next 20 years as of the decision point by providing 55 percent relief on annual debt service due. Annual debt service relief in nominal terms is estimated to average $29 million during this period.

- **IMF:** IMF will provide total assistance of $30 million over the 2000-09 period, with average annual debt relief in nominal terms of $4.6 million per year. Consistent with current guidelines on the amount and phasing of interim relief, 10 percent of the total amount of assistance will be available as interim relief in both 2001 and 2002.[33]

- **African Development Bank:** The AfDB's share of relief amounts to $71 million in NPV terms and would be delivered through an 80 percent forgiveness of debt service due from 2001 to 2014. Interim relief represents 19 percent of total debt relief, and is equivalent to $15 million in nominal terms.

- **Other multilateral institutions:** IFAD and NDF's modalities of participation under the HIPC Initiative are based on 100 percent debt service relief as of the completion point. In the case of Malawi, this implies debt service forgiveness of $12.1 million from 2003 to 2012. For illustrative purposes, debt service relief was assumed for the other multilateral

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[32] This represents a 2 percent increase compared with the $629 million of assistance specified in Malawi's preliminary HIPC document. While the figure for the NPV of debt is virtually unchanged ($1469 million now following further loan reconciliations with creditors versus $1472 million in the preliminary HIPC document), revisions to export data by the National Statistics Office have resulted in a three-year exports average of $551 million compared with $562 million in the preliminary HIPC document.

[33] At this stage, specific financing assurances have been obtained from creditors representing about 87 percent of total debt.

development banks as of the completion point and over the entire repayment schedule of the outstanding amount at end 1999.

- **Paris Club creditors:** For Paris Club creditors, a flow rescheduling on Cologne terms is assumed during the interim period on the existing stock of $4 million in pre-cutoff data non-ODA debt and $27 million in pre-cutoff ODA debt. The NPV relief resulting from the difference in debt service between this flow rescheduling and an otherwise identical flow rescheduling on Naples terms is very limited; it is accounted for as interim relief. The bulk of Paris Club's $129 million in assistance would be delivered at the completion point through a stock of debt operation.[34]

- **Non-Paris Club and commercial creditors:** No interim relief is assumed since all debt was contracted after the cut-off date. Thus, the required level of assistance from non-Paris Club and commercial creditors is assumed to be delivered through a stock of debt operation at the completion point.

48. **Status of Creditor Participation:** Virtually all of Malawi's multilateral creditors, who account for 74 percent of Malawi's total debt, have agreed in principle to provide debt relief under the enhanced HIPC Initiative.[35] Specific decisions on the delivery of assistance to Malawi will be taken by the decision-making bodies of multilateral creditors once the Boards of IDA and the Fund have discussed the decision point document. As noted above, Paris Club creditors have agreed in principle to see Malawi for a Cologne flow rescheduling after the country has reached its decision point.[36] The staffs of the IMF and IDA have initiated contacts with Malawi's two non-Paris Club creditors regarding the provision of comparable debt relief under the HIPC Initiative, and the Malawian authorities intend to undertake consultations with these creditors.

49. **Impact of HIPC Debt Relief:** On the basis of the above assumptions, the average annual debt service reduction for Malawi is estimated to be close to $50 million for the 2000 to 2019 period (Table 7). The reduction would be equivalent to 2.5 percent of annual GDP for the 2000-09 period and 1.2 percent of annual GDP for the 2010-20 period. Debt service during 2000-09 is projected to fall from 18 percent of exports of goods and non-factor services after the application of traditional relief to 10 percent after assistance under the

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[34] Action on all pre cut-off date debt as well as on some post cut-off ODA debt is assumed at the completion point. Most of the remaining amount of Paris Club debt at the completion point, i.e., after the full delivery of HIPC assistance, is expected to be forgiven as a result of bilateral pledges (see paragraph 51).

[35] The PTA Bank, with 1 percent total debt, has not yet formally agreed to participate in the Enhanced HIPC Initiative. The staffs of IDA and the Fund have initiated consultations with the multilateral creditors of Malawi at the regular meeting of multilateral creditors to HIPCs in October 2000.

[36] In the Paris Club meeting of September 2000, Paris Club creditors expressed a willingness to consider moving forward Malawi's cutoff date; however, this action would have very limited effect since most debt to the Paris Club was contracted on ODA terms.

HIPC Initiative (Figure 3). Over the same period, debt service payments as a share of government revenue will decline from 16 percent before assistance under the HIPC Initiative to 10 percent after assistance under the HIPC Initiative. In value terms, debt service payments which averaged $94 million per annum during the last three years (1997-99) will be reduced – after HIPC assistance – to an average of $54 million per annum during the 2001-03 period. Malawi's **debt servicing indicators** will thus show a significant improvement throughout the projection period in both value terms and in relation to the export and revenue base.

50. While Malawi's **stock of debt indicators** also present an improving profile over the 20 year projection period, the extent of this improvement varies depending on the base utilized. Relative to GDP, Malawi's stock of debt after HIPC assistance falls from 81 percent of GDP in 1999 to 39 percent of GDP in 2010 and 24 percent of GDP in 2019. Relative to a three-year average export base, Malawi's debt stock after HIPC Initiative assistance falls from 181 percent at the anticipated completion point in 2002, to 158 percent in 2010, and 126 percent in 2019; this ratio does not fall below the 150 percent threshold until 2014. This outcome primarily reflects: (i) the significant decline in the export base soon after the assessment year upon which assistance has been based; and (ii) a utilization of export growth assumptions that are based on realistic expectations of likely growth given the numerous vulnerabilities of the Malawian economy.

51. In addition the current HIPC framework provides for the possibility of a comprehensive assessment of the debt situation at the completion point. If Malawi at that time is facing a high NPV of debt-to-exports ratio e.g. as evidenced by a long-term projection of the NPV of debt remaining above 150 percent of exports, the Boards could consider a topping up of the committed debt relief.[37]

52. Malawi stands to benefit from further debt relief as a result of Paris Club pledges of debt relief beyond the HIPC Initiative. Ninety two percent of Malawi's Paris Club creditors, including Japan, France, United Kingdom, and Germany, have pledged to forgive all remaining ODA debt (both pre- and post-cutoff date) at the completion point. Moreover, Japan is offering debt relief to Malawi even prior to the completion point if it continues its existing practice of reimbursing debt service paid by Malawi. As a consequence, Malawi could benefit from additional debt relief during the interim period, equivalent to the debt service due to Japan in 2001 and 2002. The extra assistance that Malawi stands to receive from all Paris Club creditors is presented in the memorandum items of Tables 6 to 8. Assuming the fulfillment of the pledges, Malawi's NPV of debt to exports ratio would fall to

[37] See 'Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative', EBS/99/138 (07/23/99) and IDA/SecM99-475 (07/26/99). The option to reconsider at the completion point the amount of debt relief for countries seriously affected by exceptional adverse shocks was recently reaffirmed by the IMFC and Development Committee, see 'Communique-Joint Session-IMFC and Development Committee on HIPC and PRSP Implementation', Prague, September 24, 2000.

150 percent by 2006 and its debt service ratio would average only 4 percent over the 2000-19 period.

53. The improvement in debt and debt service indicators after assistance under the HIPC Initiative is partly conditional on the baseline macroeconomic scenario outlined in the previous section. Given that the Malawian economy is subject to a wide range of exogenous shocks, particularly in the form of poor rainfall and terms of trade shifts, a more adverse macroeconomic and balance of payments outlook is nonetheless possible. Contrary to the baseline scenario, if export prices remain at their current low levels throughout the projection period and if volume growth turns out only 1 percent per year (partly reflecting, for instance, lower overall economic growth), then Malawi's exports of goods and non-factor services would amount to $862 million in 2019 as compared to $1,230 million under the baseline scenario (Table 8). Under this lower export earnings scenario, and given other assumptions as specified under the baseline, the NPV of debt-to-export ratio would be 175 percent in 2019 as compared to 126 percent under the baseline scenario. Debt service ratios would be higher at 7.7 percent of exports in 2019, as compared to 5.4 percent of exports in the baseline scenario (Table 8). Similarly, with respect to external financing, if only 60 percent new borrowing can be secured on IDA terms (as opposed to the 90 percent assumed under the baseline scenario), then the NPV of debt ratio will be higher at 144 percent of exports by 2019, as compared to 126 percent of exports in the baseline. A reduced concessionality of external borrowing does not have as adverse an impact on debt and debt servicing indicators since all new borrowing is still expected to be contracted on concessional terms.

B. Potential Uses of HIPC Initiative Resources

54. Assistance under the Enhanced HIPC Initiative is estimated at US$91.4 million for the fiscal years 2000/2001 to 2002/2003. On the basis of discussions between the Government and Bank-Fund staff, the Government has determined an indicative allocation of the bulk of these resources. They will result in increased spending on health, education, and other social priorities, as outlined in Table 4. Around half of total relief will be directed to health and education expenditures that are directly related to the completion point triggers. Expenditures on other crucial anti-poverty areas such as rural roads, borehole construction and maintenance, agricultural extension, gender and community services have also been identified as potential recipients of HIPC resources.

55. The Government is committed to raising social spending in the current fiscal year from 3.4 percent to 4.9 percent of GDP and health spending from 2.2 percent of GDP to 2.7 percent of GDP. HIPC resources of about US$6 million (0.4 percent of GDP) are allocated for purchases of drugs and teaching and learning materials. About 10 percent of the resources released by HIPC are currently unallocated. Once further priorities are identified during the PRSP process, these savings will be formally allocated to priority areas.

Table 4: Indicative Use of HIPC Resources: 2000/01 - 2002/03
(in millions of U.S. dollars)

	2000/01	2001/02	2002/03	Total
Health	3.6	11.1	15.4	30.1
Drugs	3.6	7.3	8.9	19.8
Primary health care	...	2.7	3.7	6.4
Nurses training	...	1.1	2.7	3.8
Education	2.4	9.9	12.8	25.2
Teaching materials	2.4	6.1	7.7	16.2
Teacher training	...	3.8	5.1	8.9
Water				
Borehole construction and maintenance	...	4.2	6.2	10.4
Agriculture				
Extension	...	2.7	2.6	5.2
Gender, Youth and Community services	...	1.9	2.6	4.5
Rural Roads	...	2.7	4.6	7.3
Savings for priorities yet to be identified	8.7	...	...	8.7
Total	14.7	32.5	44.2	91.4

VI. ENSURING AN EFFECTIVE UTILIZATION OF HIPC INITIATIVE RESOURCES

A. Expenditure monitoring mechanisms

56. The current budget classification for central government is quite comprehensive and the estimates are classified by economic, functional and program categories. However, audited expenditure outturns are typically only made available to the public with an 18-24 month lag.[38]

57. The Monitoring Division of the Ministry of Finance compiles the monthly expenditure reports submitted by the spending units and a consolidated report on monthly expenditure is thus available before the end of the following month for internal review purposes. The expenditure monitoring mechanisms for HIPC resources builds on this internal report and ties in with the current Bank adjustment credit, under which **public reporting of expenditures** is to be produced on a quarterly basis. A common reporting format for this purpose has been agreed with the Government and a table reporting expenditures for the first quarter of FY 2000/01 has been posted on the website of the Ministry of Finance.

58. Malawi is in the process of implementing an Integrated Financial Management Information System (IFMIS) in four ministry headquarters in Lilongwe. The system is expected to be rolled over to other ministries and departments in the next 12-18 months subject to securing donor financing. Though progress is slow, significant improvements in expenditure monitoring are expected over the medium term. Implementation of the IFMIS in four critical ministries will constitute a floating completion point condition (see Box 2).

59. Further progress in public expenditure monitoring is envisaged in the period ahead as the Ministry of Finance completes the compilation of all projects (particularly donor-financed projects) into a unified database, with a view to fully integrating these into the development budget. In addition, following upon the introduction of the Medium-Term Expenditure Framework (MTEF) in 1995/96, technical assistance is in place to further strengthen the parts of the MTEF which remain incomplete, including accurate resource forecasting and closer integration with the realities of the existing budgeting system.[39]

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[38] The monitoring of expenditure is possible at various levels, including ministry/department, program, sub-program, cost centers, project scheme, line item and sub-item.

[39] The "Institutional Analysis" chapter of the draft PER includes details of the MTEF experience thus far in Malawi. Moreover, a MTEF review is also in progress financed by DFID.

B. Floating Completion Point Triggers

60. The completion point triggers (outlined in Box 2) were developed jointly with the authorities and reflect objectives set in the IPRSP and various sector-specific Government documents. Given concerns over selectivity in the setting of completion point triggers, they constitute a limited but crucial set of actions recognized to be important for poverty reduction and growth. These actions will complement the additional actions that the government, based on its consultation with various stakeholders, will be setting for itself in the PRSP.

61. The context for the completion point triggers that follow has been laid out in section II, which presented a selected number of issues deemed to be critical for making greater progress in poverty reduction and growth. An over-arching objective in this regard will be the formulation of a prioritized and costed poverty reduction strategy that is prepared through a broad based participatory process. At the same time, and even as the preparation of the poverty reduction strategy is taking place, the authorities have committed themselves to actions in a number of areas. These include: (i) maintaining macroeconomic stability; (ii) improving public expenditure management and governance; (iii) strengthening land and credit markets; (iv) ensuring targeted safety net programs to protect the poorest; (v) improving health care delivery; (vi) slowing the spread of HIV/AIDS; and (vii) raising the quality of education.

Box 2: Policy Areas to be Monitored for the Floating Completion Point

Poverty reduction

- The full PRSP has been prepared and satisfactorily implemented for one year, as evidenced by the joint staff assessment of the country's progress report.

Macroeconomic and structural reforms:

- Maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program.
- Quarterly expenditure reporting as per format jointly developed by MOF/IDA
- Implement IFMIS in four pilot ministries
- Micro finance: (i) Approval by Cabinet of the 'Micro-finance Policy', (ii) establishment of a monitoring system covering all micro-finance institutions and (iii) increase by 20% in the number of micro-finance clients.
- Submission of draft Land Law to parliament.

Governance:

- Separation of fiscal management and audit functions under new legislation.

Social sectors:

- Safety nets: Progress in the implementation of the National Safety Net Strategy, in particular (i) a Targeted Input Program for 2001/02 (ii) a rationalization and prioritization of existing and new programs and (iii) establishment of a monitoring and evaluation of the National Safety Net Strategy.

- Health: Progress towards a reduction of the human resource, drugs and medical equipment constraints through (i) a share of health expenditure of at least 13% of discretionary recurrent budget; (ii) recruitment, training and deployment of at least two hundred nurse technicians, fifty new medical assistants and twenty radiography technicians per annum, (iii) completion of 'phase one' reforms of the Central Medical Stores (CMS) and a budget for drugs and medical supplies in line with BHA standard.

- HIV/AIDS: Progress in implementation of the National Aids Strategy, in particular (i) fully staffed, functional and autonomous National AIDS Control Secretariat; (ii) 75% of all condom outlet points with condoms in stock at any given time; (iii) continuous availability of testing kits at all blood transfusion sites by increasing blood testing kits from 1500 to 2500; (iv) implementation of an effective Behavior Change Communication Strategy; and (v) Syndromic Management of sexually transmitted infections (STI) in all Central, District and major CHAM hospitals.

- Education: Progress towards raising the quality of education through (i) share of education sector[40] expenditure in discretionary recurrent budget of at least 23%; (ii) yearly enrolment of 6000 students for teacher training and institution of in-service training for primary teachers (at least once each year); (iii) reallocate budgetary resources from secondary school boarding (except for 'special needs education) to teaching and learning materials; and (iv) pre-packaging of donor-supplied primary textbooks for each school and direct supply directly from the supplier to the schools.

[40] Ministry of Education, Universities, MANEB, MIE, scholarship fund and Polytechnic Board of Governors.

VI. ISSUES FOR DISCUSSION

62. Executive Directors may wish to focus on the following issues and questions:

- **Eligibility and the Decision Point:** The staff and management believe Malawi qualifies for assistance under the enhanced HIPC Initiative and recommend approval of a decision point. Do Directors agree?

- **Amount and Delivery of Assistance:** Consistent with reducing Malawi's NPV of debt to 150 percent of average exports in the three years prior to the Decision Point, total assistance under the enhanced HIPC Initiative is estimated to amount to $643 million in NPV terms. Of this amount, $331 million is to be provided by the World Bank and $30 million by the IMF. The staffs and management recommend that the World Bank and IMF provide interim assistance in line with existing guidelines. Do Directors agree with the staffs' recommendation of providing interim assistance between the decision and floating completion point? What are the Director's view on the option of a reassessment of the amount of assistance at the completion point to take account of the current projection which shows an NPV of debt-to-exports ratio that remains above 150 percent at the envisaged completion point and through 2014 as discussed in paragraphs 50 and 51?

- **Floating Completion Point:** In line with the objectives of the Enhanced HIPC Initiative, the staff and management recommend that Malawi reach the floating completion point upon the fulfillment of a set of policy measures described in Box 2. Do Directors agree that the conditions described in Box 2 are appropriate triggers for Malawi's completion point?

APPENDIX

External Debt Management Issues

External debt data in Malawi is maintained both at the Reserve Bank of Malawi (RBM) and at the Debt and Aid Management Division (DAMD) of the Ministry of Finance. The database of the RBM covers all public and publicly guaranteed debt, including its own liabilities, while DAMD records the debt of the central government, with some coverage of debts by parastatals. Both institutions use the Commonwealth Debt Reporting Management System (CS-DRMS). The DAMD is in charge of managing all external debt operations from contacting donors to processing all debt transactions in the system and thereafter transferring the data to the RBM. The latter institution compares the data transferred in the CS-DRMS database with a spreadsheet regularly updated with debt service payment orders received from the DAMD.

Malawi's debt management capacity has improved substantially, but notable deficiencies remain in data processing capacity, forecasting, and analysis. Progress has been made to fully operationalize the CS-DRMS at the Ministry of Finance. Past weaknesses in debt management included the existence of sometimes significant differences between the debt stocks reported by the RBM and the DAMD. In addition, the government has in the past accumulated "technical arrears," in part owing to delays in the receipt of bills from creditors. Some of the parastatal companies whose loans are guaranteed by the government have also fallen behind in their debt service payments.

To improve debt management, all debt transactions should be entered in the CS-DRMS on a regular basis and the two institutions should reconcile their databases more frequently. There is also a need to develop a system that would allow the authorities to be proactive in meeting their debt service obligations so as not to incur arrears due to lags in billing procedures. In addition, the government needs to develop a system for monitoring repayments of loans that have been on lent to parastatals and for which the companies make direct payments. Finally, while a commendable effort has been made in compiling information on public and public and publicly guaranteed medium and long term debt, further efforts should be directed towards compiling comprehensive data on private sector debt as well as short term debt.

Table 1. Malawi: Selected Economic and Financial Indicators, 1998-2003

	1998	1999 Prel.	2000 Proj.	2001 Proj.	2002 Proj.	2003 Proj.
	(percentage change, unless indicated otherwise)					
GDP and prices						
GDP at constant market prices	2.0	4.0	3.2	3.0	4.0	4.5
Consumer prices (end of period)	53.0	28.2	30.0	10.0	5.0	5.0
Consumer prices (annual average)	26.2	44.8	28.5	20.0	7.5	5.0
GDP deflator	26.2	41.1	25.5	16.8	7.5	5.0
Nominal effective exchange rate (end-period) 1/	55.2	2.6	...	...	...	...
Real effective exchange rate (end-period) 1/	33.5	-21.4	...	...	...	...
External sector						
Exports, f.o.b. (millions of U.S. dollars)	539	447	431	438	479	509
Imports, c.i.f. (millions of U.S. dollars) 2/	579	673	625	614	618	643
Money and credit 3/						
Money and quasi money	53.1	33.6	20.9	16.8	12.4	9.7
Net foreign assets	110.0	11.5	31.1	47.0	14.9	14.0
Net domestic assets	-54.5	22.1	-10.2	-30.2	-2.5	-4.3
Credit to the government	-29.9	-2.9	2.7	-43.3	-49.8	-38.2
Credit to the rest of the economy	18.5	20.6	16.3	19.5	49.6	36.3
	(in percent of GDP, unless indicated otherwise)					
Central government 4/						
Revenue (excluding grants)	17.7	17.3	19.0	19.0	18.9	...
Expenditure	29.5	29.5	31.5	29.9	29.0	...
Domestic primary balance (cash mod. basis) 5/	-1.6	-0.2	1.4	0.3	-0.9	...
Domestic balance (cash mod. basis) 6/	-3.7	-2.5	-1.3	-0.4	-1.1	...
Overall balance (cash mod. basis, excluding grants)	-11.9	-12.3	-12.6	-11.0	-11.0	...
Overall balance (cash mod. basis, including grants)	-5.5	-5.0	0.0	-0.1	2.6	...
National saving	1.9	-1.3	0.6	0.6	4.0	5.2
Domestic saving	6.0	0.3	2.3	2.2	5.5	7.1
Government saving	3.4	-2.4	-1.3	-0.2	2.4	2.4
Non-government saving	2.6	2.6	3.6	2.4	3.2	4.7
Net factor income and private transfers	-4.1	-1.6	-1.7	-1.6	-1.5	-1.9
Foreign saving 7/	11.6	17.1	15.2	15.4	12.2	11.2
Gross investment	13.3	15.8	15.8	16.0	16.2	16.4
Government	8.6	9.6	11.1	9.8	7.4	7.4
Non-government	2.3	4.0	2.7	4.2	6.8	7.0
Stock building	2.4	2.2	2.0	2.0	2.0	2.0
External sector						
Exports, f.o.b.	31.0	24.7	24.9	28.0	28.4	28.1
Imports, c.i.f. 2/	33.4	37.3	36.1	39.3	36.7	35.5
External current account (including official transfers)	-2.5	-8.3	-7.8	-7.7	-6.7	-5.7
External debt	142.8	177.9	157.5	180.4	175.1	168.5
Debt-service ratio 8/	18.2	17.7	20.8	20.1	18.4	18.7
Of which: interest payments 8/	6.1	5.2	6.6	6.3	5.6	5.2
Gross official reserves 9/						
End-period stock (millions of US $)	258	244	224	276	293	307
In months of imports of goods and nonfactor services	4.0	4.2	3.9	4.7	4.8	4.8
External debt (disbursed and outstanding, end of period, millions of USD)	2,479	2,608	2,672	2,784	2,838	2,856
Memorandum items:						
GDP (in millions of kwacha)	54,417	79,854	103,424	124,423	139,105	152,633
Kwacha per U.S. dollar exchange rate (per. avg.)	31.1	44.2	...	...	...	...
Per capita GDP (U.S. dollars)	157.8	163.1	...	...	...	...

Sources: Malawian authorities; and staff estimates and projections.

1/ Negative value denotes appreciation of kwacha

2/ Including drought-related maize operations in 1998.

3/ Change in percent of money and quasi money at the beginning of the period.

4/ Fiscal year starting April 1 for 1997, and July 1 thereafter.

5/ The domestic primary balance is defined as revenue less total expenditure, excluding the recently incurred domestic arrears, support for the MSB, domestic and foreign interest, and foreign financed development expenditure.

6/ The domestic balance is defined as revenue less total expenditure, excluding the recently incurred domestic arrears, support for the MSB, foreign interest , and foreign financed development expenditure.

7/ External current account, excluding official transfers.

8/ Before any assistance under the HIPC Initiative. In percent of exports of goods and non-factor services.

9/ The ratio of reserves to short-term debt is not currently available.

Table 2. Malawi: Nominal and Net Present Value (NPV) of Public External Debt Oustanding Before and After the Application of Traditional Debt Relief Mechanisms
(In millions of U.S. dollars, at end-December 1999)

	Nominal debt at end-1999 1/		NPV of debt at end-1999 1/		NPV of debt after the application of traditional debt relief mechanisms 2/	
	US$ millions	Percent of total debt	US$ millions	Percent of total debt	US$ millions	Percent of total debt
Total Public and Publicly Guaranteed Debt	**2608**		**1482**		**1469**	
Multilateral Creditors	2,187	84	1,098	74	1,098	74
World Bank	1,603	61	757	51	757	51
African Development Bank	322	12	162	11	162	11
IMF	88	3	69	5	69	5
EU/EIB	95	4	66	4	66	4
IFAD	50	2	26	2	26	2
PTA Bank	22	1	15	1	15	1
NDF	3	0	2	0	2	0
BADEA	2	0	1	0	1	0
OPEC FUND	1	0	1	0	1	0
Bilateral Creditors	421	16	385	26	372	25
Paris Club	341	13	309	21	296	20
Pre Cut-off date	42	2	45	3	32	2
Of which: ODA	29	1	29	2	27	2
Post Cut-off date	299	11	264	18	264	18
Of which: ODA	299	11	264	18	264	18
Japan	294	11	272	18	262	18
Austria	20	1	16	1	16	1
France	14	1	10	1	10	1
Spain	8	0	6	0	6	0
South Africa	3	0	3	0	2	0
United Kingdom	1	0	1	0	0	0
Germany	1	0	1	0	0	0
Non-Paris Club Official Bilateral	40	2	33	2	33	2
Post Cut-off date	40	2	33	2	33	2
Of which: ODA	40	2	33	2	33	2
China	36	1	30	2	30	2
Kuwait Fund	4	0	3	0	3	0
Commercial	39	2	43	3	43	3
Post Cut-off date	39	2	43	3	43	3
United Kingdom	27	1	29	2	29	2
Netherlands	8	0	9	1	9	1
Spain	2	0	2	0	2	0
South Africa	1	0	1	0	1	0
Sweden	1	0	1	0	1	0
United States	1	0	1	0	1	0
France	0	0	0	0	0	0

Source: Malawian authorities and staff estimates.

1/ Includes US$12 million of arrears.
2/ Assumes full use of traditional debt relief mechanisms, i.e., a Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-December 1999, and at least comparable treatment by other officisl bilateral and commercial creditors.

Table 3. Malawi: HIPC Initiative: Calculation of Debt Relief Under a Proportional Burden-Sharing Approach 1/

	Assuming a Decision point in 2000 2/				
	Total Assistance under the NPV of debt-to-exports criteria			Common Reduction Factor at the Decision Point 3/	Memo item: Required NPV debt reduction on comparable treatment on bilateral debt based on overall exposure 4/
NPV of debt-to-exports-target	Total	Bilateral	Multilateral		
(in percent)	(in millions of U.S. dollars)			(in percent)	(in percent)
150	643	163	480	44	
Memorandum items:					
NPV of debt 5/	1,469	372	1,098		
3-year average of exports	551				
Current-year exports	489	...	...		
NPV of debt-to-exports 6/	267	...	...		
Bilateral Creditors					81
Paris Club Creditors	296				81
of which pre-cod non-ODA	4				1,053
Non-Paris Club Creditors	33				81
of which pre-cod non-ODA	-				...
Commercial	43				81
of which pre-cod	-				...

Sources: Malawian authorities and staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97 and IDA/SEC M 97-306, 7/7/97).

2/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment by other official bilateral creditors at end-December 1999.

3/ Each creditors' NPV reduction at the decision point in percent of its exposure at the reference year (end 1999).

4/ Includes traditional debt relief.

5/ Based on latest data available at the decision point after full application of traditional debt relief mechanisms.

6/ Uses a three-year average of exports of goods and nonfactor services centered on previous year.

Table 4. Malawi: Discount Rates and Exchange Rates Assumptions
(At end-December 1999)

Currency Name	Discount Rate [1/]	Exchange Rate
Austrian schilling	5.47	13.70
Belgian franc	5.47	40.16
Canadian dollar	6.67	1.44
Danish krone	5.32	7.40
Deutsche mark	5.47	1.95
European currency unit	5.47	1.00
Finnish markka	5.47	5.92
French franc	5.47	6.53
Great Britain pound sterling	6.70	0.62
Irish pound	5.47	0.78
Italian lira	5.47	1,927.40
Japanese yen	1.98	102.20
Kuwaiti dinar	5.59	0.30
Luxembourg franc	5.47	40.16
Netherlands guilder	5.47	2.19
Norwegian krone	6.64	8.04
Portuguese escudo	5.47	199.56
South African rand	5.59	6.15
Spanish peseta	5.47	165.62
Special drawing rights	5.59	0.73
Swedish krona	5.80	8.53
Swiss franc	4.27	1.60
United States dollar	7.04	1.00

Sources: OECD and IMF, International Financial Statistics

Note: Paris Club cutoff date: January 1, 1982

1/ The discount rates used are the six-month average Commercial Interest Reference Rates (CIRRs) for the respective currencies at end-December 1999. For all currencies for which the CIRRs are not available, the SDR rate is used as a proxy.

Table 5: Main Assumptions on the Macroeconomic Framework, 1999-2020

	1999 Revised	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2015	2020	2000-09 Average	2010-20 Average
Economic growth and prices				(Annual percentage change)											
Real GDP growth	4.0	3.2	3.0	4.0	4.5	4.6	4.7	4.7	4.8	4.9	5.0	5.5	6.0	4.3	5.5
Consumer price index (annual average)	44.8	28.5	20.0	7.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	9.1	5.0
National accounts				(In percent of GDP)											
Gross domestic investment	15.8	15.8	16.0	16.2	16.4	16.5	16.6	16.7	16.8	16.9	17.0	17.6	18.0	16.5	17.6
Gross national savings	-1.3	0.6	0.6	4.0	5.2	5.5	5.8	6.0	6.2	6.4	6.6	7.6	8.3	4.7	7.6
External savings	17.1	15.2	15.4	12.2	11.2	11.0	10.8	10.7	10.6	10.5	10.4	10.0	9.7	11.8	10.0
Government revenue (excluding grants)	17.3	19.0	19.0	18.9	19.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	19.6	20.0
Government expenditure	29.5	31.5	29.9	29.0	28.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	28.0	27.0
Overall balance (excluding grants)	-12.2	-12.5	-10.9	-10.1	-9.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-8.5	-7.0
Balance of payments				(In millions of US dollars)											
Current account balance (including grants)	-151	-135	-120	-113	-103	-117	-121	-126	-133	-139	-147	-212	-297	-125	-218
Trade balance	-226	-194	-176	-139	-135	-142	-150	-160	-170	-182	-195	-300	-440	-164	-310
Exports	447	431	438	479	509	533	560	587	615	645	676	906	1164	547	918
of which: tobacco	275	268	272	301	321	336	352	368	385	403	422	554	696	343	560
Imports	-673	-625	-614	-618	-643	-675	-710	-747	-786	-827	-872	-1206	-1604	-712	-1228
of which: oil	-66	-107	-106	-96	-97	-101	-105	-108	-111	-114	-118	-142	-168	-106	-143
Services balance	-90	-80	-76	-78	-80	-83	-86	-89	-93	-98	-102	-140	-189	-86	-143
Interest public sector (net)	-17	-22	-17	-15	-13	-12	-11	-9	-8	-7	-6	2	11	-12	3
Receipts	9	9	14	15	15	15	16	17	18	18	19	26	34	15	26
Payments	-26	-31	-30	-29	-29	-28	-27	-26	-26	-25	-25	-23	-23	-28	-23
Other factor payments (net)	-20	-19	-20	-21	-22	-23	-24	-25	-26	-27	-29	-39	-52	-23	-40
Nonfactor (net)	-53	-38	-40	-42	-45	-48	-51	-55	-59	-63	-67	-103	-148	-51	-106
Receipts	42	42	43	44	45	46	47	48	49	50	51	59	66	46	59
Payments	-95	-80	-82	-86	-90	-94	-98	-103	-108	-113	-118	-161	-214	-97	-164
Unrequited transfers (net)	165	139	132	104	111	108	115	123	130	140	150	228	332	125	235
Private (net)	9	11	11	12	12	12	12	13	13	13	14	16	18	12	16
Official	157	128	121	92	99	96	103	110	118	127	136	212	314	113	219
Capital account balance (incl errors & omissior	168	104	142	87	64	63	68	69	72	78	85	131	239	83	146
Medium- and long-term flows	84	64	102	44	19	15	15	11	8	8	9	-10	-4		
Disbursements	123	121	160	103	84	85	86	87	88	89	91	98	104	99	98
Amortization (public sector)	-39	-58	-58	-59	-65	-71	-71	-76	-80	-82	-82	-107	-107	-70	-101
Foreign direct investment and other inflows	39	40	41	43	44	49	53	58	64	70	77	140	243	54	150
Overall balance	17	-31	22	-26	-39	-54	-53	-57	-61	-62	-62	-81	-57	-42	-72
Financing (-increase in reserves)	-17	32	-72	-17	-26	-19	-41	-39	-37	-18	-34	-44	-57	-27	-44
Central Bank	-32	38	-62	-7	-16	-8	-30	-27	-25	-6	-21	-28	-38	-16	-28
Commercial banks	15	-6	-10	-10	-10	-11	-11	-12	-12	-13	-13	-16	-19	-11	-16
Financing Gap	0	0	50	44	65	73	93	96	98	80	96	125	114	69	116
Debt relief 1/	0	0	31	33	54	61	61	59	57	55	54	46		47	48
Residual Gap: grant financing expected	0	0	19	11	11	11	32	36	42	25	42	79		23	69
Memorandum items:															
Gross official reserves															
In millions of U.S. dollars	244	224	276	293	308	303	319	335	352	352	371	513	682	313	522
In months of prospective year imports	4.2	3.9	4.7	4.8	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Current account balance (percent of GDP)															
Excluding official transfers	-17.1	-15.2	-15.4	-12.2	-11.2	-11.0	-10.8	-10.7	-10.6	-10.5	-10.4	-10.0	-9.7	-11.8	-10.0
Including official transfers	-8.3	-7.8	-7.7	-6.7	-5.7	-6.0	-5.8	-5.7	-5.6	-5.5	-5.4	-5.0	-4.7	-6.2	-5.0
Export volume growth	-6.1	-5.5	6.1	7.9	5.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	3.9	4.2
Import volume growth	9.4	-1.5	-2.4	10.1	6.1	6.1	4.5	4.5	4.6	4.6	4.7	4.9	5.0	4.1	4.9
Terms of trade	-13.4	-6.1	2.2	4.3	1.3	0.7	1.1	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.3

Source: Malawian authorities; and staff estimates.

1/ This includes the full application of traditional debt relief mechanisms as well as debt relief under the HIPC Initiative.

Table 6. Malawi: Net Present Value (NPV) of Debt Before and After Traditional Debt Relief Mechanisms and After HIPC Relief, 1999-2019 1/
(In millions of U.S. dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019
Before debt relief														
1. NPV of total debt	1,482	1,487	1,517	1,529	1,530	1,525	1,519	1,514	1,510	1,508	1,511	1,517	1,491	1,461
2. NPV of existing debt	1,482	1,450	1,429	1,407	1,378	1,341	1,302	1,262	1,223	1,184	1,150	1,116	907	723
3. Multilateral Creditors	1,098	1,084	1,082	1,080	1,072	1,059	1,044	1,028	1,011	993	976	958	826	684
4. Bilateral Creditors	385	366	347	327	306	282	259	235	212	191	174	158	81	39
Paris Club	309	298	286	275	262	245	229	211	192	175	161	146	76	34
Other Official bilateral	33	32	29	26	23	19	16	14	13	11	10	9	2	1
Commercial	43	37	31	26	22	18	14	10	7	5	3	3	3	3
5. New Borrowing	-	37	88	121	152	183	217	252	287	324	361	401	583	738
NPV of total debt-to-exports (in percent) 2/	269	290	315	311	295	277	262	250	238	227	217	208	162	131
NPV of existing debt-to-exports (in percent) 2/	269	283	297	286	266	243	225	208	193	178	165	153	99	65
After the traditional debt relief mechanisms 3/														
1. NPV of total debt	1,469	1,476	1,511	1,528	1,535	1,535	1,534	1,534	1,534	1,535	1,539	1,544	1,518	1,485
2. NPV of existing debt	1,469	1,439	1,423	1,407	1,383	1,351	1,317	1,282	1,247	1,212	1,177	1,144	934	747
3. Multilateral Creditors	1,098	1,084	1,082	1,080	1,072	1,059	1,044	1,028	1,011	993	976	958	826	684
4. Bilateral Creditors	372	355	341	327	311	292	273	254	236	218	202	186	109	63
Paris Club	296	290	284	278	270	258	247	234	220	206	192	177	106	62
Other Official bilateral	33	32	29	26	23	19	16	14	13	11	10	9	2	1
Commercial	43	34	28	23	19	14	11	7	4	1	-	-	-	-
5. New Borrowing	-	37	88	121	152	183	217	252	287	324	361	401	583	738
NPV of total debt-to-exports (in percent) 2/	267	288	314	311	296	278	265	253	242	231	221	212	165	133
NPV of existing debt-to-exports (in percent) 2/	267	280	296	286	267	245	227	211	196	182	169	157	102	67
After enhanced HIPC Initiative 4/														
1. NPV of total debt	1,482	1,421	1,486	889	918	948	979	1,011	1,042	1,075	1,110	1,148	1,297	1,400
2. NPV of existing debt	1,482	1,384	1,398	768	766	764	762	759	755	751	749	748	714	662
3. Multilateral Creditors	1,098	1,026	1,053	622	628	634	639	644	648	652	657	663	669	647
4. Bilateral Creditors	385	359	345	146	138	130	123	115	107	100	92	84	45	15
Paris Club	309	293	288	134	127	121	114	107	101	94	87	80	45	15
Other Official bilateral	33	32	29	10	9	8	8	7	6	6	5	4	0	0
Commercial	43	34	28	2	2	1	1	0	-	-	-	-	-	-
5. New Borrowing	-	37	88	121	152	183	217	252	287	324	361	401	583	738
NPV of total debt-to-exports (in percent) 2/	269	277	309	181	177	172	169	167	164	162	160	158	141	126
NPV of existing debt-to-exports (in percent) 2/	269	270	291	156	148	139	131	125	119	113	108	103	78	59
After enhanced HIPC Initiative (assumed committed unconditionaly) 5/														
1. NPV of total debt	827	844	866	889	918	948	979	1,011	1,042	1,075	1,110	1,148	1,297	1,400
2. NPV of existing debt	827	807	778	768	766	764	762	759	755	751	749	748	714	662
3. Multilateral Creditors	618	619	621	622	628	634	639	644	648	652	657	663	669	647
4. Bilateral Creditors	209	188	156	146	138	130	123	115	107	100	92	84	45	15
Paris Club	166	155	139	134	127	121	114	107	101	94	87	80	45	15
Other Official bilateral	19	16	11	10	9	8	8	7	6	6	5	4	0	0
Commercial	24	17	6	2	2	1	1	0	-	-	-	-	-	-
5. New Borrowing	-	37	88	121	152	183	217	252	287	324	361	401	583	738
NPV of total debt-to-exports (in percent) 2/	150	164	180	181	177	172	169	167	164	162	160	158	141	126
NPV of existing debt-to-exports (in percent) 2/	150	157	162	156	148	139	131	125	119	113	108	103	78	59
Memorandum item:														
NPV of total debt including Paris Club pledges 6/	1,482	1,394	1,469	767	801	837	875	913	950	989	1,030	1,075	1,256	1,387
NPV of total debt-to-exports (in percent) 6/	269	272	305	156	154	152	151	150	150	149	148	148	137	124

Source: Malawian authorities and staff estimates.

1/ Refers to public and publicly guaranteed external debt. Existing debt is as of December 31, 1999.
2/ NPV of debt in percent of three-year average of exports of goods and nonfactor services.
3/ Assumes full use of traditional debt relief mechanisms, i.e., a Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-December 1999, and at least comparable treatment by other official bilateral and commercial creditors.
4/ The completion point is assumed to be reached by December 2002; HIPC assistance is assumed to be committed and delivered unconditionally thereafter. The NPV of debt for 2000 and 2001 shows only the effect of interim assistance (see text for detailed assumptions).
5/ The NPV of debt for 1999, 2000 and 2001 shows the impact of relief assumed to be delivered during the interim period and after the completion point. The NPV is discounted back to the base year, i.e., December 1999.
6/ Reflects HIPC Initiative assistance and the full forgiveness of ODA claims by Japan and France (see text paragraph 52).
7/ Backward-looking average (e.g., average over 1997-99 for exports in 1999).

Table 7. Malawi: Projected Debt Service Before and After Traditional Debt Relief and After HIPC Relief, 2000-2019
(In millions of U.S. dollars, unless otherwise indicated)

	Projected													2001-2009 Averages	2010-2019 Averages
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019		
Before debt relief															
1. Debt Service of total debt 1/	98.4	96.5	96.1	103.3	111.1	112.2	113.0	113.7	112.3	108.5	107.8	130.5	130.9	107.4	124.3
2. Debt Service of existing debt 2/	97.3	93.9	92.6	99.1	106.2	106.6	105.4	103.8	100.6	95.2	92.7	96.5	88.7	100.4	93.6
3. Multilateral Creditors	66.7	62.7	62.5	68.5	73.1	74.7	74.4	74.2	74.1	73.5	72.8	78.6	78.5	70.9	77.5
4. Bilateral Creditors	30.6	31.2	30.2	30.5	33.0	31.9	31.0	29.5	26.5	21.6	20.0	17.9	10.2	29.5	16.1
Paris Club	18.3	18.7	18.5	19.5	22.7	22.3	23.2	23.9	21.7	18.3	18.1	16.2	10.0	21.0	14.9
Other Official bilateral	4.0	4.6	5.1	5.1	4.9	4.8	3.4	2.1	2.0	2.0	1.9	1.6	0.2	3.8	1.2
Commercial	8.3	7.9	6.5	6.0	5.4	4.8	4.4	3.6	2.8	1.3	-	-	-	4.7	-
5. New Borrowing	1.1	2.6	3.4	4.2	4.9	5.6	7.6	9.9	11.7	13.4	15.1	34.0	42.2	7.0	30.7
Debt service of total debt-to-export ratio 3/	20.1	20.4	20.0	19.8	20.1	19.4	18.6	17.9	16.9	15.6	14.8	14.2	11.7	18.7	13.8
Debt service of existing debt-to-export ratio 3/	19.9	19.9	19.3	19.0	19.2	18.4	17.4	16.4	15.2	13.7	12.7	10.5	8.0	17.6	10.5
After the traditional debt relief mechanisms 4/															
1. Debt Service of total debt 1/	105.2	90.9	90.8	98.2	106.2	107.5	108.6	109.4	109.7	109.1	108.5	131.4	132.4	103.4	125.3
2. Debt Service of existing debt 2/	104.1	88.3	87.4	94.0	101.3	101.9	101.0	99.5	98.1	95.8	93.4	97.4	90.2	96.3	94.6
3. Multilateral Creditors	75.8	62.7	62.5	68.5	73.1	74.7	74.4	74.2	74.1	73.5	72.8	78.6	78.5	70.9	77.5
4. Bilateral Creditors	28.3	25.6	24.9	25.5	28.2	27.2	26.5	25.3	23.9	22.2	20.7	18.8	11.7	25.5	17.2
Paris Club	12.5	13.2	13.3	14.4	17.8	17.6	18.7	19.6	19.1	18.9	18.8	17.2	11.5	17.0	15.9
Other Official bilateral	4.0	4.6	5.1	5.1	4.9	4.8	3.4	2.1	2.0	2.0	1.9	1.6	0.2	3.8	1.2
Commercial	11.9	7.9	6.5	6.0	5.4	4.8	4.4	3.6	2.8	1.3	-	-	-	4.7	-
5. New Borrowing	1.1	2.6	3.4	4.2	4.9	5.6	7.6	9.9	11.7	13.4	15.1	34.0	42.2	7.0	30.7
Debt service of total debt-to-export ratio 3/	21.5	19.2	18.9	18.8	19.2	18.6	17.9	17.2	16.5	15.7	14.9	14.3	11.9	18.0	14.0
Debt service of existing debt-to-export ratio 3/	21.3	18.7	18.2	18.0	18.3	17.6	16.6	15.7	14.8	13.8	12.8	10.6	8.1	16.8	10.6
After enhanced HIPC Initiative 5/															
1. Debt Service of total debt 1/	...	59.1	57.5	44.7	45.5	47.1	49.6	53.2	54.4	55.1	55.0	85.9	92.5	51.8	77.7
2. Debt Service of existing debt 2/	...	56.6	54.0	40.6	40.6	41.4	42.0	43.2	42.7	41.7	39.9	51.9	50.3	44.8	47.0
3. Multilateral Creditors	...	31.6	29.7	29.0	29.1	30.1	30.9	32.3	32.4	31.5	29.9	42.5	42.2	30.7	37.9
4. Bilateral Creditors	...	24.9	24.3	11.6	11.4	11.3	11.1	10.9	10.3	10.2	10.1	9.4	8.1	14.0	9.1
Paris Club	...	12.5	12.7	9.6	9.5	9.5	9.4	9.3	9.2	9.1	9.0	8.5	8.1	10.1	8.5
Other Official bilateral	...	4.6	5.1	1.3	1.3	1.3	1.2	1.2	1.2	1.1	1.1	0.9	-	2.0	0.6
Commercial	...	7.9	6.5	0.6	0.6	0.5	0.5	0.5	-	-	-	-	-	1.9	-
5. New Borrowing	...	2.6	3.4	4.2	4.9	5.6	7.6	9.9	11.7	13.4	15.1	34.0	42.2	7.0	30.7
Debt service of total debt-to-export ratio 3/	...	12.5	12.0	8.6	8.2	8.1	8.2	8.4	8.2	7.9	7.6	9.3	8.3	9.1	8.5
Debt service of existing debt-to-export ratio 3/	...	12.0	11.2	7.8	7.3	7.2	6.9	6.8	6.4	6.0	5.5	5.6	4.5	8.0	5.2
Memorandum items:															
Debt service of total debt after enhanced HIPC Initiative and including Paris Club pledges 8/	...	48.9	47.2	36.2	37.0	38.6	41.3	44.9	46.2	47.0	47.0	78.3	85.2	43.0	70.0
in percent of exports of goods and NFS 7/	...	10.3	9.8	6.9	6.7	6.7	6.8	7.1	7.0	6.8	6.5	8.5	7.6	7.6	7.7
Total cash flow relief after HIPC Initiative Assistance	...	31.1	32.8	54.1	61.3	61.0	59.4	56.7	55.3	54.1	53.5	45.5	39.9	51.8	47.6
in percent of GDP	...	2.0	1.9	3.0	3.2	2.9	2.7	2.4	2.2	2.0	1.8	1.1	0.7	2.5	1.2
in percent of exports of goods and NFS 7/	...	6.5	6.3	9.8	10.6	10.1	9.4	8.5	8.0	7.4	7.0	4.7	3.4	8.5	5.2
Total cash flow relief including Paris Club pledges 8/	...	41.4	43.0	62.7	69.8	69.4	67.8	65.0	63.5	62.2	61.5	53.1	47.2	60.5	55.3
in percent of GDP	...	2.6	2.6	3.5	3.6	3.3	3.1	2.7	2.5	2.3	2.1	1.2	0.8	2.9	1.4
in percent of exports of goods and NFS 7/	...	8.6	8.2	11.3	12.1	11.4	10.7	9.8	9.1	8.5	8.1	5.5	4.0	10.0	6.0
Exports of GNFS, current year	489	473	481	522	553	579	607	635	664	695	728	919	1115	579	907

Sources: Malawian authorities and staff estimates.

1/ Includes projected debt service on disbursed amounts at end-December 1999 plus projected new borrowing as of 2000.
2/ The projected debt service from 2000 onwards is based on end-December 1999 disbursed amounts.
3/ In terms of current-year exports of goods and services.
4/ Reflects the external debt situation after the full use of traditional debt relief mechanisms, and assuming at least comparable action from other official bilateral creditors in December 1999.
The payment of US$ 12 million of outstanding arrears at end-December 1999 is included in the 2000 debt service.
5/ After assumed assistance under the enhanced HIPC Initiative (see text for detailed assumptions). The payment of US$ 12 million of outstanding arrears at end-December 1999 is included in the 2000 debt service.
6/ The bilateral interim assistance is the difference between a Naples flow rescheduling (i.e., traditional debt relief) and a Cologne flow rescheduling.
7/ Using current-year exports.
8/ After enhanced HIPC assistance and other Paris Club pledges. It includes the full forgiveness of claims by Japan and France (see text para. 52).

Table 8. Malawi: Key Public External Debt-Sustainability Indicators, 1999-2019
(In percent, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2019	1999-2000	2001-2009	2010-2019
								Projections								Averages	
Key ratios before any debt relief																	
Nominal debt-to-GDP ratio	144.3	146.4	157.6	142.5	128.3	115.7	104.0	93.3	83.5	74.6	66.6	59.4	31.2	17.2	145.4	107.4	35.4
NPV of total debt-to-GDP ratio	82.1	86.0	96.9	90.8	84.4	78.7	73.3	68.2	63.4	59.1	55.2	51.5	35.0	25.1	84.0	74.4	37.2
NPV of total debt-to-exports ratio 1/	268.9	289.7	315.4	310.8	294.9	276.5	262.2	249.6	237.8	226.9	217.3	208.3	162.0	130.9	279.3	265.7	167.8
NPV of total debt-to-revenues ratio	515.8	419.0	340.1	300.1	263.5	229.0	205.0	183.6	164.5	147.6	132.9	121.0	73.0	48.4	467.4	218.5	80.1
Debt service of total debt-to-exports ratio 2/	17.7	20.8	20.1	18.4	18.7	19.2	18.5	17.8	17.1	16.2	14.9	14.2	13.5	11.2	19.3	17.9	13.2
Debt service of total debt-to-revenues ratio	30.2	27.7	21.6	18.9	17.8	16.7	15.1	13.7	12.4	11.0	9.5	8.6	6.4	4.3	29.0	15.2	6.5
Key ratios after traditional debt relief 3/																	
NPV of total debt-to-GDP ratio	81.3	85.3	96.6	90.7	84.7	79.2	74.0	69.1	64.5	60.2	56.2	52.5	35.6	25.5	83.3	75.0	37.9
NPV of total debt-to-exports ratio 1/	266.6	287.6	314.3	310.7	295.8	278.3	264.7	252.9	241.6	231.1	221.3	212.1	164.9	133.1	277.1	267.8	170.8
NPV of total debt-to-revenues ratio	511.3	416.0	338.8	300.0	264.3	230.5	207.0	186.0	167.1	150.3	135.3	123.2	74.3	49.2	463.6	219.9	81.6
Debt service of total debt-to-exports ratio 2/	...	22.3	18.9	17.4	17.8	18.3	17.7	17.1	16.5	15.8	15.0	14.2	13.6	11.3	22.3	17.2	13.3
Debt service of total debt-to-revenues ratio	...	29.7	20.4	17.8	16.9	15.9	14.5	13.2	11.9	10.7	9.6	8.7	6.4	4.4	29.7	14.6	6.6
Key ratios after enhanced HIPC assistance 4/																	
NPV of total debt-to-GDP ratio	82.1	82.2	95.0	52.8	50.6	48.9	47.2	45.5	43.8	42.1	40.5	39.0	30.4	24.1	82.1	51.8	31.5
NPV of total debt-to-exports ratio 1/	268.9	276.9	309.1	180.7	176.9	171.9	169.0	166.7	164.1	161.8	159.6	157.7	141.0	125.5	272.9	184.4	142.6
NPV of total debt-to-revenues ratio	515.8	400.5	333.2	174.5	158.0	142.4	132.1	122.6	113.5	105.2	97.6	91.6	63.5	46.4	458.2	153.2	67.4
Debt service of total debt-to-exports ratio 2/	...	...	12.3	11.0	8.1	7.9	7.8	7.8	8.0	7.8	7.6	7.2	8.9	7.9	...	8.7	8.1
Debt service of total debt-to-revenues ratio	...	...	13.3	11.3	7.7	6.8	6.3	6.0	5.8	5.3	4.8	4.4	4.2	3.1	...	7.5	4.0
Key ratios after enhanced HIPC assistance (assumed committed unconditionally) 5/																	
NPV of total debt-to-GDP ratio	45.8	48.8	55.3	52.8	50.6	48.9	47.2	45.5	43.8	42.1	40.5	39.0	30.4	24.1	47.3	47.4	31.5
NPV of total debt-to-exports ratio 1/	150.0	164.4	180.1	180.7	176.9	171.9	169.0	166.7	164.1	161.8	159.6	157.7	141.0	125.5	157.2	170.1	142.6
NPV of total debt-to-revenues ratio	287.7	237.8	194.1	174.5	158.0	142.4	132.1	122.6	113.5	105.2	97.6	91.6	63.5	46.4	262.8	137.8	67.4
Sensitivity analysis: Debt indicators after enhanced HIPC assistance																	
Lower export earnings scenario																	
NPV of total debt-to-export ratio	268.9	276.9	309.4	184.3	185.6	186.5	187.5	188.4	189.0	189.7	190.5	191.6	185.7	174.8	272.9	201.2	185.6
Debt service of total debt-to-exports ratio 2/	...	...	12.3	11.6	8.8	8.7	8.8	9.0	9.4	9.3	9.2	8.9	11.9	11.1	...	9.7	10.8
Less available concessional financing scenario																	
NPV of total debt-to-export ratio	268.9	283.1	324.4	200.0	197.9	194.0	192.1	190.5	188.4	186.3	184.1	181.9	162.9	144.1	276.0	206.4	164.5
Debt service of total debt-to-exports ratio 2/	...	...	12.8	11.6	8.8	8.7	8.6	9.4	10.4	10.6	10.6	10.4	12.3	10.1	...	10.2	11.2
Memorandum items:																	
Key ratios after enhanced HIPC assistance and Paris Club pledges 6/																	
NPV of total debt-to-exports ratio 1/	268.9	271.6	305.5	155.8	154.4	151.9	151.0	150.5	149.6	148.9	148.2	147.7	136.5	124.3	270.3	168.4	137.4
NPV of total debt-to-revenues ratio	515.8	392.9	329.3	150.5	138.0	125.8	118.1	110.7	103.5	96.8	90.6	85.8	61.5	46.0	454.4	140.4	64.7
Debt service of total debt-to-exports ratio 2/	...	...	10.2	9.0	6.5	6.4	6.4	6.5	6.8	6.6	6.5	6.2	8.1	7.3	...	7.2	7.3
GDP	1,806.7	1,729.5	1,565.1	1,684.1	1,812.7	1,938.2	2,073.8	2,220.6	2,379.6	2,552.0	2,739.1	2,942.2	4,260.7	5,821.4	1,768.1	2,107.2	4,215.4
Exports of goods and nonfactor services 7/	551.2	513.3	480.9	491.9	518.8	551.4	579.5	606.6	635.0	664.5	695.5	728.1	920.1	1,115.6	532.2	580.5	908.0
Exports of goods and nonfactor services 8/	489.2	472.6	480.9	522.3	553.2	578.8	606.6	634.5	663.9	694.9	727.5	761.9	964.2	1,170.6	480.9	607.0	951.5
Central government revenue 9/	287.4	354.8	446.0	509.4	580.6	665.8	741.1	824.8	918.0	1,021.8	1,137.2	1,253.8	2,042.3	3,017.4	321.1	760.5	2,022.3

Sources: Malawian authorities; and staff estimates and projections.

1/ In terms of a simple historical three-year average of exports of goods and nonfactor services.
2/ In terms of current-year exports of goods and nonfactor services.
3/ Reflects the external debt situation after the full use of traditional debt-relief mechanisms, and assuming at least comparable treatment from official bilateral creditors in 1999.
4/ The completion point is assumed to be reached by December 2002; HIPC assistance is assumed to be committed and delivered unconditionally thereafter. The NPV of debt for 2000 and 2001 shows only the effect of interim assistance (see text for detailed assumptions).
5/ The NPV of debt for 1999, 2000 and 2001 shows the impact of relief assumed to be delivered during the interim period and after the completion point. The NPV is discounted back to the base year, i.e., December 1999.
6/ Reflects HIPC Initiative assistance as detailed in footnote 4 and the full forgiveness of ODA claims by Japan and France (see text paragraph 52).
7/ Simple historical three-year average of exports of goods and nonfactor services.
8/ Current-year exports of goods and nonfactor services.
9/ Converted using end-1999 exchange rate.

Table 9. Malawi: Impact of HIPC relief on Central Government Operations, 1999/00 - 2002/03
(In billions of Malawi kwacha unless otherwise specified)

	1999/00 Actual Prel.	2000/01 Proj.	2001/02 Proj.	2002/03 Proj.	2000/01 Proj.	2001/02 Proj.	2002/03 Proj.
		Before HIPC			After HIPC		
Total revenue and grants	22,506	33,032	32,513	34,834	34,576	35,981	39,304
Total revenue	15,808	21,601	24,990	27,517	21,601	24,990	27,517
Tax revenue	14,353	19,703	22,856	25,062	19,703	22,856	25,062
Taxes on income and profits	6,590	8,093	9,361	10,363	8,093	9,361	10,363
Taxes on goods and services	5,834	8,864	10,421	11,497	8,864	10,421	11,497
Taxes on international trade	2,241	3,284	3,656	3,814	3,284	3,656	3,814
Tax refunds and tax arrears collection	-312	-539	-581	-611	-539	-581	-611
Nontax revenue	1,455	1,898	2,134	2,455	1,898	2,134	2,455
Grants	6,698	11,431	7,524	7,317	12,976	10,991	11,787
Program	4,127	7,350	4,606	5,003	7,350	4,606	5,003
Project	2,571	4,081	2,918	2,314	4,081	2,918	2,314
HIPC resources 1/	...	...	...	...	1,152	2,653	3,686
Other 2/	...	...	...	...	392	814	784
Total expenditure	27,054	34,142	32,468	32,691	34,602	35,935	37,160
Current expenditure	16,347	21,240	21,736	22,919	21,240	21,736	22,919
Noninterest expenditure	12,948	16,103	18,644	20,444	16,103	18,644	20,444
Wages and salaries	4,296	6,066	7,016	7,767	6,066	7,016	7,767
Goods and services	6,615	7,202	8,685	9,422	7,202	8,685	9,422
Transfers (incl. separation benefits)	1,752	2,820	2,944	3,255	2,820	2,944	3,255
Maize	286	0	0	0	0	0	0
Discretionary exemptions	0	15	0	0	15	0	0
Interest	3,400	5,137	3,091	2,475	5,137	3,091	2,475
Domestic	2,081	3,100	1,130	390	3,100	1,130	390
External	1,319	2,037	1,961	2,085	2,037	1,961	2,085
Expenditure attributable to HIPC	0	0	0	0	460	2,653	3,686
Other expenditure 3/	839	850	220	278	850	1,034	1,062
Expenditure in arrears	276	0	0	0	0	0	0
Development expenditure and net lending	9,591	12,052	10,512	9,494	12,052	10,512	9,494
Domestic	1,940	2,600	3,070	3,428	2,600	3,070	3,428
Foreign-financed projects	7,651	9,452	7,442	6,066	9,452	7,442	6,066
Overall deficit (excluding grants, cash mod. basis)	-11,246	-12,541	-7,478	-5,174	-13,001	-10,945	-9,643
Overall deficit (including grants, cash mod. basis)	-4,548	-1,110	46	2,144	-26	46	2,144
Discrepancy	776	0	0	0	0	0	0
Total financing	5,324	1,110	-46	-2,144	26	-46	-2,144
Foreign (net)	4,373	5,308	3,323	2,627	5,308	3,323	2,627
Borrowing	6,473	10,275	7,582	7,338	10,275	7,582	7,338
Program	1,393	4,903	3,057	3,586	4,903	3,057	3,586
Project	5,080	5,371	4,524	3,752	5,371	4,524	3,752
Special loans	37	-879	-150	0	-879	-150	0
Repayments	-2,137	-4,088	-4,109	-4,711	-4,088	-4,109	-4,711
Domestic (net)	951	-4,198	-3,369	-4,770	-5,282	-3,369	-4,770
Banking system	-1,265	-1,500	-3,527	-3,955	-2,584	-3,527	-3,955
of which: HIPC account 4/	...	...	...	...	-692	0	0
Nonbanks	2,527	-2,409	-42	-1,115	-2,409	-42	-1,115
Privatization proceeds	0	100	200	300	100	200	300
Change in arrears (- payment) 5/	-310	-389	0	0	-389	0	0
Memorandum items:							
Domestic balance 6/	-2,276	-1,052	1,925	2,977	-1,512	-1,542	-1,492
Domestic primary balance 7/	-195	2,048	3,055	3,367	1,588	-412	-1,102
GDP at current market prices	91,639	113,923	131,764	145,869	113,923	131,764	145,869

Source: Malawian authorities; and staff estimates and projections.

1/ Amounts include IMF debt relief under the HIPC initiative.
2/ Amounts represent Paris Club pledges of debt relief beyond the HIPC Initiative.
3/ For 2001/02 and 2002/03, includes potential expenditure related to Paris Club pledges of debt relief beyond the HIPC Initiative.
4/ Represents HIPC resources for 2000/01 that are not yet allocated.
5/ Repayment of arrears.
6/ Domestic primary balance is revenue less total expenditure, excluding interest payments and foreign-financed development expenditure.
7/ The domestic balance is equal to the domestic primary balance less domestic interest payments.

Table 10. Malawi: Possible Delivery of IDA Assistance Under the HIPC Initiative 1/
(In millions of U.S. Dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt Service to IDA Before HIPC	30.34	34.13	37.75	41.01	42.45	46.55	48.64	50.08	53.42	55.42
Debt Service to IDA After HIPC	13.57	15.27	16.89	18.35	18.99	20.83	21.76	22.41	23.90	24.79
Relief in Nominal	16.77	18.86	20.86	22.66	23.46	25.73	26.88	27.68	29.52	30.62
Relief in NPV terms	1.12	1.42	1.27	1.05	1.09	1.03	1.07	1.10	1.06	1.08
Percentage Reduction in Nominal 2/	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%
Percentage of NPV relief 3/	4.74%	5.99%	5.36%	4.44%	4.61%	4.34%	4.50%	4.64%	4.49%	4.57%

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Debt Service to IDA Before HIPC	56.65	59.43	61.98	62.33	62.48	64.24	65.08	63.93	64.81	64.20
Debt Service to IDA After HIPC	25.34	26.59	27.73	27.88	27.95	28.74	29.11	28.60	28.99	28.72
Relief in Nominal	31.31	32.84	34.25	34.44	34.53	35.50	35.96	35.33	35.82	35.48
Relief in NPV terms	1.10	1.23	1.15	1.09	1.02	0.96	0.90	0.85	0.80	0.75
Percentage Reduction in Nominal 2/	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%
Percentage of NPV relief 3/	4.66%	5.18%	4.87%	4.58%	4.31%	4.06%	3.82%	3.59%	3.38%	3.18%

Source: Malawian authorities; and IDA staff estimates.

1/ The assistance is assumed to be delivered from January 2001-December 2020 covering 55.3 percent of debt service due.
2/ Debt service relief as a percent of debt service due.
3/ Debt relief as a percent of total relief to be provided (in NPV terms)

Table 11. Malawi: Possible Delivery of IMF Assistance under the Enhanced HIPC Initiative, 2000-09 1/

(In millions of US dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(Based on the US$/SDR exchange rate as of December 5, 2000)										
Delivery schedule of IMF assistance (in percent of total assistance)	0	10	10	13	18	20	17	8	4	0
Debt Service due on IMF obligations 2/	0.2	8.0	8.3	10.2	12.8	14.0	10.9	7.9	5.9	2.6
Principal	--	7.0	7.3	9.3	11.9	13.1	10.2	7.2	5.3	2.0
Interest	0.2	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7
IMF assistance--deposits into Malawi's account										
Interim assistance 3/	3.0	3.0								
Completion point assistance			24.1 /4							
IMF assistance--drawdown schedule 5/	--	3.0	4.0	5.0	7.6	7.0	5.8	2.8	1.4	0.0
IMF assistance without interest	--	3.0	3.0	3.9	5.4	6.0	5.1	2.4	1.2	--
Estimated interest earnings	--	0.0	1.0	1.1	2.2	1.0	0.7	0.4	0.2	0.0
Debt service due on current IMF obligations after IMF assistance 5/	0.2	5.0	4.3	5.2	5.2	7.0	5.2	5.2	4.6	2.6
Share of debt service due on IMF obligations covered by IMF assistance (in percent) 5/	--	37.6	48.3	49.1	59.6	49.9	52.8	34.8	23.3	0.0
Proportion (in percent) of each repayment falling due during the period to be paid by IMF Initiative assistance from the principal deposited in Malawi's account	--	42.8	41.0	42.0	45.5	45.8	50.2	33.3	22.9	--
Memorandum items:										
(Based on debt service data and exchange rates as of end-1999)										
Total debt service due 6/ 7/	105.9	91.9	92.7	101.1	110.1	112.6	113.6	114.0	114.5	114.2
Debt service due on IMF obligations 7/	9.9	7.9	8.2	10.2	12.9	14.2	11.0	7.8	5.6	2.1
Debt service due on current IMF obligations after IMF assistance 5/	9.9	4.8	4.1	5.2	5.3	7.2	5.2	5.0	4.2	2.1
(in percent of exports)	2.1	1.0	0.8	1.0	0.9	1.2	0.8	0.8	0.6	0.3
Share of total debt service covered by IMF assistance (in percent) 5/	--	3.3	4.3	5.0	6.9	6.2	5.1	2.4	1.2	0.0

Source: Malawian authorities; and staff estimates.

1/ Total IMF assistance under the enhanced HIPC Initiative is US$ 30.1 million calculated on the basis of data available at the decision point, excluding interest earned on Malawi's account and on committed but undisbursed amounts as described in footnotes 4 and 5.

2/ Data were as of October 31, 2000. Interest obligations include net SDR charges and assessments. Data for 2000 covers the last two weeks of December.

3/ Interim assistance to be deposited into Malawi's account in December 2000 and December 2001 to cover obligations falling due to the Fund in the coming 12 months. As Malawi has no principal obligation falling due in December 2000, the first interim disbursement covers repayments in 2001.

4/ Remaining amount of assistance assumed to be disbursed into Malawi's account at the completion point in December 2002, which is reflected in the calculation of interest.

5/ Includes estimated interest earnings on: (1) amounts held in Malawi's account; and (2), up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5.25 percent in U.S. dollar terms; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.

6/ After traditional debt relief mechanisms.

7/ Excludes charges in the SDR department of the IMF.

Table 12. HIPC Initiative: Status of Country Cases Considered Under the Initiative, December 6, 2000

Country	Decision Point	Completion Point	Target NPV of Debt-to- Export (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral	Multilateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework											
Uganda					1,003	183	820	160	517	50	1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Decision point reached under enhanced framework											
Benin	Jul. 00	*Floating*	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*53*	*14*	*760*
enhanced framework	*Feb. 00*	*Floating*	*150*		*854*	*268*	*585*	*55*	*141*	*30*	*1,300*
Burkina Faso					398	56	342	42	162		700
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Floating*	*150*		*169*	*24*	*146*	*20*	*71*	*27*	*300*
Cameroon	Oct. 00	Floating	150		1,260	874	324	37	179	27	2,000
Guyana					585	220	365	74	68		1,030
original framework	Dec. 97	May 99	107	280	256	91	165	35	27	24	440
enhanced framework	*Nov. 00*	*Floating*	*150*	*250*	*329*	*129*	*200*	*40*	*41*	*40*	590
Honduras	Jun. 00	Floating	110	250	556	215	340	30	98	18	900
Mali					523	162	361	58	182		870
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*44*	*9*	*220*
enhanced framework	*Sep. 00*	*Floating*	*150*		*401*	*124*	*277*	*44*	*138*	*28*	*650*
Mauritania	Feb. 00	Floating	137	250	622	261	361	47	100	50	1,100
Mozambique					1,970	1,235	736	140	434		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,716*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Floating*	*150*		*254*	*159*	*95*	*16*	*53*	*9*	*600*
Senegal	Jun. 00	Floating	133	250	488	193	259	45	124	19	850
Tanzania	Apr. 00	Floating	150		2,026	1,006	1,020	120	695	54	3,000
Decision point reached under original framework											
Côte d'Ivoire	Mar. 98	Mar. 01	141	280	345	163	182	23	91	6 3/	800
Total assistance provided/committed					**11,343**	**5,070**	**6,175**	**883** 4/	**2,928**		**20,020**
Preliminary HIPC document issued 5/											
Chad	...	...	150		157	34	123	15	65	27	250
Ethiopia	...	...	200		636	225	411	22	214	23	1,300
Gambia, The 6/	...	...	150		67	17	49	2	22	27	90
Guinea 6/	...	...	150		545	215	328	31	152	32	800
Guinea-Bissau 6/	...	...	150		400	198	202	11	93	85	755
Madagascar	...	...	150		880	502	378	23	264	41	2,000
Malawi	...	...	150		629	163	466	29	323	43	1,100
Nicaragua	...	...	150		2,507	1,416	1,091	32	188	66	5,000
Niger			150		521	211	309	28	170	54	940
Rwanda	...	...	150		447	56	391	43	227	71	800
Sao Tome & Principe 6/			150		97	29	68	--	24	83	200
Zambia	...	...	150		2,499	1,121	1,326	608	497	62	4,500

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPVof debt at the completion point in the calculation of this ratio.

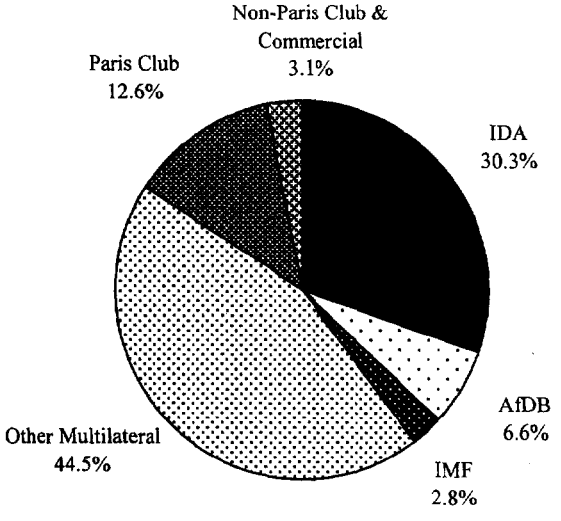
4/ Equivalent to SDR 677.9 million at an SDR/USD exchange rate of 0.7676.

5/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to change. Assistance level for Ethiopia is based on the original framework and applied at the completion point; for the other countries, targets are based on the enhanced framework and assistance levels are at the assumed decision point.

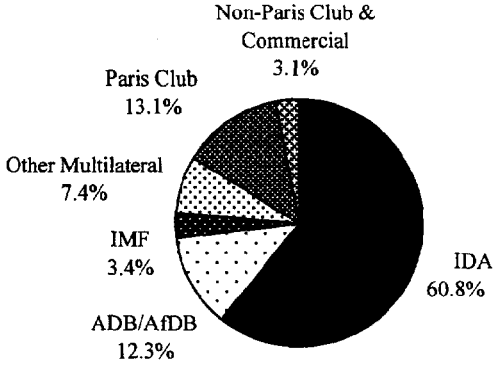
6/ Data reflect Decision Point documents which have been issued but not yet approved by the Board.

Figure 1. Malawi: Stock of External Debt, End-December 1999 1/

Net Present value of debt: US$1,482 million



Nominal Value of debt: US$ 2,608 million

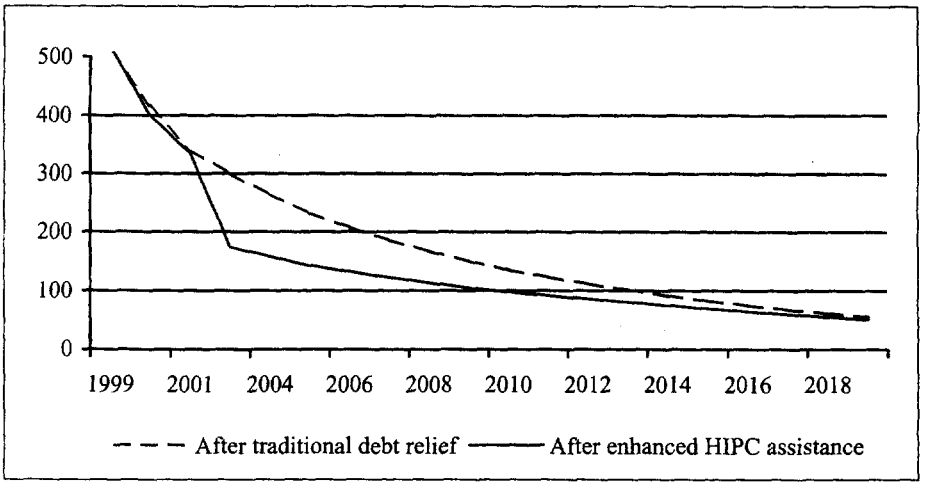


Source: Malawian authorities and staff estimates.

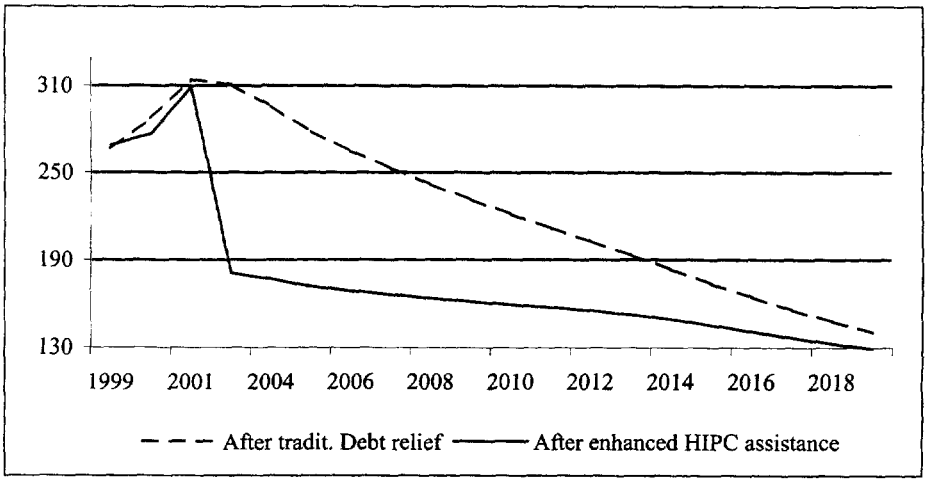
1/ Before full use of traditional debt relief mechanisms.

Figure 2. Malawi

NPV of Debt to Revenue Ratio After Traditional Debt Relief
and Enhanced HIPC Assistance



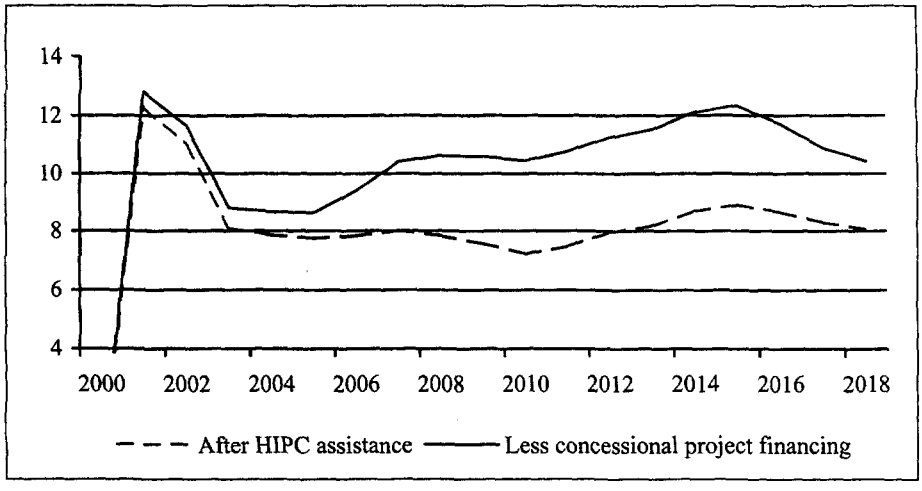
NPV of Debt to Exports Ratio After Traditional Debt Relief
and Enhanced HIPC Assistance



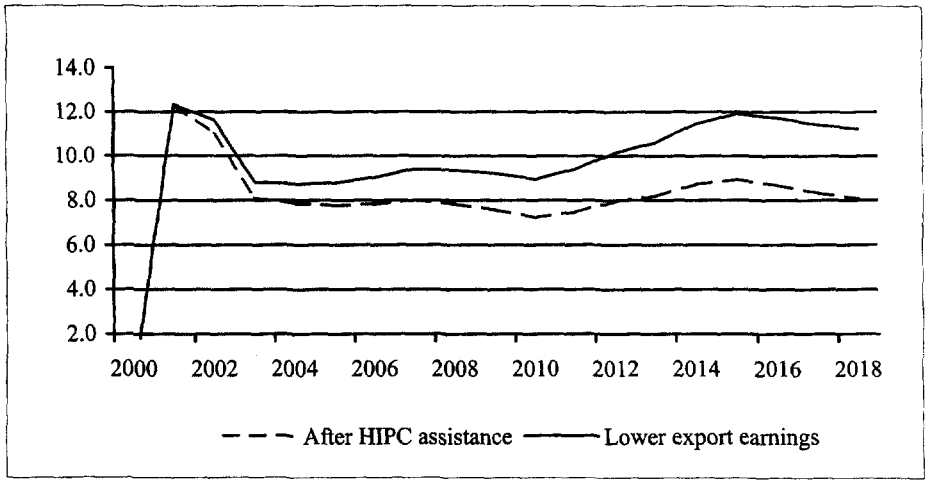
Sources: Malawi authorities; and staff estimates.

Figure 4. Malawi

Sensitivity Analysis: Debt Service with Less Concessional Financing
(In percent of exports)



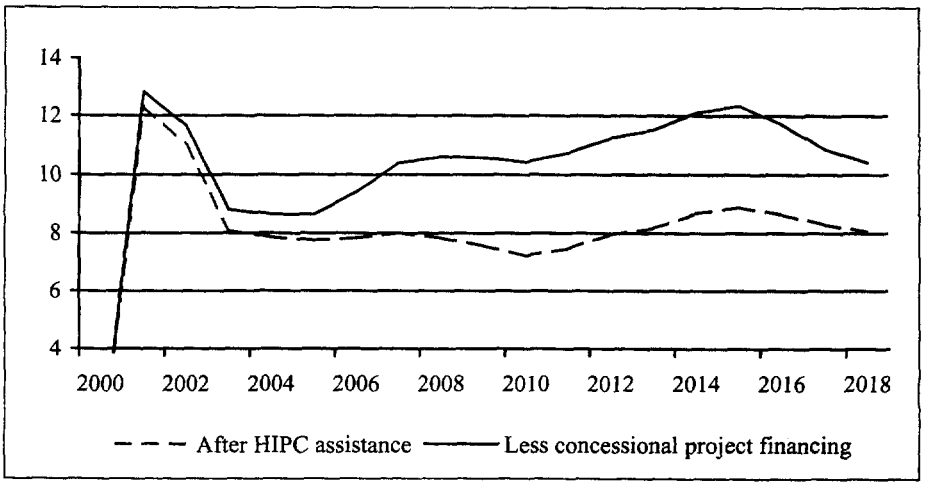
Sensitivity Analysis: Debt Service with Lower Export Earnings
(In percent of exports)



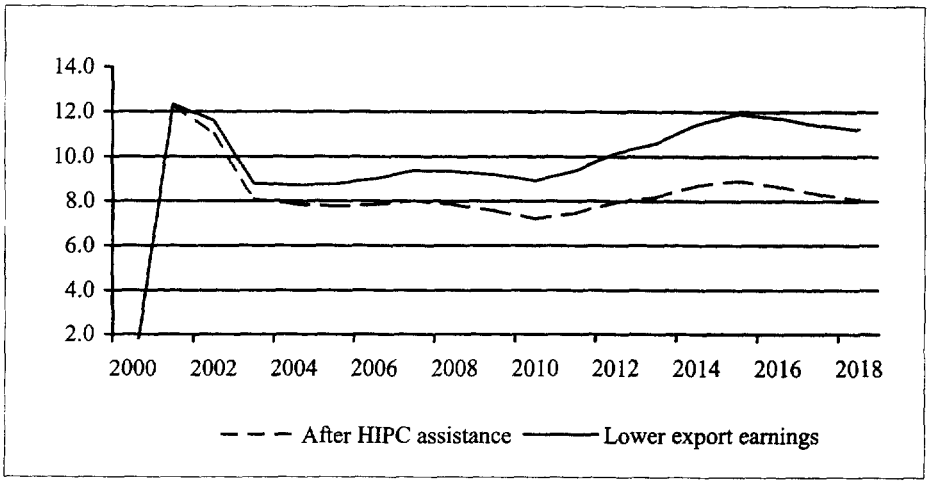
Sources: Malawian authorities; and staff estimates.

Figure 4. Malawi

Sensitivity Analysis: Debt Service with Less Concessional Financing
(In percent of exports)



Sensitivity Analysis: Debt Service with Lower Export Earnings
(In percent of exports)



Sources: Malawian authorities; and staff estimates.

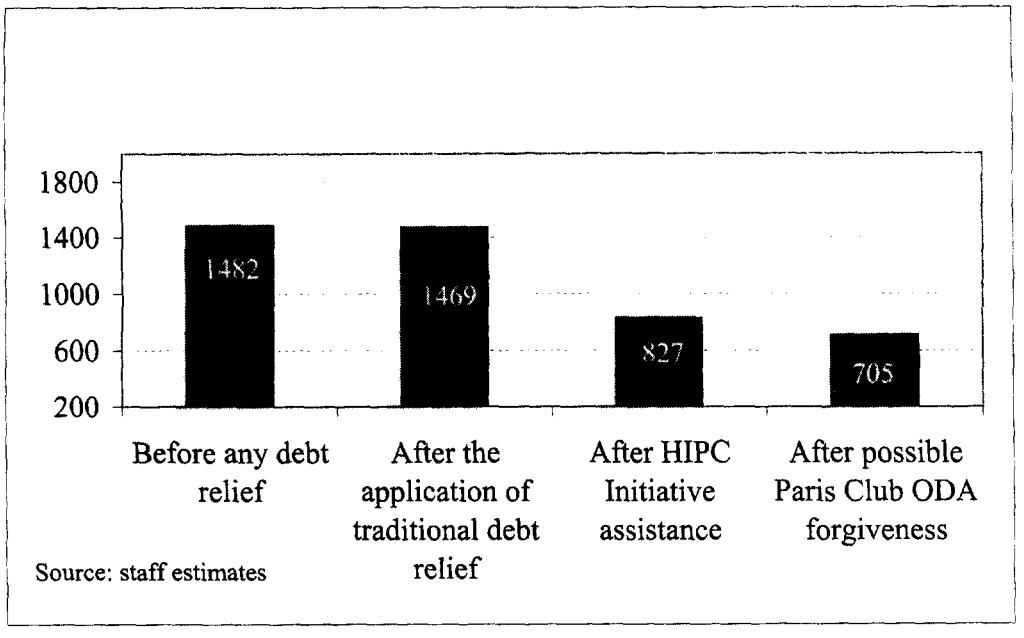



Figure 5. Malawi: Net Present Value of External Public Debt
(in millions of U.S. dollars, at end-1999)