INDEPENDENT EVALUATION GROUP

IEG REACH

AUGUST 3, 2006

Based on the Malawi Country Assistance Evaluation.

Malawi: Country Assistance Evaluation

- Malawi made a promising start after its first-multi party elections in 1994. Economic performance improved initially in response to the new strategy, emphasizing small-holder agriculture and reliance on the private sector. However, this good performance was short lived, and macroeconomic performance deteriorated from 1997 onwards.
- Bank activities in Malawi have had limited success in achieving the program objectives of macroeconomic stability and public sector reform, broad-based labor-intensive growth, and social development. Fiscal discipline could not be established prior to FY05, and there was limited progress in improving public sector governance. Private sector activities have deteriorated and agriculture productivity has declined. The country suffered from several severe food crises. As a consequence, poverty incidence has remained high (over 50 percent) and virtually unchanged over the past eight years.
- The new government that came to power in mid-2004 is now attempting to reverse a decade long legacy of fiscal mismanagement and lack of accountability. The Bank needs to focus on helping the government to develop better policies to improve agriculture productivity and food security. It also needs to continue to invest substantially in education, health and social safety nets, and improve the efficiency of these investments.

Background

Malawi is one of the poorest countries in the world with a GNP per capita of $160 in 2004, a high incidence of poverty, a highly unequal distribution of income, and one of the highest population densities in Sub-Saharan Africa. Social indicators are among the lowest in the world—high infant, child, and maternal mortality; one of the lowest life expectancies in the world; and a high incidence of HIV/AIDS.

Malawi's post-independence development strategy under "Life-President" Banda was based on estate-agriculture and import substitution with a high degree of administrative controls. Political pressures for change led to a referendum in 1993 and to the first multi-party elections in 1994 in which Banda's Malawi Congress Party was defeated, ending 30 years of authoritarian, single-party rule. The new administration carried out significant changes in the development strategy, emphasizing smallholder agriculture, reliance on the private sector, and reorientation of public expenditures toward social services. Economic performance improved initially in response to the new strategy. However, macroeconomic performance deteriorated in the late 1990s. GDP growth during 1997-2004 barely exceeded the rate of population growth. Agricultural productivity has remained extremely low, yields of major crops have declined, and the country has suffered from repeated food shortages. Finally, Malawi has suffered from macroeconomic instability caused by excessive fiscal deficits leading to high inflation, high nominal and real interest rates. Malawi's social indicators have remained weak in the late 90s and early 2000s.

World Bank Support

IDA has been one of the major aid partners during FY96-05 accounting for 18 percent of foreign assistance. The central theme of the Bank's assistance strategy during the review period, was poverty reduction through the pursuit of three main objectives: supporting macroeconomic stability and public sector reform through public financial management reforms, improved parastatal effectiveness and good governance; helping achieve broad-based, labor-intensive growth through improvements in private sector development and agriculture productivity; and, supporting improved social service delivery and expanding social safety nets, particularly education, health and food security.

Given Malawi's challenges, these objectives were relevant and consistent with the government's stated objectives, but strategies consistently overestimated the government's capacity and commitment to structural reforms, particularly in public financial management. In addition, the Bank program was not sufficiently selective, targeting intervention in many sectors and designing lending operations that were insufficiently focused.

The outcome of the Bank's support for macroeconomic stability and public sector reform has been unsatisfactory. Although the bulk of the Bank's adjustment lending was aimed at fiscal reforms, throughout most of the period under review Malawi experienced a high level of macroeconomic instability. In spite of improved public revenue performance, fiscal deficits have mostly increased over the period, averaging 16 percent of GDP from 1998 to 2004 (before donor grants). With Bank support, Malawi did make progress in privatization in comparison with many other Sub-Saharan African countries, although, privatization of major enterprises, such as public utilities, remains a challenge and limited progress has been made in restructuring ADMARC. Governance remains poor.

Bank efforts to promote private sector development, improve infrastructure, competition and efficiency in the transport sector have had limited impact. Malawi's private sector is still small, and output is stagnating because of low capacity utilization and declining investment. The transport sector still suffers from overregulation, lack of competition, and high taxation. In the agriculture sector, growth has been low and variable, and productivity has declined due to weak and unreliable delivery of agricultural services and changing input policies.

Bank support in improving service delivery and expanding social safety nets has produced mixed results. The Bank's assistance to the social assistance fund, MASAF, has brought substantial infrastructure benefits. However, child malnutrition and maternal mortality rates remain very high. The HIV/AIDS prevalence rate declined to around 12 percent in 2004, but this decline may reflect to some extent high AIDS mortality. Limited increases have been achieved in primary enrollments; despite sizeable Bank assistance, education quality has remained low.

The primary lesson from this evaluation is that adjustment lending had a limited impact when there is fiscal mismanagement and weak government commitment to reform. The study also points out the importance of addressing agriculture and rural economy issues directly, and not relying exclusively on multi-sector adjustment loans.

Recommendations

Looking forward, Bank lending needs to be based on actions taken, and being taken, not on action plans. Priority should be given to strengthening budget implementation, better public expenditure management and fiscal discipline. The study also recommends that the Bank focus its efforts increasingly on support for agricultural productivity, food security, especially the management of strategic grain reserves. The Bank needs to continue to devote substantial resources to education, health, and social safety net issues. In the future, the Bank needs to enhance its efforts to working collaboratively with other donors. The Bank also needs to enhance the Country Office, reduce turnover in task managers, and shorten the response time from headquarters.

Management and Government Response

Bank management concurs with most of the conclusions and recommendations of the CAE. However, it indicates that the portfolio performance has improved recently through restructuring and the cancellation of problem projects, and notes that the Government has recently improved budget implementation and fiscal discipline.

The Malawi Government comments that the recent improvements in fiscal and financial management have not been adequately acknowledged in the CAE. In addition, the Government notes that the CAE does not highlight the new government's efforts to combat corruption, nor does it recognize the efforts of other donors. The Government also expresses concern about the quality of supervision reporting.

IEG

Task Manager: Ismail Arslan

Senior Manager, IEGCR: R. Kyle Peters• Director IEGWB: Ajay Chhibber

IEG Reach available @ http://worldbank.org/ieg