

**1. You are celebrating the bank's 40<sup>th</sup> anniversary. What do you consider to be the bank's major achievements in Malawi?**

In total the World Bank has provided about US\$3.7 billion in financing to Malawi since Malawi became a member of the Bank in 1966. It is interesting that in reviewing some of the documents regarding Malawi's relationship with the Bank it occurred to me that much of the Bank's support tends to go for things that are sometimes taken for granted. For example, the first ever World Bank project in Malawi, which was signed exactly forty years ago next Wednesday, provided the funding for the design work for the M1 and M4 from Zomba to Lilongwe and through to the Zambian border. Those roads have been there for a long time and are essential to Malawi's economy, but few of the many Malawians that use them every day would know that they were financed by the World Bank. And I think that infrastructure such as roads counts among the main achievements of the Bank in Malawi. However, the Bank has also financed many other things, such as primary and secondary education and health care. Perhaps another major achievement of the World Bank has been to provide extra support to the Government when Malawi most needed it, such as during the food crisis of last year when we extended an additional US\$30 million of financing to cover emergency expenses such as extra fertilizer.

**2. What challenges are you experiencing and how do you intend to address such challenges?**

The challenges we face in trying to eradicate poverty are identical to those faced by the people of Malawi, as we are partners. To do this, we need Malawi to be in a position to participate fully and benefit from the growing world economy, the way that some countries in Southeast Asia have in recent years. A key challenge of course is Malawi's vulnerability to periodic droughts, which understandably distract us all from making the changes we need to make so that Malawi's economy can indeed grow. We are working closely with the Government on some innovative ways of mitigating the risk of drought, such as schemes to extend weather insurance to small holder farmers, and even a scheme for the Government to take out insurance against poor rainfall. We are also looking to increase agricultural productivity by investing in irrigation and rural land markets. However, perhaps the most important thing we can do is to work to integrate Malawi's economy very closely with the economies of its neighbors, some of whom are doing quite well at the moment. We need to make sure that efficient regional markets develop that can counteract periodic shortages by having imports freely available when needed, and also ensure that Malawi's products can be exported easily. For example, while there was a shortage of maize here in Malawi last year, nearby South Africa had a surplus of about six million tons. We often hear about the need to increase exports, and that is true, but what is perhaps more important is to increase the amount Malawi trades overall with other countries. In 2003 Singapore only produced about 40 percent of the food that it did in 1990, but they don't have a food security problem, because they trade an awful lot with the rest of the world. For Malawi this lesson points to improving transport, and making sure border posts and customs work quickly and effectively. At the moment they don't work particularly well: transport costs here in Malawi are significantly higher than in

neighboring countries, and there are substantial administrative barriers to importers and exporters. We need to change this.

**3. Some people have been arguing that the bank is partly to blame for the country's poverty because it imposes conditions that perpetuate the situation when approving loans. The same is true for other poor countries. What is your reaction?**

To me it seems that there is a lot of misunderstanding about 'conditionality', which perhaps stems from the fact that it used to be a lot more common than it is now. I was surprised to read in the paper last week a claim that there was a lot of outstanding World Bank conditions after HIPC completion including selling ADMARC etc. – and this is simply not true. At the moment there are absolutely no conditions attached to any of the grants that the World Bank has active with Malawi – which might surprise a lot of people. But that is not to say that the Bank does not sometimes agree on some conditions with Governments, especially when resources are going into the budget and are not earmarked for specific projects. I don't think this should be so surprising: can you imagine walking into National Bank or Stancom and demanding they give you money with no questions asked? We need to remember that IDA grants are very precious as they are essentially free money, and there are many other countries that would gladly accept those that go to Malawi, so there needs to be some surety that such resources are not going to be wasted. But people are often surprised when they find out how sensible most conditions are. Look at the HIPC Completion Point triggers, which enabled Malawi to have nearly all its foreign debt written off. Among these are triggers such as increasing the number of teachers, and increasing public spending levels on health and education. When people talk about 'conditionality' they sometimes don't know they are talking about such things, which benefit the poor.

**4. If I asked you to prescribe conditions for Malawi to be able to eradicate extreme poverty, what would be your recommendations?**

The first and most important condition I would argue is to have macroeconomic stability, and the good news is that Malawi has made enormous progress in the last two years on this front. It can be hard to imagine how such things as interest rates, inflation, exchange rates and current account deficits impact on poor people out in the villages, but the truth is they have an enormous impact. And not just because high inflation causes prices to go up: perhaps a bigger effect is that instability makes it too risky for investors to risk their money by building factories or buying machines, and this means fewer jobs, lower production and lower exports. In my view Malawi is now poised to really reap the benefits of much hard work over the last couple of years by the Government. The next most important thing for sustained poverty reduction in Malawi is probably to build an environment in which a vibrant and competitive private sector can grow - and by private sector I don't just mean companies like Press Corp. and Illovo, but also tiny businesses run by families – in fact small holder farmers themselves are the private sector. To do this we need to get over the idea that it is bad if someone takes some risks and makes some money – in fact that is exactly what we need more people to do here in Malawi. And it also means that government

has to adapt to a new role, becoming more of the ‘referee’ of the economy, rather than being a central player as was more the case in the past, as well as providing important public goods such as security and infrastructure.

**5. Malawi has just had a big chunk of its external debt cancelled. What are your expectations of the government?**

Malawi deserved to have its debt cancelled, and I am extremely happy that we at the World Bank could play a big role in making sure that happened. Malawi reached HIPC completion by implementing a broad program outlined in the triggers I mentioned earlier that basically involved doing the sensible things a country should do to run its economy and try to do the best for its poor citizens. And I think the expectation is that this kind of management needs to continue, and be strengthened. This puts responsibilities on all of Malawian society, not just the Government. One common feature of most highly developed countries is that they have managed to some extent to separate the functions of managing the economy and delivering essential services from day to day politics, by building strong institutions, and this is something that I think Malawi needs to work on. A healthy dialogue and difference of ideas is a very good thing, but in many cases there is also a need to get tough things done for the good of the country, and this needs to be accepted at all levels including the political level, in civil society, and by ordinary Malawians. I think that Malawi’s foreign friends and partners are looking for Malawi to keep up the good work it has started, and also to have the wisdom and resolve to make changes as needed to ensure that Malawi truly does join the club of good performing economies.

**6. What would the bank do if the government decided to use money that would go towards debt servicing for activities that are not pro-poor?**

I need to be clear that reaching the HIPC Completion Point means that the debt forgiveness is irrevocable – meaning that neither the World Bank or other creditors can turn around in a few years time if something happens that we don’t like and say ‘we’ve changed our minds’. This is why it is so important. That said, the HIPC initiative was intended to free up resources to be spent on pro-poor activities, and we certainly do think that Malawi needs to continue to use its public funds to benefit its poorest citizens. But I am confident that this will happen, as I think that the Government and indeed most Malawians understand that public spending on things such as health, education, and helping the most vulnerable Malawians is not wasteful consumption spending, but is in fact a very sound investment in the future, and one on which continued economic growth will depend. Malawi does not have huge mineral resources we know of, and thus her people are an incredibly important asset, and we need to invest strongly in this ‘human capital’ to get us out of the poverty trap.

**7. The government has for the past two years had problems during budget sitting of parliament because of party politics. What is the role of the World Bank as far as budget formulation is concerned?**

I mentioned earlier about the need for all actors in Malawi to come together on issues that are fundamental to the country, and I think that passing the national budget is one

such issue. That does not mean that there should not be very lively parliamentary scrutiny and debate of the annual budget – this has been a very positive recent development. But at the end of the day there needs to be a budget, and everyone needs to understand that. In my own country of Australia there is a long standing political tradition that parliament will not ‘withhold supply’ – meaning block the budget and this has been respected over many years despite it not being a hard and fast law, which has served the country very well. At the moment the World Bank does not play a significant role at all in forming the budget (which again might surprise some people), but we do expect that each year it will be consistent with the priorities outlined in the new Malawi Growth and Development Strategy. One area in which I think we can help is to help explain to Malawians and to parliament some of the more complicated policies or reforms that the budget may be supporting, particularly those in which our own funding is playing a role. I don’t think we have been particularly good at this in the past, and this is an area I am keen to pursue, hopefully with the help of some of the very good Malawian civil society organizations that deal with economic matters.

**8. Recently the bank has been consulting its stakeholders to hear their views regarding your operations. What major issues were raised and how do you intend to address them?**

The most surprising thing for me regarding our consultations with a very broad range of actors in Malawi including civil society, the local governments, parliamentarians, and indeed with our central Government partners has been how united people’s views are about what the Bank should be doing. This encourages me a lot: it seems all Malawians understand that economic growth is essential for Malawi to break free of poverty, and that the Bank should be focusing its support on Agricultural Development, Infrastructure, Public Sector Management and Governance, HIV/AIDS and Education. I was really taken aback a little at how unanimous this verdict was. In response, we are currently finalizing a program with financial support of about US\$340 million over the next four years which will be heavily focused on these areas, and we hope to take this program to our Board in December.

**9. Any other information regarding the 40<sup>th</sup> anniversary?**

Only to say that it gives me great pleasure to be here at this time to celebrate such a long and strong relationship between the World Bank and Malawi, and that it is especially pleasing to be able to do so soon after reaching the HIPC Completion Point. I really believe that Malawi is at a critical phase of its history that could see it move decisively away from a path of poverty and vulnerability towards a much better future for her people, and we at the World Bank will certainly be trying our very best to support that.