

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Contacts with member countries: Malawi - Correspondence 01

Folder ID: 1771119

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 28, 2013

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or
The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

McNamara Papers

Contracts
Malawi (1969-1980)

The World Bank Group
Archives



1771119

A1993-012 Other #: 12 209348B

President's papers - Robert S. McNamara Contacts with member countries: Malawi - Correspondence 01

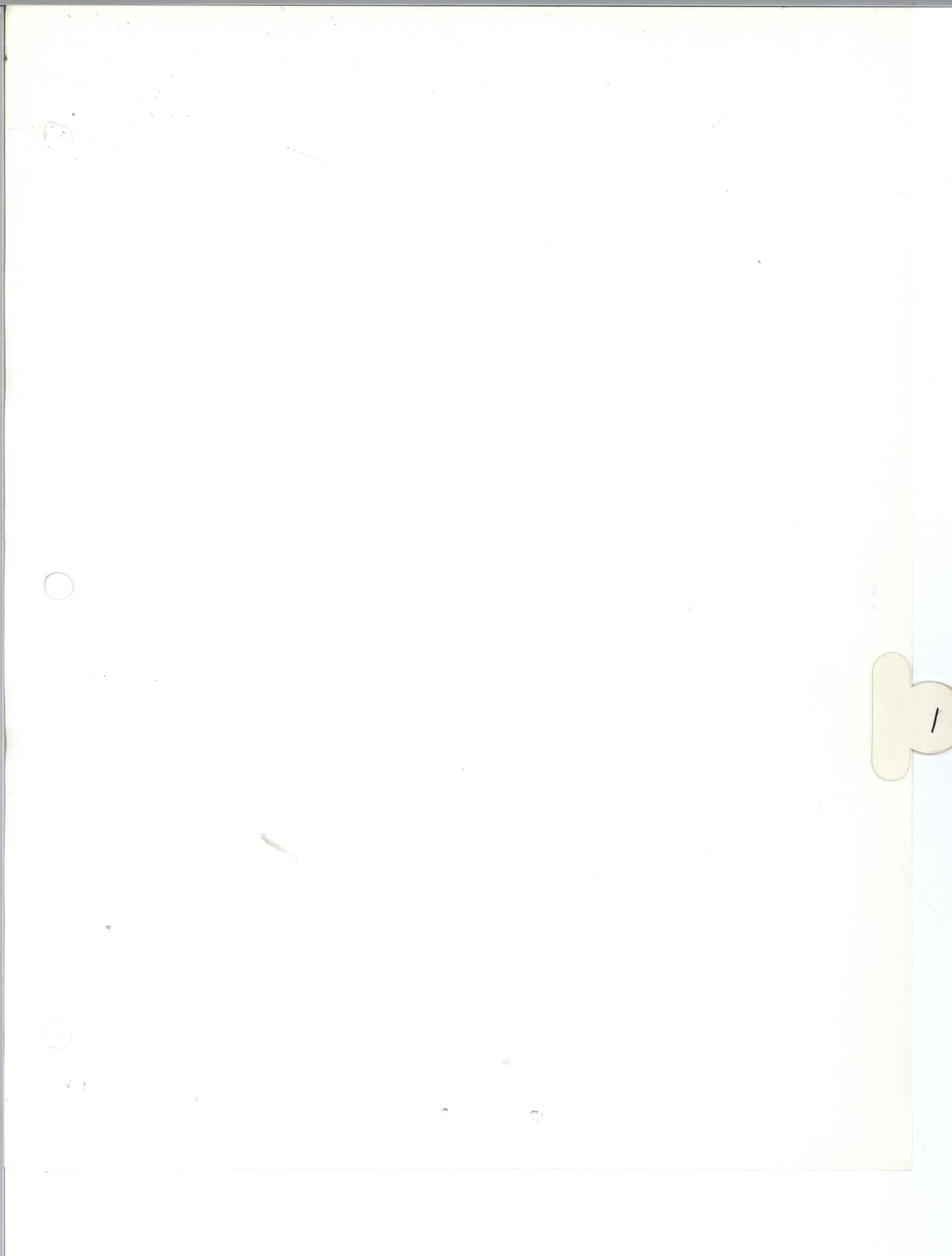
DECLASSIFIED
WBG Archives

MALAMI

MALAWI

1. 10/3/69 Aleke K. Banda, Minister of Finance
K.J. Barnes, Permanent Secretary, Ministry of Finance
G.A. Jaffu, Under-Secretary, Ministry of Finance
2. 8/9/73 Ambassador Mbaya
Minister of Embassy Mbale
3. 8/14/73 Mr. Anthony, Secretary of the Ministry of Finance
Mr. Gondwe, Secretary of the Ministry of Transport and Telecommunications
Mr. Richards, Secretary of the Ministry of Works and Supplies

9/26/73 Delegation to the Annual Meeting (no memcon)
(Nairobi) Possibly included:
D. T. Matenje, Minister of Finance and Minister of Trade, Industry
and Tourism
L. P. Anthony, Secretary to the Treasury
4. 4/28/78 Kamuzu Hastings Banda
5. 10/3/80 J.Z.U. Tembo, Governor, Reserve Bank
Annual Meeting F. Z. Pelekamoyo, Director of Research, Reserve Bank



OFFICE MEMORANDUM

TO: The Record

DATE: October 14, 1969

FROM: A. Kruithof *AK/14*SUBJECT: Meeting of The Honorable Aleke K. Banda of Malawi with Mr. McNamara
Letter from President Banda

On Friday, October 3, 1969 the Minister of Finance, The Honorable Aleke K. Banda, accompanied by Mr. K.J. Barnes, Permanent Secretary, Ministry of Finance, and Mr. G.A. Jaffu, Under-Secretary, Ministry of Finance, called on Mr. McNamara. I was also present.

Minister Banda handed Mr. McNamara a letter from President Kamuzu Banda in which he introduced his Minister of Finance and expressed as his view that there was no need for Malawi to take steps to curb its population growth. Mr. McNamara said that he would want to read the President's letter more carefully before commenting on it.

Minister Banda also conveyed an invitation for Mr. McNamara to visit Malawi. Mr. McNamara said that he would be glad to include Malawi in his itinerary at a later time when such a trip would fit in his travel plans.

AKruithof:jk

cc: Mr. McNamara
Mr. Knapp
Mr. El Emary/Williams
Mr. Burney

2

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: August 8, 1973

FROM: S. Shahid Husain *SH*SUBJECT: MALAWI: Your Meeting with the Ambassador

8/9

The Ambassador of Malawi, Mr. M. Mbaya, is meeting you at 6:15 on Thursday August 9. I understand that he has requested this meeting at the instruction of President Banda, to discuss with you the financing of a railway link from Salima to Lilongwe, and later to the Zambian border. (See map enclosed).

The Malawians have already approached Canada for financing this project and I understand it is under active consideration in Canada. The existing railway system in Malawi is running at a deficit, and on the basis of tentative information we have, it appears that the proposed extension may not be an economic proposition. However, we have not opposed consideration of the project by Canada. The Bank has been the executing agency of a UNDP study of the improvement of the road from Salima to Lilongwe and onto the Zambian border, and the reconstruction and rehabilitation of this road is supposed to be financed by AID. The traffic from Zambia to the railhead at Salima will be fairly well served by this road.

Recently we had suggested to the Malawian authorities that our staff in Nairobi undertake a review of the transportation system and a mission was proposed. The Malawians did not consider the timing suitable, mainly because they were afraid that the findings of this mission would jeopardize their discussions with Canada.

We have a fairly ample program in Malawi consisting of agriculture, education, highway, power, urban development and industrial projects, and at this stage I would not recommend getting involved in railways as well. If the Ambassador requests financing of this railway, we should suggest that Malawi pursue its discussions with bilateral sources. If the Government wants our advice, we should be prepared to do so on the basis of a review of the sector.

SSHusain:cc

Attachment

President has seen

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: August 13, 1973

FROM: S. Shahid Husain *SH*SUBJECT: Malawi Railways*When will you send final
specification for the lines.*

A Malawian delegation consisting of Messrs. Anthony, Secretary of the Ministry of Finance, Gondwe, Secretary of the Ministry of Transport and Telecommunications, and Richards, Secretary of the Ministry of Works and Supplies, has requested to see you at the instruction of President Banda. The subject they wish to raise is the improvement of the railway link from Banaka to Salima and the construction of a new railway link from Salima to Mchinji on the Zambian border. (See map attached).

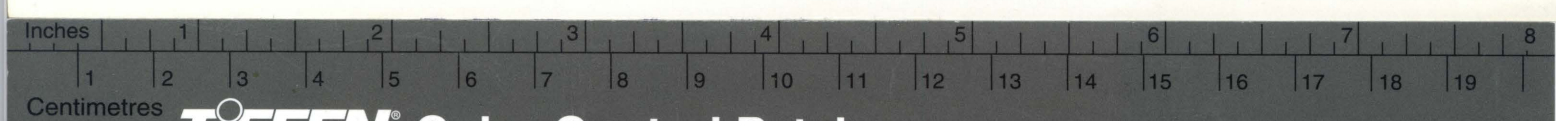
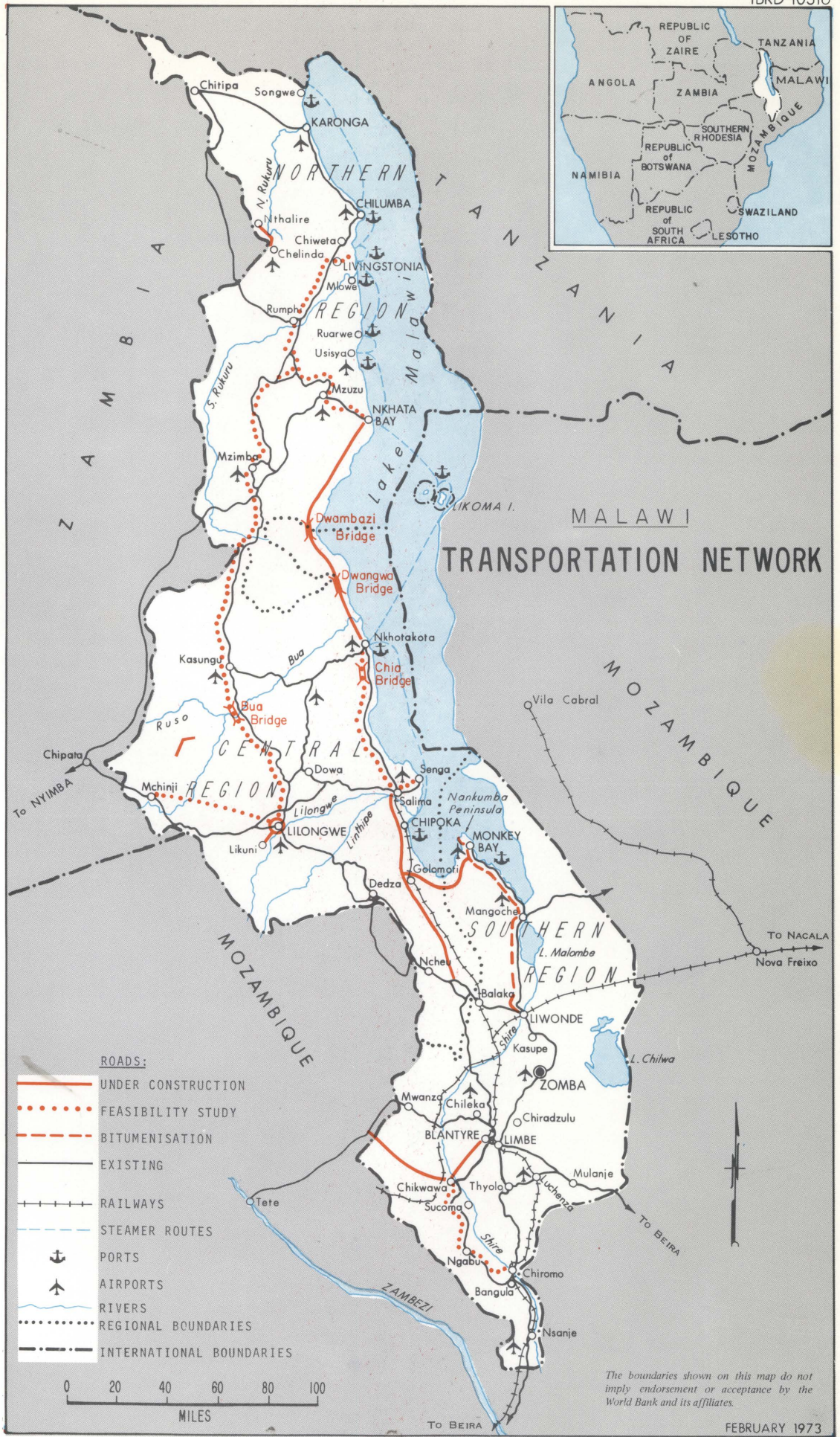
Canada has been considering financing this project, which is very close to President Banda's heart. He regards this as an attempt to develop closer economic relations with Zambia. The construction of this project was under discussion with the British earlier, and when the British appeared reluctant, the Malawians went on to Canada. Recently the Malawians heard from Canada that the World Bank was opposed to this project and this upsets the Malawians. The Canadians had asked us about our views on the railway and we told them that we had little facts, and therefore were not in a position either to support or to oppose the project. The Canadians have now informed the Malawians that the Bank had not opposed the project. The delegation, however, feels that it is under instructions from President Banda to see you and explain the position to you.

During my discussions with the delegation, I have explained to them that the information we had on the railway did not justify us either to support the project or oppose it. However, the basic issue the Malawians had to face was whether with very scarce resources, particularly soft funds from foreign lenders such as Canada, they would be justified to build this railway rather than spend more on rural development, education, etc.

Attachment.

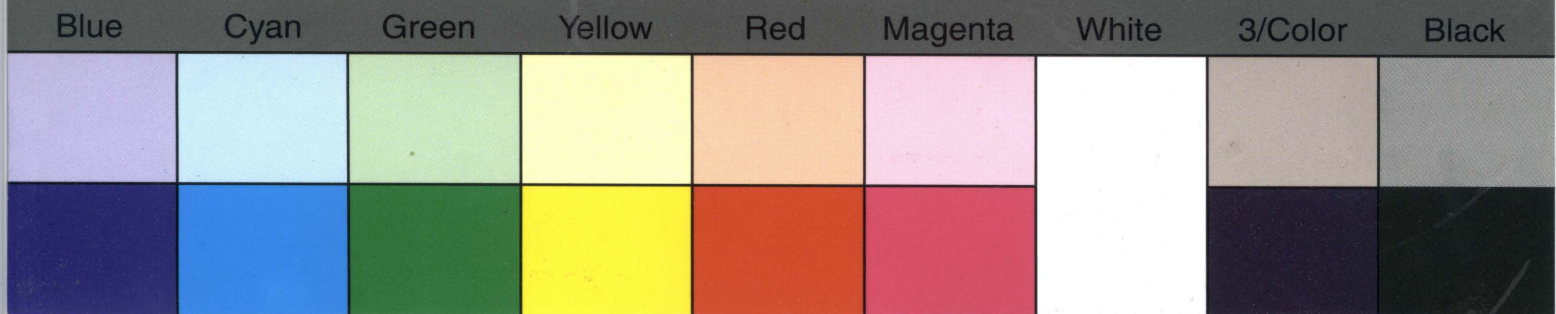
cc: Mr. Bell

SSHusain:cc



TIFFEN Color Control Patches

© The Tiffen Company, 2007



4

OFFICE MEMORANDUM

TO: Files

DATE: May 5, 1978

FROM: W. A. Wapenhans

SUBJECT: MALAWI - Call on President Banda

1. On April 28 at 5:00 pm, Mr. McNamara paid a courtesy call on President Banda at the Madison Hotel. Also present at the discussion were the Governor of the Bank of Malawi, Mr. J. Z. U. Tembo, and I.

2. In opening the discussion, President Banda warmly praised the Bank and Mr. McNamara for the assistance given to Malawi not only in loans and credits, but also in advice and support. He stated that today potential lenders were keenly interested in Malawi and ready to lend. However, Malawi had to follow a prudent borrowing policy and maintain its reputation as a reliable borrower and with it its creditworthiness. President Banda stressed that in large part Malawi's success had been due to the fact that its citizens and, in particular, its civil servants, had responded to his call for extra effort and sacrifice. This had enabled Malawi to contain inflation and the rise in wages and salaries.

3. Mr. McNamara expressed his appreciation of the progress Malawi had made since independence in the light of adverse circumstances such as the land-locked state of the country and its limited resource endowment. He complimented President Banda on his enlightened leadership in this area, as evidenced by the early emphasis on rural development. The Bank's continuing support for Malawi and the direction of its development thrust was evidenced by the present negotiations of the Shire Consolidation phase and the preparation and appraisal of a large-scale National Rural Development Program. President Banda added that infrastructure and especially transportation was of great importance and he was very aware of the support the Bank had given in this respect.

4. The discussion turned briefly to the Viphya project. President Banda invited Governor Tembo to outline in summary the contours of the project. He then asked whether the Bank might take an interest in the main transport link - a trunk road - needed for this project. He emphasized that such infrastructure investment should be looked at not only in terms of Viphya but also as serving the entire area. Mr. McNamara responded that the Bank would be happy to review the respective highway proposal from an overall point of view, but that it must be satisfied with the returns it would offer to Malawi.

5. There ensued a brief discussion on Southern Africa generally and the role foreign interests could play in South Africa.

cc: Mr. McNamara's Office (2) ✓
Mr. Wiehen (o/r)
Mr. Adler, H.
Mr. Reese (o/r)

WAWapenhans:rs

OFFICE MEMORANDUM

TO: Files

DATE: May 5, 1978

FROM: W. A. Wapenhans *W.A.*SUBJECT: MALAWI - Call on President Banda

1. On April 28 at 5:00 pm, Mr. McNamara paid a courtesy call on President Banda at the Madison Hotel. Also present at the discussion were the Governor of the Bank of Malawi, Mr. J. Z. U. Tembo, and I.
2. In opening the discussion, President Banda warmly praised the Bank and Mr. McNamara for the assistance given to Malawi not only in loans and credits, but also in advice and support. He stated that today potential lenders were keenly interested in Malawi and ready to lend. However, Malawi had to follow a prudent borrowing policy and maintain its reputation as a reliable borrower and with it its creditworthiness. President Banda stressed that in large part Malawi's success had been due to the fact that its citizens and, in particular, its civil servants, had responded to his call for extra effort and sacrifice. This had enabled Malawi to contain inflation and the rise in wages and salaries.
- 5/8
3. Mr. McNamara expressed his appreciation of the progress Malawi had made since independence in the light of adverse circumstances such as the land-locked state of the country and its limited resource endowment. He complimented President Banda on his enlightened leadership in this area, as evidenced by the early emphasis on rural development. The Bank's continuing support for Malawi and the direction of its development thrust was evidenced by the present negotiations of the Shire Consolidation phase and the preparation and appraisal of a large-scale National Rural Development Program. President Banda added that infrastructure and especially transportation was of great importance and he was very aware of the support the Bank had given in this respect.
4. The discussion turned briefly to the Viphya project. President Banda invited Governor Tembo to outline in summary the contours of the project. He then asked whether the Bank might take an interest in the main transport link - a trunk road - needed for this project. He emphasized that such infrastructure investment should be looked at not only in terms of Viphya but also as serving the entire area. Mr. McNamara responded that the Bank would be happy to review the respective highway proposal from an overall point of view, but that it must be satisfied with the returns it would offer to Malawi.
5. There ensued a brief discussion on Southern Africa generally and the role foreign interests could play in South Africa.

cc: Mr. McNamara's Office (2)
Mr. Wiehen (o/r)
Mr. Adler, H.
Mr. Reese (o/r)

WAWapenhans:rs

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
 Through: Mr. Willi A. Wapenhans
 FROM: Ping-Cheung Loh, Acting Director, EA1DR
 SUBJECT: MALAWI - Visit of President Banda

DATE: April 27, 1978

1. Life President Kamuzu Hastings Banda of Malawi will pay a courtesy call on you at on Friday, April 28, 1978. He has ruled Malawi since 1964 and remains very firmly in control. During this visit to the United States, he is expected to receive several honorary degrees from American universities including Melhary College, his alma-mater. A physician by training, he practiced for many years in the United Kingdom and Ghana before returning to Malawi.

Bank Group Operations

2. The Bank Group has approved 19 projects for a total of US\$148.4 million (US\$122.2 million IDA; US\$26.2 million IBRD (US\$17.2 million on third window)): about US\$28.5 per capita based on the current population (5.2 million). The sectoral distribution of the Bank Group assistance has been 35% agriculture, 25% power development, 12% education, 22% roads, and 6% for water supply and preparation of a planned pulp mill at Viphya. Two other projects (agriculture and DFC) are scheduled for Board consideration in June this year. The DFC loan will be the first direct Bank Group assistance for industrial development in Malawi. Project implementation is satisfactory.

3. Rural development is a primary social and economic objective of Malawi. In support of this objective, the Bank Group has made 6 credits (totalling US\$42.55 million) and a loan on third-window terms (US\$9.2 million) to help finance integrated agricultural development programs in Lilongwe, Karonga and the Shire Valley. While these programs are making significant contributions to increased agricultural production, they affect only 25 percent of the rural population. The Government has therefore decided to adopt a new country-wide approach which would primarily concentrate on providing farm inputs and extension services with less emphasis on infrastructure. The first phase of this new program - the National Rural Development Program - was recently appraised for a proposed US\$25 million IDA credit. A copy of our Strategy Memorandum for Malawi is attached.

4. One issue which the President is likely to raise concerns the proposed Viphya Pulp and Paper project (total cost estimated at over US\$500 million). We made a US\$2.0 million credit to Malawi in 1974 to help finance the economic analysis and engineering work relating to the transportation aspect of the scheme and the provision of technical expertise required to enable the

April 27, 1978

Government to identify partners and negotiate with them. In addition, Bank Staff have provided technical assistance support to the Government in discussions with potential partners. The Government's efforts to obtain financing for the project have been unsuccessful because of the depressed outlook for pulp in the world market and Malawi's dependence on Mozambique for access to the sea. We have suggested to the Government that while efforts in seeking partners should be pursued, they should consider alternatives of smaller projects, such as, for instance, lumbering and saw milling. However, the Government and the President, in particular, are strongly committed to the large-scale project and have not seriously considered our suggestion. Indeed when Mr. Knapp discussed the project with President Banda during a visit to Malawi in 1975, the President became somewhat upset. A German Consortium has recently become interested in the project but though we don't yet know the details of the Consortium's offer, we suspect that like previous interests, it may not materialize as the world market for pulp remains depressed. We have emphasized to the Government that Bank-Group assistance for the project would be considered (notionally, we have mentioned an amount of up to US\$50.0 million) if suitable external guarantees can be arranged.

IFC

5. The IFC made its first investment in Malawi in 1976 (US\$6 million loan for a textile mill) and in 1977 participated in financing a large sugar project with a US\$9 million loan. It has also just decided to subscribe US\$500,000 to the share of the Investment and Development Bank of Malawi (the borrower of the first DFC loan referred to above).

6. There are no major economic management issues. Our proposed economic and sector work over the next two years will address key issues of domestic resources mobilization, fiscal policies, agricultural pricing, income distribution and manpower. Overall, our relations with Malawi are excellent and our advice and assistance provide a major impact in the country's development program.

Attachment

OAShonubi:vy

OFFICE MEMORANDUM

TO: Mr. Michael H. Wiehen, Director, EALDR

DATE: March 28, 1978

FROM: David G. Reese, Chief, EALDB

SUBJECT: MALAWI - Country Program Paper
Strategy MemorandumI. The Political and Economic Scene

1. Malawi is constitutionally a parliamentary democracy, but since independence in 1964, President Kamuzu Banda has led the country with a firm hand. He controls the main political body, the Malawi Congress Party, whose organizational structure reaches down to the village level. There is no open political opposition and tribal divisions remain latent. The President's influence, moreover, goes far beyond the political sphere. He decides on all important economic and social matters and takes a direct interest in the formulation of development projects. The country has generally benefitted from his pragmatic and realistic approach. However, the concentration of decision making in one person raises questions regarding eventual political succession and its implications for the country's future political and economic stability.

2. Measured against its poor natural endowment and the fact that Malawi was one of the UK's poorest and most densely populated colonies at independence, economic progress has been impressive. GDP at constant prices grew at an average annual rate of 6.5 percent between 1964 and 1973, although growth slowed to 6 percent in 1974 and 5 to 5.5 percent in 1975 and 1976. This slowdown, however, resulted largely from external factors over which the Government had no control, such as adverse weather conditions in 1974/75 and 1975/76, which affected agricultural output, international inflation and political developments in southern Africa, which disrupted the supply of industrial inputs in 1976. Demand for Malawi's main agricultural exports, however, continued strong, so that foreign exchange reserves (which declined in 1976) rose to a record level at the end of 1977. Both domestic savings and fixed investment have climbed steadily since independence. Savings, virtually nil in 1964, were 11.5 percent of GDP in 1976 and fixed investment during the same period rose from 8.5 to 22 percent of GDP.

3. While we judge Malawi's overall performance to be good, we are concerned about:

- the relatively slow growth of small-scale agriculture;
- the need to step up domestic resource mobilization, and
- the slow pace of replacing expatriates with Malawians.

4. Although rapid industrial growth, stimulated by a favorable investment climate, has broadened the economic base in recent years, Malawi still is predominantly agricultural (59 percent of GDP, 85 percent employment in 1976). The Government has focused on (i) promoting commercial production of export crops by private estates, and (ii) improving smallholder productivity through integrated rural development schemes. In spite of sizable investment in recent years, the growth of small-scale agriculture, nevertheless, has lagged behind that of estate agriculture. One reason for this slow growth apparently has been the low prices paid by the Agricultural Development and Marketing Corporation (ADMARC) to small farmers. The Government, however, believes that the problem lies primarily in the limited coverage of agricultural services and is working on a country-wide minimum package program called the National Rural Development Program. Conceived in response to Bank recommendations, NRDP represents a shift in its approach to rural development, away from emphases on costly infrastructure in limited areas to provision of inputs and services countrywide. The program aims to cover 60 percent of farm families by 1985.

5. In general, the Government's fiscal management has been skillful. By holding recurrent expenditures down, and, at the same time, expanding revenues, the Government has managed to achieve small budget surpluses and to bring the domestic contribution to financing development expenditures, which was negative in 1964, to 27 percent in 1976. Nevertheless, there is need for stepping up domestic resource mobilization, particularly through taxation. Since 1971, the increase in recurrent revenue has lagged behind the increase in monetary GDP. On the other hand, the increasing tempo of development is adding rapidly to recurrent expenditure requirements. In response, the Government has increased the company tax, personal income tax and import duties and excise taxes on some commodities. Further increases, however, will be needed, both for recurrent expenditures as well as to help finance future development. The Government is concerned about the problem and is initiating a study of future recurrent budget requirements.

6. At present Malawi has a smooth functioning civil service, but one which is heavily dependent on expatriates and which has very few Malawians in important positions. The President has chosen deliberately to replace these expatriates slowly in order to minimize the impact on the Government's operations. While we appreciate this point, it poses serious risks should the present regime be replaced by one less favorably disposed toward employing expatriates. For this reason, it is important that the pace of localization be stepped up as quickly as possible.

II. Strategy

7. Our strategy in Malawi will continue to focus on helping the Government to (a) promote agricultural growth and to bridge the gap between the estate and traditional sectors, particularly through implementing NRDP projects; (b) increase the pace of localization by expanding the supply of educated Malawians and by insisting that as many Malawians as possible

participate in planning and executing development projects; and (c) focus, through our economic and sector work, on key economic issues, particularly agricultural pricing and resource mobilization.

III. Lending Program

8. Our proposed lending program is presented in Attachment I, and its manpower implications for FY79-81, in Attachment II. It comprises 11 projects totaling \$222 million (of which IDA comprises \$160 million), compared with the FY77-81 program of \$155 million (IDA \$125 million) for 10 projects approved by Mr. Knapp in May 1976. In terms of total IDA/IBRD lending, the proposed program amounts to about \$8.5 per capita per annum, an increase of 33 percent in current prices over the \$6.4 level approved two years ago.

9. Discussions with the Government as well as other developments have dictated several modifications in the lending program since the last CPP review. A credit of \$10.7 million for Shire Consolidation and a loan of \$4.5 million for the Industrial Development Bank are now programmed for FY78. The latter, our first DFC loan to Malawi, includes \$500,000 for lending to small-scale enterprises through commercial banks. We have allocated \$11 million for a second DFC loan in 1982, with a larger portion earmarked for small-scale enterprises.

10. The sectoral distribution of the proposed program is essentially similar to that in the last CPP, and is as follows:

<u>Sector</u>	<u>\$ Million</u>	<u>%</u>
Agriculture	85.0	38
Education	35.0	16
Water Supply	30.0	14
Roads	25.0	11
Power	21.0	9
Urban	15.0	7
Industry	11.0	5

The heavy emphasis on agriculture and education is consistent with our strategy of helping to raise the productivity and incomes of the traditional rural sector, and to promote the pace of localization. The three agriculture projects constitute an important part of the Government's National Rural Development Program. A small loan to the urban sector is included for FY83, possibly a site and services project to alleviate the problem of the squatter population that is steadily growing on the fringe of urban centers like Blantyre and Lilongwe. In power, water supply and roads sectors as well as education, our operations will expand on the work started in earlier projects. The Viphya Pulp and Paper Mill project remains in the reserve projects list. The Government is continuing its efforts to arrange

a financial package but in our opinion the project is unlikely to materialize in the near future. Owing to limitations in its domestic funds, we would expect the Government to finance only about 15 percent of project costs for the proposed program. In the meantime, we will continue to urge the Government to increase its efforts at domestic resource mobilization and hope eventually to decrease our contribution to about 75 percent of total project costs.

11. We feel that the size and composition of the program is reasonable in view of Malawi's past economic performance, excellent project implementation and capacity to absorb and service increased external financing. Given the limited supply of IDA funds, we propose that the amount of IBRD lending be raised to about \$10 million yearly. The country's external public debt, as of December 31, 1976 (disbursed and outstanding) came to \$258 million (of which the Bank Group was 28 percent), and debt service constituted 7.9 percent of exports. While we have not yet completed our macro-economic projections, it does not appear that the aid flows implied in the Government's development program and our lending would adversely affect Malawi's creditworthiness.

IV. Economic and Sector Work

12. Our proposed economic and sector work centers on a basic economic mission which will be carried out in phases over FY79-81. Two key issues to be addressed are: (1) domestic resource mobilization and fiscal policies, and (2) agricultural pricing. Other topics include (3) income distribution, and (4) manpower/employment/population. The basic report will build on sector work already completed, or underway, viz., education, water, and transport sector surveys and an agricultural and marketing study (which will be an annex to the National Rural Development Program Appraisal Report). Two preparatory studies included in FY78, one on fiscal implications of Malawi's development program and the other on agricultural pricing, will feed into the basic report and help define these problems, and possible solutions, in connection with the NRDP project.

Attachments

KHashimoto/DGReese/si

Population : 4.8 million (mid-1973)
 GNP per capita : \$1 973
 Area : 118,000 sq. km.
 Literacy Rate : n.a.

MALAWI: ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY83
 (US\$ Million)

		Through FY73	Actual			Current FY78	Program					Total			Reserve Projects	
			FY74	FY75	FY76		FY77	FY79	FY80	FY81	FY82	FY83	FY75-79	FY75-82		FY79-83
Agriculture (Rural Development)	IDA	34.1														
Rural Development - Lilongwe III	IDA		8.5													
Rural Development - Karonga II	TW			9.2		13.0										
Rural Development - Shire Consolidation	IDA															
National Rural Development Program I	IDA						25.0									20.0 (FY82)
Agriculture Unidentified	IDA															
National Rural Development Program II	IBRD/IDA							6.0/29.0								
National Rural Development Program III	IBRD/IDA										10.0/15.0					
DPC I	IBRD						4.5*									
DPC II	IDA										11.0					
Education I	IDA	6.3														
Education II	IDA			11.6												
Education III	IDA						15.0									
Education IV	IDA										20.0					
Power I	IDA	5.3														
Power II	IDA		7.5													
Power III	IBRD/IDA				17.0/8.0											
Power IV	IBRD										21.0*					
Water Supply I	IDA				7.0											
Water Supply II	IBRD/IDA						3.0/12.0*									
Water Supply III	IBRD										15.0*					
Roads I	IDA	11.5														
Roads II	IDA		10.0													
Roads III	IDA					10.5										
Roads IV	IBRD								25.0							
Viphya Engineering	IDA		2.0													
Viphya Industrial Development	IBRD															50.0 (MS) (enclave)
Urban	IDA										15.0					
LENDING PROGRAM																
	IBRD	-	-	-	9.0	-	4.5	3.0	31.0	21.0	25.0		59.5	64.5		
	TW				8.0											
	IDA	57.2	9.5	18.5	11.6	23.5	40.0	12.0	29.0	31.0	30.0		135.5	142.0		
	Total	57.2	9.5	18.5	20.8	23.5	44.5	15.0	60.0	52.0	55.0		139.3	195.0	226.5	
	No.	8	2	2	2	2	3	1	2	3	3		11	11	12	
* STANDBY PROJECTS							4.5	15.0		21.0	15.0					
							1	1		1	1					

The above table reflects the lending program in the E-1 Table of January 25, 1978. However, since that time the following changes have occurred:

FY78 -- The amount of the Shire Consolidation Project was reduced from \$13.0 to \$10.7 million IDA, and the DPC I Project (\$4.5 million IBRD) now advanced from FY79.

FY80 -- The IDA amount of the Water Supply II Project was increased from \$12.0 to \$14.3 million.

MALAWIEconomic and Sector Work Program

	<u>Work Program Submission</u>	<u>No Growth variant</u>	<u>Norm/Allocation (375)</u>
CEM FY77/78	4	4	4
<u>Basic Economic Mission</u>	209	157	209
<u>Industry</u>			
SSE Survey (FY79)	8	8	8
Industrial Survey (FY80)	30	30	30
<u>Agriculture</u>			
Sector Study	27	27	27
<u>Education Sector Survey</u>	32	32	32
<u>Water Sector Survey</u>	22	22	22
<u>Transport Sector Survey</u>	11	11	11
<u>Other Economic Studies</u>			
Agricultural Pricing	20	20	20
Fiscal Study	<u>14</u>	<u>14</u>	<u>4</u>
Total	<u>375</u>	<u>323</u>	<u>375</u>

5

OFFICE MEMORANDUM

TO: Files

DATE: October 14, 1980

FROM: David G. Reese, Division Chief, EA1DB

SUBJECT: MALAWI - Meeting of Reserve Bank Governor
with Mr. McNamara

1. Messrs. J. Z. U. Tembo, Governor, and F. Z. Pelekamoyo, Director of Research of Malawi's Reserve Bank, met briefly with Mr. McNamara on October 3, 1980. Attending from the Bank were Messrs. Wapenhans, Kraske and Reese.
2. Because the Malawians were delayed in getting to the meeting, there was no opportunity for discussion. Mr. McNamara greeted the Governor, saying he understood Mr. Tembo wanted to emphasize the seriousness of Malawi's current financial position and the Government's actions to alleviate it as well as to reiterate its request for Bank assistance through structural adjustment lending. Mr. McNamara assured Governor Tembo that the Bank would fully support Malawi's efforts to relieve its present economic plight. He underscored, however, the importance of the Government's maintaining a balance between planned new investments and the availability of resources, not only for those investments, but for meeting recurrent expenditure demands as well. Mr. McNamara explained that such prudence was especially important in connection with the Bank's structural adjustment lending in order to maintain the international community's confidence.
3. The Governor conveyed (per President Banda's instructions) Malawi's appreciation for the Bank's assistance and for Mr. McNamara's help, in particular, and the country's best wishes to him on his retirement.

Cleared with and cc: Mr. Kraske, EA1DR
cc: Mr. McNamara's office (2)
Messrs. Stern
Please
Wapenhans
Adler, EAPDR
Eccles, EAPSA
Hall, EA1DB
Ms. Hashimoto, EA1DB
Mr. Madinga, ED

DGR
DGR:ah

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Mr. McNamara
Before
Malawi
meeting

Boards of Governors • 1980 Annual Meetings • Washington, D.C.

TO: Mr. Robert S. McNamara

October 1, 1980

FROM: Willi A. Wapenhans

SUBJECT: MALAWI: Meeting with Mr. John Tembo, Governor of the Reserve Bank

Attached please find a summary brief on Malawi for your meeting with Mr. John Tembo, Governor of the Reserve Bank of Malawi on Friday, October 3 at 8:50 a.m. I understand that Governor Tembo will be delivering a message from President Banda.

We believe Governor Tembo will be reporting on the severity of the present economic and financial situation and may urge a quick response on the part of the Bank along the lines set out in the attached brief.

The discussions between staff and the delegation are proceeding well and the delegation has agreed to make available the additional information requested on the Public Investment Program. You will note that the brief talks about a Five-Year Plan. Malawi of course is not in that sense a planned economy and they prefer to speak of a Five-Year Investment Program and a statement of development policy and strategy instead.

Governor Tembo may also ask for a larger structural adjustment credit than that presently proposed (\$30 million). We have taken the position that it may be preferable to proceed in the basis of a series of small operations rather than one that is tranced. Our recommendation about the size of the credit will, of course, be developed in the context of the public investment program still to be finalized and the size of the external financing gap.

cc: ✓ Mr. E. Stern

Attachment

WAWapenhans:cj

a) we should not agree to an increase in the credit size. It is IDA; not additional; and we do not want to wipe out the rest of the lending program
b) there is no case for an increase in local cost financing position (P.4); i.e. up to 80%, with exceptions

Address replies to:
JOINT SECRETARIAT
IMF — WORLD BANK
WASHINGTON, D.C. 20431

Cable Address:
INTERMEET
WASHINGTONDC USA

Telex Address:
(RCA) 248331 IMF
(ITT) 440040 FUND UI
(WUI) 64111 INTERFUND
(TRT) 197677 FUND UT

1980 ANNUAL MEETING

Briefing Paper - Malawi

I. Introduction

1. Mr. John Tembo, Governor of the Reserve Bank of Malawi, has requested a meeting with you. The topics that he will want to discuss with you will include: (a) the nature of Malawi's current economic crisis; (b) the size and timing of the structural adjustment credit currently under appraisal; and perhaps (c) the proportion of project cost financed by the Bank.

II. The Current Economic Crisis

2. During 1978 and 1979, Malawi has experienced increasingly severe balance of payments problems owing to lower export prices (due to lower tobacco and tea prices), rapid escalation of import prices, significantly higher transport costs and growing government budgetary deficits. With the increased deficits came an increased reliance on domestic borrowing, mainly from the monetary system, and on foreign borrowing, partly on commercial terms. At the same time, inflationary pressures grew and the balance of payments position deteriorated. Prices rose at an average annual rate of 10 percent per annum during the two years. Between the ends of 1977 and 1979, net official reserves fell to negative levels.

3. Faced with these problems, the Government initiated a series of demand management measures, leading to a two-year standby arrangement with the IMF. To meet the standby program's first year target of sharply reducing the share of the government's budget deficit in GDP, the Government has introduced significant measures to raise revenues and put severe constraints on the expansion of its recurrent and development expenditures (both of which, given expected inflation, are likely to decline in real terms in 1980/81). The IMF standby draws upon the second to fourth tranches with additional supplementary financing facility resources. Malawi also obtained resources from the Compensatory Financing Facility and a Trust Fund Loan.

III. The Structural Adjustment Credit

4. The SAL appraisal mission, which visited the country August 26 - September 13, found the economic situation more serious than appeared to be the case several months ago owing to (a) a 40 percent drop in the auction price of flue-cured tobacco as compared with the poor 1979 year;

(b) a shortfall in the 1980 maize crop (necessitating imports); and (c) continuing transport problems. As a result, the country faces a major financial crisis manifesting itself in heavy losses and debt accumulation on tobacco estates, severe cash squeezes for parastatal and private enterprises, and a growing accumulation of potential bad debts held by the two commercial banks. The growing demands for domestic credit and external finance are placing substantial pressures on the Government to exceed the performance ceilings under the IMF standby. The program of structural adjustment discussed with Government by the mission does not deal directly with those policy adjustments that fall within the IMF standby arrangement. However, the mission stressed to Government and to Governor Tembo the importance of continuing satisfactory performance under the standby. The Governor told the mission that he intended to outline the nature of the current crises to the IMF at the Annual Meetings and seek its advice.

5. The Region is currently proposing an IDA credit of \$30 million (followed by a second IBRD/IDA loan of \$30 million in FY82). The Governor will undoubtedly seek a larger amount and more rapid processing of the loan (currently scheduled to go to the Board in April 1981). While the SAL mission will recommend an increase in the credit amount in its issues paper, you should tell the Governor that such an increase would depend upon the Government's efforts to develop a sound structural adjustment program and that more rapid processing will depend upon the speed of completion of the Government's draft plan (see paras 8 - 9).

6. Malawi's requirements for structural adjustment arise from its heavy dependence on a few export crops with uncertain longer-term prospects and the resulting need to diversify exports, promote efficient import substitution and control the expansion of domestic demand. The Government's program of structural adjustment includes:

- (a) increased mobilization of domestic resources
- (b) providing incentives for the growth and diversification of agriculture
- (c) taking steps to constrain domestic energy use while increasing domestic supplies
- (d) embarking on a new five-year public investment program covering 1981/82 through 1985/86, which supports high priority sectors such as agriculture, education and training and transport.

7. During the SAL appraisal, substantial progress was made in formulating the first three parts of the Government's program. Measures to improve domestic resource mobilization include a study of the tax system, commitment by Government to a substantial improvement in its tax efforts during the first two Plan years, and a number of steps to increase

the efficiency and profitability of public enterprises. To increase the growth and diversification of agricultural production, the Government has agreed with the Bank on the methodology to be used in periodic smallholder producer price reviews, has already raised prices on a number of important crops, and will request the Bank to support a study of the future of the tobacco industry. With respect to energy, the Government will request the Bank to undertake a sector study in addition to its efforts already underway to restrain demand through price/tax measures and increase supply through recent projects in ethanol (IFC) and wood energy (IDA).

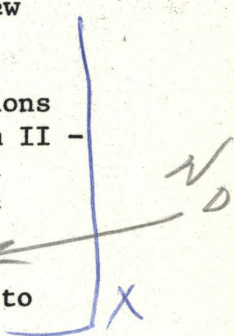
8. The SAL appraisal mission has examined the new five year plan at what is obviously an early stage of preparation. The mission had the opportunity to review figures on the plan's size, composition, project content and financing while in the field and discussed sectoral strategies and priorities with the relevant ministries. While the thrust of the plan is in the right direction (i.e. toward smallholder agriculture, education and health, and transport), it is evident that further review will be necessary as more information becomes available. The mission's current concerns about the plan will have been discussed with the Governor in the preceding regional meeting:

- (a) problem of underfunding of recurrent account activities (e.g. in agriculture, roads and health) has not been rectified and is likely to continue throughout the plan period;
- (b) in view of Malawi's difficult financial position, the size of the investment program may be too large in the early years;
- (c) there is no clear justification for the high level of Government expenditure on "buildings" (which appear largely to be for defense and internal security); and
- (d) mission has not yet seen the written portions of the plan (outlining overall goals, macroeconomic and policy framework, and the sectoral strategies and investment plans).

9. In its aide-memoire, the appraisal mission outlined steps necessary to remedy the above problems. You may wish to stress that the speed with which the Bank can complete this loan will depend upon the Government responding to our concerns and the questions remaining about adjustments to the Development Plan.

IV. Local Cost Financing

10. The Governor may also request that we increase the share of project costs we are willing to finance. Over the past decade, the Bank Group has financed 75-85 percent of the capital cost of projects. Up to 1978, the Region argued for 85 percent financing entirely on IDA terms in view of the country's poverty, uncertain export prospects, and low domestic savings capacity. On the basis of an improved external outlook and increased domestic resource mobilization efforts, the 1978 CPP Review decided that the Bank Group should finance 80 percent of total project costs (or 85 percent total external financing where cofinancing was involved). As Malawi's external position deteriorated, however, exceptions have been made (as in the case of the National Rural Development Program II - 992 MAI - where 85 percent financing was approved. You may wish to tell the Governor that we will review his request favorably but that a change in the cost sharing would not by itself increase Bank foreign exchange financing for Malawi; 80 percent financing is indeed a high proportion but we may wish to accept an increase in total external financing of up to 90 percent.



BIOGRAPHICAL NOTE

Mr. J.Z.U. Tembo. Mr. Tembo was educated at Roma University in Lesotho. He has held the posts of both Parliamentary Secretary and Minister in the Ministry of Finance. As a member of the Central Executive Committee of the Malawi Congress Party, he still holds ministerial rank. In addition to his post at the central bank, he is Chairman of the Viphya Pulp and Paper Corporation, the National Export Council, the National Sports Council, the University Council, and the National Celebrations Council, as well as member of the Tobacco Control Commission and several other parastatal organizations.

October 1, 1980
EA1DB