

PRIVATE SECTOR: STILL THE ENGINE FOR ECONOMIC GROWTH

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It is widely proven and accepted that boosting private sector has ripple effects on the growth of any economy including Malawi. Economies of developed countries are characterised by a large share of contribution to economic growth by private sector. Observations indicate that the role of government is important in the early years of development as it 'creates' markets. Once the markets – be they financial markets, technology markets, product markets, etc.– are established, private sector acts more on its own than before in development efforts. The stage of economic development therefore dictates the degree to which private sector is able to stand on its own feet without excessive help from government.

Efforts to support private sector development therefore remain critical to economic development of Malawi. Economic development, normally measured in the form of Gross Domestic Product (GDP) is derived from creation of value which private sector, and not government, is good at doing. Private sector, in a competitive environment, is obsessed with efficiencies and productivity and this is what creates value. Private enterprises are therefore well poised to act an 'engine of economy growth'.

The fundamental role of private sector is to invest in the production of goods and services, create employment, among others. A 2011 Report on African Development by the African Development Bank estimated that Africa's private sector accounts for over four-fifths of total production, two-thirds of total investment, and three-fourths of total credit to the economy, and employs 90 percent of the employed working age population. Although the Report is dated, that is a measure of the degree of private sector's contribution to economic growth.

Malawi's private sector has been shrinking over the recent past and the low economic growth pattern experienced in Malawi can be considered to arise in a large measure from the private sector shrinkage. Manufacturing in particular has on average grown by about 4 percent in the last five years and has on average been contributing about 9.4 percent to the country's

Gross Domestic Product according to Annual Economic Reports issued by the Ministry of Finance, Economic Planning and Development.

Malawi demonstrated strong growth performance in the post-independence period, driven by strong growth of private sector as a result of an emerging and burgeoning industrial sector that time. From 1964 into the 1970s, the country witnessed remarkable growth and structural transformation. Nominal GDP more than doubled, growing at an average rate of 6 percent. The growth was agriculture sector driven. The manufacturing sector also developed gradually based on agro-processing and import substitution of simple manufactures. Investment rose from 9 percent of GDP at independence to 27 percent in 1979. This growth was financed by the increase in domestic savings and rising foreign capital inflows. Government was key in the development of private sector through deliberate supportive industrial policies.

Other countries moved faster to strengthen their private sector and adopted outward orientation policies when Malawi, from 1978, faced a sudden decline in economic performance due to acute balance of payments disequilibrium which arose from worsening terms of trade, oil crisis and disruption of external transport routes through Mozambique. The terms of trade deteriorated by up to 30 percent between 1978 and 1981. These were perceived to be transitory but persisted even though Malawi adopted Structural Adjustment Programs.

The economic performance remained volatile and this led to Government entering into Enhanced Structural Adjustment Facility (ESAF) arrangement with Bretton Woods institutions in 1995. The aim was to raise real GDP growth by 4.5% per year; reducing inflation to 5% per year by end 1998 and addressing fiscal policy issues, among other objectives. Key structural priorities by government included privatizing public enterprises to reduce budgetary burden contributed loss-making enterprises, enhancing productivity in the agriculture sector by abolishing the monopsony rights of

ADMARC and liberalizing exports. This history aims at understanding the path Malawi has travelled to this very day.

Since then, Malawi has not meaningfully developed a viable private sector owing to a lack of an enabling environment for it to grow. Malawi experienced de-industrialization from the late 90's following a deteriorating business environment.

Many studies undertaken by various authorities have shown that a number of obstacles continue to emerge every year. Most common obstacles highlighted in the recent surveys conducted by the World Economic Forum on Global Competitiveness, MCCI's Malawi Business Climate Surveys, and the World Bank's Ease of Doing Business Reports include, non-effective tax rates, high interest rates, high inflation rates, lack of development finance, poor infrastructure services, high levels of corruption, and electricity challenges, among others. In an environment that is rife with such challenges one would conclude that that private sector is recognized as an engine of economic growth for this country. These factors have weighed down the growth of private sector and consequently the growth of the economy in Malawi.

At the moment with power generation at less than 200 MW despite the demand being more than double that, private sector is struggling to survive, let alone grow. Repercussions of such a business environment is that private investors – both existing and potential – are scared away. Consequently there is no creation of employment, and reduced revenues for the fiscus, amongst many other consequences.

Private sector is highlighted as the engine of growth in all the economic policy documents of the Malawi Government such as the National Industrial Policy, the National Trade Policy, the National Export Strategy, the Malawi Growth and Development Strategy, etc. however, the necessary business environment for such private sector to deliver on its potential is not created.

Consequently the role of private sector in Malawi's economic growth prospects is somehow downplayed.

We have branded ourselves as an agro-based economy that depends largely on rain fed agriculture. Agriculture is indeed key for economic development, especially in the early stages as it is more inclusive in a country where the majority of people reside in the rural areas. However the sector carries with it a lot of risks which can be managed if it treated as business, without unnecessary controls that create a lot of uncertainties. There are exogenous risks such as weather related risks and price related risks and endogenous ones such as policy related risks such as export restrictions or bans.

What is the private sector's role in the future economic growth of Malawi?

Malawi has no choice but to support the growth of private sector in order to improve the outlook of its economic fortunes. There is very little donor money trickling in yet the revenue targets from both tax and non-tax revenue are increased year in year out. The only source of such resources is a vibrant private sector.

Government's capacity to create jobs is limited by how much it can raise to pay the employees. The sure source of employment is therefore private sector. As such private sector has to be given its rightful role to deliver on its economic potential. But to that government will have to be serious with implementation its many not so bad policies. Government will have to be interested in the future of Malawi, not in short term benefits that accrue to a few individuals. In that way the role of private sector will be pronounced and recognized properly.