

Rethinking the Pillar for Malawi's Transformative and Inclusive Economic Development

The Role of Geography & Institutions in Transformation

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Conceptual Framework

Three Major Growth Hypotheses in the Literature

1. Geography hypothesis
2. Institutions hypothesis
3. Policy hypothesis

Geography Hypothesis

General View

- Geography directly affects development through endowments, quality of factors of production & the production function itself

Positive View

- Natural Resource endowments positively influence national income

Negative View

- Geography can permanently limit a country's production and competitiveness
- Tropical environments tend to produce poor crop yields, more debilitating diseases.

Institutions Hypothesis

- Regardless of geographical endowments, development outcomes are a function of whether and how economic agents play by “**Rules of the Game**” (institutions)
- Argues that most tropical countries fail to develop because they are characterized by **extractive institutions**



Selected indicators of Institutions

1. **Voice and accountability**—the extent to which citizens can choose their government, political rights, civil liberties, & independent press.
2. **Political stability and absence of violence** — a low likelihood that the government will be overthrown by unconstitutional or violent means.
3. **Government effectiveness** — quality of public service delivery, competence of civil servants, & the degree of politicization of the civil service.
4. **Light regulatory burden** — relative absence of government controls on goods markets, financial system, starting new businesses, or excessive regulation of private business and international trade.
5. **Rule of law** — protection of persons and property against violence or theft, independent and effective judges, contract enforcement.
6. **Freedom from graft** — absence of the use of public power for private gain, corruption.

Policy Hypothesis

Argues that

- Geography only matters by affecting institutions which in turn affect how government works in developing and adopting policies
- Sound macroeconomic policies will tend to foster long-run economic success.
- Promoted by Multilateral Financial Institutions

An application to Malawi's transformation

Transformational Imperative

Into what should we transform?

By the year 2020, Malawi as a God-fearing nation will be secure, and democratically mature, environmentally sustainable and self-reliant with equal opportunities for and active participation for all, having social services, vibrant culture and religious values and being technologically driven middle income country.

Vision 2020

Attribute	1997	2017
God Fearing	√	√
Secure	√X	√X
Democratically mature	X	√X
Environmentally sustainable	√?	X
Self-reliant	X	X
Equal opportunities for all	X?	X?
Adequate Social Services	X	X
Vibrant culture	√	√
Technologically driven country	X	X
Middle income country	X	X

Geography & Malawi's lack of Transformation

Contrary to what Malawians believe, Natural Capital accounts for only 15 percent of Malawi's wealth. While intangible capital accounts for 74 percent

Global Composition of Wealth (US\$ Per Capita in 2000)				
Group	Natural Capital	Produced capital	Intangible capital	Total wealth
World	4,011	16,850	74,998	95,860
Low income countries	1,925	1,174	4,434	7,532
Middle Income Countries	3,496	5,347	18,773	27,616
High Income OECD	9,531	76,193	353,339	439,063
Malawi	785	542	3,873	5,200

Within natural capital, the dominant asset is Cropland and least is sub-soil assets

Income group	Subsoil Assets	Timber Resources	NTFR	Protected Areas	Cropland	Pasture-land	Total Natural Capital
World	1,302	252	104	322	1,496	536	4,011
High-income OECD	3,825	747	183	1,215	2,008	1,552	9,531
Middle Income	1,089	169	120	129	1,583	407	3,496
Low Income	325	109	48	111	1,143	189	1,925
Malawi	0	184	56	26	474	45	785
	0%	23%	7%	3%	60%	6%	100%

Conclusion: Geography & Transformation

1. Relative to other developing countries, Malawi has a deficit of “Good Geography” i.e. natural assets
2. Malawi’s geography is debilitation in germs of disease incidence and epidemiology
3. The World over, the most Transformative geographical asset is Sub-soil Assets
 - Discovery of minerals or oil has transformed countries and can transforms Malawi
 - But sub-soil assets require high fixed costs (exploratory) and institutional set-up to obviate “**Resource Curse**”
 - Malawi has not made the investment necessary to find, economically viable sub-soil assets.

So we are left with produced capital and intangible capital

What is intangible Capital?

It is a combination of..

*.. human capital and the quality of formal and informal **institutions**.*

The Role of Institutions

- *There are no sustainable diamond mines, but there are sustainable diamond-mining countries – World Bank (2006)*

⇒ It is possible to transform one form of wealth into other forms of wealth, including buildings, machines, and human capital.

⇒ This transformation requires a set of institutions capable of

⇒ **managing** the natural resource,

⇒ **collecting resource rents**, and

⇒ **directing** these rents into profitable investments.

⇒ Transformation is a function of resource policy, fiscal policy, political factors, institutions, and governance structure.

Imperatives for Transformational Development

1. The Growth imperative

- First things first - Development requires growth.
- What are the sources of growth?
- Into what are going to grow

2. Transformational imperative

- If development is transformation, into what should we transform?
- What should future sources of growth be?
- Where and how do we diversify within sector?
- What do we diversify away from?

3. Institutional imperative

- What rules of the game should be retained or changed in order to transform into our desired state?

The Growth Imperative

- Malawi's growth rises and falls with rain-fed agriculture
 - Water accounts for 20 % of Malawi's surface area, yet irrigation agriculture accounts for about 5-8 % of agricultural production.
- **What should our next growth sector be?**
 - Manufacturing? Mining? Tourism? Knowledge economy?
- **Are pre-requisite for growth in place**
 - Energy and other utilities?
 - Soft and Hard Infrastructure?
- **Modest Recommendation**
 1. **Between 1890 and 1990 Malawi in part relied on labour exports**
 2. **Make Remittances the next growth sector. Leverage Human and Intangible Capital**

The Transformational Imperative

Requires comprehensive change in strategy, operational model, organizational, people and processes. Malawi should...

1. **Cut wastage of Human Capital** – increase transitional rates from primary to secondary and higher education
2. **Divorce the past** - stop waxing nostalgic and romantic about the past
3. **Stop idolizing the poor or idealizing poverty** - No nation grew on the backs of poor people
4. We need to **diversify within Agriculture** from rain-fed to irrigation and subsistence to commercial agriculture;
5. **Diversify away from Agriculture** (Not abolish Agriculture) to increase economic resilience

Manifestations of Institutional Failure

1. **Distrust of formal institutions by our leaders** – recourse to traditional institutions
2. **Increase in Social banditry** - Growing distrust for formal institutions of Law and Order – *Anamapopa*, mob justice, vandalism of police stations,
3. **Lack of national ethos and shared values** – emphasis of party agenda over national agenda; and linking patriotism to party loyalty not national identity
4. **Impatience with normalcy** – people think there must be a shorter or quicker way (corruption)
5. **Low general ethics** – the ends justify the means (e.g. cashgate)
6. **Poor work ethics** – growing belief that you can get something without working
 - Politicians promise handouts, Prophets promise miracle money.
7. **Increasing tolerance for mediocrity** – *ku Malawi'tu ndi choncho. Mungozolowera*

Malawi seems to do well in Political Institutions but much worse where it matters for Growth & inclusivity - Economic Institutions

Ruling Justly

- Control of Corruption
- Rule of Law
- Govt. Effectiveness
- Political Rights
- Civil Liberties
- Freedom of Information

Investing in People

- Health Expenditure
- Primary Ed Expenditure
- Natural Res. Protection
- Immunization Rates
- Girls Prim Ed. Completion Rates
- Child Health

Economic Freedom

- Fiscal Policy
- Inflation
- Regulatory quality
- Gender in Economy
- Business Start-up
- Trade Policy
- Land Rights
- Access to Credit

THE END

THANK YOU