EuroEconomica

Issue 2(40)/2021 ISSN: 1582-8859

EuroEconomica

A Review of Private Sector Investment and Related Policies: The Case of Malawi

Glenda Maluleke[1][2], Nicholas M. Odhiambo[3], Sheilla Nyasha[4]

Abstract: The paper reviews the policies that influenced the level of private investment in Malawi from 1980 to 2019. Private investment as a percentage of GDP has been fluctuating since 1980, reaching a record high of 17.3 percent in 2009. Although the country experienced the highest growth in the 1990s, when its GDP growth rate reached 16.7 percent in 1995, it also experienced negative growth in some years. The Malawian government is recommended to continue in its efforts to create an enabling environment for the private sector in order to achieve sustainable economic growth.

Keywords: Private investment; Policies; Economic growth.

JEL Classification: E2; H5

1. Introduction

Economic growth depends on a country's ability to invest and in the efficient use of its resources (Bayraktar, 2003). In the literature, there is no consensus about the effect of private and public investment on economic growth. Bèdia (2007) and Mallick (2002) find that public investment contributes more to economic growth than private investment. Ghura (1997) and Khan and Reinhart (1990), on the other hand, found that private investment plays a more important role in economic growth than public investment. Ramirez and Nazmi's (2003) findings suggest that both public and private investment have a positive influence on economic growth.

Many developing countries, such as Malawi, struggle to attain higher levels of investment by, especially, the private sector, in their attempt to promote economic growth. "Some of the challenges facing private investment in Malawi include: poor transport infrastructure, an unreliable power supply, a low diffusion in the use of modern information technology, and a generally weak generation and transmission of research, science and technological outputs" (Makuyana & Odhiambo, 2014, p. 25). Like many other African countries, Malawi has implemented a number of policies to promote private investment. Even though the level of private investment has improved, it remains low. Therefore, this study will review some of the policies to promote private sector investment and achieve sustainable economic growth.

[1] PhD candidate, University of South Africa, Corresponding author: malulg@unisa.ac.za.

[2] This paper is based on doctoral research at the University of South Africa (UNISA). The usual disclaimer applies.

[3] University of South Africa, South Africa, E-mail: odhianm@unisa.ac.za.

[4] University of South Africa, South Africa, E-mail: sheillanyasha@gmail.com.

The rest of the paper is organised as follows: Section 2 discusses policies to promote, especially, private sector investment in Malawi; Section 3 examines trends in private investment; and, lastly, Section 4 presents some concluding remarks.

2. Investment Policy Reforms in Malawi

The government has realised that to achieve sustainable economic growth and productive jobs, it has to increase the level of investment. It has, over the years, developed policies and plans aimed at private sector development in order to promote sustainable economic growth. Its policies to promote private sector investment are discussed below.

2.1. Privatisation of State-Owned Enterprises (SOEs)

The Malawi government has privatised SOEs as a way to involve the private sector in growing the economy. The privatisation of SOEs is defined as the transfer of SOEs' ownership and control from the public to the private sector. It has been a major policy instrument in private enterprise development in both developed and developing countries since the early 1980s (Chirwa, 2000).

The privatisation of SOEs in Malawi consisted of two phases. The first phase, stretching from 1984 to 1994, was characterised by the structural adjustment programmes of the World Bank and the International Monetary Fund (Makuyana & Odhiambo, 2014). It was supported by six structural-adjustment loans from the World Bank (Chirwa, 2000). The restructuring of SOEs and parastatal reform strategies, to improve the efficiency and effectiveness of parastatal institutions and their contribution to the GDP, included a review of corporate objectives, the introduction of performance-related incentives, and increased management autonomy in recruiting and firing employees (Makuyana & Odhiambo, 2014:28). Several estates – thirteen non-manufacturing enterprises and eleven manufacturing enterprises held by ADMARC and MDC – were privatised by the end of 1992; and the eleven privatised manufacturing enterprises were among the fifty-two state-owned enterprises (Chirwa, 2000).

The second phase of privatisation started in 1996, with the seventh structural adjustment loan under the Fiscal Restructuring and Deregulation Programme (Chirwa, 2000). The Malawian government identified more than one hundred and fifty state enterprises and assets and more than fifteen major privatisation activities were carried out between 1993 and 1998 (Chirwa, 2000). The Privatisation Act was approved in 1996, establishing the Privatisation Commission to manage and control the privatisation of public enterprises in Malawi. According to the Privatisation Commission (1996), the objectives of the privatisation programme were to increase efficiency in the economy; encourage more competition and fewer monopolies in the economy; foster greater participation by the Malawian public in enterprises; and increase revenue for government. Some 36 public enterprises were privatised by 1999 and by 2004 their number reached 62 (Makuyana & Odhiambo, 2014). According to Chirwa (2005), the privatisation of state-owned enterprises, through the National Privatisation Programme, was suspended in 2001 due to lack of tangible benefits.

2.2. The Malawi Poverty Reduction Strategy (2002–2005)

The Malawi Poverty Reduction Strategy (MPRS) was a medium-term national strategy to reduce poverty through the empowerment of the poor (Government of Malawi, 2002). It was built on four pillars. The first was meant to promote rapid sustainable pro-poor economic growth by ensuring macroeconomic stability; access to credit and markets; skills development; and employment generation. The second pillar was to enhance human capital development by ensuring health and education for the poor and lift them out of poverty. The third pillar was to improve the quality of life of the most vulnerable by providing sustainable safety nets. Finally, the fourth pillar had to promote good governance by ensuring that public and civil society institutions and systems protect and benefit the poor (Government of Malawi, 2002).

To achieve sustainable pro-poor economic growth, government had to ensure macroeconomic stability to improve private sector development and economic growth, access to credit, and rural infrastructure to boost investment (Government of Malawi, 2002). To assist the private sector in achieving its goal, the MPRS focused on infrastructure development by prioritising the maintenance and rehabilitation of facilities and investments in new facilities (Government of Malawi, 2002). During the MPRS period, gross fixed capital formation by the private sector increased from 6.06 percent in 2002 to 9.77 percent in 2005 (World Bank, 2020) while Malawi's GDP growth averaged 3.5 percent against the target of 5.2 percent (Government of Malawi, 2011).

2.3. The Malawi Economic Growth Strategy (2004–2008)

The Malawi Economic Growth Strategy (MEGS) was another medium-term strategy implemented from 2004 to 2008. To boost economic growth, government focused on strategies that did not require increased government spending and could be achieved by refocusing existing resources and by developing policies that would stimulate private sector investment and trade (Government of Malawi, 2004). Government projected that the economy would grow by 5 percent from 2005. An increase in the level of investment and savings was needed to achieve this. Gross fixed capital formation increased from 12.25 percent in 2004 to 21.53 percent in 2008 as a percentage of GDP while private sector investment as a percentage of GDP rose from 5.37 percent in 2004 to 14.33 percent in 2008 (World Bank, 2020). The gross domestic savings as a percentage of GDP recovered from -0.02 in 2004 to 6.58 percent in 2008; while the economic growth rate reached 7.64 percent in 2008 (World Bank, 2020).

As private sector investment was needed to achieve its objectives, the government realised that the private sector faced various constraints. These were poor macroeconomic conditions; an inefficient tax-and-incentive system; poor infrastructure; poor private and public sector dialogue and cooperation; a small human-resources base and poor skills; a costly regulatory environment; unfavourable trade agreements and a weak negotiating capacity; high insecurity, which added significantly to insurance costs and unrecoverable losses, and deterred investment; delays in the allocation of land to new industries; and the high cost and unreliable supply of utilities (Government of Malawi, 2004). In addition, several sectoral constraints hampered investment in the country, which were as follows: (i) existing incentives were inadequate to offset the high cost structure of the economy; (ii) incentives for domestic investors were insufficient; (iii) corporate tax waivers favoured new investors at the expense of existing firms in the same business and created artificial competitive advantages for new entrants;

(iv) incentives were inappropriate for priority sectors such as mining and tourism; (v) incentives failed to prevent the sharp decline in manufacturing; (vi) the approval of investment incentives was slow, uncertain, not transparent, and discretionary; and (vii) the domestic market was smaller than that of other countries (Government of Malawi, 2004).

2.4. Malawi Growth and Development Strategy (2006–2011)

The Malawi Growth and Development Strategy (MGDS) I was the next medium-term strategy stretching from 2006 to 2011. It was an extension of the MEGS which had focused on the creation of a conducive environment for private sector investment in order to stimulate economic growth (Government of Malawi, 2006). The objective of the MGDS I was to reduce poverty through sustainable economic growth and infrastructure development (Government of Malawi, 2006). During this period, the government envisaged a stable environment with low inflation; lower interest rates; stable and non-volatile exchange rates; and sustainable domestic and external debt (Government of Malawi, 2006). To reach its target of 6 percent in economic growth, government had to determine all stakeholders, including the private sector, to accelerate growth and economic diversification (Government of Malawi, 2006). Government would involve the private sector in the development of rural areas through job creation and hoped that by the end of MGDS I, rural growth centres would have created employment and an income for rural communities (Government of Malawi, 2006). The government would develop infrastructure such as roads and communications, energy supply, agro-processing and manufacturing; this initiative was expected to boost investment by the private sector, which would create jobs and improve the lives of the people in rural areas (Government of Malawi, 2006).

The Malawian government noted that private sector investment had been low which has hindered its ability to diversify the economy (Government of Malawi, 2006). Some limitations were the poor macroeconomic environment; high transportation costs; low investor confidence; poor management; and a limited domestic market (Government of Malawi, 2006). Therefore, the government had to create an enabling environment in which the private sector could grow and invest.

One of the means to achieve sustainable economic growth was investment by both local and foreign investors in Malawi’s productive sectors. The government hoped to achieve the following by the end of the MGDS I: (i) more business enterprises that contributed to economic growth and increased domestic market supply; (ii) increased foreign direct investment; and (iii) improved private sector competitiveness (Government of Malawi, 2006). During the MGDS I, GDP growth averaged 7.5 percent in comparison with the target of 6 percent; and this high growth rate came from the agriculture, distribution, construction, mining and services sectors (Government of Malawi, 2011).

2.5. The Malawi Growth and Development Strategy (2011–2016)

The MGDS II was another medium-term strategy implemented between 2011 and 2016 to reduce poverty through sustainable economic growth and infrastructure development (Government of Malawi, 2011). The government realised that sustainable economic growth is key to poverty reduction and improved living standards for its citizens (Government of Malawi, 2011).

During the MGDS II years, the government continued to implement interventions aimed at sustainable economic growth. According to the Government of Malawi (2011:23), the aim was to maximise the contribution of potential growth sectors such as agriculture, tourism and mining, while creating an enabling environment for private sector participation and development; fostering job creation; empowering rural communities; ensuring equitable access to land; and promoting sustainable use of the environment.

The government of Malawi stated that in order to create an enabling environment for private sector participation, its goal during this period was to create a conducive environment that would enhance inclusive private sector growth and competitiveness (Government of Malawi, 2011). It envisaged the following outcomes during this five-year period: improved environment for domestic and foreign investments; increased investments by both local and foreign entrepreneurs; and the improved productivity and market access of enterprises (Government of Malawi, 2011).

The strategies that were to be implemented to achieve private sector participation were as follows: fostering pro-business legal and regulatory reforms; providing supportive infrastructure and services for both start-ups and expanding enterprises; promoting growth of local MSMEs; promoting private sector investment in rural areas; strengthening the capacity of private sector supporting institutions and PPPs; enhancing the dissemination of business information; promoting the adoption of modern and appropriate technologies; establishing a national investment company; and promoting and strengthening the development of cooperatives (Government of Malawi, 2011, p. 31).

2.6. The Malawi Growth and Development Strategy (2017–2022)

The MGDS III is a medium-term strategy for the period from 2017 to 2022. Its objective is to turn Malawi into a productive and competitive country through sustainable agriculture and economic growth, energy distribution, and industrial and infrastructure development (Government of Malawi, 2017). Since some of the objectives could not be achieved during the MGDS II, because of insufficient donor support for the programmes, the MGDS III will depend on Malawi’s domestic resources to achieve its objectives (Government of Malawi, 2017). The government committed itself to ensuring a commercial borrowing rate that is affordable for the private sector in order to increase the level of investment (Government of Malawi, 2017). Table 1 summarises the government of Malawi’s expectations of the MGDS III regarding the macroeconomic variables for the period 2018 to 2022.

Table 1. Projected Macroeconomic Trend in Malawi (2018 – 2022)

	2018	2019	2020	2021	2022
Private Investment	6.0 (6.4)	6.0 (6.7)	6.0	6.0	6.0
Public Investment	12.0 (4.4)	12.0 (5.5)	12.0	12.0	12.0
GDP	6.9 (4.4)	6.4 (5.7)	6.1	6.2	6.1
Inflation	5.6 (12.4)	7.1 (9.4)	7.7	7.5	7.7

Note: (…) actual figures

Source: Government of Malawi (2017); World Bank (2021).

Public sector investment is expected to be higher than private sector investment and the GDP growth rate is anticipated to be above 6 percent during the MGDS III implementation period (Government of Malawi, 2017).

3. Private Investment Trends in Malawi

For the period from 1980 to 2019, private investment as a percentage of GDP averaged 7.1 percent. Figure 1 presents private and public investment as a percentage of GDP for this period.

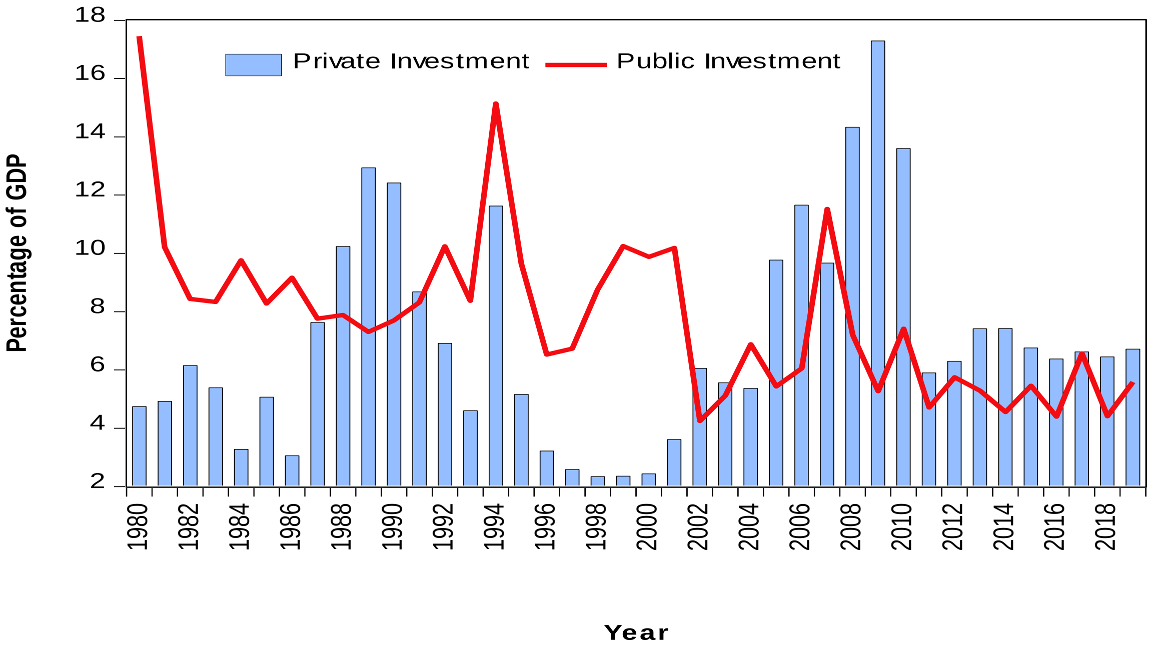

Figure 1. Private and Public Investment in Malawi (1980–2019)
Source: Own Compilation from the World Bank (2021).

Although private investment as a percentage of GDP has been fluctuating since 1980, it reached a record high of 17.3 percent in 2009. In Malawi, private investment as a percentage of GDP has been fluctuating since 1980. In 1980, private investment was at 4.7 percent before it marginally improved to 6.1 percent in 1982. During the first phase of privatisation, from 1984 to 1994, private investment increased from 3.3 percent to 11.6 percent. Nonetheless, the public sector was still the main contributor to total investment except for the period from 1988 to 1991 when it was lower than the private sector. Figure 4.2 shows the trends of private investment as a percentage of GDP from 1980 to 2019.

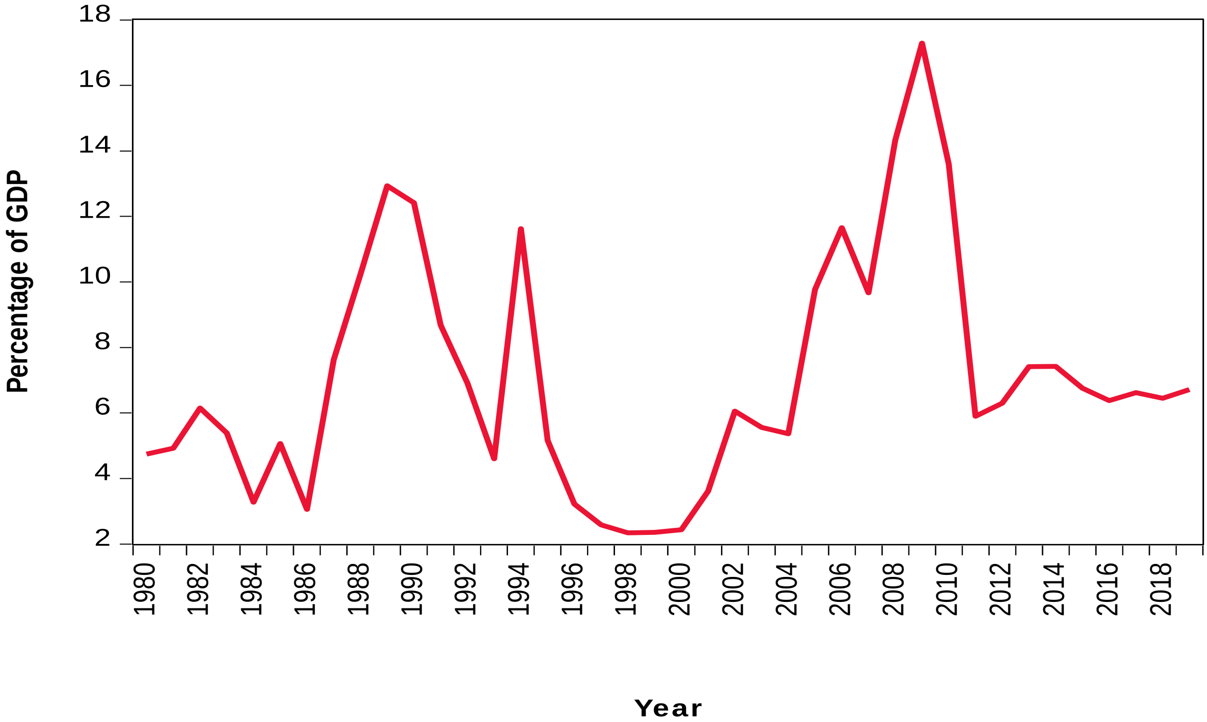

Figure 2. Private Investment as a Percentage of GDP in Malawi (1980 – 2019)
Source: Own Compilation from the World Bank (2021).

In 1996, when the second phase of privatisation began, private investment stood at 3.2 percent but declined to 2.6 percent the following year. It continued to decrease, averaging 2 percent, before recovering to 6.1 percent in 2002. Since the implementation of the MPRS in 2002, the Malawi government focused on creating an enabling environment for private sector-led growth and employment creation. In 2003 private investment as a percentage of GDP declined to 5.6 percent and continued its downward trend to 5.4 percent in 2004. For the year 2006, private investment was 11.7 percent, which was higher than the 9.8 percent in 2005. In 2007, private investment declined to 9.7 percent, from 11.7 percent in 2006, before it increased to 14.3 percent in 2008. It rose to 17.3 percent in 2009 and then dropped to 5.9 percent in 2011 (see Figure 2).

Malawi experienced the highest economic growth in the 1990s when its GDP growth rate reached 16.7 percent in 1995. It also experienced negative growth in some years. It was -5.3 percent in 1981; -7.3 percent in 1992; -10.2 percent in 1994, and -5 percent in 2001. Figure 3 presents the trends in Malawi's economic growth rate and private investment as a percentage of GDP from 1980 to 2019.

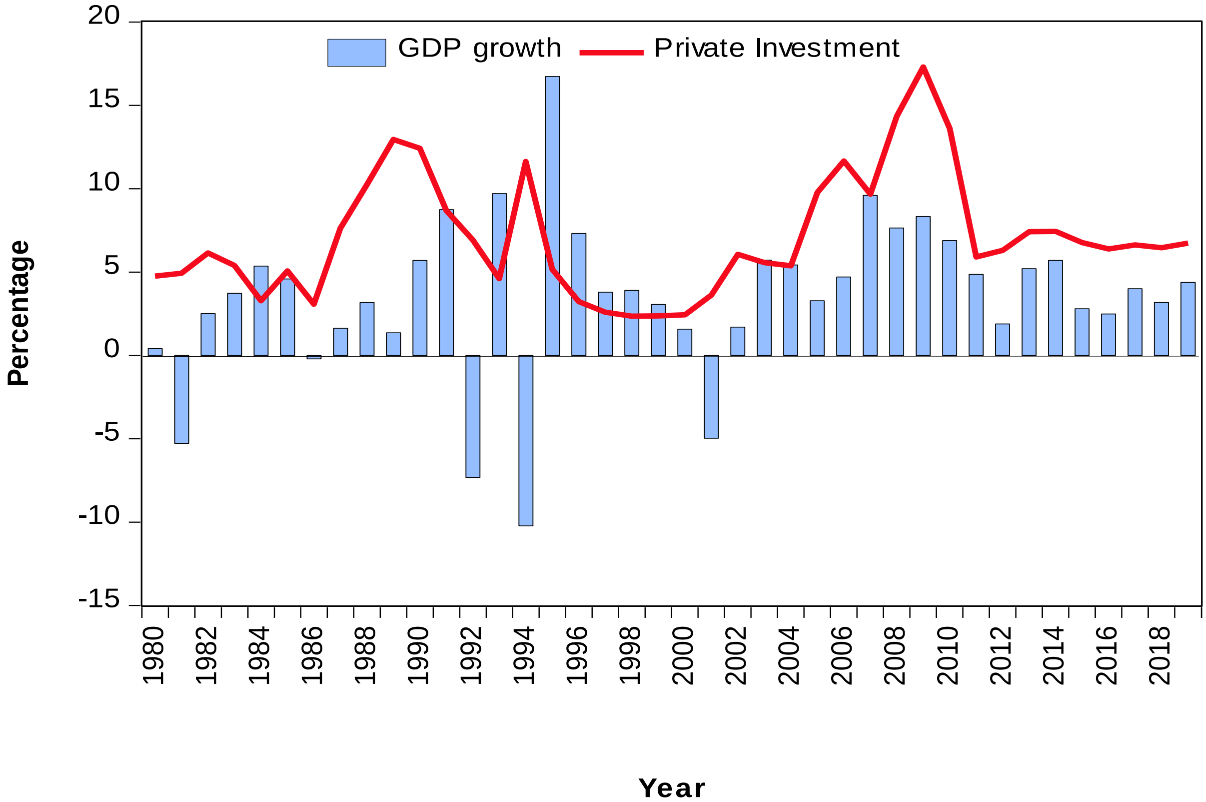

Figure 3. Economic Growth and Private Investment in Malawi (1980–2019)

Source: Own Compilation from the World Bank (2021).

In 1980, GDP growth was 0.4 percent, before declining to -5.3 percent in 1981. The economy grew by 2.5 percent in 1982, before increasing marginally to 3.7 percent in 1983 and to 5.4 percent in 1984. In 1985, the GDP growth rate was 4.57 percent but decreased for the second time in the 1980s to a negative growth of -0.21 percent in 1986. In 1991, economic growth was 8.7 percent, before decreasing to -7.3 percent in 1992.

In 1993, the GDP growth rate rose to 9.7 percent before it decreased to a record low of -10.2 percent in 1994. In 1995, it spiked to a record high of 16.7 percent before decreasing to 7.3 percent in 1996 and continued its decline until it reached -5 percent in 2001. The economy started to recover after the government had implemented the Malawi Poverty Reduction Strategy. During the MPRS implementation, from 2002 to 2005, GDP growth averaged 3.5 percent against the target of 5.2 percent; and during the MGDS period of 2006 to 2011, the economy performed well at an average real GDP growth rate of 7.5 percent (Government of Malawi, 2011).

4. Conclusion

The paper has reviewed the policies that influenced the level of private investment in Malawi from 1980 to 2019. Because private investment has been fluctuating since the 1980s, the Malawi government has, over the years, looked at various ways to improve the economy through diversification and the development of policies and strategies. These policies include the privatisation of state-owned enterprises, the Malawi Poverty Reduction Strategy, Malawi Economic Growth Strategy and the Malawi

Growth and Development Strategy I, II and III. The Malawi government has also adopted a policy to privatise SOEs as a way to involve the private sector in the economy. During the period from 2002 to 2005, gross fixed capital formation by the private sector increased from 6.06 percent in 2002 to 9.77 percent in 2005 while GDP growth averaged 3.5 percent against the target of 5.2 percent. During the MGDS I, GDP growth averaged 7.5 percent against the target of 6 percent. This indicates that these policies have played an important role in promoting private investment and economic growth in Malawi.

Private investment as a percentage of GDP has been fluctuating since 1980. It reached a record high of 17.3 percent in 2009. The study recommends the government to continue with its efforts to create an enabling environment for the private sector in order to achieve sustainable economic growth. The government is, therefore, encouraged to invest more in infrastructure, which will complement private investment.

References

Bayraktar, B. (2003). The role of private sector investments in the economic performance of OIC member countries. *Journal of Economic Cooperation*, 24(1), pp. 63–110.

Bèdia, F.A. (2007). Relative effects of public and private investment on Côte d'lvoire's economic performance. *Applied Econometrics and International Development*, 7(1), pp. 151–158.

Chirwa, E. W. (2005). Macroeconomic policies and poverty reduction in Malawi: can we infer from panel data. *Research Report. Global Development Network*.

Chirwa, E.W. (2000). The promise of privatisation: financial and operating efficiency in Malawi manufacturing. University of Malawi, *Working Paper* No. WC/02/00.

Ghura, D. (1997). Private investment and endogenous growth: Evidence from Cameroon. *International Monetary Fund, IMF Working Paper*, WP/97/165.

Government of Malawi (2006). *Malawi growth and development strategy 2006–2011.* Ministry of Finance and Development Planning, Lilongwe. Retrieved from https://mitc.mw/images/downloads/other-documents/Malawi-Growth-and-Development-Strategy-August-2006.pdf

Government of Malawi (2017). *Malawi growth and development strategy 2017–2022.* https://www.undp.org/content/dam/malawi/docs/UNDP_Malawi_MGDS)percent20III.pdf.

Government of Malawi. (2002). *Malawi poverty reduction strategy paper 2002: Final Draft*. Ministry of Economic Planning and Development: Lilongwe, Malawi. https://www.imf.org/External/NP/prsp/2002/mwi/01/043002.pdf.

Government of Malawi. (2004). *Malawi economic growth strategy*. *Volume II: Main report*. Ministry of Economic Planning and Development: Lilongwe, Malawi.

Government of Malawi. (2011). *Malawi growth and development strategy 2011–2016*. Ministry of Finance and Development Planning, Lilongwe. https://documents1.worldbank.org/curated/en/399931468089371016/pdf/691340PRSP0P120Official0Use0Only090.pdf.

Khan, M. S. & Reinhart, C. (1990). Private investment and economic growth in developing countries. *World Development*, 18(1), pp. 19–27.

Makuyana, G. & Odhiambo, N. (2014). The dynamics of public and private investment in Malawi. *Problems and Perspectives in Management*, 12(2), pp. 25–33.

Mallick, S. K. (2002). Determinants of long-term growth in India: A Keynesian approach. *Progress in Development Studies*, 2(4), pp. 306–324.

Ramirez, M. D. & Nazmi, N. (2003). Public investment and economic growth in Latin America: An empirical test. *Review of Development Economics*, 7(1), pp. 115–126.

World Bank. (2020). *World development indicators*. https://databank.worldbank.org/data/source/world-development-indicators#.

World Bank. (2021). *World development indicators.* https://databank.worldbank.org/data/source/world-development-indicators#.