

FROM POLICY TO PRACTICE: CHANGING GOVERNMENT ATTITUDES TOWARDS THE PRIVATE SECTOR IN MALAWI[†]

RICHARD RECORD*

Ministry of Industry, Trade and Private Sector Development, Government of Malawi, Lilongwe, Malawi

Abstract: This paper reviews relations between government and the private sector in Malawi from independence to the present. The analysis charts the changing emphasis that official policy has attached to the role of the private sector throughout the transition from dictatorship to democracy; and from a PRSP that effectively ignored the role of the private sector in national development, to the current more balanced approach that recognises the private sector as the ‘engine of economic growth’ and the best means of achieving poverty reduction. However, in spite of progress, Malawi’s private sector remains fragile and while the rhetoric from the highest levels of government towards the private sector has evolved, the enabling environment for private sector development is still inhospitable. Copyright © 2007 John Wiley & Sons, Ltd.

Keywords: private sector development; economic growth; public–private dialogue; investment climate; Malawi

1 INTRODUCTION AND BACKGROUND TO MALAWI’S PRIVATE SECTOR

This paper seeks to chart the changing nature of relations between the public and private sectors throughout Malawi’s recent economic history. Starting from the present position that Malawi’s private sector is weak, underdeveloped and with shallow roots, the aim of the paper is to investigate the longer term causes of this situation, and in particular examine the extent to which the current investment climate is a function of past development policy towards the private sector.

*Correspondence to: Richard Record, Economic Advisor, Ministry of Industry, Trade and Private Sector Development, Government of Malawi, Lilongwe, Malawi. E-mail: richardrecord@hotmail.com

[†]The opinions expressed in this paper are entirely those of the author and do not necessarily represent those of the Government of Malawi.

Malawi is a small, landlocked country in the southeastern corner of Africa and one of the 10 poorest countries in the world. There is a clear need for rapid and sustainable economic growth, and it is estimated that 5–6 per cent real economic growth would be required to have any impact on poverty given current population growth rates (World Bank, 2004). Such rates have only rarely been achieved, and never in a consistent manner. Poverty remains deep and widespread throughout the country and socio-economic indicators in Malawi compare badly even within Sub-Saharan Africa.

The underlying causes of Malawi's low economic growth are well known: both investment and productivity growth are very weak. Gross fixed investment at just 8.1 per cent of GDP (WDI, 2005) is half the average for Sub-Saharan Africa and less than a quarter of that recorded in neighbouring Mozambique. Net fixed investment in the private sector is close to zero according to IMF estimates (IMF, 2004). Growth in labour force productivity is also virtually zero. Malawi currently invests double the dollar value of capital to yield an equivalent increase in output compared to the average in Sub-Saharan Africa (UNIDO, 2004).

It is no surprise that as activity in Malawi's private sector has stagnated and wider economic performance has faltered, so have efforts to reduce poverty on a meaningful scale.

The structure of Malawi's private sector is also quite unbalanced. Smallholder tobacco dominates the economy and accounts for over 50 per cent of annual exports. This dependency makes Malawi uniquely vulnerable to sector specific shocks. Tea and sugar grown on estates make up the number two and three positions in order of export performance. Malawi's manufacturing sector is small and accounts for just 11 per cent of GDP, down from a high of 32 per cent in 1992. The manufacturing sector is also inward looking as only 14 per cent of manufactured output is exported (World Bank, 2006). The domestic economy features a number of large oligopolistic firms, and numerous micro and small enterprises, with little inbetween.

Evidence from the recently completed Investment Climate Assessment (ICA) of Malawi¹ suggests that Malawi possesses a comparative advantage in the region in terms of low-cost labour. However, when considering total factor productivity, that is taking into account the relative costs and returns to both labour and capital together, Malawi's cost advantage evaporates. The ICA survey responses show that macro-economic instability is the biggest constraint to private sector performance, followed by access to finance, problems in the supply of electricity, the availability of skilled workers, crime and then corruption.

2 THE CONSTRAINTS TO PRIVATE SECTOR DEVELOPMENT IN MALAWI

As in many developing countries, the legal operating environment for private sector enterprises in Malawi is rather inhospitable. Firms face numerous hurdles in terms of red tape, regulations and requirements in carrying out everyday business activities. Data from the World Bank/IFC *Doing Business* surveys (where Malawi is ranked 110 out of 175 countries) indicate that it takes an average of 37 days to start a business, and that the average cost of enforcing a contract is 136.5 per cent of the value of the debt (World Bank/IFC, 2005). While such qualitative surveys only give an indication of the enabling environment for business, it is clear that the private sector in Malawi suffers from a heavy regulatory burden.

¹A detailed survey of 306 manufacturing firms throughout Malawi.

Part of the reason behind these constraints is the legacy of preferential treatment to the large state-owned conglomerates that dominated the economy during the post-colonial regime. In addition without easily taxable mineral resources, the state derives a high proportion of its revenue from business. This burden of taxation falls heavily on a relatively narrow formal private sector.

Excessive regulation and inadequate institutions for property rights and the rule of law have created barriers to transition from the subsistence and very small scale economy to the modern more productive sector. Many entrepreneurs in Malawi remain trapped in the informal private sector due to the high costs of formalisation. Such firms therefore are not able to grow and benefit from economies of scale or access the additional benefits of formalisation such as bank finance and business development services.

Malawi is a small country with only limited domestic demand. Hence international trade will always be a key driver of growth for firms to reach critical mass. While there are constraints and distortions limiting demand internationally (notably agricultural subsidies, technical barriers to trade and sanitary and phytosanitary requirements in developed country markets), the evidence would suggest, given Malawi's comparatively poor trade performance compared to other commodity dependent developing countries, that a lack of demand in the markets in which Malawi participates is not the primary constraint to export expansion. In fact Malawi enjoys moderate current account surpluses with the United States and European Union, but has massive deficits with nearer neighbours, most notably South Africa, Zimbabwe and Mozambique (Malawi Government, 2005).

As a landlocked country, Malawi faces additional challenges that need to be overcome in sending its products to international markets. This is an added, but not an insurmountable obstacle. Malawi's comparatively high domestic transportation costs imply that the high cost of transport frequently cited by export pessimists is not entirely due to the distance from Malawi to major ports.

Stability in the macro-economic environment is a prerequisite for entrepreneurs to invest and carry out business with any confidence (Bannock, 2002), and Malawi's inability to deliver on this regard is almost certainly the primary reason for lack of private sector investment. Inflation has rarely dropped below 15–20 per cent in Malawi during the last decade and bank lending interest rates are currently 22.5 per cent (and this is the lowest for several years). Malawi's large current account deficits and inability to control inflation (dominated by food security sensitive maize prices) mean that the currency is constantly under threat of devaluation.

3 POLICY TOWARDS THE PRIVATE SECTOR IN PERSPECTIVE

3.1 1964–1994: The Banda Era . . .

Malawi gained independence from Britain in 1964 as the poorest of the three territories within the defunct Central African Federation. Unlike Zambia and Southern Rhodesia (now Zimbabwe), the country did not possess substantial mineral resources. Infrastructure was very poor and little effort had been made to expand the tax base away from a 45 per cent dependence on British budgetary aid for what was a very rudimentary administration (World Bank, 1975).

However in spite of a bleak outlook, the economy of Malawi demonstrated a surprisingly strong performance and GDP grew by an average of 8 per cent during 1965–1973 (World

Bank, 1975). Reports credited this performance to a rapid increase in agricultural production, particularly in the estate sector, through growth in the public sector provision of processing and service activities. Led by H. Kamuzu Banda, early reports praised Malawi's 'dynamic, but prudent management of the economy in which both the public and private sectors played an important part' (World Bank, 1975).

Such rosy analyses continued as impressive growth rates continued throughout the buoyant 1970s. A later report in 1981 praised Malawi's 'outward-looking strategy of rapid growth, based on encouragement of private enterprises, use of the market mechanism [and] favourable treatment of foreign capital' (World Bank, 1981). Public sector investment emphasised the direct support of the productive sectors through the provision of agricultural services and investment in economic and transport infrastructure. Such analyses also noted, however, that the development of the social sectors was receiving less attention. By 1981, Malawi had managed to raise domestic investment from 9 per cent of GDP at independence to 25 per cent, while domestic savings had risen from almost nothing to an impressive 17 per cent of GDP (World Bank, 1981). This suggests that it is possible for the poor to save and invest a meaningful share of income, and that Malawi's current collapse in domestic savings and investment is not wholly a result of absolute poverty.

Policy during the 1970s followed Malawi's 'Statement of Development Policies, 1971–1980' (DEVPOL). This policy document set out sectoral objectives and strategies, together with indicative public sector investment requirements. The principal aim of the statement was to achieve annual economic growth of 8 per cent, through four means: a rapid increase in agricultural productivity; an improvement in the geographic balance of economic activity (referring to the movement of the national capital to Lilongwe and other policies aimed at shifting the balance of economic activity to the central region); an increase in local participation in the economy and the elimination of dependence on foreign aid (Malawi Government, 1986). A review of DEVPOL by the Malawi Government in 1986 suggested that 'private enterprise was always seen as the primary driving force for development throughout the economy' but then further continues with stating that development of the industrial sector was not a priority (Malawi Government, 1986). While government was generally supportive of private sector investment and participation in the economy, it is clear that the view was that private sector activity would be closely monitored. Furthermore, private sector investment would need to conform with government plans with regard to import substitution, regional development and policies to stimulate local participation in the economy (including the gradual transfer of land ownership from the estate sector to smallholders).

By the mid 1980s, Malawi had established a significant parastatal (quasi state enterprise) sector of 35 institutions which accounted for approximately 25 per cent of GDP (Malawi Government, 1986). The rationale for establishing parastatals where 'goods and services important to either the basic welfare of the community or the economic and social development of the country would not be provided, or would be provided inefficiently or inequitably, by the private sector' betrays a telling general distrust of the private sector within government.

The second Statement of Development Policies, 1987–1996 (DEVPOL II) on one hand emphasised how government policy 'relates to the creation of a general climate which encourages enterprises and investment, both domestic and foreign' (Malawi Government, 1986, p.13), but then in the same paragraph continues by discussing 'circumstances where unfettered laissez-faire capitalism will be inappropriate'. The DEVPOL II document continues by then listing a vast web of licensing requirements, parastatal interventions,

regional policies and other controls designed to shape the way the private sector operates. Similarly the strategic plan for the Ministry of Commerce and Industry² states somewhat contradictory aims: '[t]he overall emphasis of Government policy will be on promotion rather than regulation', but then notes how regulation will be limited to areas 'where private sector efforts are inadequate or inappropriate' (p. 55).

The early Banda years were the closest Malawi has come to being a 'developmental state', but the results were neither real nor sustainable. A series of economic shocks including the effects of the war in Mozambique which closed off Malawi's principal trade routes to the sea in 1984/85, coupled with droughts and deteriorating terms of trade for the country's commodity exports saw Malawi forced into structural adjustment loan negotiations with the IMF and World Bank beginning in the early 1980s. Peters (2006) notes how such economic challenges exposed how the prevailing view in policy circles up to 1980, of Malawi being a successful 'free-market, non-interventionist, capitalist economy' was overturned by research showing the 'dual structure' of Malawi's economy. Pryor (1990) notes that Malawi saw public enterprise rather than the private sector as the main means of achieving economic development. Writing in exile, Mhone (1992) describes how the Malawi government deliberately manipulated market indicators (getting prices wrong), so as to 'maximise accumulation and growth, while ensuring that public sector enterprises led the market with regard to investment trends'. Similarly Kaluwa (1992), describing the Banda era's approach to the private sector, notes a number of serious weaknesses including conflicting policy objectives, a lack of clear policy orientation and a general lack of commitment in the industrial/manufacturing sector.

A variety of policy reforms were made as the Banda government, during the 1980s and up to the transition to democracy in 1994, tried to regain the earlier economic momentum. Two main reforms stand out: first the reform of the Special Crops Act which permitted smallholders to grow burley tobacco, a crop which was previously limited to the estate sector. This saw a mushrooming of tobacco production as smallholders eagerly entered what had been a previously lucrative business, however, continuing declines in the terms of trade for tobacco rendered the crop increasingly marginal and the estate sector was in any case, keen to withdraw. Second the major ADMARC³ monopoly infrastructure was dismantled in 1987, and today the company remains a shadow of its former self. Dorward and Kydd (2004) argue that while such liberalisation has had some positive effects, 'private sector investment has not replaced the parastatal system that aspired to support rural investment in maize production, [and] rural economies are now caught in a low equilibrium trap'.

Other analyses suggest that Malawi's post-independence economic strategy led to large distortions and inefficiencies and that the sequencing of later reforms was inappropriate given the structure of the Malawian economy, and therefore the major cause of damage to the private sector (CBI, 2001, p. 382).

However, in terms of regulatory reform little was done to seriously alter the terms upon which the private sector was permitted to engage in the economy of Malawi. By the time Banda finally succumbed to calls for multiparty elections in 1994, 30 years of authoritarian interventions ensured that Malawian society had been fundamentally changed in the way it viewed the private sector.

²The precursor to the current Ministry of Industry, Trade and Private Sector Development.

³Agricultural Development and Marketing Corporation—one of the big three parastatals during the Banda era.

3.2 1994–2004: The Muluzi Era . . .

A renewed sense of optimism emerged in 1994 as Malawi entered the democratic era and managed to achieve a peaceful transition to multiparty democracy with the election of Bakili Muluzi. The first major policy change was that poverty reduction was put to the top of the national agenda. A framework paper for the poverty alleviation programme was put into place in 1995 and a Malawi Poverty Reduction Strategy Paper was completed in 2002 (Malawi Government, 2002). Dramatic changes in the shape of public expenditure took place with a clear emphasis on health and education. The dismantling of the parastatal sector was accelerated under a formal privatisation programme.

However in developmental terms, Nthara (2003) notes that during the mid to late 1990s, macro-economic stability unwound as interest rates reached record levels amid rising inflation and repetitive devaluations of the kwacha as the Muluzi government struggled to keep the budget under control. Road and economic infrastructure deteriorated, and while aggregate health and education expenditure rose, Nthara describes how it became common for people to ‘bemoan the deterioration in educational standards, and the lack of drugs in hospitals’.

While the post-1994 government did liberalise the informal trading sector and prune back some of the more excessive legal restrictions on private sector activity, much of the Banda era legislation remains in place. On the contrary, the loss of macro-economic stability pushed company closures to a new high. Similarly the private sector was starved of capital for investment purposes as interest rates reached 45 per cent in the late 1990s, and government borrowing crowded out the extension of credit to the private sector.

Nthara concludes by stating that for the first democratic decade, ‘there is no overwhelming evidence of economic development having taken place’ and that, if anything, ‘Malawi moved backwards’. Certainly the fact that GDP *per capita* of US\$ 160 remained the same in 2004 when Muluzi left power as it was in 1994, suggests stagnation as far as living standards for ordinary Malawians are concerned. Donors go further and suggest that the Muluzi era represented a ‘lost decade’ (NORAD, 2002).

Towards the latter periods of the Muluzi administration, serious questions on the quality of political governance arose: ‘the sharp rise in mismanagement and corruption from the highest levels down’ (Peters, 2006) and the ‘general perception that the reason most people in Malawi enter into politics is because they see politics as a lucrative income-generating activity’ (Nthara, 2003) saw withdrawals of budget support by donors and the suspension of Malawi’s IMF Poverty Reduction and Growth Facility (PRGF) in November 2001. Such events further destabilised the central government budget and resulted in increased macro-economic instability and further rises in domestic borrowing, at major cost to an already weak private sector.

Booth *et al.* (2006) describe how the 1990s saw Malawi become a ‘neo-patrimonial state where there is a framework of formal law and administration, but the state is informally captured by patronage networks’. After a decade of macro-economic turbulence and general misrule, large parts of Malawi’s already underdeveloped industrial sector had been lost and public sector institutional capacity had been massively undermined.

3.3 2004-Onwards: The Mutharika Era . . .

Malawi was granted a new (and unlikely) opportunity for another fresh start in 2004 when Bingu wa Mutharika was elected under the banner of Muluzi’s United Democratic Front, but

then distanced himself from the old regime and launched a crackdown on high-level corruption with the arrest of several former ministers. Such steps quickly regained the trust of the donor community and large scale aid flows resumed, including progress under an IMF Staff Monitored Programme in 2004/05, and a return to full PRGF support in August 2005.

As the 'owner' of the Malawi Economic Growth Strategy (MEGS), a major new policy document launched in 2004 that attempted to strengthen the apparent weaknesses in pillar one (sustainable economic development) of the Malawi PRSP, Mutharika's credentials suggested a more responsible approach to the role of the private sector (Malawi Government, 2004).

Even before Malawi's PRSP was launched in 2001, a large number of criticisms arose with regard to the lack of inclusiveness in the writing process (Jenkins and Tsoka, 2003). A general lack of ownership and belief that the process was only undertaken as part of requirements to access donor funds meant that the PRSP was never really implemented properly, and efforts to institute a Medium Term Expenditure Framework (MTEF) were judged to be a failure (Jenkins and Tsoka, 2003). A major failure of the PRSP process in Malawi was the almost total lack of importance attached to how the economic growth targets included in the document would be achieved. Trade issues were only covered fleetingly (WTO, 2002, Hewitt and Gillson, 2003), and private sector development was almost totally ignored in the document. Perhaps this is unsurprising as it reflects the policy of both donors and the Malawi government during the late 1990s where the emphasis was on growth *through* poverty reduction, rather than the opposite causality⁴.

Hence the development of a locally owned and conceived MEGS went a long way towards addressing some of the ownership problems associated with the PRSP, and described exactly how economic growth can and should be achieved in Malawi. For the first time, the role of the private sector in economic growth was outlined in a major national policy document.

With the notional expiry of the PRSP in 2005, the Mutharika administration took the opportunity to merge the economic development aspects of the MEGS with the social development aspects of the PRSP into a new national development plan, the Malawi Growth and Development Strategy (MGDS), completed in early 2006. Private sector development can now be seen throughout the whole document, rightly as an issue that cuts across all aspects of the economy. The private sector is highlighted as 'the engine of growth' (Malawi Government, 2006) and the causality is now very much on achieving social development and poverty reduction outcomes through private-sector led economic growth. However, given Malawi's poor history when it comes to actually implementing strategies, concerns remain even though the language is right.

Budget discipline has returned to the Ministry of Finance under the Mutharika government and in the 2005/06 budget Malawi actually managed to begin paying off some of the large domestic debts incurred by the previous administration. Interest rates have begun to fall to more 'borrower friendly' levels, and despite food security crises, the (maize driven) consumer price index of inflation has fallen to a record low of 8.6 per cent in March 2007.

However, Mutharika's weak political base and lack of a majority in parliament mean that much of the time of the executive is taken up by politics rather than addressing the necessary reforms that Malawi requires. Fertiliser subsidies remain *the* political issue and

⁴A World Bank report on Malawi from as early as 1990 was titled exactly that 'Growth Through Poverty Reduction' (World Bank, 1990).

implementation of the fertiliser subsidy will probably be the key factor that will determine Mutharika's re-election prospects in 2009. The fertiliser subsidy significantly distorts the private sector market for farm inputs, but a lack of willingness on the part of government to share responsibility with the private sector in delivering fertiliser throughout the country betrays a continuing lack of high-level public sector trust in the private sector⁵. Continued maintenance of an overvalued exchange rate (Record, 2006) also suggests that the government is more sensitive to price stability and the cost of imports (the government is the largest importer in Malawi) than to the needs of private sector exporters.

Many in the private sector welcome the broad language of the executive, including Mutharika's inauguration commitment to 'transform the economy of Malawi from a predominantly consuming and importing country, to one which predominantly produces and exports'⁶, and other clear commitments on 'working with the private sector'⁷. However, the concern is whether such rhetoric will really result in the kind of implementation of reforms necessary, or even if Mutharika has the will, whether he has the political weight to push through the more difficult and contentious reforms.

4 DIALOGUE AND ONGOING RELATIONS BETWEEN THE PUBLIC AND PRIVATE SECTORS

A legacy of 30 years of authoritarianism and distrust between the public and private sectors, followed by a decade where senior public officials enriched themselves through 'business' has unsurprisingly resulted in a poor relationship between the public and private sectors in Malawi.

Nevertheless, dialogue has moved forward in recent years and as institutions have emerged that have empowered the private sector, the public sector has shown some increased willingness to engage with the private sector on policy matters. A National Action Group forum, established in 2001, has allowed larger members of the private sector to meet regularly with senior government officials and make progress on key issues, but getting beyond agreeing on the need for action, to actually implementing those actions has proved difficult. In fact the National Action Group has recently become somewhat unstuck in 2006, quite possibly because senior government officials dislike being put under public pressure for actions and then being held accountable.

Even with an effective dialogue mechanism, the key Ministry responsible for dealing with the private sector—the Ministry of Industry, Trade and Private Sector Development—lacks the capacity and clout within government to push forward an agenda on private sector reforms on its own. This is a problem not unique to Malawi, as most trade related line ministries in the region tend to have a low profile and limited 'muscle'. The old Ministry of Commerce and Industry was changed into the Ministry of Trade and Private Sector Development in 2004⁸, but a lack of real operational change

⁵However, progress has been made in late 2006 in allowing some private sector suppliers to participate in the Government's coupon-based fertilizer subsidy.

⁶From Mutharika's presidential inauguration speech titled 'The Road to Prosperity—A New Vision for Malawi', on 24 May 2004.

⁷Speech by Mutharika titled 'Working with the private sector' delivered at the Privatisation Commission, January 2005.

⁸Now, since June 2006, the Ministry of Industry, Trade and Private Sector Development.

beyond the title suggests that government at the highest levels still does not really understand what private sector development means.

While initiatives such as the Integrated Framework have sought to 'mainstream' trade and private sector development issues into the national development agenda, in Malawi it is proving much more difficult to mainstream attitudes than it is to mainstream policy documents.

5 THE ROLE OF DONORS

Malawi has been heavily dependent on outside assistance throughout its history, and it is highly unlikely that this will change in the short or even medium term. Development assistance accounted for 42 per cent of expenditure in the 2006/07 budget. As can be seen from the disastrous effects of suspensions in budget support (IDD and Associates, 2006), donors have significant influence over government policy in Malawi. Donors were also at the vanguard of efforts to re-orientate Malawi's development policy from the agricultural productivity focus of the Banda years, to a more social sector and human development focus from 1994.

However, while government policy since Mutharika's election in 2004 has seen a major shift towards growth, donors have been reluctant to follow. Assistance to the social sectors still accounts for some 55 per cent of total aid, support to growth less than 10 per cent (OECD, 2007). A 2002 study rightly pointed out that PSD is an 'under-funded area within an over-aided economy, yet it is the only sector which can offer a long-term way out of Malawi's fragile dependency on tobacco earnings and foreign aid' (NORAD, 2002). Donor country strategy papers for Malawi provide scant coverage of private sector development issues or support to economic growth.

Unfortunately least developed countries that have the sort of governance problems that Malawi has, suffer from a syndrome where donors find it easiest to justify expenditure on social sectors where the outputs are easily measurable (e.g. number of schools constructed, number of persons on anti-retroviral drugs) and more saleable to electorates back home. Achieving poverty reduction through private-sector led growth, investment and job creation is much more difficult, and it is harder to measure the 'output' of donor assistance. Support to PSD tends to be somewhat *ad hoc*, and more as a result of the specific and personal interests of donor country staff than any policy level eagerness to support real economic growth.

It is, of course, important not to disregard the arguments made by authors such as Sachs (2005) and the WHO Commission on Macroeconomics and Health (2001) that unless the basic health issues that affect least developed countries can be tackled, then countries such as Malawi will never be able to reach the 'first rung of the ladder of economic development' that other developing countries are managing to climb up. However, in the long-run the only sustainable way to achieve the kind of social outcomes that donors aim to achieve in a given country is through building the local tax base so that the country is able to provide effective social sector services itself, and that requires private sector activity to generate revenue.

6 CONCLUSIONS AND PROSPECTS FOR THE FUTURE

Given the size of the challenge in overturning negative attitudes towards the role of the private sector among so many various stakeholders, it is clear that Malawi has come a long

way in the last 3 years and is making progress. However, it is not yet clear if the high-level political commitment and new policy focus on seeing the private sector as the 'engine of growth' has yet been really translated into on-the-ground results and/or changed practices.

While the President and senior cabinet ministers might be using encouraging language, attitudes are still problematic at the implementation level. Private sector development is not 'mainstreamed' across government or society and is still seen as a purely sectoral issue. Perhaps it is not surprising that attitudes towards the private sector remain ambivalent given the long legacy of institutional distrust of the private sector during the Banda years, then followed by the blurring of the lines between politics and business during the Muluzi decade.

Many authors have questioned Malawi's capacity as a 'developmental state' (Booth *et al.*, 2006; Cammack, 2006), and certainly the evidence including the continuing fragility of the executive suggests that the current administration, even with the best will in the world, will struggle to drive forward a programme of significant policy reform. With regard to facilitating private sector development, this fragility is perhaps best demonstrated by the government's reluctance to extend trust in the private sector to politically sensitive areas such as the delivery of the annual fertiliser subsidy and as evidenced by the ugly war of words between Mutharika and the private sector concerning prices at the tobacco auction floors.

Given Malawi's recent economic history, mainstreaming private sector development will take time. Nor is it surprising that when donor inflows outstrip investment inflows, then policymakers see greater merit in addressing social development issues rather than economic issues, and respond to the 'client' with the greatest voice. However, in spite of all of the challenges, 2007 offers the first chance in many years for real movement in terms of improving the investment climate. Continued budget discipline, macro stability and recent debt relief under the HIPC initiative⁹, coupled with the avoidance of major food security challenges and newfound enthusiasm for reform could at last bring noticeable changes in the business enabling environment, and see some private sector response.

Sustaining even modest growth may well provide the impetus needed for Malawi to break the vicious circle of low investment, weak government-private sector relations, and a poor investment climate. Achieving such growth would probably be the best means of reducing the fragility of the executive and give it the confidence and momentum to push through the more contentious measures needed to improve the business enabling environment.

Private sector development is first and foremost a result of a sound policy environment (Klein and Hadjimichael, 2003), and if Malawi's private sector was, for the first time, truly unleashed then it is possible that the sort of resultant private sector investment and job creation might just help Malawi achieve the growth and development goals that have been so frequently articulated throughout the country's history.

REFERENCES

- Bannock G. 2002. *Indigenous Private Sector Development and Regulation in Africa and Central Europe: A 10 Country Study*. Bannock Consulting: London.

⁹Malawi received irrevocable multilateral debt relief under the Enhanced Highly Indebted Poor Countries initiative on 1 September 2006.

- Booth D, Cammack D, Harrigan J, Kanyongolo E, Mataure M, Ngwira N. 2006. *Drivers of Change and Development in Malawi*, Working Paper 261. Overseas Development Institute: London.
- Cammack D. 2006. Malawi: the politics of hunger. *Overseas Development Institute Opinion*, 69, April.
- Cross Border Initiative. 2001. Country papers and progress reports on the initiative to facilitate cross-border trade, investment and payments in Eastern and Southern Africa and the Indian Ocean, Eastern and Southern Africa, and Indian Ocean, volume 4, June.
- Dorward A, Kydd J. 2004. The Malawi 2002 Food Crisis: the rural development challenge. *Journal of Modern African Studies* 42(3): 343–361.
- Hewitt A, Gillson I. 2003. *A Review of Trade and Poverty Content in PRSPs and Loan-Related Documents*, Report for Christian Aid. Overseas Development Institute: London.
- IDD and Associates. 2006. Joint Evaluation of General Budget Support 1994–2004. *Draft Synthesis Report*, International Development Department, University of Birmingham.
- International Monetary Fund. 2004. *Malawi: Selected Issues and Statistical Appendix*, IMF Country Report No.04/390. International Monetary Fund: Washington D.C.
- Jenkins R, Tsoka M. 2003. Malawi. In *Fighting Poverty in Africa: Are PRSPs Making a Difference*, Booth D (ed.). Overseas Development Institute: London.
- Kaluwa B. 1992. Malawi industry: policies, performance and problems. In *Malawi at the Crossroads: The Postcolonial Political Economy*, Mhone G (ed.). SAPES Books: Harare.
- Klein M, Hadjimichael B. 2003. *The Private Sector in Development: Entrepreneurship, Regulation and Competitive Disciplines*. The World Bank: Washington, DC.
- Malawi Government. 1986. *Statement of Development Policies 1987–1996*. Office of the President and Cabinet, Department of Economic Planning and Development: Lilongwe.
- Malawi Government. 2002. *Malawi Poverty Reduction Strategy Paper*. Ministry of Finance and Economic Planning: Lilongwe.
- Malawi Government. 2004. *Malawi Economic Growth Strategy*. Ministry of Economic Planning and Development: Lilongwe.
- Malawi Government. 2005. *The National Export Strategy: Key Issues and Possible Response*. Ministry of Trade and Private Sector Development: Lilongwe.
- Malawi Government. 2006. *Malawi Growth and Development Strategy*. Government of Malawi: Lilongwe.
- Mhone G. 1992. The political economic of Malawi: an overview. In Mhone G (ed.). *Malawi at the Crossroads: The Postcolonial Political Economy*. SAPES Books: Harare.
- NORAD. 2002. Study on private sector development in Malawi. *July 2002 report*, Oslo: Norwegian Agency for Development Cooperation.
- Nthara K. 2003. Malawi's economic development since 1994: implications for democratisation. In *From Freedom to Empowerment: Ten Years of Democratisation in Malawi*. Immink B, Lembani S, Ott M, Peters-Berries C (eds). Montfort Media: Balaka, Malawi.
- OECD. 2007. Malawi aid at a glance. OECD website <http://www.oecd.org/dataoecd/23/20/1882063.gif> [Accessed 27 April 2007].
- Peters PE 2006 Rural income and poverty in a time of radical change in Malawi *Journal of Development Studies* 42 2 332–345.
- Pryor FL. 1990. *Malawi and Madagascar: The Political Economy of Poverty, Equity and Growth*. Oxford University Press: Washington DC.
- Record R. 2006. An export perspective on current and recent exchange rate policy in Malawi. Unpublished manuscript, Lilongwe: NASFAM and MCCCCI.
- Sachs J. 2005. *The End of Poverty: How We Can Make It Happen in Our Lifetime*. Penguin: New York.

- UNIDO. 2004. *Industrial Development Report 2004: Industrialization, Environment and the Millennium Development Goals in Sub-Saharan Africa*. United Nations Industrial Development Organization: Vienna.
- World Bank. 1975. *Recent Economic Development and Prospects of Malawi*, Country Programs Department II: Eastern Africa Region Report No.560a-MAI. The World Bank: Washington DC.
- World Bank. 1981. *Malawi: The Development of Manufacturing*, Eastern Africa Regional Office Report No.3460-MAI. The World Bank: Washington DC.
- World Bank. 1990. *Malawi: Growth Through Poverty Reduction*, Southern Africa Department: Africa Regional Office Report No.8140-MAI. The World Bank: Washington DC.
- World Bank. 2004. *Malawi Country Economic Memorandum: Policies for Accelerating Growth, Poverty Reduction and Economic Management 1*, Africa Region Report No.25293-MAI. The World Bank: Washington, DC.
- World Bank. 2006. *Malawi Investment Climate Assessment*, Draft report, Africa Private Sector Group. The World Bank: Washington DC.
- World Bank/IFC. 2005. *Doing Business in 2006: Creating Jobs*. World Bank and International Finance Corporation: Washington, DC.
- World Development Indicators. 2005. *World Development Indicators 2005 CD-ROM*. The World Bank: Washington, DC.
- World Health Organisation. 2001. *Macroeconomics and Health: Investing in Health for Economic Development*, Report of the Commission on Macroeconomics and Health. WHO: Geneva.
- World Trade Organisation. 2002. *Trade Policy Review: Malawi 2002*. WTO: Geneva.