

# INTRODUCTION

## Background

This report details the results of Annual Economic Survey (AES) for 1994 to 1998. It gives a quantitative description of the economic activity of large-scale enterprises in the Malawian economy with regard to their production and employment characteristics, profitability level, acquisition and issue of both real and financial claims in different sectors of the economy. Large-scale enterprises are defined as those profit making enterprises (companies) that have a turnover of K1,000,000 and above in 1994 prices or those establishments with employment size of 100 or more. The AES covers private, statutory bodies and public sector industries engaged in the production and sale of goods and services on the market at prices normally designed to cover the cost of production. The public sector industries include Government Print, Plant and Vehicle Hire Organisation (PVHO), Controller of Stores and Forestry Department.

This report is the eighth in the series of AES and arises from the rebasing of the series in 1994, whereby the sample of companies surveyed has been updated and estimates are given at current prices. Previous reports have been published for 1973-1979, 1979-1980, 1980-1981, 1980-1983, 1983-1989 and 1990-1994, which detailed results for the previous sample. Unlike, the other reports this one covers Mining and Quarrying separately.

## Data Collection

The AES is conducted annually through mail questionnaires sent to all large-scale profit making enterprises. The reference period is twelve months and this is normally the enterprise's financial year. The questionnaires are mailed out in June or July every year requesting information on the previous year's activity. Due diversity in the nature of businesses in the different sectors, it was felt necessary to develop questionnaires activity related questionnaires. Agricultural and Manufacturing enterprises are sent questionnaires specific to their sector trade, while other enterprises are sent the standard AES questionnaire. Follow-up reminder letters are sent to non-responding firms and where necessary a summarised questionnaire was sent out and personal visits were made to enhance the response rate. Copies of the questionnaires are given in Appendix 1.

The enterprises that are selected for the survey are obtained from the Business Information Register (BIR). This is a live database containing information on all enterprises known to exist by the National Statistical Office. The register details names, addresses, type of activity, number of employees and turnover (i.e. Total sales) of every business and is updated on a regular basis.

From the list of businesses on the BIR, large scale profit making industries are selected on the basis of critical value of turnover of K1,000,000 or more. Otherwise, if the enterprise has 100 or more employees, it will also be included. Some enterprises which ceased operating or did not qualify have been dropped while others have been maintained and new ones have been included. Using this method, 327 enterprises were selected in 1994 for this survey.

## **Data Processing**

On receipt of the questionnaires, they were checked for errors and discrepancies. Where company accounts were available, crosschecks were made with the questionnaires to detect omissions and inconsistencies. Any problems found were corrected after querying the respondent. Where respondents failed to respond but current annual company accounts were available, the questionnaires were completed at the office using these accounts. After editing, the questionnaires were processed on Personal Computer using Microsoft Excel Version 6.0.

Special adjustments were made to tea and sugar growing and manufacturing, banking and finance, and holding companies. In the tea and sugar industries, the same enterprises often carry out both the growing and manufacturing activities and they do not necessarily keep distinct records for these activities. Since the AES has in the final analysis to allocate value added to appropriate sectors some adjustments are done to both the growing and manufacturing sectors. The adjustment is done on the assumption of 15 per cent mark up on costs for the manufacturing sector to be counted as expenditure by the growing sector.

Data for banking and other financial institutions are also adjusted because the bank charges do not cover the cost of financial services. These are paid from commissions on foreign exchange transactions which is reported in the accounts as foreign exchange profit and from the excess of interest received from loans over interest paid on deposits. The foreign exchange profit and the excess of interest are added to reported banking and service charges, which are then recorded as goods and services, sold. In the case of holding companies, it is difficult to distinguish administrative and managerial service receipts from income derived purely from ownership of subsidiaries and therefore, these service receipts were estimated as total expenditure of the holding companies including remuneration and depreciation plus a 15 per cent mark up. Further, missing data were estimated by applying the sectoral rate of change in employment as a proxy for the growth rate of a particular sector.

## Presentation of Data

The United Nations International Standard Classification (ISIC) (New York, 1968) is used to classify economic activities. Where possible, the tables are presented at the 4-digit ISIC level. However, some activities are combined, in order to preserve confidentiality in line with the Statistics Act 1967. This states that no information can be released, which could identify the activities of an individual or business undertaking.

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To this effect the following activities have been classified at 3-digit level.

- (a) Sugar growing, Agriculture Services, Forestry and Fishing
- (b) Slaughtering, Dairy Manufacture, Fruit Canning and Grain Mill Products
- (c) Sugar Refining and Manufacturing of Confectionery
- (d) Beverages and Tobacco Industries
- (e) Manufacture of Textiles
- (f) Manufacture of Leather & Luggage production & Footwear
- (g) Manufacture of Wood Production including Furniture
- (h) Manufacture of Paper & Pulp products, Print & Publishing
- (i) Manufacture of Basic Industries, Fertilisers & Pesticides
- (j) Manufacture of other Chemicals e.g. Drugs & Medicines, Soaps, Cosmetics & Chemical Products n.e.c.
- (k) Manufacture of Tyre, Tube & Rubber Products n.e.c.
- (l) Manufacture of Structural Clay, Cement, Cutlery, tools & Hardware, Furniture & Metal Fixtures
- (m) Manufacture of Electrical, Non-Electrical & Transport equipment
- (n) Electricity & Water
- (o) Railway and Passenger Transport & Communication
- (p) Inland Water & Air Transport & Communication
- (q) Legal, Accounting, Auditing & Book Keeping Services
- (r) Advertising & Business Services
- (s) Educational, Medical, Dental & Other Health
- (t) Broadcasting, amusement & Recreational Services, Laundry & Photos and Motor Services

For further information on the classification of the ISIC groups, refer to Appendix 2.

## Concepts and Definitions

- (a) **Sales, other than resales (SOR)**: Capitalised work done by own employees plus total sales of goods and services produced by firms. Capitalised work done is charged to the capital account.
- (b) **Resales**: Total sales of goods resold without further processing.

- (c) **Stocks**: Total stocks including finished products, materials and supplies, goods for resale, work in progress and goods in transit.
- (d) **Materials and Direct Services Purchased (MDSP)**: All materials and supplies purchased, which are used directly in the production of goods and rendering of services. General administration expenditures and services that do not vary with the quantity of goods produced or services rendered are classified in indirect services.

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- (e) **Purchases for resale**: All goods purchased to be resold without further processing including delivery costs.
- (f) **Indirect services**: Expenditure that is unrelated to the volume of goods produced and services rendered. It includes general and administrative costs advertising, insurance premiums, telephone, stationery and rent expenditure.
- (g) **Surtax/ Excise on production**: All indirect taxes paid by firms including licence payments.
- (h) **Remuneration**: Total wages and salaries paid to employees. This includes all payments in cash or in kind during the reference year in relation to work done for the establishment i.e. gratuities, bonus, overtime, benefits in cash and kind and pension contributions.
- (i) **Depreciation**: Total allowance for depreciation declared in the company accounts. These figures are based on the historic cost. Fully depreciated assets may still be providing useful services and yet not reflected in the depreciation figure.
- (j) **Gross profit**: The sum of net trading profit and depreciation.
- (k) **Net trading profit**: A residual derived by the subtraction of remuneration and depreciation from value added at Basic Prices.
- (l) **Employment**: The total number of persons who worked in or for the establishment during the reference year. The figures reported refer normally to the average number of employees including working proprietors, unpaid family workers and managerial staff.
- (m) **Investment in fixed assets**: Value of new fixed capital assets purchased less sales of fixed capital assets.
- (n) **Intermediate Inputs**: Total value of materials, goods for resale and direct and indirect services purchased.

- (o) **Value added (market prices)**: Value added is the value of output (total sales) less the value of inputs which covers (a) value of materials supplied for production or service (including cost of all fuel and electricity) and (b) cost of industrial services received. The valuation may be in Basic Prices or Market prices depending on the treatment of indirect taxes and subsidies.
- (p) **Value added (factor cost)**: Value added (market prices) less indirect taxes.

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## **Symbols and abbreviations used**

M.P. Market Prices

F.C. Factor Cost

V.A. Value Added

E.O.Y End of Year

• Revised figures

Km Million Kwacha

% Per cent

n.a. Not applicable

No. Number

n.e.c. Not Elsewhere Classified.

\* Less than K1,000,000 or 100 employees

## SUMMARY OF RESULTS

The results of Annual Economic Survey (AES) for 1994 to 1998 gives a quantitative description of the economic activity of large-scale enterprises in the Malawian economy. Total Sales and total purchases have gone up throughout the years in almost all sectors save Transport and Communication in 1998. In general the results show that the activity of large-scale enterprises has increased in terms of value added, employment, total remuneration, fixed assets and gross profit over the 5 years surveyed. However, an analysis of the various sectors indicates negative growths in certain indicators.

### Employment

Table A, shows that distribution of employment by industry has been unstable over the five years, for large-scale enterprises. The table shows that, the largest share of employees is in Agriculture sector, with around 31 per cent of all employees; the second largest is the Manufacturing sector with around 25 per cent of the employed population, followed by Distribution sector with about 19 per cent. The least being Mining and Stone Quarrying with less than 1 per cent.

### Remuneration

Table A, shows the share of remuneration amongst the sectors in large-scale enterprises. This table shows that apart from Community and Social Services which had experienced a slight increase throughout the period, the rest had unstable share over the period. The Manufacturing sector had the greatest proportion of remuneration within large-scale enterprises, followed by Distribution, Finance and Real Estate and Agriculture. Although the greatest number of people were employed in the Agriculture sector (28 per cent) in 1994, the wage bill for this sector was not the largest. In 1994, the Agriculture sector accounted for almost 10 per cent of total remuneration increased in 1995 to 11 per cent, but this was reduced in 1996 and 1997 to a level of just over 10 per cent and dropped to 9 per cent in 1998.

Table 57 illustrates how the average remuneration per employee has increased in all sectors. The largest increase was experienced in the Community and Social Services sector, with a rise of 206 per cent (from 1994 to 1998) followed by Finance and Real Estate with 185 per cent during the same period. The smallest increase was in the Building and Construction sector where only a 22 per cent rise was recorded followed by Electricity and Water sector with only 33 per cent. This concurs with the reduction in the share of total remuneration in this sector.

## **Total sales**

Table 57 shows that the overall total sales achieved by large-scale enterprises have increased from K12,690 million to K38,368 million from 1994 to 1998, at current prices; this represents a rise of 202 per cent. There was an overall growth in all the sectors of the large-scale enterprises throughout the five years save Transport and Communications which experienced a drop in 1998. Most markedly, the Electricity and Water sector more than doubled their sales registering 389 per cent and the Manufacturing, Building and Construction and Community and Services sectors also increased their sales significantly.

The Distribution sector had the largest proportion of the annual sales amongst large-scale industries; this sector accounted for around 46 per cent of all sales. The Manufacturing sector had the second greatest share with around 29 per cent of total sales. Mining and Quarrying has contributed the lowest in terms of sales recording less than 1 per cent followed by Community and Social Services.

## **Total purchases**

The total purchases value for all large scale industries rose from K9,155 million to K27,146 million from 1994 to 1998 at current prices. This is a rise of 197 per cent. The value of purchases for all sectors followed an upward trend, except Transport and communication sector, which experienced a drop of 4 per cent in 1998.

Most purchases were made in the Distribution sector, which had around 52 percent of the share. Percentage wise almost all the sectors apart from Electricity and Water had mixed trends.

## **Value Added**

In current prices, Value Added achieved by large scale enterprises rose steadily from K4,307 million to K13,360 million between 1994 and 1998, a rise of 210 per cent. The highest proportion of Value Added was in the Manufacturing sector and Distribution with around 34 per cent share each. The absolute overall trend however, was upward with an exception of Agriculture, Mining and Quarrying, Building and Communication, Transport and Communication and Finance and Real Estate sectors.

Over the five years from 1994 to 1998, the Value Added contributed by an employee has increased from K23 thousand to over K58 thousand, an increase of over 100 per cent.

## **Capital Investment**

Large-scale enterprises have increased their Capital Investment from K1,276 million in 1994 to K4,022 million in 1998, a rise of 215 per cent in current prices.

Investment was greatest in the Electricity and Water and Manufacturing sectors with around 30 and 33 per cent respectively. Together, these sectors accounted for an annual average of over 50 per cent during the period.

The End of Year Book Value of total Fixed Assets has been rising during the period for all the sectors. The total book value was K6,930 million in 1994, K9,425 million in 1995 and K11,374 million in 1996, K15,572 in 1997 and K18,652 in 1998. On average, as percentage shares, Manufacturing and Electricity and Water sectors accounted for 30 per cent each of the fixed assets whereas, Mining and Quarrying contribution was the least.

In some sectors, Capital Investment exceeds Value Added, this is most apparent in the Electricity and Water sector, but also occurs in the Community and Social Services sector. The lowest annual investment has been in the Mining and Quarrying sector.

## **Gross Profit**

Gross profit for Agriculture dropped in 1997 and 1998, while Manufacturing, Transport and Communication it dropped in 1996. At the same time Building and Construction dropped in 1997. Finance and Real Estate dropped in 1996 and 1997 and rose again in 1998. Mining and Quarrying and Community and Social Services dropped in 1995. The overall increase of value added is mainly due to the expansion of the large-scale Manufacturing and Distribution sectors.

Large-scale enterprises have increased their overall gross profit in current prices. The rise is from K2,562 million to K8,567 million; showing an increase of 234 per cent. This was caused by rises primarily in the Distribution and Manufacturing sectors.

The Distribution sector had the largest proportion of Gross Profit throughout the years. Although Distribution had the largest proportion of gross profit in percentages it dropped in 1995 from 37 (1994) to 34 in 1996, and regained to 42 per cent in 1997 and then dropped again to 41 per cent in 1998.