



THE MALAWI CONFEDERATION OF CHAMBERS OF COMMERCE AND INDUSTRY

The Malawi Business Climate Report

NOVEMBER 30, 2018

CONTENTS

ACRONYMS.....	2
TABLE OF FIGURES	3
LIST OF TABLES.....	4
FOREWORD	5
1. Introduction.....	6
1.1. Aims of the Survey.....	6
1.2. Methodology	6
2. Economic Outlook for 2018 and Prospects for 2019	7
3. Distribution of Survey Respondents.....	9
5. Business Climate and Performance	10
5.1. General Business Performance.....	10
5.2. Investment, Production and Employment Outlook	12
5.3. Business Confidence Index	13
5.4. Production Capacity Utilization	13
5.5. Prospects for Exports and Imports	14
6. Obstacles to Doing Business.....	16
7. COMPANY PRODUCTIVITY AND COMPETITIVENESS	28
7.1. Research and Development.....	28
7.2. Innovation and Technology Absorption.....	28
7.3. Human Resource Development, Employment and Productivity.....	31
7.4. HIV AND AIDS	32
7.5. STRATEGIC PLANNING	33
8. SUMMARY OF KEY OBSERVATIONS AND RECOMMENDATIONS.....	34

ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
BCI	Business Confidence Index
COMESA	Common Market for Eastern and Southern Africa
ESCOM	Electricity Supply Commission of Malawi
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
MACRA	Malawi Communications Regulatory Authority
MBCS	Malawi Business Climate Survey
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MFEPD	Ministry of Finance, Economic Planning and Development
MRA	Malawi Revenue Authority
NES	National Export Strategy
RBM	Reserve Bank of Malawi
SADC	Southern Africa Development Community
WB	World Bank

TABLE OF FIGURES

Figure 1: Trend of Inflation and GDP Growth Rates	7
Figure 2: Share of Domestic Credit	8
Figure 3: Distribution of Respondents by Economic Sector	9
Figure 4: Distribution of Respondents by Enterprise Type	9
Figure 5: Distribution of Respondents by Ownership Structure	10
Figure 6: Comparative Distribution of Respondents by Employee Category	10
Figure 7: Comparative Business Performance from 2016 to 2017 and Expectations for 2018	11
Figure 8: Business Performance According to Size of Business	11
Figure 9: Investment, Production and Employment Outlook	12
Figure 10: Production Capacity Utilization	13
Figure 11: Prospects for Exports	14
Figure 12: Prospects for Imports	15
Figure 13: Obstacles to Doing Business	16
Figure 14: Major Rated Obstacles in the Electricity Sector	17
Figure 15: Major Rated Obstacles under Telecommunication	18
Figure 16: Major Obstacles under Crime	19
Figure 17: Major Rated Obstacles under Effectiveness of National Assembly as a Law making Institution	20
Figure 18: Major Obstacles under Water Sector	21
Figure 19: Major Rated Obstacles under Economic and Regulatory Polices Uncertainty	22
Figure 20: Major Obstacles under Corruption	23
Figure 21 : Trend of Obstacles to Doing Business	24
Figure 22: Obstacles of Doing Business in the Agriculture Sector	25
Figure 23: Obstacles of Doing Business in Manufacturing Sector	26
Figure 24: Problematic Factors to Export	27
Figure 25: Problematic Factors to Import	27
Figure 26: Distributional Responses to Extent of Using and Absorbing New Technology ...	29
Figure 27: Extent to which Businesses Utilize Information and Communication Technologies	30
Figure 28: Average Number of Employees per Desktop or Laptop Computer	31
Figure 29: Qualification of Employees	31
Figure 30: Impact of HIV/AIDS	33
Figure 31: Figure 21: Work Place HIV and AIDS Policy	33
Figure 32: Strategic Plan	33

LIST OF TABLES

Table 1: Business Climate Scores	13
Table 2: Distribution or Proportional Responses on Research & Development	28
Table 3: Collaboration on Technology Flows and Innovations (Proportional Responses) ...	29
Table 4: Education and Worker Productivity (Proportional Responses)	32

FOREWORD

I present to you the 2018 Malawi Business Climate Survey (MBCS) Report which is the official publication of the results of business climate survey done by Malawi Confederation of Chambers of Commerce (MCCCI). MBCS represents a snapshot in time and measures the views of business executives on the business and investment landscape in Malawi. Results of the survey presented in this report are very important as they are current and fill the time lags that exist for the government agencies that release official data for the general public consumption after a long time. This report therefore provides useful source of information for the businesses, government agencies and development partners in Malawi to guide decisions that speak current situations. MCCCI produces this report annually since its launch in 2004.

I wish to highlight the fact that MCCCI bases its lobbying and advocacy on evidence based tools and this report does inform various advocacy positions that are carried.

MCCCI remains committed to ensure that this report is available every year in order to provide the relevant and timely information for use.

I wish to extend my humble gratitude to all business executives who saw it important and took their valuable time to respond to the survey questionnaire administered to them. We truly appreciate and your inputs are highly valued, without them, this publication would have been a farfetched dream. Your views are very important as they will continue to strengthen private sector dialogue with government as well as relationship between MCCCI and its members and the entire business community.

Chancellor L. Kaferapanjira

CHIEF EXECUTIVE

1. Introduction

The Malawi Business Climate Survey (MBCS) is a survey conducted every year aimed at measuring the business climate in Malawi. It measures the degree of conduciveness of the business climate in Malawi which is important in guiding business planning and decision making. The survey is conducted in such a way that all sectors where enterprises conduct business are interviewed to give a perception of doing business in Malawi. This survey complements other surveys such as World Bank's Doing Business Survey and the World Economic Forum's Executive Opinion Survey with a relatively different focus. This survey rates business climate by measuring the environment in Malawi at a given point in time and provides a forecast on a number of variables in the given year. It does not therefore focus on global rankings but deepens understanding of a country specific business environment.

The report covers the results of the survey in two distinct parts. The first part deals with the assessment of the environment in which businesses operate and provides perceptions according to enterprise characteristics. There are indicators used to make an assessment of ease of doing business which tend to remain the same from year to year to allow comparative analysis of the results.

The second part of the report incorporates assessment of indicators on productivity to show competitiveness of the enterprise by looking at firms' internal environment, utilization of research, innovation and technology transfer and skills sets.

The report then concludes on the key observations from the results of the survey and key recommendations are advanced to Government authorities, businesses, Cooperating Partners and all interested parties so that they are able to apprehend what is important to aid their planning and decision making.

1.1. Aims of the Survey

The MBCS primarily aims at:

- a) Monitoring the business climate to facilitate policy decision-making processes by Government, private investors and entrepreneurs.
- b) Strengthen public private dialogue with issues premised on empirical evidence; and
- c) Ensuring that sustainable business climate models are developed for Malawi.

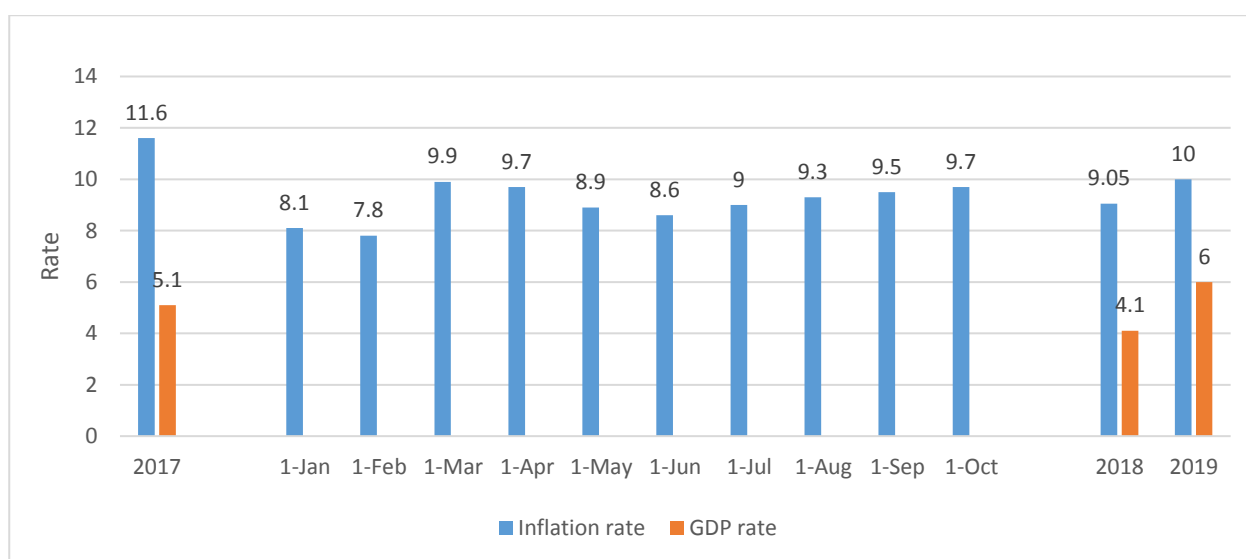
1.2. Methodology

A standard survey questionnaire was administered and 60 questionnaires were returned duly completed. The sample was randomly drawn with sectoral representation depending on contribution of each sector to the economy but aimed at getting at least 50 percent of repeat respondents. The survey was conducted between July and October 2018. Data management and analysis was done by MCCCI for the production of this report.

2. Economic Outlook for 2018 and Prospects for 2019

According to the World Economic Outlook published by International Monetary Fund (IMF), the country's economy is projected to grow by 4 percent in 2018 and 4.7 percent in 2019. Alternatively, Ministry of Finance, Economic Planning and Development (MEPD) through 2018 Annual Economic Report projects a 4.1 percent growth in 2018 and forecasts 6 percent growth in 2019. Growth for the year 2018 is expected to decline from 5.1 registered in 2017 due to the dry spells and fall army worms which hit many parts of the country. Inflation rates in the year have successfully maintained a single digit averaging 9.05 percent over a period of 10 months. The growth for 2018 will be driven mainly by good performance in transportation, human health and social work, financial and insurance services, wholesale and retail trade among others.

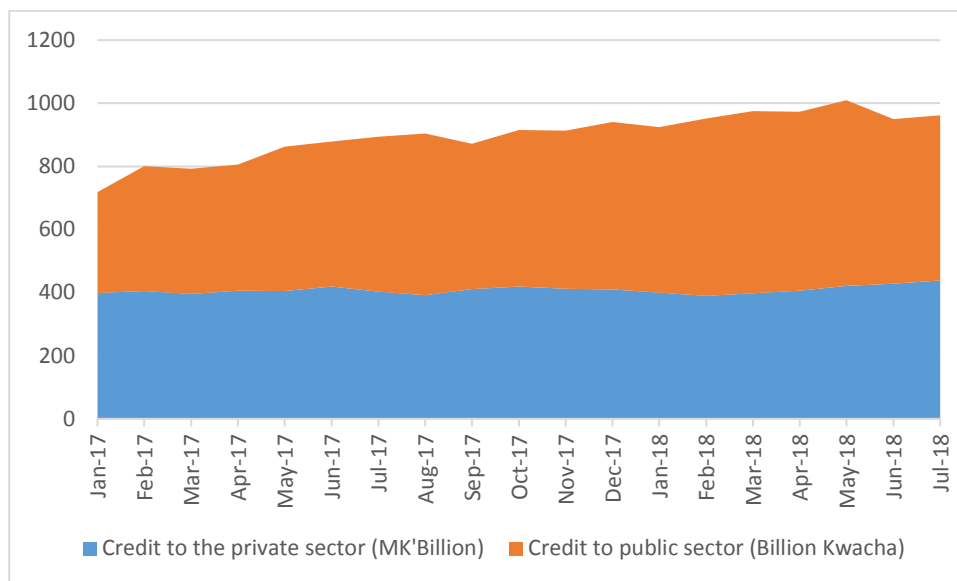
Figure 1: Trend of Inflation and GDP Growth Rates



Source: National Statistical Office and Ministry of Finance, Economic Planning and Development Annual Economic Reports, World Economic Outlook Report

Reserve Bank of Malawi continued to implement a tight monetary policy stance from 2017 to 2018 by maintaining the Policy Rate at 16 percent. Commercial banks revised their interest rate structure with the Base lending rates declining to an average of 24.78 percent in October in 2018 from 27.55 percent recorded the previous year in the same period. The savings rate remains at 4.96 percent. Despite these efforts, consumption of credit has largely been absorbed by public institution than private sector as demonstrated by the trend below in figure 2:

Figure 2: Share of Domestic Credit



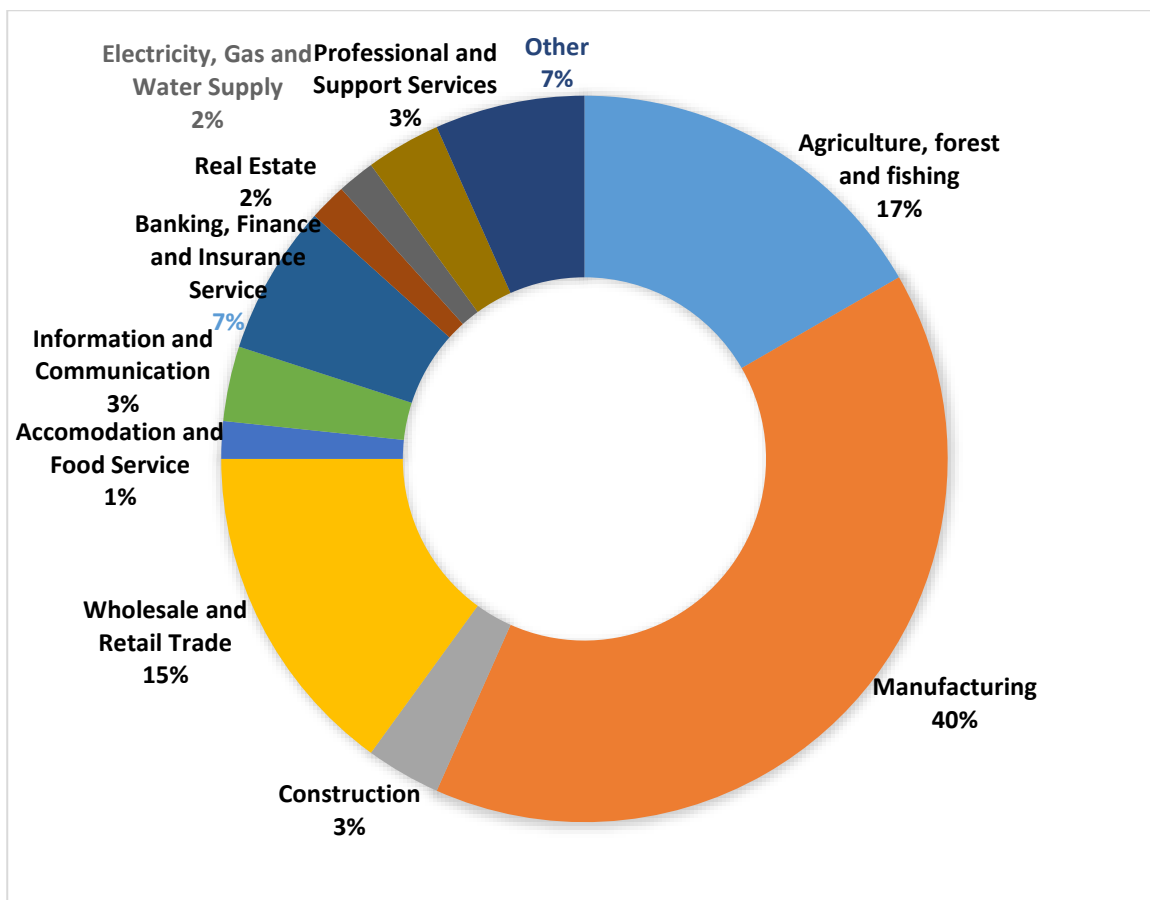
During the first 10 months of the year, the country’s exchange rate has been relatively stable against the US dollar averaging K731.50 per US dollar. Due to external factors, the currency faced varying fluctuations against the British pound and South African rand hence averaging K1273 per Pound Sterling and K56.06 per Rand respectively. During this same period, Gross official reserves averaged US\$700.95 which translates into an average import cover of 3.36 months. Monthly average for foreign exchange reserves for private sector has been US\$318.42.

The 2018/19 Annual Budget targeted real GDP growth rate of 4.1 percent in 2018 and 6.0 percent in 2019 and an average inflation rate of around 7 percent. Estimated tax revenue stood at MK1 trillion whilst expenditure outlay increased to MK1.5 trillion on account of unbudgeted salary increments and recruitment of teachers and this has affected implementation of fiscal policy as at the end of first quarter by 30th September 2018. Due to diminishing foreign borrowing, the government has alluded a rise in domestic borrowing by MK176 billion which threatens growth of the private sector. The Monetary Fund however approved a new Extended Credit Facility program which is subject to performance with an amount of US\$112.3 million. The World Bank is also expected to extend a MK60 billion concessional loan as part of budgetary support.

3. Distribution of Survey Respondents

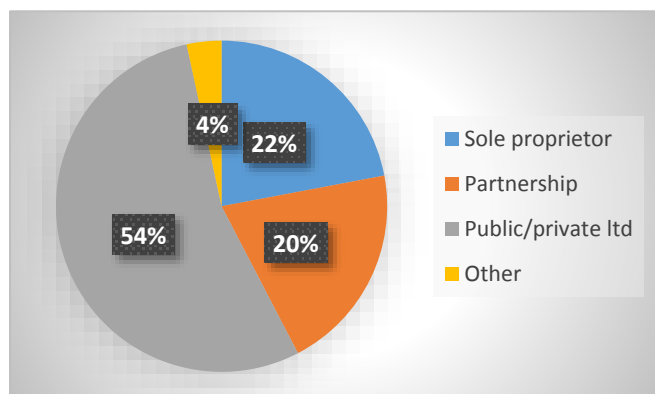
The figure below shows the distribution of survey responses according to the respondents' economic sectors;

Figure 3: Distribution of Respondents by Economic Sector



As depicted in the figure above, the majority of the respondents were from the manufacturing sector comprising 40% of responses. Agriculture, forestry and fishing; wholesale and retail trade sectors also provided a higher response as compared to the rest of the sectors. This was a good representation considering that these sectors contribute significantly to GDP as compared to the other sectors.

Figure 4: Distribution of Respondents by Enterprise Type



The majority of the respondents were from public/private companies as shown in figure 4. This has always been the trend. This is a reflection of the targeted sample.

Figure 5: Distribution of Respondents by Ownership Structure

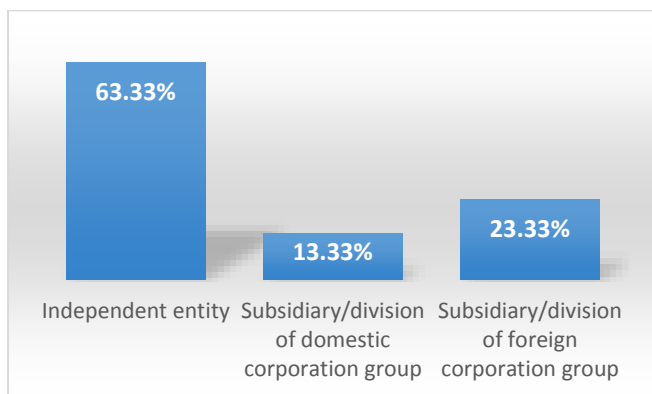
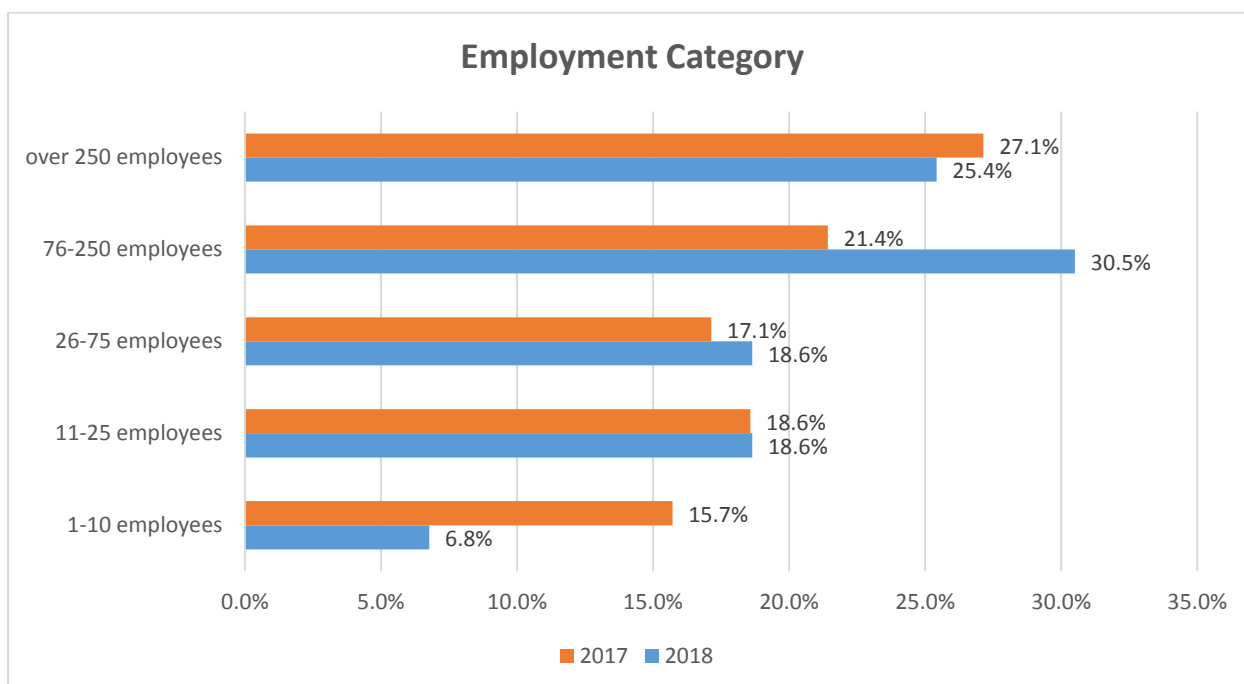


Figure 5 shows the distribution of respondents by ownership type. The majority of the respondents were independent entities

Figure 6: Comparative Distribution of Respondents by Employee Category



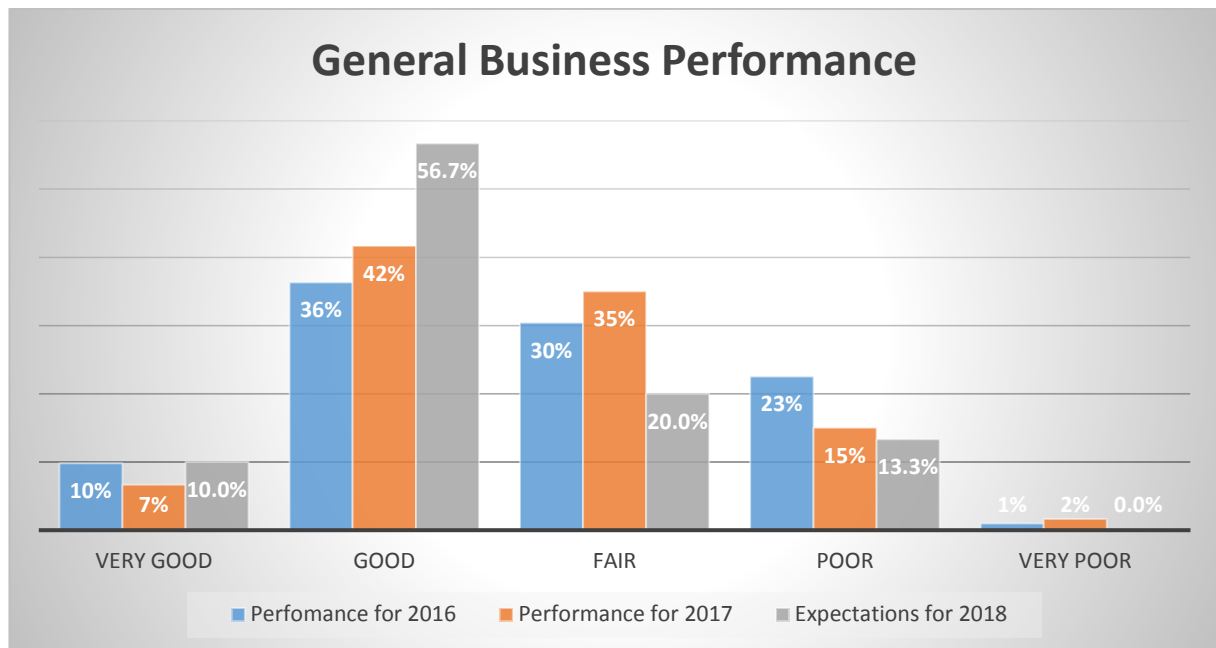
A larger number of the responses were from large enterprises as compared to the smaller ones, just like in the previous surveys as shown in the figure above. This indicates that large enterprises are always ready to express their views in these surveys unlike smaller enterprises.

5. Business Climate and Performance

5.1. General Business Performance

The respondents were asked to rate the performance of their business in 2017 and their expectations for 2018. The expected business performance for 2018 shows a slight improvement compared to 2017 performance. This is depicted in the figure 7 below. The majority of responses cluster around good and fair compared to the ratings of very good, poor and very poor. This shows there are some improvements in the business environment that are making businesses expect better performance in 2018 as compared to 2017.

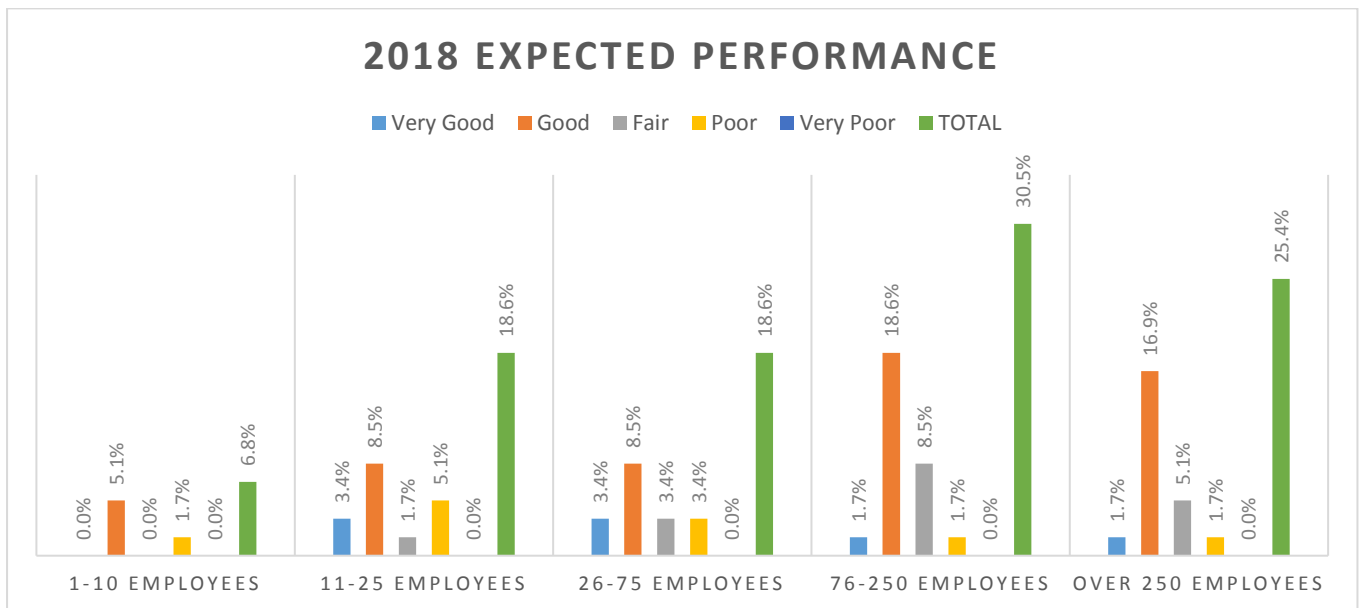
Figure 7: Comparative Business Performance from 2016 to 2017 and Expectations for 2018



As shown in the figure 8 below, larger enterprises anticipate better performance in 2018 as compared to smaller ones. This could be the case as smaller businesses easily feel the pinch from any economic downturn unlike large enterprises.

Figure 8: Business Performance According to Size of Business

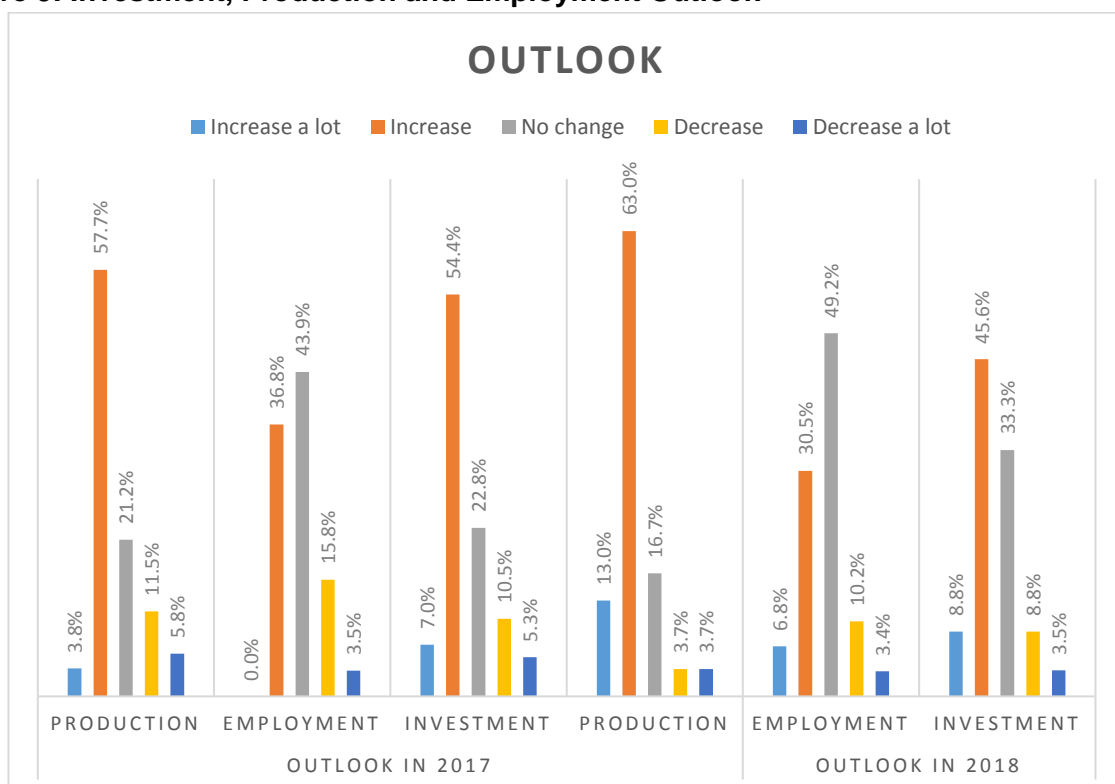




5.2. Investment, Production and Employment Outlook

Figure 9 shows that production outlook still remains relatively better compared to employment and investment outlook just as the previous survey indicated. This shows that businesses do not have full confidence in the business environment in order to make changes in their operations.

Figure 9: Investment, Production and Employment Outlook



5.3. Business Confidence Index

A Business Confidence Index (BCI)¹ is a qualitative index of scores of enterprises' assesment of current as well as future expectations of business climate indicators. The indicators shown in the table below include current performance, expected business performance, employment outlook and investment outlook.

The expected business performance and outlook are used to estimate business confidence in the economy. Business Confidence Index helps to understand the overview of the state of the economy. The Business Confidence Index (BCI) in 2018 is calculated at 69.5 percent against 67 percent recorded in 2017. This shows that business confidence improved by 2.5 percent in 2018 compared to 2017.

Table 1: Business Climate Scores

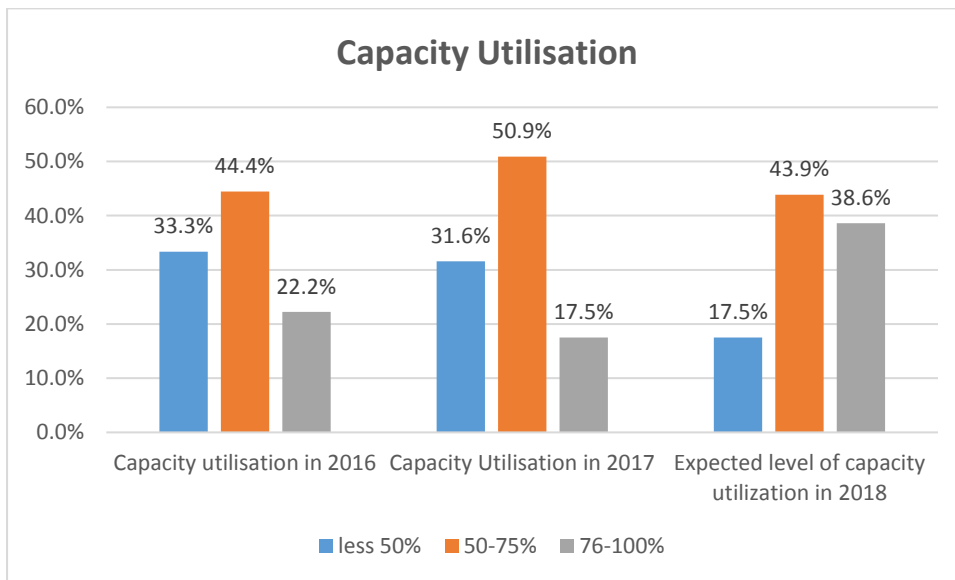
	2014	2015	2016	2017	2018
Current Business Performance	25.00	32.86	17.16	26.92	18.33
Expected Business Performance	34.00	5.00	15.69	16.50	31.67
Investment Outlook	31.50	22.46	17.16	14.00	25.93
Employment Outlook	22.50	12.86	17.16	13.00	15.18

5.4. Production Capacity Utilization

Capacity utilization measures firm's total possible actual output as a percentage of total potential output in a given time period. As compared with the previous years, in 2018 a percentage of those producing above 76% has significantly increased. However, the majority still remains in the range of 50-75 percent for 2018 and for the past two years. Another interesting outcome is that the proportion of those producing below 50% has tremendously reduced as compared to the previous years.

Figure 10: Production Capacity Utilization

¹ ¹ Business Confidence Index is calculated as $(BCI) = \frac{(P+EP+IO+EO)}{BCI_{2013}} * 100$. Opinions are compared to a "normal state" which is a base year. An index value above that recorded the previous year shows an improvement in the perceived confidence whilst a decline implies a perceived decline in the confidence. However, the BCI score of below 100 percent shows that the confidence levels is low. It is desirable that the BCI score should be in excess of 100 percent from year to year.



5.5. Prospects for Exports and Imports

Figure 11 below provides export prospects for the year 2018. The respondents reveal the picture that both SADC and COMESA remain great opportunities for businesses compared to regions beyond. This shows that businesses are now focusing more in the regional markets. It is possible that economic developments outside the two regions are affecting the business confidence in terms of their export revenue prospects.

Figure 11: Prospects for Exports

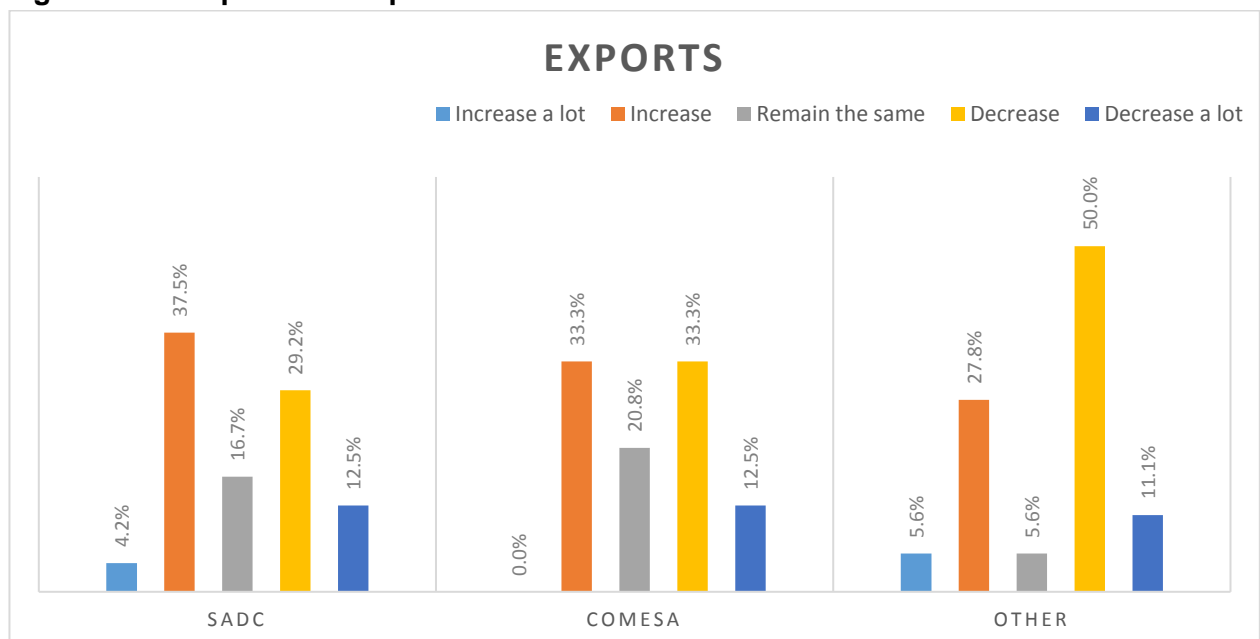
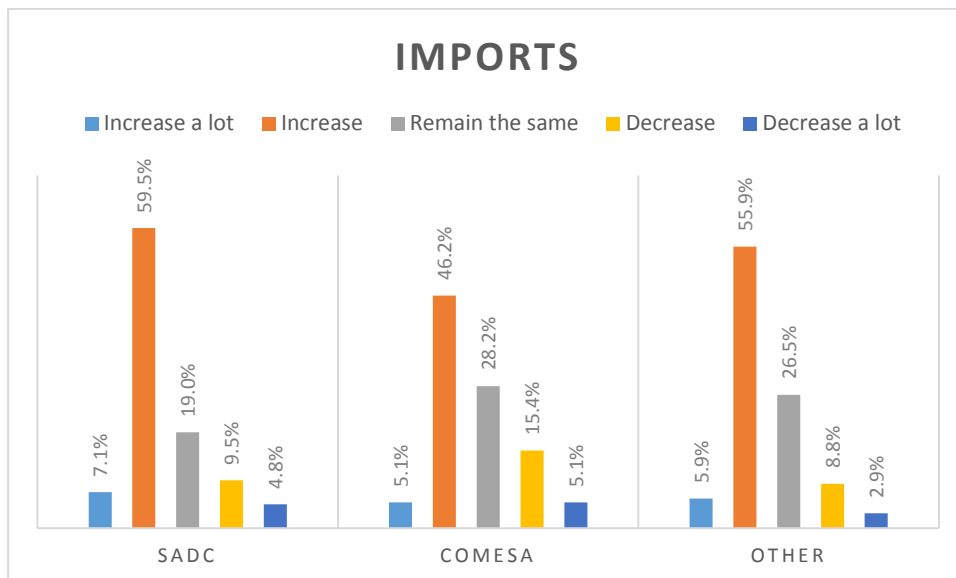


Figure 12 below shows that prospects are high for increased imports from the SADC region than from COMESA and other regions. The nation continues to import more from its trading partners which are within the SADC region, that is, the nation is not producing for its own consumption.

Figure 12: Prospects for Imports

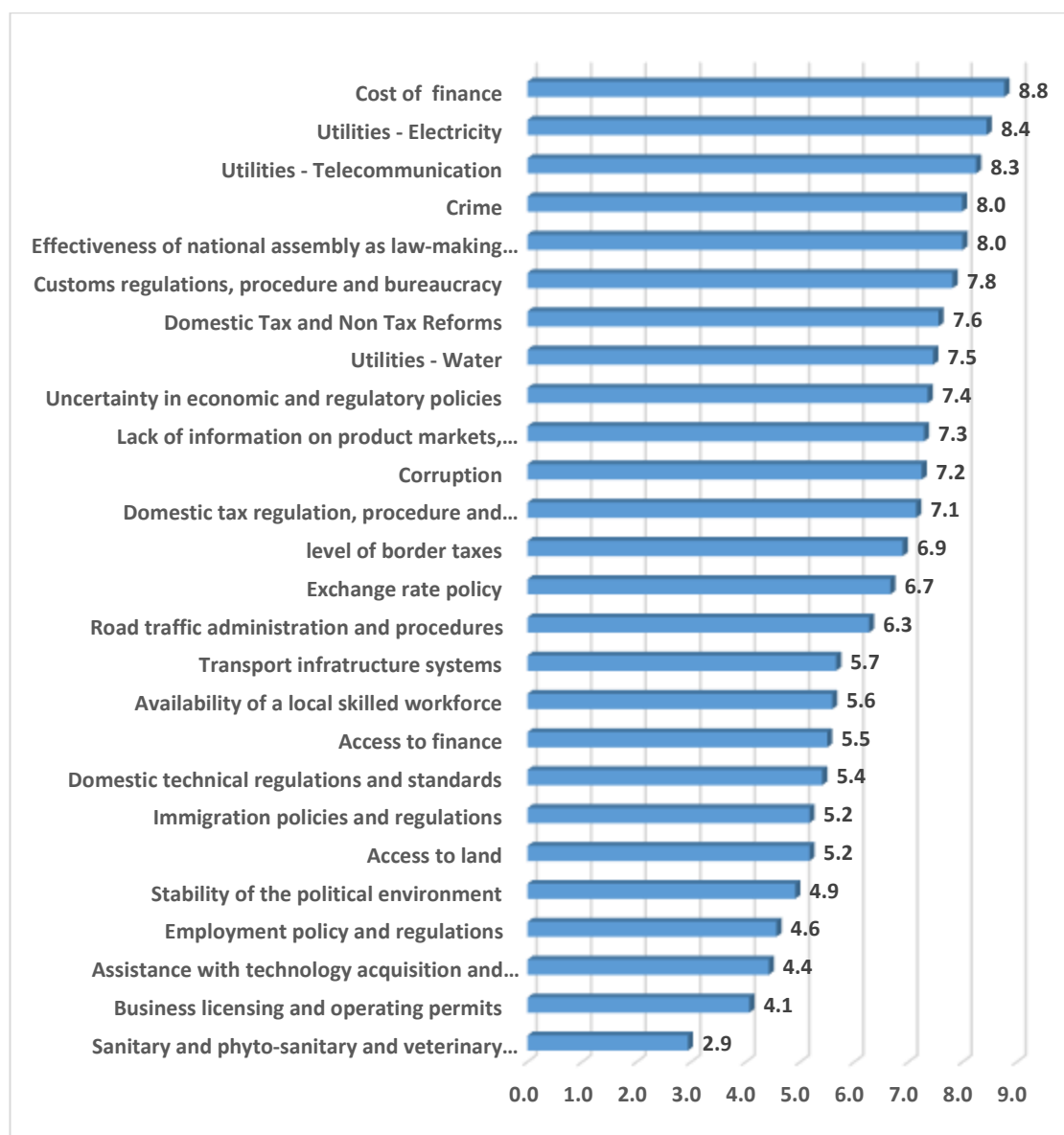


6. Obstacles to Doing Business

6.1. Overall Rating

Figure 13 below shows rating of challenges to doing business in Malawi. The ratings of the potential obstacles are on a scale of 1 to 10. According to the rating scale, obstacles rated 1 to 5 are minor, those rated 6 to 7 are moderate and those rated from 7 to 10 are considered as major obstacles.

Figure 13: Obstacles to Doing Business



6.2. Issues on Major Obstacles to Doing Business

6.2.1. Cost of Finance (8.8)

Cost of finance is one of the factors that has remained a major obstacle in Malawi. In 2016 it was the top most obstacle to doing business and then moved 8 steps

downwards due to optimism from businesses with the downward trend of lending rates since November 2016. The reduction in lending rates which continued in 2018 was not significant enough to trigger increased private sector borrowing since the rate remains very high. At policy rate of 16 percent which has been maintained since November 2017, base lending rates hover around 24 percent in 2018.

Malawi lacks a variety of financial instruments especially long term financial instruments which can help make available affordable capital for investment. Businesses are still expectant of better interest rates with the establishment of the Malawi Agricultural and Industrial Investment Corporation.

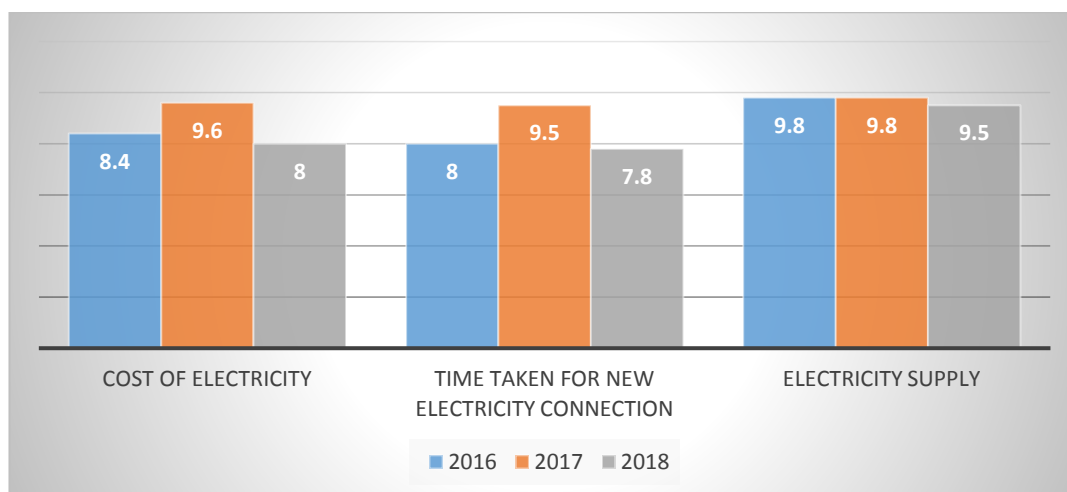
6.2.2. Utilities – Electricity (8.4)

Electricity is the second biggest obstacle to doing business in 2018 across all parameters in terms of cost; time taken for new connections; and electricity supply as presented in figure 14 below. Electricity has always remained a major obstacle to doing business in Malawi. The continuous high rating reflects lack of seriousness by authorities to support this sector with timely interventions. Most interventions are missing deadlines and their future cannot be clearly determined such as the Kammwamba Coal Fired Plant, and Malawi – Mozambique Interconnector. During the year 2018, generation capacity has consistently been managed with less than 200MW of available water supply in the Shire River. Manufacturing companies continue to struggle with production capacity since they are forced to halt production at least 2 to 3 times a week due to load shedding.

Businesses have also expressed low improvements in terms of time taken for new electricity connection and higher costs without additional power supply.

Businesses have high expectations of power supply as more players have shown interest to generate power using renewable resources particularly solar. Malawi has also successfully finalized implementation of the USA Millennium Challenge Account support project in 2018 which has improved the electricity backbone infrastructure.

Figure 14: Major Rated Obstacles in the Electricity Sector

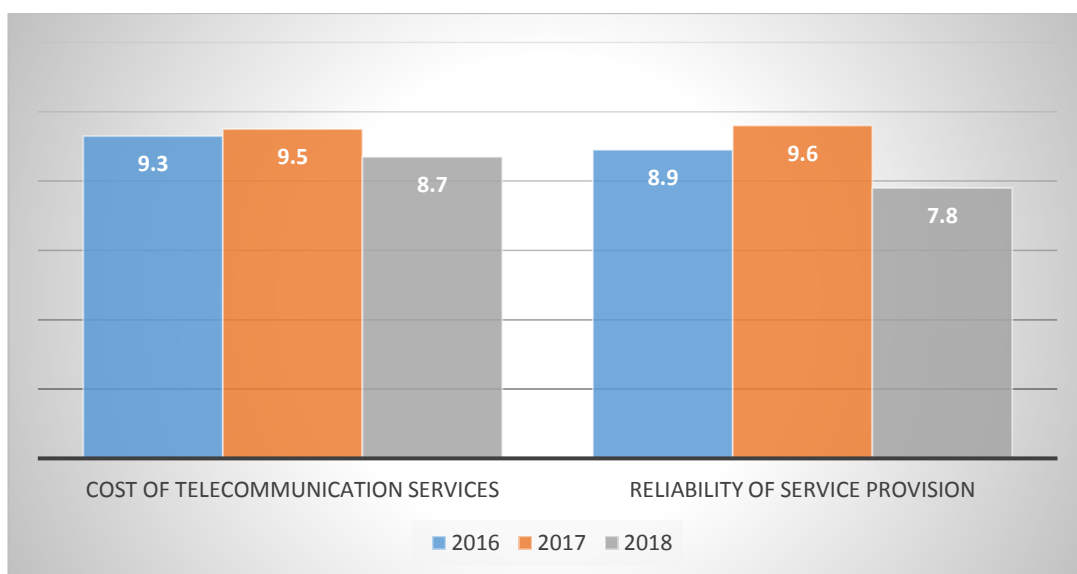


6.2.3. Utilities – Telecommunication (8.3)

Provision of telecommunication services is a catalyst for economic development in this era of digital transformation. These services include data or internet, voice, among others which are used by all businesses. Over the past four years, telecommunication services have been consistently rated as a major obstacle to doing business in Malawi. Businesses experience a lot of telecommunication hiccups coupled with high charges. A number of issues have emerged which makes service provision a challenge. The supply side of the services is also affected by several factors such as fibre coverage, less per capita income in Malawi, pricing and legal framework. The legal framework is governed by Malawi Communications Regulatory Authority (MACRA) which focusses more on revenue than cost. The taxation framework is less friendly and the MACRA levy is based on Gross Revenue. On the other hand, telecommunication providers are not coping with changing demands by the populace such as increased use of mobile phones for a variety of services.

As shown in figure 15, rating of both reliability of broad telecommunication services and cost of telecommunication services remain high in 2018. These challenges pose threats to digital transformation in Malawi.

Figure 15: Major Rated Obstacles under Telecommunication

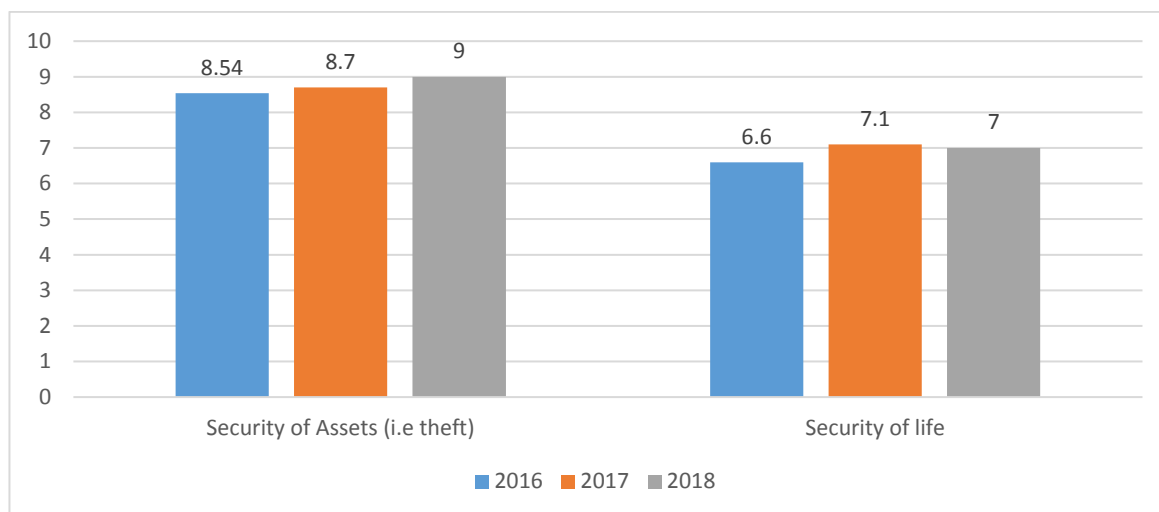


6.2.4. Crime (8.0)

Crime is rated at 8.0 in 2018. The survey focused on two aspects being theft of companies' assets as well as insecurity of lives for both the existing investors and potential investors depicted in the figure 16 below. Security is a public good for businesses but many businesses hire private security companies in an effort to complement efforts by Government. However, the cost burden is increasing on businesses as Government is unable to meet the security requirements due to

inadequate police staff (police to population ratio is 1:1226), lack of adequate police vehicles and inadequate financing.

Figure 16: Major Obstacles under Crime

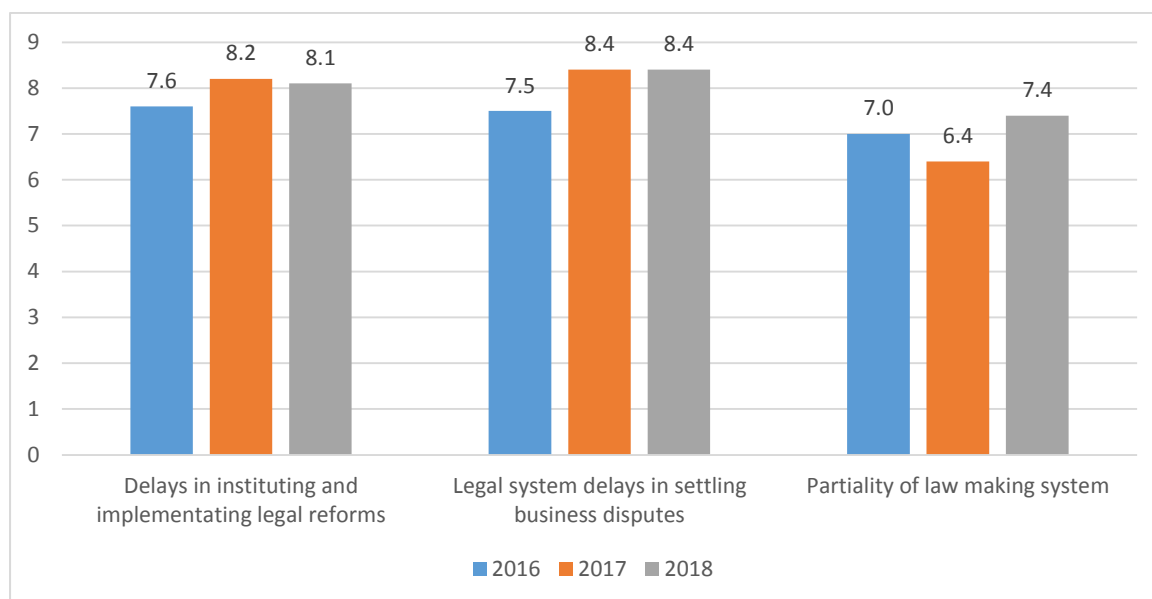


6.2.5. Effectiveness of the National Assembly as a Law making Institution (8.0)

The rating of effectiveness of the National Assembly as a law making institution is not significantly different from the past two years. In 2016, it was rated 7.6 at position 8 and it moved downwards to position 14 in 2017. The high rating of 8.0 in 2018 is a manifestation of lack of trust businesses have with members of the National Assembly. Some important Bills such as Control of Goods Act which is responsible for export and import controls was passed in Parliament which is good for private sector but some have not been concluded such as Tobacco Industry Bill. The view of the private sector is that members of the National Assembly should be probing the Executive to ensure that bills are tabled in parliament in a timely manner. Bills such as the seed bill are yet to be discussed in Parliament.

Respondents measured the effectiveness of the National Assembly based on three pillars which are; delays in instituting and implementing legal reforms, legal system delays in settling business disputes and partiality of the law making system. The National Assembly is viewed as an oversight body to ensure that anything to do with regulations is effectively developed, implemented and passed in Parliament in the country. All the three pillars presented in the figure below have not performed well according to rating of businesses.

Figure 17: Major Rated Obstacles under Effectiveness of National Assembly as a Law making Institution



6.2.6. Customs Regulations, Procedure and Bureaucracy (7.8)

This factor continues to be a major challenge as perceived by businesses. The main issue businesses have pointed out is lack of responsiveness by the Malawi Revenue Authority on administration of some Incentive schemes such as Industrial Rebate Scheme which had a lot of hurdles during renewal at the beginning of the year 2018 where many businesses paid duties which could have been avoided. The businesses perceived this as intentional in order for the Malawi Revenue Authority to meet Revenue targets. This was being done inspite of the institutionalization of an Advisory Committee which is unfortunately also chaired by Malawi Revenue Authority who are also the Secretariat.

The respondents have also expressed continued lack of ethics and professional standards where regulations are not well enforced due to increase of smuggled goods both through chartered and unchartered routes. Several businesses have been affected such that their products become less competitive compared to smuggled goods which fetch lower prices.

Lack of ethics and professional standards become imbedded costs to genuine businesses due to delays particularly at the borders

6.2.7. Domestic tax and non-tax reforms (7.6)

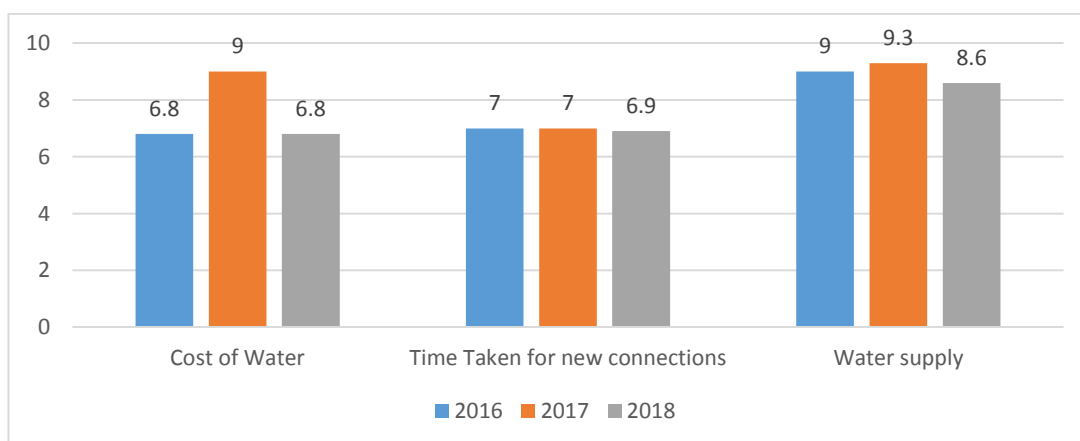
This factor is a direct influence of reforms introduced during the presentation of the National Budget. The outcome of domestic tax and non-tax reforms introduced

during the National Budget do not reflect the desires of a better business environment proposed by players in the private sector. Recent experience has shown that when the reforms are announced during the presentation of a fiscal budget in parliament, the budget is more focussed on generation of government revenue at the expense of boosting private sector development. In the 2018/19 budget session, there was a revoked provision to recover costs for procuring Electronic Fiscal Devices (EFDs); but VAT operators are still expected to expense the cost of purchasing EFDs under the Taxation Act. Furthermore, the budget introduced the term withholding agent where there will be registration of these withholding agent to impose the tax liability on the withholding agent where there is failure to withhold the Non-Resident Tax.

6.2.8. Utilities – Water (7.5)

The water tariff was increased by 7.5 percent during the year but this has not improved water supply services. Businesses indicated that there has been a lot of water supply disruptions during the year and Water Boards performance has not lived to expectations especially when the country is focusing on reforms. The supply of water services remains a monopolistic business in Malawi and therefore marred by great inefficiencies. The dependence of water supply from electricity has also contributed to water challenges during the year. As shown in figure 18 below, time taken for new connections and water supply are the key issues. There have been a lot of feasibility studies conducted in the water sector and discussions of potential water sources but investment has not been forthcoming.

Figure 18: Major Obstacles under Water Sector



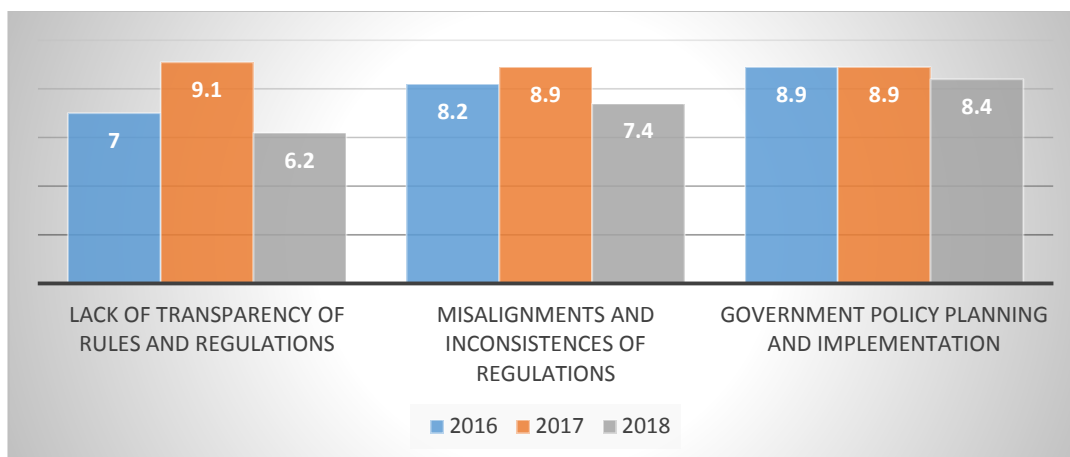
6.2.9. Uncertainty in Economic and Regulatory Policies (7.4)

Uncertainty created in the economic and regulatory policies is rated 7.4 in 2018 down from a rating of 9.0 in 2017. Enactment of the Control of Goods Act has reduced the rating. The major issue pointed out by businesses was mainly on implementation of Government Policies and enforcement of regulations which are

overlooked. Government has been instituting export bans, which is now being resolved with enactment of the Amended Control of Goods Act. However, since the regulations have not been completed, the Act remains ineffective.

Figure 19 below shows how businesses perceive specific aspects of the policy environment.

Figure 19: Major Rated Obstacles under Economic and Regulatory Policies Uncertainty



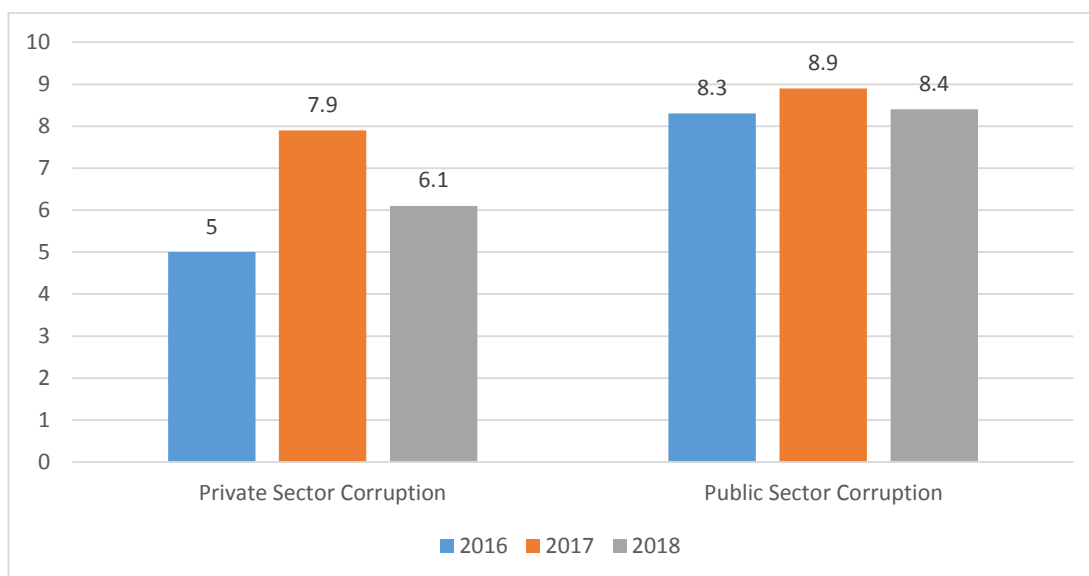
6.2.10. Lack of Information on product markets, technology (7.3)

Malawi's dependency on primary traditional exports creates a lot of challenges in accessing ready markets for its products. The National Export Strategy (NES) which expires at the end of 2018 has not created a favourable environment to improve exports. Public institutions such as Malawi Investment Trade Centre are still undergoing re-engineering processes to fully implement an export and investment agenda for the country. Lack of information on diversified markets and opportunities for technology developments have hindered growth of businesses.

6.2.11. Corruption (7.2)

Businesses expressed their opinion by assessing prevalence of corruption in both public and private sector. The rating for corruption was high at 7.2. Corruption is evident in many Public Institutions that offer services to businesses. The businesses viewed corruption as deeply entrenched in the values and systems in the work place and is encouraged by lack of effectiveness of responsible institutions to deal with it. Private sector corruption has declined in 2018.

Figure 20: Major Obstacles under Corruption



6.2.12. Domestic Tax Regulations, procedures and bureaucracy (8.6)

This rating is inclusive of forms of taxes and other charges levied by various authorities as well. Some businesses would like to see the Malawi Revenue Authority become more business oriented in their dealings than conducting the frequent tax audits as if targeted.

There are inefficiencies in the current tax dispute resolution, including administrative delays by the Malawi Revenue Authority (MRA) and delays by the courts in resolving appeals. The establishment of the Tribunal which is taking time would improve the efficiency and effectiveness of the tax dispute resolution mechanism.

Malawi Bureau of Standards which is responsible for standards is a judge, jury and executor using subjective and qualitative approaches to do their assessments. There is need for an appeal system that includes both private and public sector to resolve disputes the same way labour disputes are handled in Malawi.

6.3. Trend of the Obstacles to Doing Business

Figure 21 : Trend of Obstacles to Doing Business

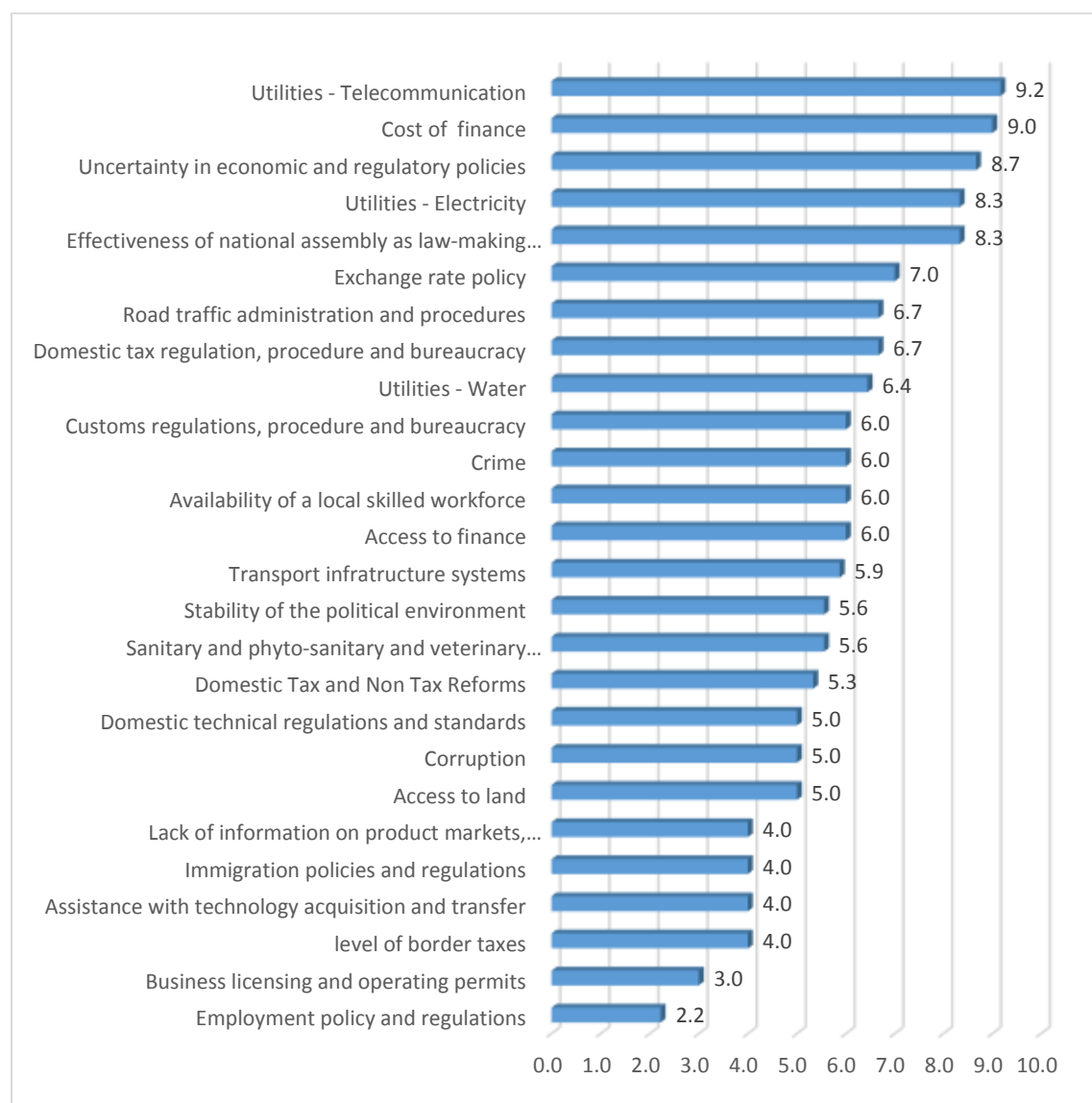
	2012	2013	2014	2015	2016	2017	2018
1	Electricity	Electricity	Uncertainty in Economic & Regulator Policies	Cost of Finance	Cost of Finance	Electricity	Cost of Finance
2	Crime/Theft	Uncertainty in Economic & Regulatory Policies	Crime/Theft	Electricity	Telecom	Telecom	Electricity
3	Exchange Rate Policy	Cost of Finance	Electricity	Telecom	Electricity	Uncertainty in Economic & Regulator Policies	Telecom
4	Uncertainty in Economic & Regulator Policies	Crime/Theft	Cost of Finance	Uncertainty in Economic & Regulatory Policies	Uncertainty in Economic & Regulator Policies	Customs regulations, Procedures & bureacr	Crime/Theft
5	Cost of Finance	Customs regulations, Procedures & bureacr	Water	Crime/Theft	Crime/Theft	Domestic Tax and Non Tax Reforms	Effectiveness of National Assembly as law making body
6	Customs regulations, Procedures & bureacr	Transport Infrastructure	Corruption	Customs regulations, Procedures & bureacr	Customs regulations, Procedures & bureacr	Domestic Tax Regulation, Procedure and Bureacr	Customs regulations, Procedures & bureacr

6.4. Obstacles by Sector

6.4.1. Agriculture, Forestry and Fishing

Figure 22 below shows the rating of obstacles by players in the agriculture sector depicting Telecommunications, Cost of Finance, Uncertainty in economic and regulatory policies and Effectiveness of national assembly as top most obstacles to doing business in the sector.

Figure 22: Obstacles of Doing Business in the Agriculture Sector

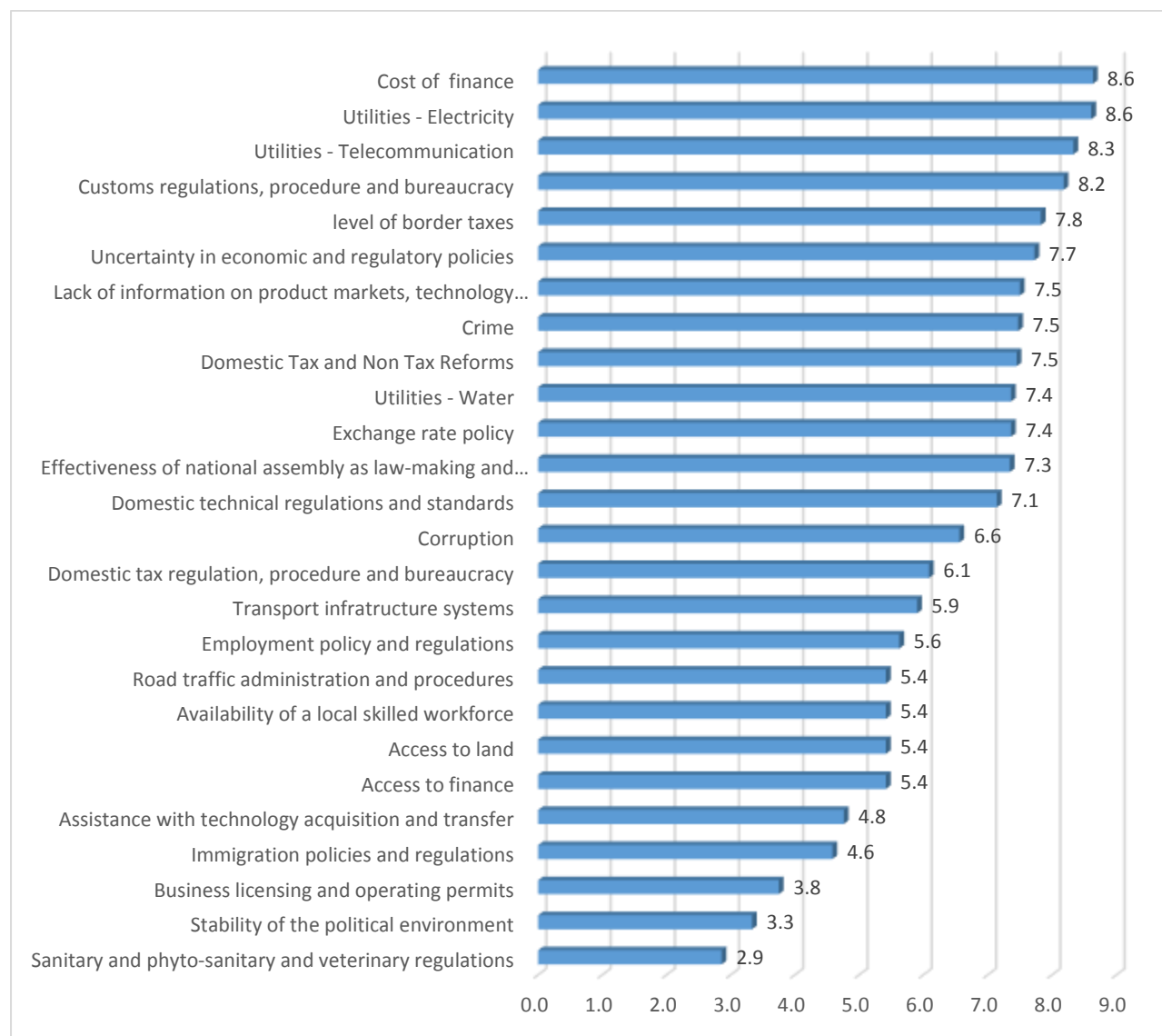


6.4.2. Manufacturing Sector

The rating of key obstacles as perceived by the manufacturing sector are shown in figure 23 below. As observed, Cost of finance, electricity, telecommunications,

Customs regulations, procedure and bureaucracy top the major challenges in the sector.

Figure 23: Obstacles of Doing Business in Manufacturing Sector



6.4.3. Obstacles for Exporter and Importers

The survey also obtained views to assess the ease of doing business for exporters and importers. Businesses were asked to identify the top five most problematic challenges among several challenges which were assessed and shown in figures 24 and 25 below. The rating is based on the percent responses of what businesses considered the most common challenges.

Figure 24: Problematic Factors to Export

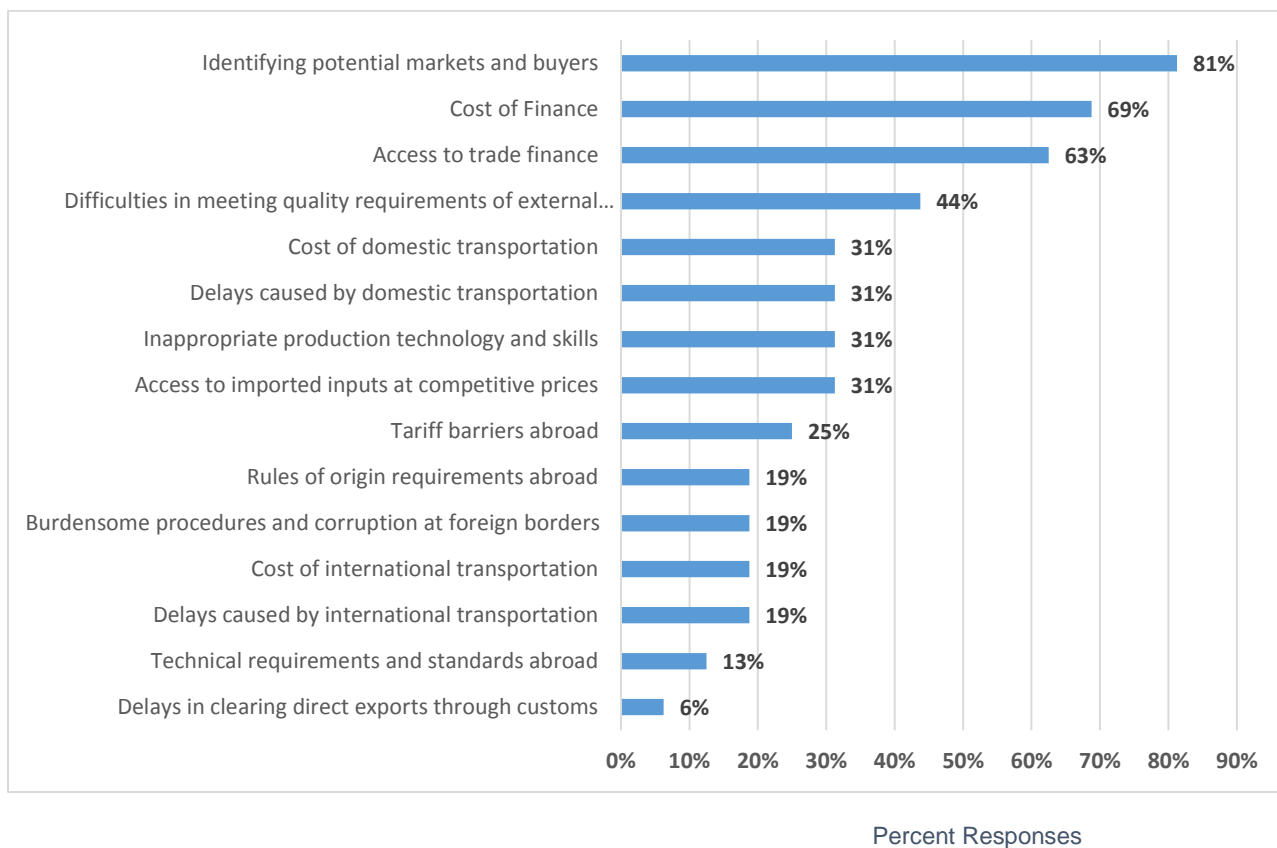
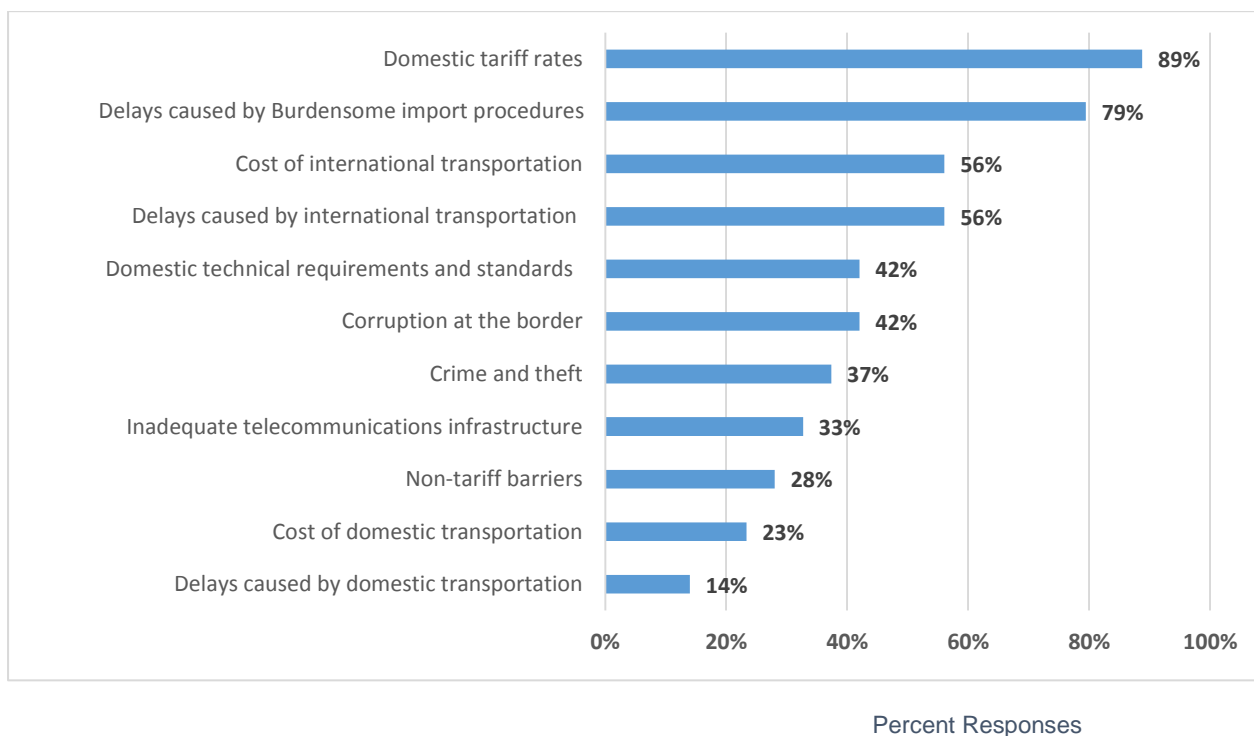


Figure 25: Problematic Factors to Import



7. COMPANY PRODUCTIVITY AND COMPETITIVENESS

The section analyzes some of the internal efforts by companies which affect productivity and competitiveness of the company.

7.1. Research and Development

Research and development are undertaken in order to develop and expand a business' productivity. Table 2 below presents recorded data from 2015 to 2017 on the use of research findings. Results show that not much change has taken place in the number of companies that find research findings important but there has been an increase in expenditure for research and development. The extent to which companies plan and budget to benefit from new technology has not seen a significant rise which may be attributed to the fact that companies do not expect huge benefits from new technology.

Table 2: Distribution or Proportional Responses on Research & Development

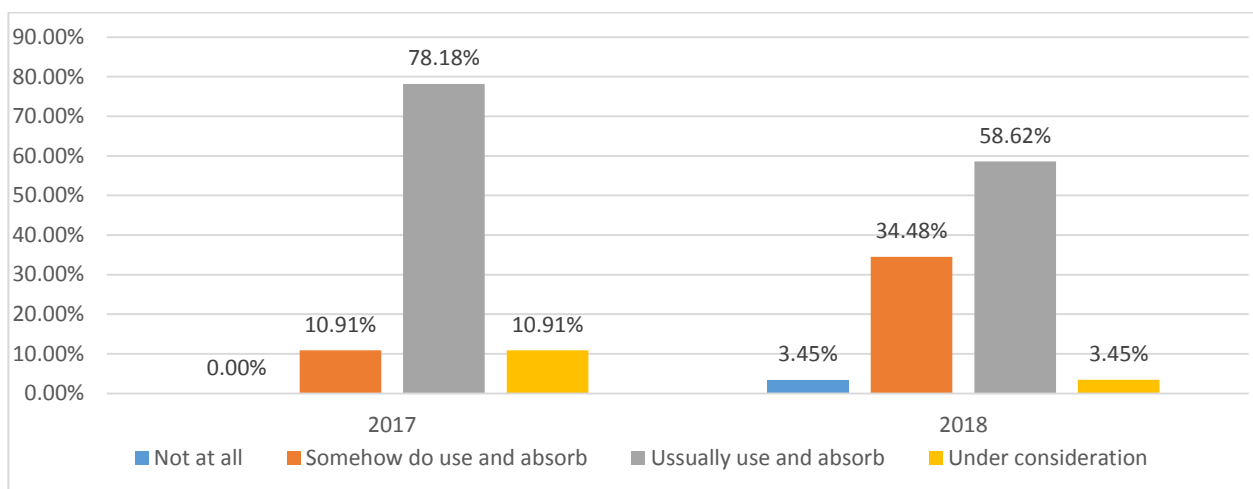
	2015	2016	2017	2018
Extent to which research findings are important for growth of business				
Not at all	9%	9%	5%	5%
Somehow	34%	33%	20%	23%
Very much	57%	58%	75%	71%
Extent to which companies plan and budget to benefit from new technology				
Not at all	20%	26%	15%	27%
Somehow	43%	46%	39%	40%
Very much	37%	28%	45%	32%
Extent to which companies spend on research and development				
Not at all	30%	27%	25%	25%
Somehow	50%	59%	55%	60%
Extensively	20%	14%	18%	16%

7.2. Innovation and Technology Absorption

Figure 26 below shows distribution of responses of how various businesses used and absorbed technology in 2018 as compared to 2017. The results indicate a significant 3.45 percent of business that do not use technology at all and the number of those that somehow use and absorb technology has increased to 34.48 from 10.91 percent. The number of those business respondents that usually use and absorb

technology has dropped to 58.62 percent from 78.18 percent and the number of those considering to use technology has dropped to 3.45 percent from 10.91 percent.

Figure 26: Distributional Responses to Extent of Using and Absorbing New Technology



The decline in use and absorption of new technology may be attributed to failure of these technologies in bringing benefits to businesses hence the increase in the number of companies unwilling to adopt new technologies.

Table 3 below further analyzes the extent to which businesses collaborate with suppliers, competitors, clients, universities and research organizations in risk spreading, combining ideas and leveraging on each other which allows them to lower costs which they would otherwise face as a standalone investor. Results show a slight increase in collaborations among businesses.

Table 3: Collaboration on Technology Flows and Innovations (Proportional Responses)

	2014	2015	2016	2017	2018
Extent to which businesses collaborate with other firms to promote technology flows and innovation					
Do not collaborate	4%	11%	10%	7.41%	9.26%
Somehow collaborate	52%	39%	49%	48.15 %	50.00 %
Collaborate extensively	44%	50%	40%	44.44 %	40.7%

Figure 27 below compares the extent to which businesses utilize information and communication technologies in their daily business operations. The report provides the distribution of responses according to the use of emails, internet and automated accounting systems, automated human resource system, automated procurement system, production and process systems. Although there has been a slight decline in

internet usage which may be attributed to high cost of communication in the region, the use of internet and email still remains high in 2018. Usage of Automated accounting systems has seen a significant increase in 2018

Figure 27: Extent to which Businesses Utilize Information and Communication Technologies

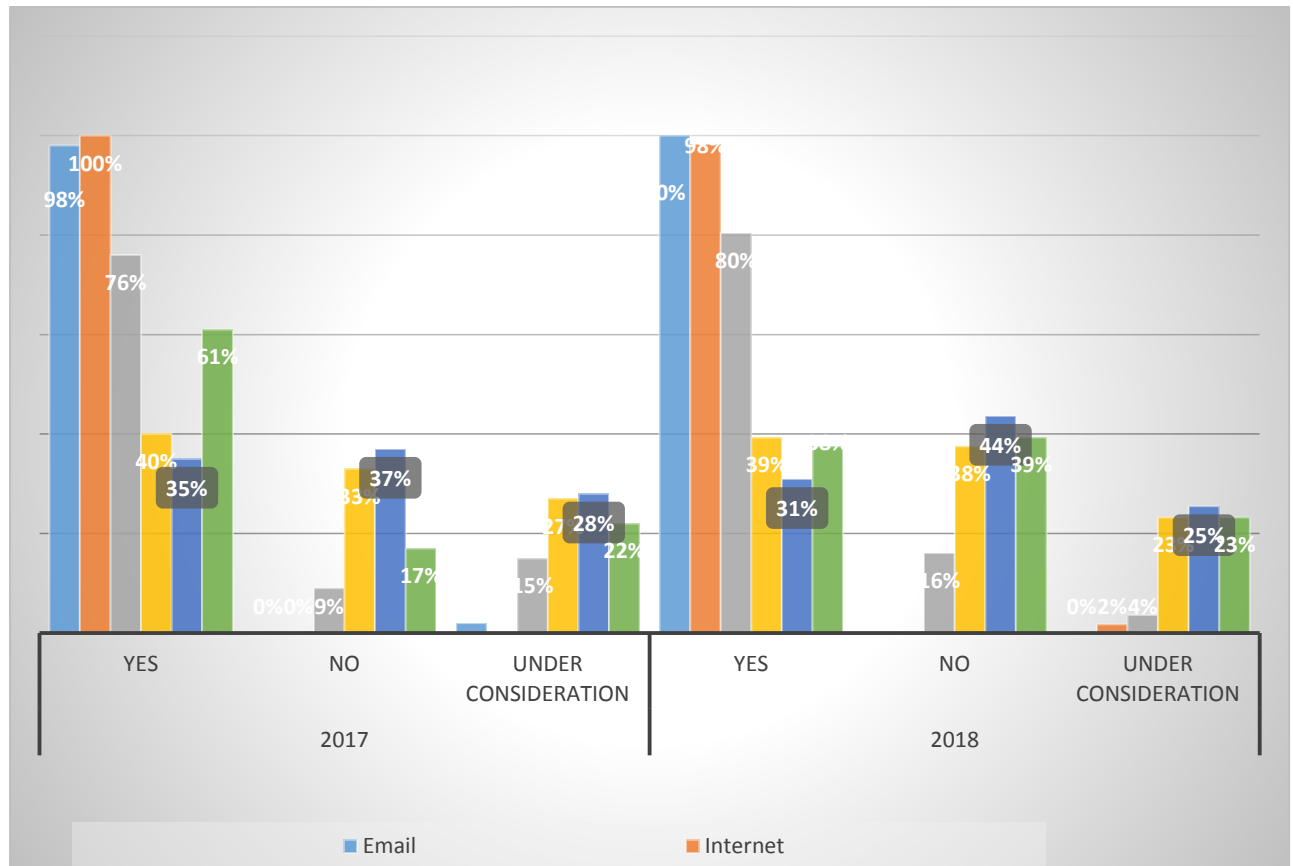
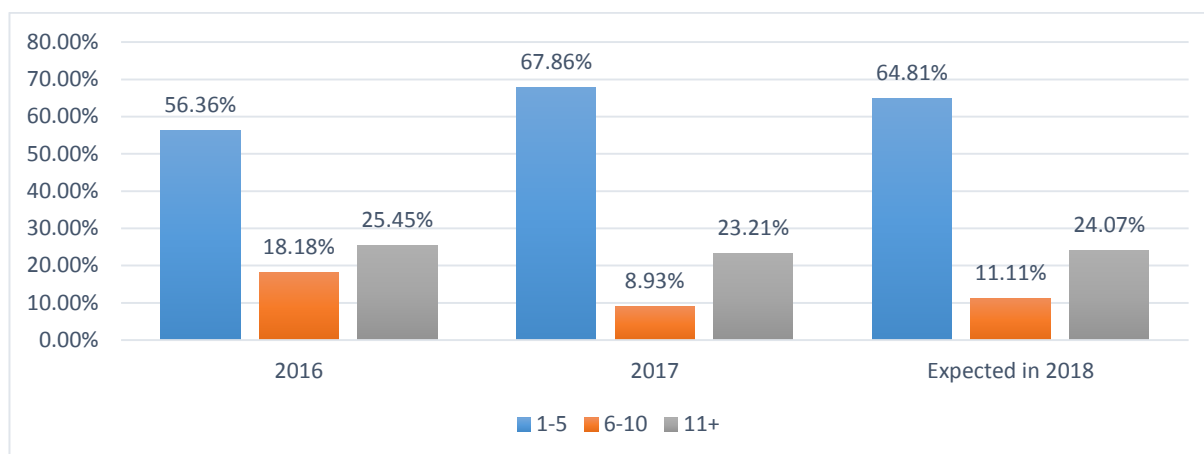


Figure 28 below demonstrate the trends on the ratio of employees to one computer which has experienced some changes over the past three years. As shown in figure, 64.81 percent of the survey respondents have a maximum of 5 employees per one computer. The results also exhibit that the use of computers is increasingly being adopted by many enterprises albeit at a very slow pace.

Figure 28: Average Number of Employees per Desktop or Laptop Computer



7.3. Human Resource Development, Employment and Productivity

Human resource development is one of the top factors that assist in attaining a productive and efficient workforce. Figure 29 below depicts that there is an overall increase in the number of enterprises that have skilled employees, on-the-job training and having tertiary education in 2018 compared to 2017. Particularly, there has been a surge in workforce that attained tertiary education across all categories, followed by skilled labor then on the job training qualifications

Figure 29: Qualification of Employees

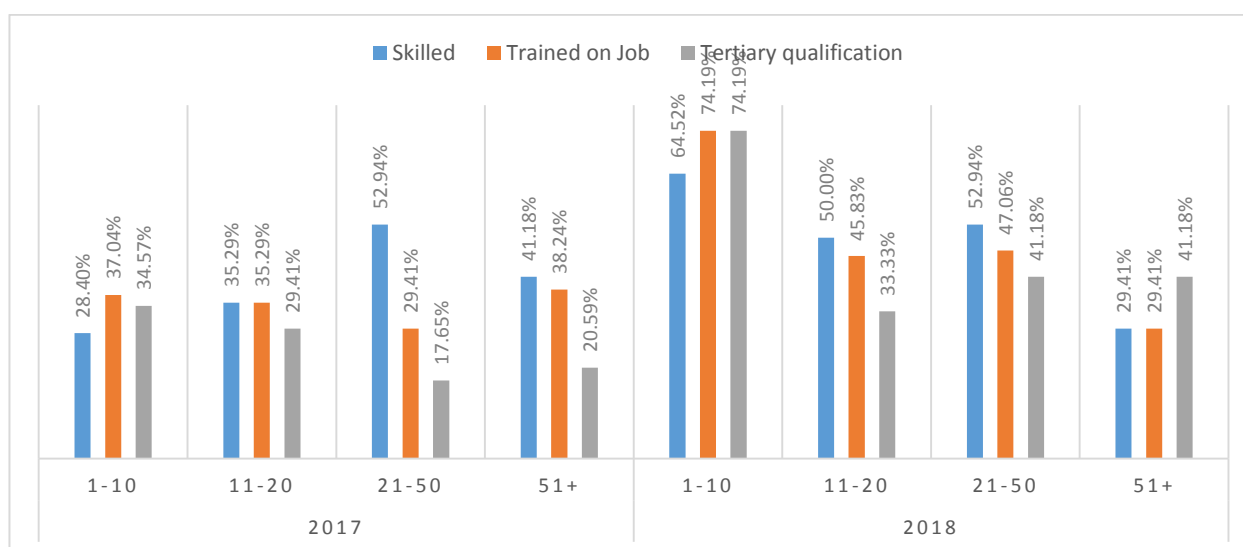


Table 4 below presents complementary factors that explain worker productivity by investigating response distribution for 2018 compared to the years 2014, 2015, 2016 and 2017. Results show that half of the businesses indicated that education does not meet their company needs. The results also show that majority of businesses attract and retain employees. It also shows that majority of respondents have their wages and salaries related to worker productivity.

Table 4: Education and Worker Productivity (Proportional Responses)

Educational system meets needs of your company	2014	2015	2016	2017	2018
Not well at all	8%	13%	18%	7%	50.00%
Somehow	59%	64%	61%	65%	12.50%
Very much	33%	23%	21%	28%	37.50%
Extent to which businesses attract and retain					
Not for long, the best leave	5%	1%	11%	2%	10.17%
a few remain, more leave	17%	19%	20%	6%	16.95%
majority remain	78%	80%	69%	92%	72.88%
Extent of hiring and firing employees?					
rarely	68%	78%	77%	81%	68.42%
often	25%	22%	18%	18%	24.56%
very often	7%	0%	5%	0%	7.02%
Extent to which wages or salaries are related to worker productivity					
Not related to productivity, but to outside forces such as government wages and inflation	18%	14%	34%	9.43%	29.31%
related partly to qualification and partly to expertise	55%	52%	43%	52.83%	50.00%
strongly directly related to worker productivity	27%	33%	23%	37.74%	20.69%

7.4. HIV AND AIDS

HIV and AIDS has affected a good number of the Malawian population which affects quality of workforce. Businesses were asked the extent to which HIV and AIDS affects their operations and secondly whether they implemented programmes and strategies to encourage behavioral change. The figures below depict distribution of responses.

Figure 30: Impact of HIV/AIDS

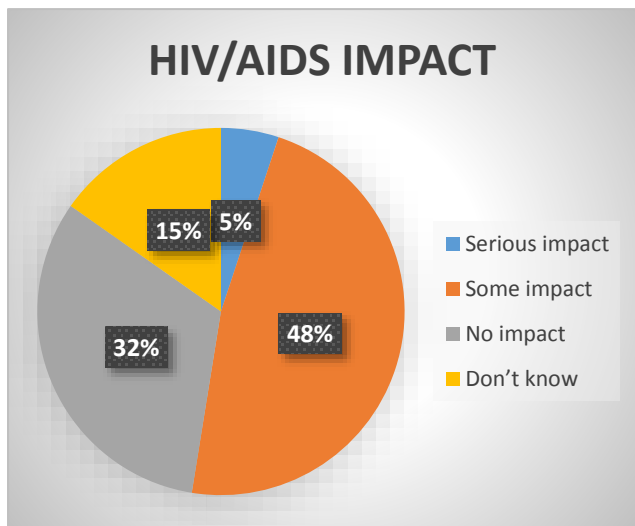
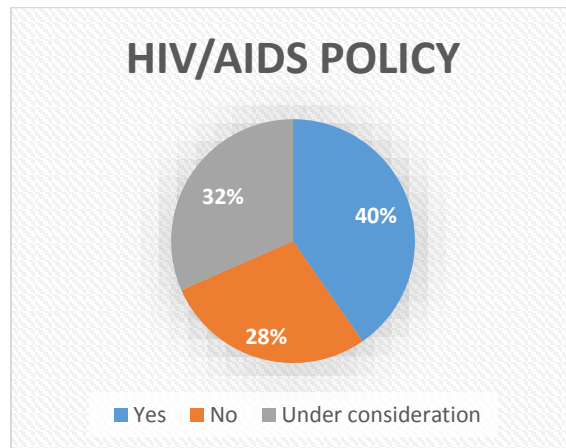


Figure 31: Figure 21: Work Place HIV and AIDS Policy

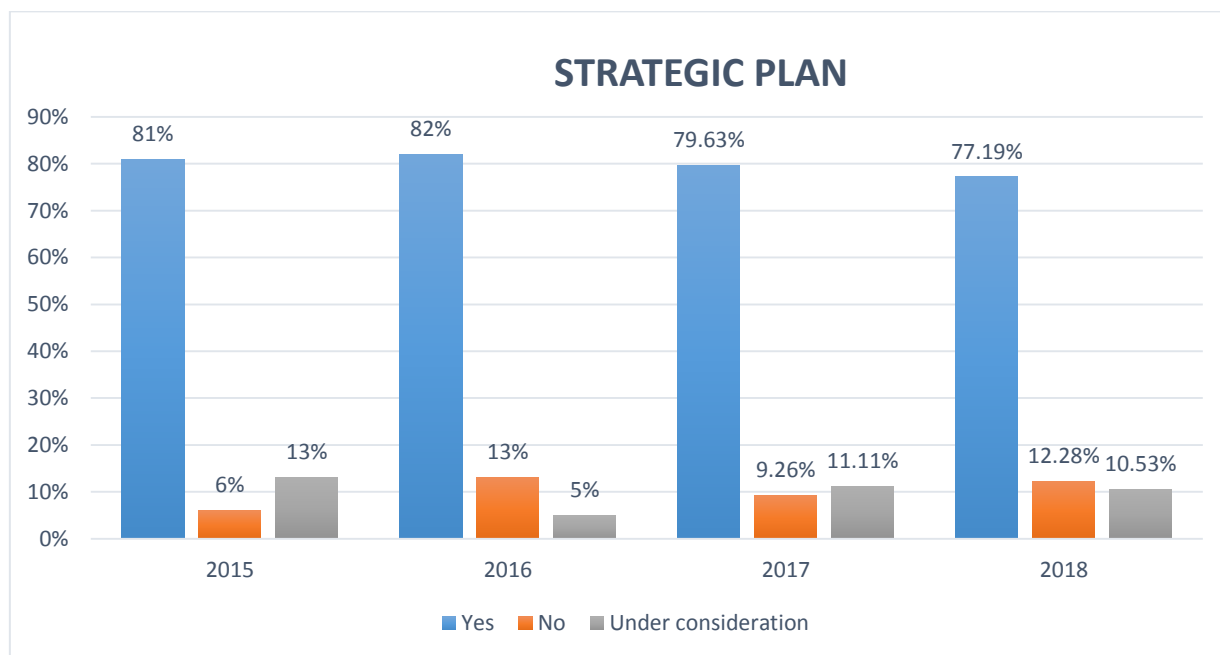


At least 45 percent of businesses have an HIV/AIDS policy and 48 percent of businesses indicated that their businesses are impacted by HIV/AIDS.

7.5. STRATEGIC PLANNING

Having a strategic plan ensures that businesses execute their daily operations towards a number of goals they would like to achieve. Figure 32 below shows the distribution of responses on having a strategic plan. Consistently, the figure shows that most businesses have a strategic plan.

Figure 32: Strategic Plan



8. SUMMARY OF KEY OBSERVATIONS AND RECOMMENDATIONS

The performance of business as expressed by businesses in 2018 does not show significant changes compared to previous years. This is a reflection of the economic performance of the country. In 2017, Malawi's economy registered a GDP growth rate of 5.1 percent which was a recovery from 2.7 percent registered in 2016 and a good indicator of the direction of the Economy. The growth in 2017 was mainly attributed to rebound in agricultural production and continued reduction in inflation. In 2018, however, Malawi is estimated to register a GDP growth of 4.1 percent which is a slow down from the registered growth rate of 5.1 percent in 2017. This is the trend that the Malawian economy continues to face year after year as policy makers fail to maintain a stable growth trend. Studies have shown that for an economy to grow, there is need for a steady growth rate that is not highly volatile for at least 5 years in a row.

This survey report is conducted in order to analyze the business environment which is one of the main factors that drives the growth of the economy. Every year, the survey identifies main obstacles to doing business in Malawi and as such there are a number of obstacles that always reappear on the list and these are the major issues that need to be addressed.

This report advances the following specific recommendations:

1. The cost of finance is the top most challenge to doing business in 2018 and has persistently been in the top 3 of the main obstacles to doing business over the past 4 years of the survey. Malawi as a developing country belongs in the top 20 poorest countries in the world meaning a great number of the population live under \$1 per day. Starting or maintaining a business requires financial investment but it is very difficult for business persons to access these funds from reputable financial institutions due to the high cost of borrowing. Although the policy rate was reduced and maintained at 16 percent, interest rates still remain high with a base lending rate of 24.78 whilst savings rate remains low.

For businesses, this means that a great part of their profits in the first few years of operation are directed to repaying loans instead of reinvesting into the business and by the time they finish repaying the loan the business cannot survive on its own. The high interest rates can be witnessed by the increase in non-performing loans recorded for commercial banks in 2017.

Efforts by Government have been observed in the improvements of the macroeconomic environment and establishment of a development financial corporation, Malawi Agricultural and Industrial Investment Corporation but Government should curb its borrowing appetite from the market.

2. Electricity is the number two obstacle to doing business in 2018. A number of developments have occurred since liberalization of energy generation with many private players intending to participate. At the moment no additional power has been added to the grid and power supply remains intermittent. Manufacturing companies continue to struggle with production capacity as they are forced to stop production at least 2/3 times a week due to load shedding.

The sector requires greater support in facilitation of such investments to generate more electricity to meet the growing demand in Malawi.

3. Telecommunications have remained in the top three obstacles to doing business in Malawi. Telecommunication services particularly electronic forms of internet and mobile network has been a hitch for the past few years. The mobile usage in the country is slowly growing, but with one of the highest tariffs in the region. Service providers offer substandard services at very high costs with the networks often experiencing interferences and random cuts during phone calls. Among the small mobile phone reach, an even smaller population has access to the internet which is also coupled with very high rates and poor network.

To improve competitiveness, medium to big business enterprises rely on an efficient telecommunications system in undertaking innovative ways of doing business such as production systems, communication systems, accounting systems and human resource and management systems. The regulatory institutions and policy holders need to put in place strict standards for mobile operators as well as making the market open to new entrants which will encourage more competitive rates. There is also need to review the tariff structure and levies charged in the sector.

4. Crime/Theft also continue to register as a challenge and there is a significant rise to the top four major obstacles to doing business in Malawi. This is a major obstacle in the wholesale & retail and manufacturing sectors where companies struggle with theft and vandalism of property. Enterprises dealing with theft experience a gap in their production line as they always have to replace the stolen goods and this costs them money.

There is need to enhance public security provision in the country to reduce high costs incurred by businesses in spending for more private security.

5. Customs regulations, procedures and bureaucracy has also registered as a great challenge and in the top five of the main obstacles of doing businesses in Malawi. This is mainly faced in manufacturing and wholesale & retail where businesses undertaking customs procedures face a lot of red tapes when importing materials for their businesses. Most businesses complain about delays in processing goods due to bad customer service as well as long procedures that need to be undertaken when importing goods which make doing business difficult as the business is put on hold. Innovations such as the one stop border post and the Coordinated Border Management (CBM) should be fast tracked in order to reduce the inefficiencies at the border.

The Authority responsible for Customs regulations and procedures should also strengthen the Anti-Smuggling Units and ensure that officers should instill proper ethics and professional standards in carrying out their activities.

6. Domestic Tax and Non-Tax Reforms has also been registered as a challenge because of uncertainty that surrounds implementation of tax reforms which are introduced during budget session. The reforms are viewed as intentionally focusing on raising revenues and not facilitating and support business growth. It is

recommended that Government should review the whole tax system to ensure that it supports private sector development.

7. Water supply is another obstacle of doing business in Malawi. The country has been facing decline in water reserves due to climate change hence access to running water has been dwindling. It is difficult for businesses to operate successfully without water because it is an essential need to employees. The government needs to implement innovative recycling water to reserve and preserve water and invest in water resources management
8. Uncertainty in economic and regulatory policies scored 7.4 on obstacles to doing business. This issue affects mainly the Agriculture and Manufacturing sectors where government enforces certain policies without efficiently assessing the impact of these policies on businesses. The government needs to make appropriate consultations before implementing policies that have long term impacts on businesses. The regulations for the Control of Goods Act which was passed in Parliament and assented to need to be finalized.
9. Corruption remains prevalent in Malawi. There is need to ensure that enforcement institutions such as Anti -Corruption Agencies are fully supported. There is also need for transparency and accountability to public institutions in the delivery of services that facilitate businesses.