

2018 DOING BUSINESS REPORT ANALYSIS

The World Bank releases the 2018 Doing Business Report – How is Malawi performing?

Subsequent to the release of the 2018 Doing Business Report by World Bank Group on 1st November, 2017, Malawi has moved 23 steps upwards in the World Doing Business ranking for 2018. The report (forecasted) assesses the business environment in 2017 but the environment is used for investment decisions the following year and it is for this reason that it is called 2018 Doing Business Report. Table 1 below shows Malawi's rankings in different categories of the ease of doing business:

Table 1: Doing Business ranking for selected factors for Malawi

| | Doing Business 2018 | Doing Business 2017 | Change in Rank | Change Movement |
|--|------------------------|------------------------|-------------------|--------------------|
| Starting Business | 152 | 150 | -2 | Upward |
| Dealing with construction permits | 144 | 65 | -79 | Downward |
| Getting electricity | 166 | 169 | 3 | Upward |
| Registering Property | 96 | 95 | -1 | Downward |
| Getting Credit | 6 | 101 | 95 | Upward |
| Protecting Minority Investors | 96 | 132 | 36 | Upward |
| Paying Taxes | 134 | 102 | -32 | Downward |
| Trading Across borders | 117 | 118 | 1 | Upward |
| Enforcing Contracts | 151 | 148 | -3 | Downward |
| Resolving Insolvency | 138 | 162 | 24 | Upward |

Source: The 2017 to 2018 Doing Business Report

The table above shows that Malawi performed very well in most of the indicators which have been marked by an upward movement. This tremendous improvement is heavily attributed to the enforcement of the Credit Registration Bureau Amendment Act of 2015 that is aimed at empowering institutions such as banks to provide credit information of clients to the Credit Reference Bureaus without running the risk of breaching bank client confidentiality. The Act makes it mandatory for financial institutions to provide information to the bureaus for consumer and commercial loans, the enactment of the Insolvency Act of 2016 that established priority rules inside and outside bankruptcy procedures and the reforms in dealing with construction permits.

The improvement in the rank puts Malawi amongst the top ten African countries that have made significant improvements in factors of doing business looking ahead to 2018. In the sub-Saharan region, Malawi is joined by Djibouti, Nigeria and Zambia amongst the best performing countries.

Malawi has scored 58.94 points out of 100 compared to 54.39 points of 100 recorded in 2017 doing business Distance to Frontier (DTF) percentage points. Which means Malawi improved by 4.5 percentage points. This is shown in table 2 below:

Table 2: Distance to Frontier

| Doing Business 2018 Rank | Doing Business 2017 Rank | Change in Rank | Change Movement |
|---------------------------------|---------------------------------|-----------------------|------------------------|
| 110 | 133 | 23 | Upwards |

| Doing Business 2018 DTF(% Points) | Doing Business 2017 DTF(% Points) | Change in DTF (% Points) | Change Movement |
|---|---|---------------------------------|------------------------|
| 58.94 | 54.39 | 4.55 | Upwards |

The 4.5 percentage points represents an increase that was the highest in the Sub-Saharan region which means Malawi improved its business regulations as captured by the Doing Business indicators in absolute terms.

The development means that the country is narrowing the gap with the global regulatory frontier.

The top and bottom ten ranked countries are as presented in table 3 below:

Table 3: Top ten and bottom ten ranking on Doing Business

| Top Ten | | Bottom Ten | |
|----------------|--------------------------|----------------|--------------------------|
| Global ranking | Name of Country | Global ranking | Name of Country |
| 1 | New Zealand | 190 | Somalia |
| 2 | Singapore | 189 | Eritrea |
| 3 | Denmark | 188 | Venezuela |
| 4 | Korea | 187 | South Sudan |
| 5 | Hong Kong | 186 | Yemen |
| 6 | United States of America | 185 | Libya |
| 7 | United Kingdom | 184 | Central African Republic |
| 8 | Norway | 183 | Afghanistan |
| 9 | Georgia | 182 | Congo |
| 10 | Sweden | 181 | Haiti |

Source: The 2018 Doing Business Report

Doing Business Survey report, is the World Bank's flagship publication produced annually, which shows how easy or difficult it is for a local entrepreneur to open and run a small to medium size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The survey also measures labour market regulations. However, this year it has only presented data on labour market regulation indicator other than on rankings of economies.

Doing Business 2018 has been expanded further by adding post-filing processes to the paying taxes indicator, including a gender component in three of the indicators and developing a new pilot indicator on selling to the government. Also, for the second time this year, Doing Business collects data on Somalia to maintain the total number of economies at 190.

Doing Business presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to two decimals. An economy's distance to frontier score is rated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

The report also reveals that the high ranking economies in the 2017 Doing Business are the same economies that are also performing well in other international data sets, like the Global Competitiveness Index (GCI) and Transparency International's Corruption Perceptions Index. Such economies include New Zealand, Singapore and Denmark. However, such economies are good performers not because they have little regulations, but because they have good and

transparent business regulations that meets the needs of businesses and at the same time protecting the public interest.

As always similar to other global surveys such as GCI, the bottom ranking of the Doing Business in 2017 remains to be overcrowded by African countries (7 out of the bottom 10 ranking economies are African) with Somalia as the worst performer on doing business globally. Also worth noting however is that most of the economies that are worst performers are those that are still struggling with civil wars and other national conflicts.

Performance at Regional level

Mauritius, in 25th place in the Doing Business rankings, is the highest ranked economy in Sub-Saharan Africa. Other economies in the region that have performed well on the ease of doing business rankings are Rwanda (41), Kenya (80), Botswana (81) and South Africa (82).

The region's lowest ranked economies are Somalia (190), Eritrea (189), South Sudan (187), and the Central African Republic (184).

Other large economies in the region and their rankings are Democratic Republic of Congo (182), Ethiopia (161), Nigeria (145), Tanzania (137), Sudan (170), and Uganda (122).

Rwanda ranks among the best globally in the Doing Business areas of Registering Property (with a rank of 2) and Getting Credit (6). In registering property, Rwanda has an efficient land registry where it takes 7 days to transfer property and costs only 0.1 percent of the property value, the same as in New Zealand. Mauritius has among the least cumbersome business regulations in two Doing Business areas: Dealing with Construction Permits (9) and Paying Taxes (10).

Four economies in Sub-Saharan Africa ranked in the top 10 in Getting Credit (with an average rank of 115). Zambia ranks 2nd, just after New Zealand. Rwanda, Malawi and Nigeria all rank 6th.

The region underperforms in the areas of Getting Electricity with an average rank of 148, Trading Across Borders (137), and Registering Property (131). It takes an average of 115 days to obtain a permanent electricity connection to the grid in Sub-Saharan Africa,

A record number of 83 reforms, making it easier to do business, were implemented in 36 of 48 economies in Sub-Saharan Africa in the past year. This is the largest number of reforms ever recorded by the Doing Business report in any region, and represents 31 percent of all reforms implemented globally in the past year.

With Malawi, Nigeria and Zambia, Sub-Saharan Africa is the most represented region among the global top 10 improvers in the Doing Business 2018 report.

Multiple economies in the region implemented three or more reforms in the past year, including Kenya (6 reforms), Mauritania, Nigeria, Rwanda, and Senegal (5 reforms each), Malawi, Mauritius and Niger (4 reforms each), and Angola, Benin, Cabo Verde and Zambia (3 reforms each).

Sub-Saharan Africa accounted for 14 of the 22 reforms globally in Dealing with Construction Permits. Many economies, including Benin, Cabo Verde, Democratic Republic of Congo, Gabon, Ghana, Guinea, Niger, Nigeria and the Seychelles made dealing with construction permits easier by publishing regulations related to construction online.

Conclusion and Proposed Recommendations

Doing Business Surveys main goal is to assess how simplified and transparent are the business regulations in a particular country compared with other countries globally. The survey thus helps governments to be able to tell or identify business regulations requiring reforms or need to be removed for the business environments to be fair and friendly. The Doing Business results for 2018 has shown Malawi doing well by moving 23 steps upwards on global ranking, which is an indication that some things are going in the right direction as regards to the implementation of reforms. However, there is still more to be done through working together among all economic entities to fast-track the implementation process of these reforms. There are quite a number of areas that need necessary and radicle interventions, as some areas are still worsening, others remain on the same position for years, and for those showing some improvements, progress is not that significant.

This brief puts forward the following recommendations and proposals;

- a) Malawi should develop a balanced approach in the implementation of the reforms, as the results indicate some bias towards other indicators while others are still stagnant due to weak progress in reform implementation
- b) Construction sector remains crucial for the country's development. Dishearteningly, 2018 doing business results shows that the last reforms happened in the sector in 2013 and nothing serious happened since then. The sector still needs some serious reforms for it to be efficient, hence government through the National Construction Industry Council (NCIC) needs to come up with a coherent approach to develop the sector.

Getting Electricity; access to reliable and affordable electricity is vital for businesses and industrial growth in an economy. In Malawi, however, access to reliable and affordable electricity remain a greater challenge amongst the businesses. It is therefore high time government put deliberate efforts to deal with this challenge to be permanently.

- c) The Comprehensive Tax Review programme which is currently in progress should to be fastótracked and its findings and recommendations should be implemented accordingly. Issues of tax administration challenges and Value Added Tax (VAT) refunds need also to be clearly spelled out during the reforms.

- d) Small business or minority investors seems to be still on the disadvantage side. Government should thus come up with means and ways of protecting them because such business have a bigger role as far as development is concerned.

- e) Trading across borders; existence of burdensome procedures at the border is still a major problem among the businesses. The major challenge has been that most of the border agencies officers lack governance and professional ethics that fuels corrupt practices. The government should therefore come up with relevant reforms so as to enhance efficiency and transparency to ease doing business at the borders.