

# **ASSESSMENT OF THE BUSINESS ENVIRONMENT IN 2013 AND A FORECAST FOR 2014: THE PRIVATE SECTOR PERSPECTIVE**

## **Introduction**

The Malawi Confederation of Chambers of Commerce and Industry (MCCCI), on behalf of its members, would like to provide an assessment of the business environment as perceived by the members in 2013 and a forecast for 2014. MCCCI assesses the business environment using the results of its perception survey – the Malawi Business Climate Survey (MBCS) - and hard data obtained from official sources. The assessment is therefore evidence based and devoid of any bias in line with the statutes that established MCCCI. It is interesting to note that since MCCCI started conducting the MBCS in 2004 the findings have been consistent with those of other independently conducted surveys.

## **General Overview of the Business Environment in 2013**

Some tough and brave economic policy decisions were taken by government in 2012, in the face of widespread opposition from especially civil society organisations. The opposition was justified because of the pain the population had to go through but MCCCI supported such policies as it deemed no other alternative was viable. Fortunately the implementation of such policies as the devaluation and floatation of the Kwacha and liberalization of prices of hitherto controlled prices of fuel resulted in significant improvement in the availability of foreign exchange and fuel and the economy slowly inched towards recovery. The return of donors and the increased revenue from tobacco from US\$177.8 million in 2012 to US\$361.7 million in 2013 on the back of improved volumes and much better prices further boosted the possibility of a quick return to stability.

Despite improvements in the availability of foreign exchange, however, the exchange rate has been highly volatile, oscillating between all time highs of about K450 to one United States Dollar to just above K300 to one United States Dollar. Never does an exchange rate of an economy lose a third of its value in a period of four months as has just happened in this economy unless such an economy is in a crisis. This situation just reflects how vulnerable the economy is to external shocks. The susceptibility arises from known factors such as lip service paid to fundamental challenges facing the Malawi economy like shortage and erratic supply of electricity, lack of real reforms to promote exports, and very poor economic governance despite the usual political rhetoric of being committed to developing the economy. For instance, no significant investment has been made in ESCOM since 2003 while the Corporation continues to be subjected to politicians who keep supplying substandard goods and services at several

times the market price of those goods and services, and the board is riddled with cronies of political parties in power, whose only interest is self-aggrandizement and not ESCOM's long term ability to meet required demand by industrial and domestic customers.

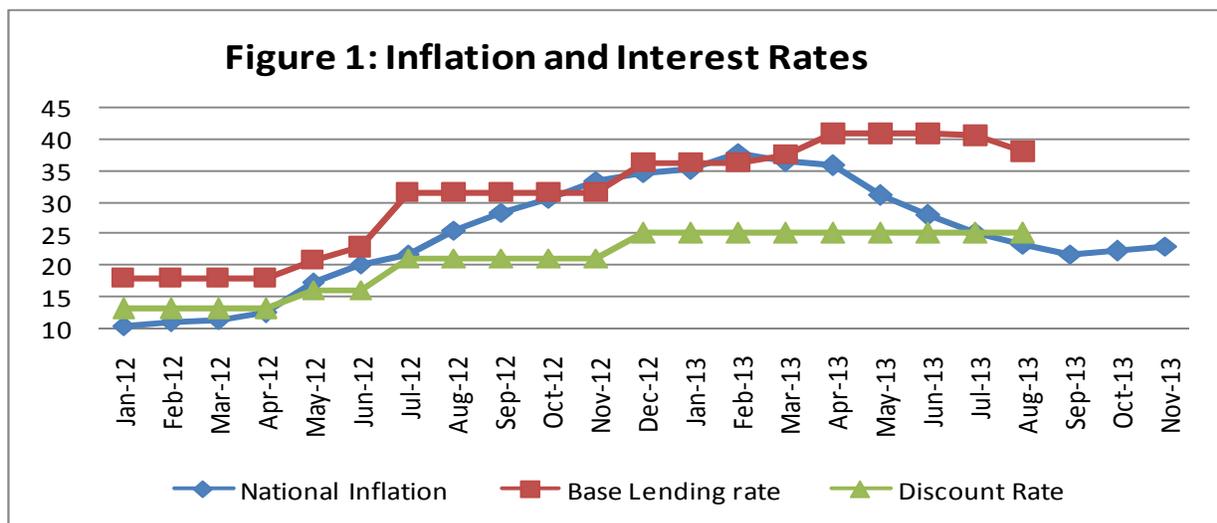
Such insincerity is also blatantly visible in policies that are supposedly meant to promote production for export. For instance, while the National Export Strategy is clear on what needs to be done for the Malawi economy to embark on an export drive, authorities keep banning exports wantonly without regard to disincentives such bans create amongst producers, lending institutions and ultimately the country's balance of payment position.

Meanwhile the country continues to rely on donors, without any long term plan to exit from donor dependency or at least reduce the degree of dependence. Donors however rightly demand high levels of good governance. Unfortunately good governance in Malawi appears to be a rare commodity. As exemplified in the cash-gate scandal, which according to the press reports, had involvement of highly placed authorities, Malawians have high levels of moral hazard. That is to say, given the opportunity to be leaders in the country, Malawians pretend to be saints. However, once they are in those positions, they show their true self. Unfortunately the majority of them have proven to be traitors. For obvious reasons donors do not want to support governments led by such leaders and the economy suffers in the end. The recent massive loss in the value of the Kwacha no doubt is also a result of the threats of donors to suspend budget support to Malawi because of the looting of public funds at Capital Hill, which has led to panic buying of foreign exchange by the market. Attempts have been made by authorities to downplay the impact of the suspension by announcements of new loans given to Malawi government. However, it is budget support that matters more in terms of foreign exchange availability, not necessarily project loans, although they are also important.

It is further disheartening for the business community to note that the cash-gate scandal appears to slowly being swept under the carpet. If there is no high level concern to deal with such massive theft of public funds, what signal does this send out? Are some sacred individuals being protected? The business community pays taxes to government in return for a service. Civil servants must be paid well and in time for them to serve the business community; public goods such as roads must all be in good conditions to enable businesses transport their goods; hospitals must have medicines to treat the workforce and producers of raw materials to be in good health. The businesses do not pay taxes to enrich individuals, a situation currently obtaining unfortunately!

Another matter of great concern to the business community in 2013 was inflation as shown in figure 1 below. Whilst Malawi inflation is known to be more than 50 percent

related to the cost of food, , devaluation of the Kwacha no doubt played some part. However populist sentiments by authorities, telling the nation that there was no maize in the country, yet Malawi only imported maize in the first quarter of 2013 led to speculation that it was actually those populist sentiments that sent the price of maize skyrocketing up to K12,000 per 50kg bag as they created panic in the market. The economic implications of such statements were far-reaching. Inflation went up and so did interest rates – the cost of borrowing. Businesses faced higher costs of doing business as they had to pay higher interest, whilst at the same time the market shrunk because of high prices arising from inflation. Industrial strikes for higher wages became commonplace. In general the sentiments from authorities increased the cost of doing business while making the common person on the street poorer. Whilst the government donated food stuffs to some of the vulnerable sections of the Malawi society, the business community believes that donations have limits, beyond which the implication is enslavement of the recipients. The sustainable solution therefore is to provide opportunities to the people to earn a living through work. Work has actually been proven worldwide as the most effective way out of poverty. Work opportunities will however only come when the business environment is conducive to expansion of existing businesses and attraction of new investment, both domestic and foreign



**Source:** Reserve Bank of Malawi, NSO

Worth noting also is the continuing divergence between the average base lending rate of commercial banks and the Reserve Bank’s Discount Rate. While the Reserve Bank has kept its discount rate at 25 percent since December 2012, commercial banks have been varying their rate in line with the Treasury Bills (TB) rate. The TB rate reflects the extent to which the government is hungry to borrow. As government borrows on the open market, how much money government wants to borrow determines the rate of

interest of the Treasury Bills. No rational individual, be they corporate or natural, will keep their money in commercial banks when the TB rate is higher than the rates offered by banks. Commercial banks therefore adjust interest rates in order to compete with the TB rate. The current high interest rates can therefore not be blamed on commercial banks alone; it is actually government that significantly influences this rate through high levels of borrowing. The results of high interest rates have been significantly negative on many businesses especially those which were highly geared to the extent that some of them shed significant numbers of jobs. No wonder the cost of finance continues to rank highly as a serious obstacle to doing business.

On the fiscal front, government performance was also lucklustre. A sample of Expenditure Votes which performed badly in 2012/13 are shown in table 1 below.

**Table 1: Selected Expenditure Votes and their Performance**

	Approved Expenditure (K'm)	Likely Outturn (K'm)	Variance (K'm)
State Residences	1,843	3,592	-1,750
Office of President & Cabinet	4,279	5,298	-1,019
Agriculture & Food Security	65,021	85,748	-20,727
Office of the Vice President	301	592	-291
Local Development Fund	3,475	19,284	-15,809
Police	5,905	15,519	-9,614

Source: Ministry of Finance Budget Documents 2013

The votes of the State Residences, the Office of the President and Cabinet, the Ministry of Agriculture and Food Security, the Office of the Vice President, the Local Development Fund and the Police were all significantly abused without justifiable explanations. The LDF vote for example had a lot of unplanned expenditures called 'subsidies'. Perhaps that was the birth of cash-gate. Likewise the over-run of the Police vote had no explanation and one can only guess that part of it was to do with provision of security to daily presidential travels. As a result of such careless expenditures, the government missed its expenditure targets by 0.4 percent of the Budget. Such an insatiable appetite for spending by authorities causes more damage than good, as witnessed by a large number of private companies that are still owed billions of Kwacha by government for their supplies, thus constraining private sector operations, in the process reducing their potential to create jobs and pay more taxes to Government

Whilst it has been said that it takes both the private sector and government officials to loot public finances, the reality is that only 'fake' businesses which nobody has heard of were created to siphon the money from public coffers and not genuine businesses. MCCI would like to call upon Government to get back all the looted money and return donations bought with looted money, if it is really serious and ensure that the money is used for legal purposes.

### The Perception of the Business Environment in 2013

When businesses were asked to rate how they perceived the business environment, out of 26 factors, 17 were perceived as most serious in 2013 compared to 11 in 2012 as shown in table 2 below. This indicates that the business environment has actually deteriorated.

Top Most Obstacles to Doing Business in 2013			Top Most Obstacles to Doing Business in 2012		
Rank	Obstacle	Score	Rank	Obstacle	Score
1	Electricity	10	1	Electricity	9.3
2	Uncertainty in Econ. & Reg Policies	9.3	2	Crime-Security of Assets	8.9
3	Cost of Finance	9.2	3	Exchange Rate Policy	8.6
4	Crime-Security of Assets	9	4	Uncertainty in Econ. & Reg Policies	8.6
5	Customs Reg., Proc and Bureaucracy	8.5	5	Cost of Finance	8.6
6	Transport Infrastructure	7.9	6	Customs Reg., Proc and Bureaucracy	8.1
7	Crime-Security of Life	7.9	7	Corruption	8.1
8	Telecommunications	7.9	8	Stability of Political Environment	7.5
9	Exchange Rate Policy	7.8	9	Transport Infrastructure	7.2
10	Corruption	7.8	10	Tax Administration	7.2
11	Tax Administration	7.5	11	Affordable and Reliable Transportation	7.2
12	Affordable and Reliable Transportation	7.5			
13	Availability of Local Skilled workforce	7.4			
14	legal environ for prvt sector to settle dispute	7.2			
15	lack of transparency of rules and regulation	7.1			
16	effectiveness of national assembly	7.1			
17	water	7.1			

The survey was carried out between July and September 2013. Electricity refuses to die as the number one problem, despite the multitude of tariff escalations that were effected between 2010 and 2013. Uncertainty in economic and regulatory policies has climbed to position two because of uncalled for government interventions in the market, for example, issuance of export bans when the same government's National Export Strategy is meant to promote exports; the interventions in issues not requiring central government intervention, e.g. government procurement requiring OPC approval when the law is clear about ODPP's responsibility; the intervention in the government hotel management contract by replacing Peermont with Legacy, etc. These acts signify either lack of confidence in the people entrusted with the job or indeed personal interest.

In such an environment businesses do not thrive. Authorities must therefore at all times desist from heinous temptations to get involved in matters that raise suspicions.

The rest of the obstacles to doing business must equally receive special attention.

### **Forecast for 2014**

MCCCI forecasts the business environment to get worse in early 2014 in light of the 2014 general elections. Inflation is likely to get out of control when cash-gate money starts vote buying and donations and gifts, even in excess of annual incomes of those making them, steal the show. Malawians should therefore brace themselves for tough times ahead. Businesses are therefore likely to be at standstill. When customers cannot buy products because prices are higher, businesses find it difficult to thrive. Of course the business community is not expecting introduction of new taxes or raising of existing ones to finance further expenditure occasioned by the general elections and the foresaid misconducts.

The post-election period, however, may be good for business depending on the choice of Malawians. It is the business community's wish that wisdom prevails in Malawians to elect a leader who can be entrusted with the responsibility of running the Malawi economy for the benefit of Malawians and not for self-enrichment. Malawians will get out of poverty if more well-paying jobs are created in this country through expansion of existing businesses and attraction of new investments, which is not happening now.

### **Conclusion**

In conclusion, despite the optimism generated in 2012, the year 2013 turned out to be a year of disappointments characterized by poor economic governance, greed, gross abuse of public resources and lack of direction. Unfortunately uncertainty is the enemy of business and therefore no investor with sizeable resources, who does not want to pay bribes to officials, will waste their time considering Malawi as an investment location yet Malawi desperately needs investment to create much needed jobs for its jobless millions.

**M. J. Chikankheni**  
**PRESIDENT**

**Eddie Kaluwa**  
**DEPUTY PRESIDENT**

**C. L. Kaferapanjira**  
**CHIEFEXECUTIVE**

***MCCCI: The Voice of the Private Sector***