THE MALAWI CONFEDERATION OF CHAMBERS OF COMMERCE AND INDUSTRY

The 2020 Malawi Business Climate Report

MARCH 30, 2021

CONTENTS

ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
BCI	Business Confidence Index
COMESA	Common Market for Eastern and Southern Africa
ESCOM	Electricity Supply Commission of Malawi
EDF	Export Development Fund
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
MACRA	Malawi Communications Regulatory Authority
MAIIC	Malawi Agricultural & Industrial Investment Corporation
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
NEEF	National Economic Enterprise Fund
NES	National Export Strategy
RBM	Reserve Bank of Malawi
SADC	Southern Africa Development Community
WB	World Bank

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FOREWORD

I present to you the 2020 Malawi Business Climate Survey (MBCS) Report which is the official publication of the results of the business climate survey done by Malawi Confederation of Chambers of Commerce and Industry (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 businesses, Government agencies and development partners in Malawi to guide decisions that speak to 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 informs various advocacy positions that are carried.

MCCCI remains committed to ensure that this report is available every year in order to provide relevant and timely information for use in lobbying, advocacy and decision making by different stakeholders.

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 highly value your inputs. 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 capture 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

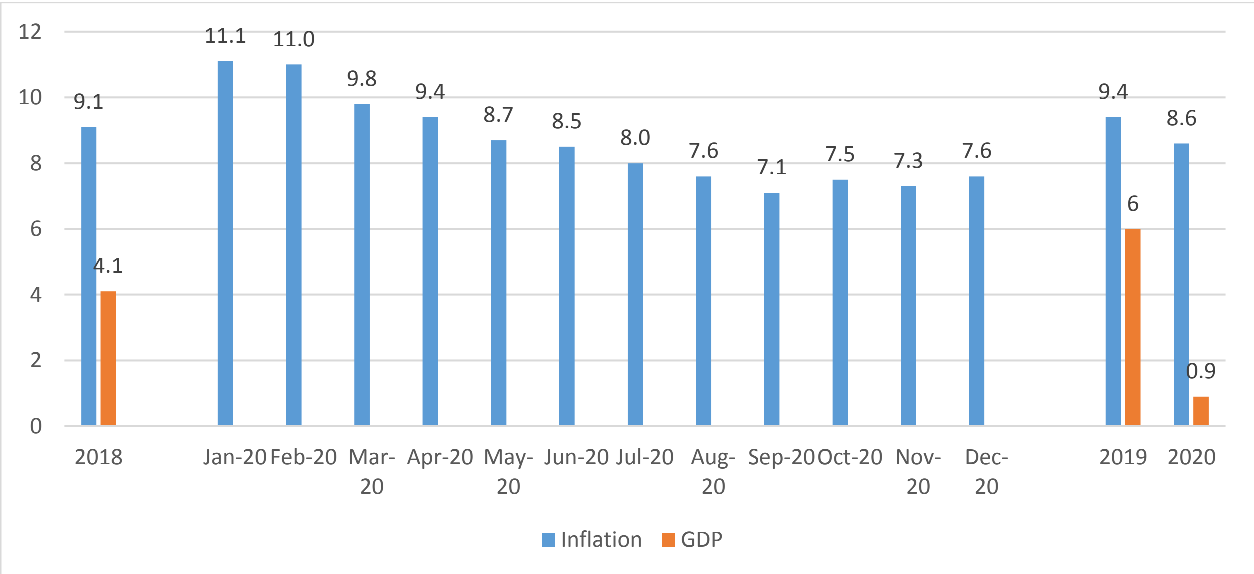
A standard survey questionnaire was administered and 197 out of 250 questionnaires were returned duly completed, representing a 78.8 percent response rate. The sample was randomly drawn with sectoral representation depending on contribution of each sector to the economy but aimed at getting at least 50 percent of repeat respondents. The survey was conducted in the month of February 2021. Data management and analysis was done by MCCCI for the production of this report.

2. Economic Outlook for 2020 and Prospects for 2021

According to the Ministry of Finance (MoF), in 2020, Malawi's economy grew marginally by 0.9 percent, a downward revision from 1.9 percent growth rate estimate that was projected during the first quarter of 2020. Going forward into 2021, the Ministry projects a growth rate of 3.5 percent. Furthermore, the Reserve Bank of Malawi (RBM) notes that, in 2020, performance of the domestic economy was largely affected by the COVID-19 pandemic and its associated containment measures. Consequently, the overall output gap for 2020 was in a negative cyclical position and this was attributed to both agriculture and non-agriculture output gaps. In 2021, growth prospects remain uncertain. Economic activity, which started to rebound in the second half of 2020, has moderated due to the second wave of the COVID-19 pandemic. Real GDP growth for 2021 will, therefore, largely depend on how fast the second wave of the pandemic dissipates. This notwithstanding, the anticipated improved agriculture production and recovery of the global economy are expected to benefit the domestic economy.

Annually, headline inflation averaged 8.6 percent in 2020 compared to 9.4 percent in 2019. Both food and non-food inflation contributed to the decline.

Figure 1: Trend of Inflation and GDP Growth Rates

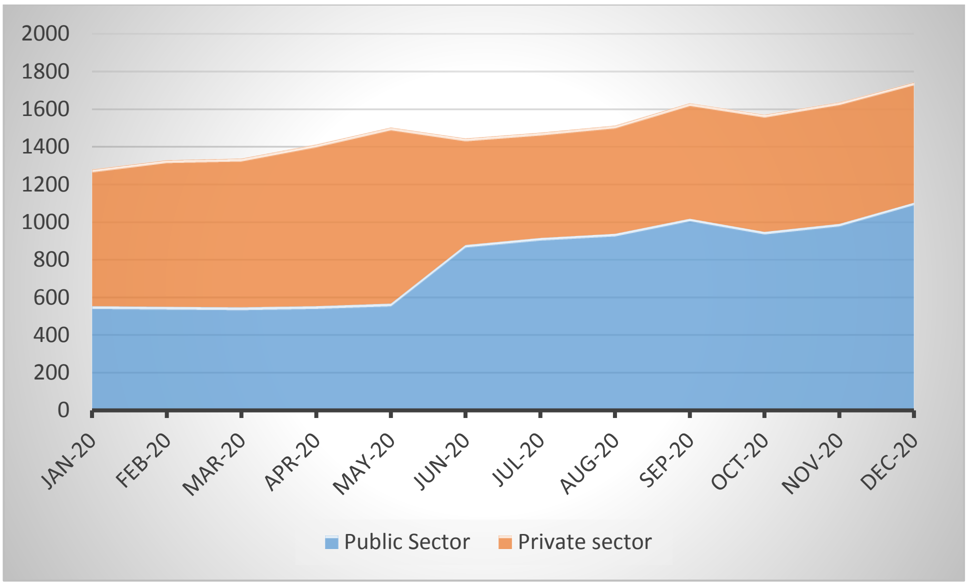


Source: National Statistical Office and Ministry of Finance, Economic Planning and Development Annual Economic Reports, World Economic Outlook Report, Reserve Bank of Malawi

In 2020, RBM implemented an expansionary monetary policy stance that included reducing the Policy Rate to12 percent, cutting the Liquidity Reserve Requirement (LRR) on domestic currency deposits by 125 basis points to 3.75 percent; and reducing the Lombard Rate by 50 percent.

In response to the policy stance, commercial banks also revised their interest rate structure with the Base lending rates declining. The savings rate also declined. Despite these efforts, consumption of credit in 2020 was largely by public institutions than private sector as demonstrated by the trend below in figure 2.

Figure 2: Share of Domestic Credit



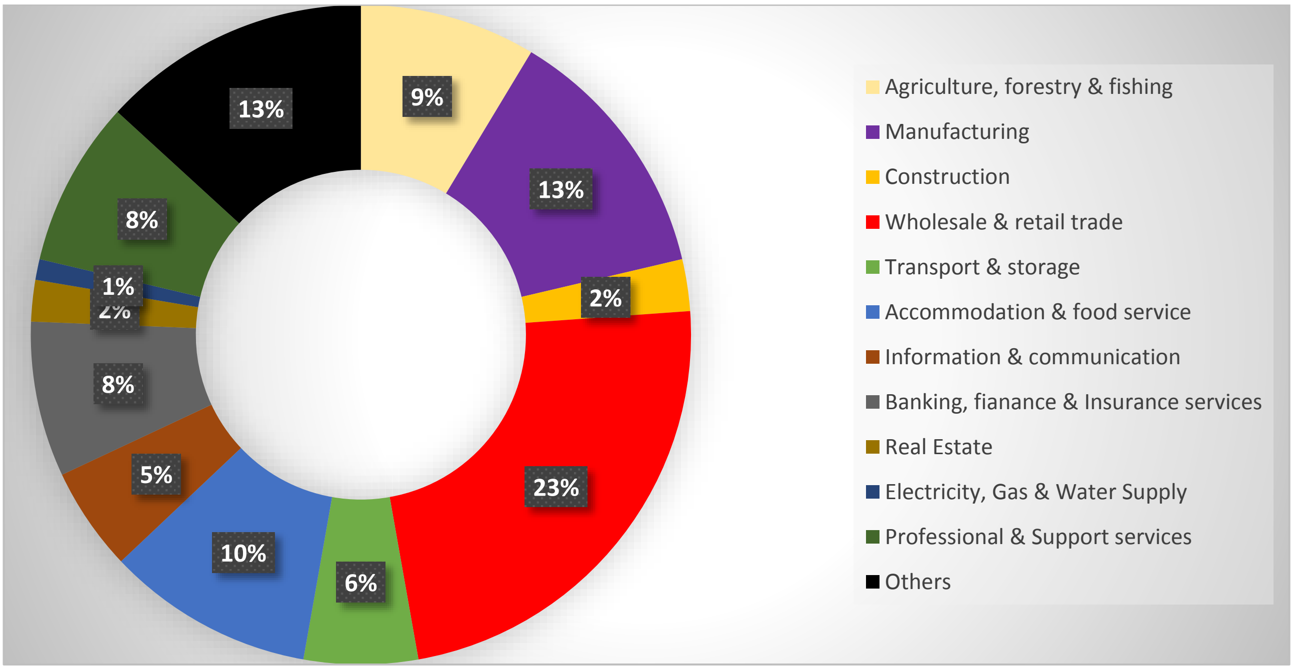
Malawi's terms of trade are largely driven by tobacco developments. In 2020, tobacco prices rose, albeit marginally, to an average of US$1.53 per kilogram from US$1.43 per kilogram registered in 2019. In contrast, international prices for the other key export commodities for Malawi, notably tea and sugar, declined during the year and this reflected largely the broad-based commodity price fall amid the COVID-19 pandemic. On the other hand, international prices for Malawi's main imports, oil and fertilizer, also fell substantially in 2020. Looking ahead, it is expected that commodity prices will gradually improve as global economic growth picks up. Over the forecast horizon, the terms of trade are projected to remain flat.

In 2020, the external sector massively underperformed as demand for imported goods remained higher than the amount of exports receipts required to finance them. As such, the local foreign exchange market continued to experience foreign exchange supply shortages and the COVID-19 pandemic exacerbated the situation. Reflecting this development, the kwacha depreciated further and traded at K773.11 per US dollar as of end-December 2020 from K756.92 in September 2020.

3. Distribution of Survey Respondents

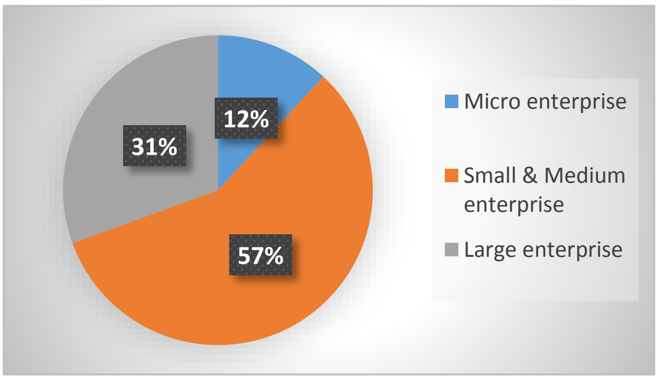
The figure below shows the distribution of survey responses according to the respondents' economic sectors;

Figure 3: Distribution of Respondents by Economic Sector



As depicted in the figure above, the majority of the respondents were from the Wholesale & Retail Trade sector comprising 23.4% of responses. Furthermore, Agriculture, Forestry and Fishing; Manufacturing; Accommodation & Food services as well as Professional & Support Services sectors also provided a higher response rate as compared to the rest of the sectors. This was a good representation as the survey got significant responses from the country's top three GDP contributing sectors as well as the services sector which has been heavily affected by the COVID-19 pandemic.

Figure 4: Distribution of Respondents according to size of business



The majority of the respondents were SMEs as shown in figure 4. This reflects the significant importance of SMEs to Malawi's economy.

Figure 5: Distribution of Respondents by Ownership Structure

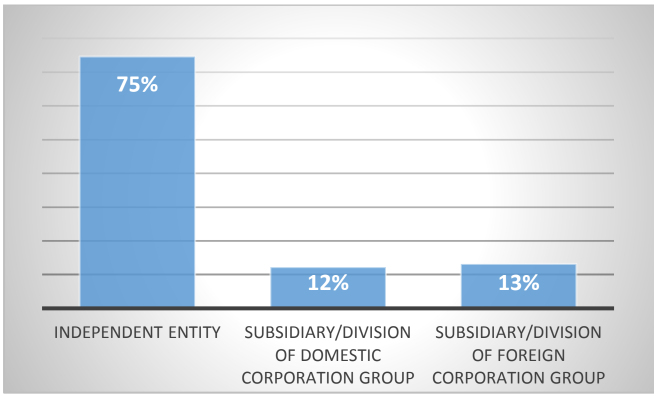
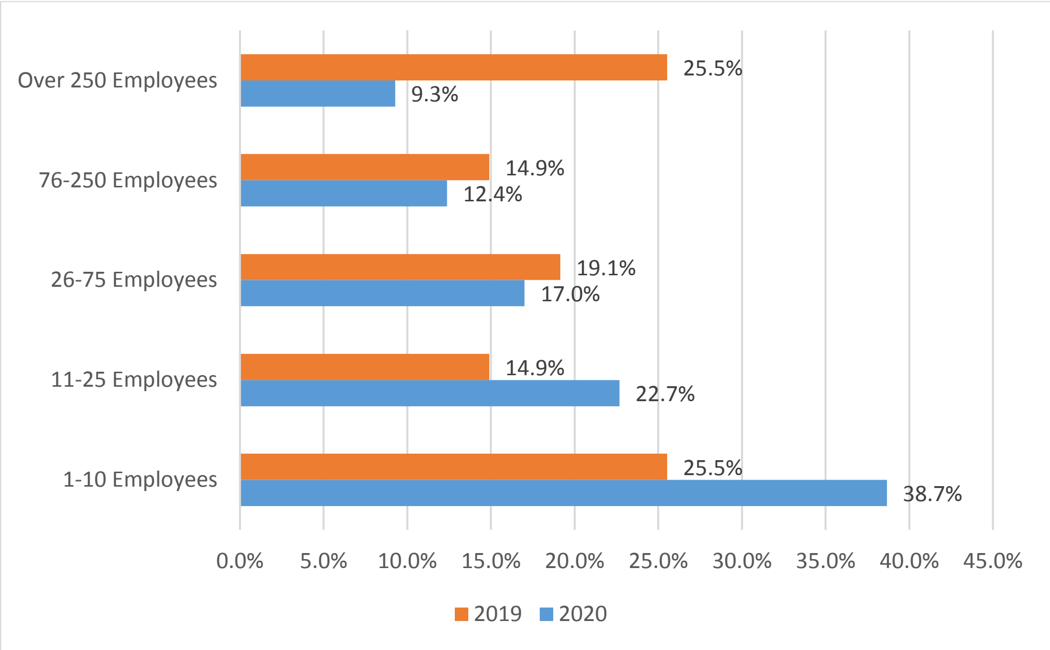


Figure 5 shows the distribution of respondents by ownership type. The majority of the respondents were independent entities represented by 75 percent.

Figure 6: Comparative distribution of respondents by employee category for 2020 compared to 2019



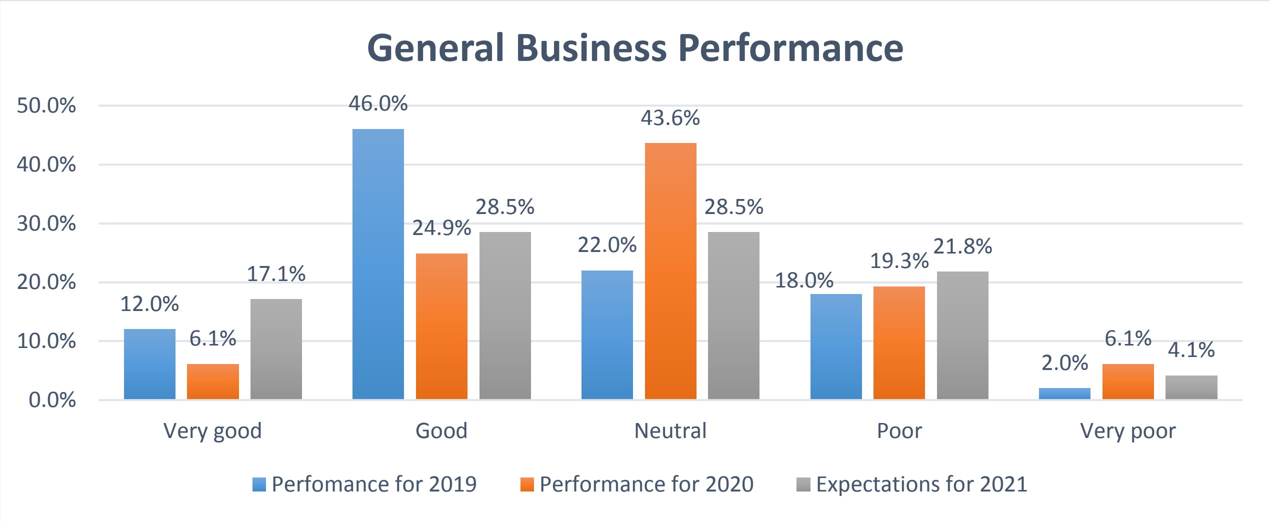
Based on the distribution of the employment category as per figure 6, a larger number of the responses were from Small & Medium sized enterprises as compared to the larger ones. This is contrary to previous surveys and this perhaps indicates the increasing willingness of SMEs to express their views during this period of the COVID-19 shock.

4. Business Climate and Performance

4.1. General Business Performance

In the 2020 Malawi Business Climate Survey, enterprises were asked to rate the performance of their business in 2020 and their expectations for 2021. In terms of the performance for 2020, approximately 31.0 percent rated their performance positively compared to 25.4 percent that rated their performance negatively. Conversely, 43.6 percent were neutral in the assessment of their business performance as they managed to break even and survive in a tough business environment of 2020. This is depicted in figure 7 below. Unlike 2019, the view from most businesses that participated in the 2020 survey was that 2020 was largely not a good year for business, no doubt due to the impact of the COVID-19 pandemic. In the year 2019, the majority of the businesses that participated in a similar survey, rated the year positively. Specifically, 58.0 percent of the businesses rated 2019 positively despite the fact that the country was marred by political instability and uncertainty following the elections held in the first half of 2019.

Figure 7: Comparative Business Performance from 2019 to 2020 and Expectations for 2021



In regards to 2020 business performance, the majority of the businesses that had a poor and very poor rating belonged to the services sector such as Accommodation & Food Services as well as Professional Services sectors.

The main reasons businesses gave for their poor performance include the following:
- The political instability at the start of the year 2020 created a lot of uncertainty and this disrupted business activity.
- Covid-19 restrictions on cross-border movement led to loss of business for enterprises that depend on external demand and reduced their ability to meet potential clients.
- Closure of education facilities in the country affected provision of services in the Professional & Services sector.
- Foreign currency shortages affected ability to purchase inputs.
- Smuggling challenges affected sales due to unfair competition created by the smuggled goods.
- The uncertainty caused by the pandemic created challenges in terms of business planning and collection of debt was also problematic as most businesses struggled with their cash flow.

On the other hand, for businesses that rated their performance in 2020 positively, the following were some of the reasons:
- Good customer service, better brand visibility and businesses expansion.
- Some enterprises involved in wholesale & retailing had already imported enough stock before the pandemic and as such were not affected that much by the restrictive measures that ensued.

- Some businesses experienced high demand for their products, for instance those involved in pipe manufacturing because of the reduction in water connection fees by Blantyre water board.
- For some enterprises in the agriculture sector, increased output in 2019/20 growing season enabled them to offset the impact of price shocks and thus were able to break even.
- A surge in demand for industrial ethanol owing to its use in the production of hand sanitizers needed in the management of the COVID-19 pandemic improved the performance of businesses in this trade.

In regards to expectations for 2021, the expected business performance for 2021 shows a slight improvement compared to 2020 performance. As depicted in figure 7 above in 2021 there is an upward adjustment on the ratings of good and very good relative to 2020.

Some of the reasons for the improved optimism for 2021 include the following:

- Political stability offers an opportunity for improvement in the business regulatory environment.
- The development of COVID-19 vaccine offers hope that things will return to normal.
- Good harvest in 2020/21 growing season will improve disposable income levels as such business activity might pick up.
- Some enterprises have developed strategies to deal with the impact of the pandemic on their business as such they expect growth.
- Online business transactions have given some businesses an opportunity to find new customers and they plan to capitalize on this.

Despite the increased optimism by a large number of enterprises in regards to business performance in 2021, some enterprises expect to perform poorly in 2021. The majority of businesses in this category come from the Accommodation & Food Services sector. According to most businesses in this category, the impact of the pandemic in 2020 depleted their financial reserves. Most of them foresee closure of their business operations as they do not have operating capital. As long as pandemic related restrictions are in place, revenue for these businesses will continue to be affected tremendously. According to businesses in this sector, the situation is very serious for businesses whose main source of revenue is accommodation. During the first wave of the pandemic in 2020, accommodation patronage for most businesses went down to 35-40% and during the second wave this has gone down to as low as 2%.

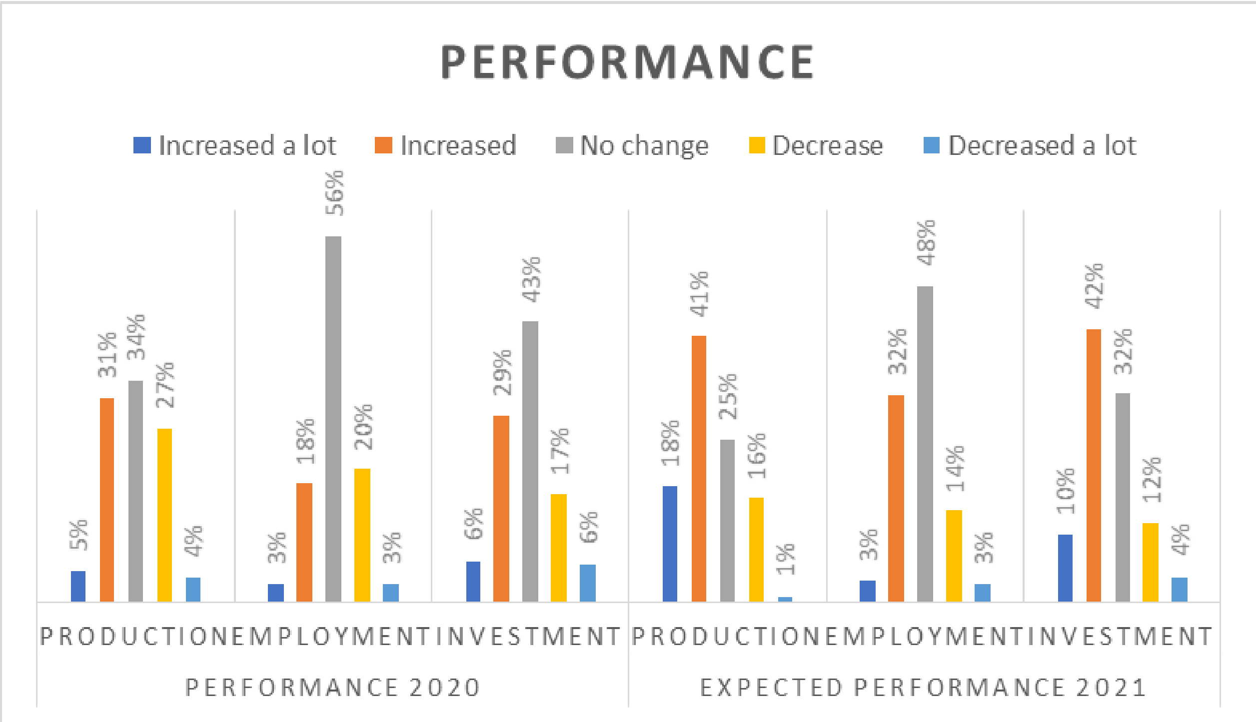
In addition to the points raised above, the following are some of the other reasons businesses in general expect 2021 to be a poor year in terms of business performance:

- Increase in prices of raw materials globally due to prolonged impact of the pandemic will increase cost of production.
- Prolonged foreign currency shortages in the country will continue to affect ability to purchase inputs.
- Increase in minimum wages by Government is going to affect cost of operation in the various value chains.

4.2. Investment, Production and Employment Outlook

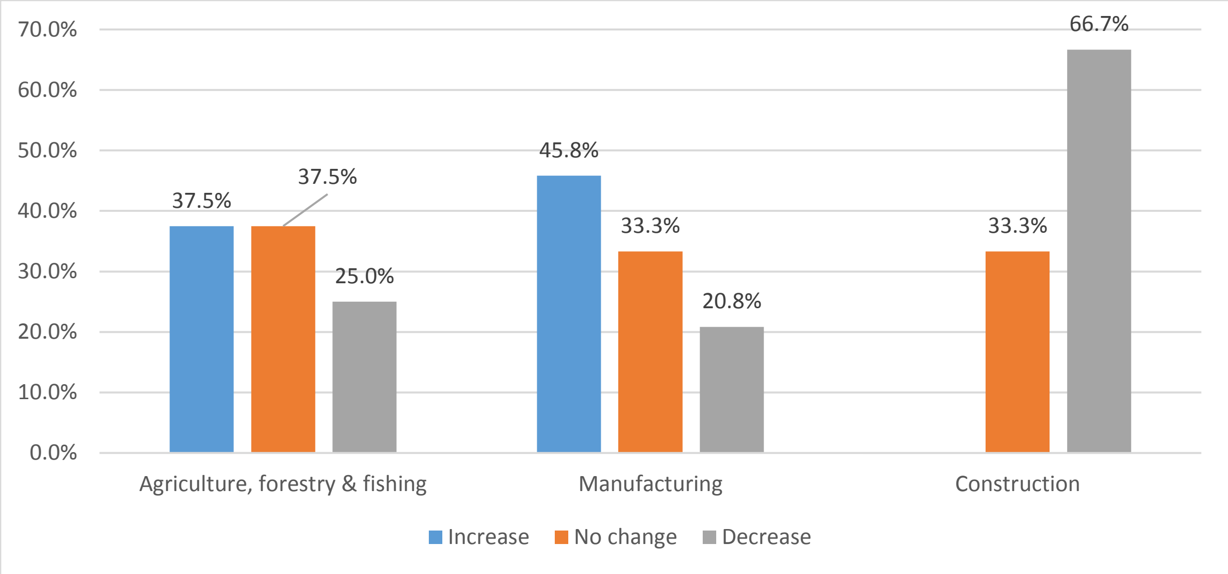
Figure 8 below indicates that the expected outlook for 2021 is an overall increase in production for 59.0 percent of the respondents which is higher than in 2020 where only 36.0 percent of the respondents recorded increase in production. In terms of employment outlook, 35 percent of the respondents expect an increase in employment, higher than in 2020 where only 21 percent of the respondents recorded increase in employment. For investment outlook, 52 percent of the respondents expect general increase in investment compared to 35 percent in 2020. Overall, there is a general optimism in business performance for the year 2021. With the coming in of the Covid-19 vaccine, businesses are optimistic for the return of normal working environment.

Figure 8: Investment, Production and Employment Outlook



The figure 9 below shows performance of businesses according to economic sector and the analysis focused on production trends in three sectors namely: Agriculture, Manufacturing and Construction. As per the figure, in the agriculture sector, 37.5 percent of the businesses recorded an increase in production compared to 25.0 percent that a recorded a decrease in production. Similarly, in the manufacturing sector, 45.8 percent of the businesses in the study recorded an increase in production while 20.8 percent recorded a decline in production. On the other hand, in the construction sector, 33.3 percent of the businesses in the study recorded an increase in production while 66.7 percent recorded a decrease in production. The decline in production in the construction sector was due to a decrease in public projects which normally creates huge demand in this sector.

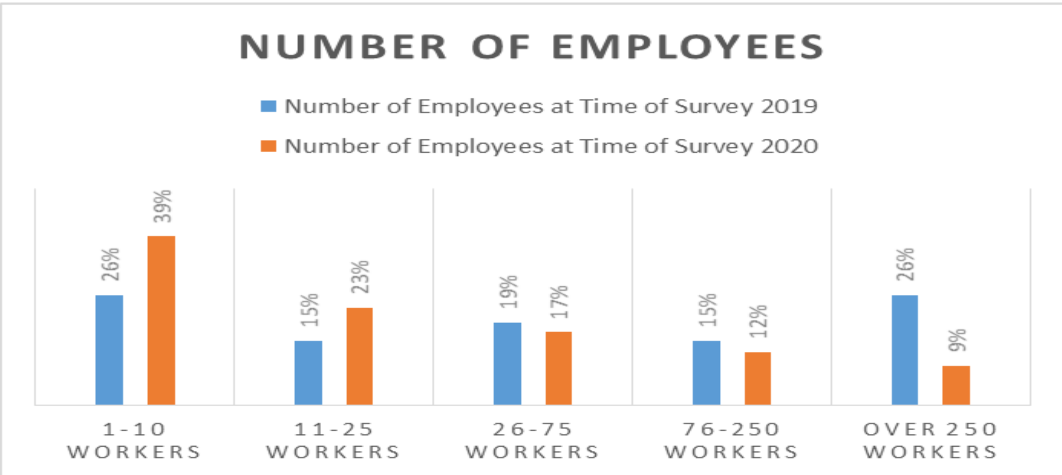
Figure 9: Production Performance according to Economic Sector



EMPLOYMENT INFORMATION

From the moment the COVID-19 pandemic emerged, unemployment has generally been on a rise due to the decision by countries to adopt restrictions with the aim of controlling the spread of the pandemic. While some companies have adopted new ways of working such as working remotely, retrenchments have still taken place as certain jobs require physical presence. The graph below presents the total number of employees in a company at the time of the survey in 2019 and 2020 respectively. The results show an increase in the number of respondents with 1-10 workers from 26 percent in 2019 to 39 percent in 2020 as well as an increase in the number of respondents with 11-25 workers from 15 percent in 2019 to 23 percent in 2020. In addition, respondents that have 26-27 workers have declined from 19 percent in 2019 to 17 percent in 2020 and those with 76-250 workers have also decline from 15 percent in 2019 to 12 percent in 2020. However, there has been a significant decline as well in respondents with over 250 workers from 26 percent in 2019 to 9 percent 2020.This may be due to frustration at the lack of responsiveness by Government to the recommendations made in these surveys.

Figure 10: Number of employees

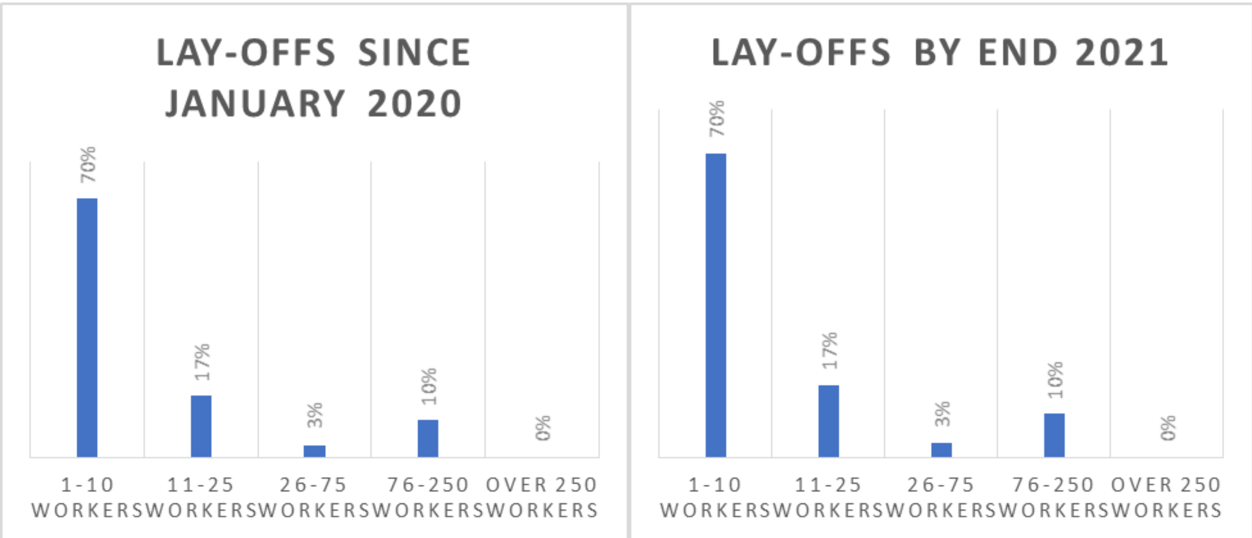


Lay-Offs and Projected Lay-Offs

The Covid-19 pandemic has led to new ways of doing business with a lot of emphasis being placed on less physical contact and this has affected employment trends as not all jobs can be done remotely. The figures below show a distribution of responses of how many employees have been laid off by companies since the beginning of 2020. Figure 11 shows that at least 70 percent of the respondents laid off 1-10 employees, followed by 17 percent of them who laid off 11-25 employees, 10 percent laid off 76-250 employees and 3 percent laid off 26-75 employees. Although there have been layoffs, the data shows that most of the layoffs were done on a small-scale, and those that laid off 76-250 were mostly companies in the construction sector whose projects were put on hold by the government due to the pandemic. The zero percent recorded in the category of over 250 could be explained by the fact that some companies opted to send their workers home on unpaid leave until business picked up while other companies adopted new ways of working such as working in shifts or working remotely from home.

As far as employment projections for 2021 are concerned, figure 11 shows that enterprises plan to layoff additional staff but this is mainly dependent on the pathway of the pandemic. A prolonged impact of the pandemic on businesses will lead to more job losses ceteris paribus.

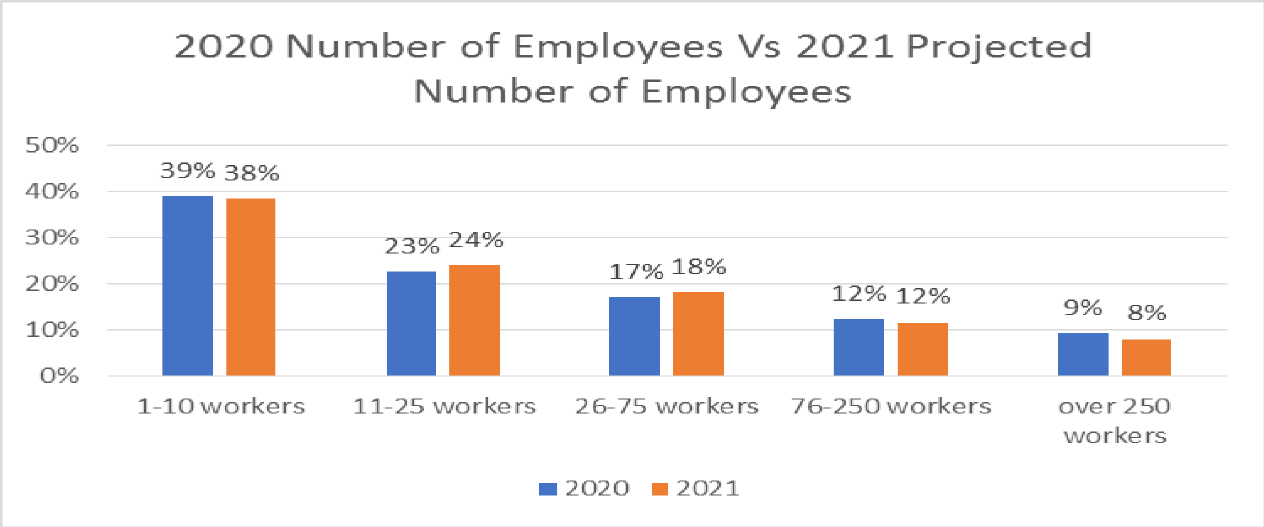
Figure 11: Layoffs



Projected Number of Employees

Figure 12 below depicts the projected number of employees for the year 2021. As shown in the figure, 38 percent of the businesses project their total number of employees to be between 1-10 workers while 24 percent of the respondents project their total number of workers to be between 11-25 workers. Furthermore, 18 percent expect their total number of workers to be between 26 – 75 workers while 12 percent expect to have employees in the range of 76-250 workers compared to 8 percent that plan to have over 250 employees. Looking at figure 12, it is evident that businesses do not plan to make significant changes to their labour force. This is most likely due to the uncertainty in the businesses environment and as such businesses are being cautious.

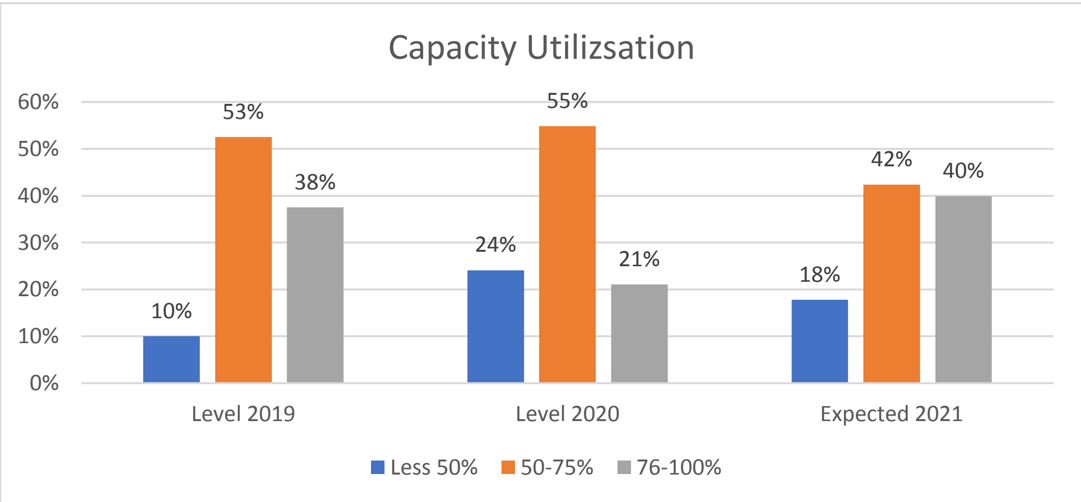
Figure 12: Number of Employees in 2020 and Projection for 2021



4.3. Capacity Utilization

Capacity utilization measures firm's total possible output as a percentage of total potential output in a given time period. Figure 13 below captures the trend of capacity utilization for the past two years and projection for 2021. In 2020 the percentage of those producing above 76% fell significantly to 21 percent from 38 percent registered in 2019. However, 55 percent of the respondents were producing above 50 percent capacity which is slightly higher than the 53 percent registered in 2019. The data also shows a significant jump in percentage of respondents operating under 50 percent capacity from 10 percent in 2019 to 24 percent in 2020 which is testament to challenges posed by lock downs, restrictions in working hours due to Covid-19, subdued demand for goods and other challenges that have risen due to the impact of the pandemic.

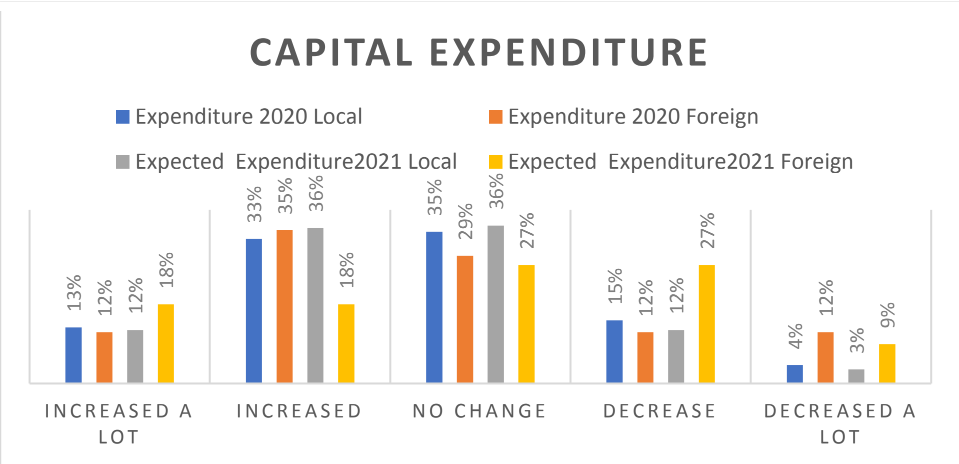
Figure 13: Capacity Utilization



4.4. Capital expenditure

Capital expenditure measures the amount of money a firm spends on acquiring or maintaining its assets. Figure 14 indicates that in 2020, majority of the respondents at 35 percent maintained their local capital expenditure while 33 percent of the respondents fairly increased local expenditure followed by another 15 percent who increased local expenditure by bigger margins. The respondents indicated that due to the highly uncertainty of the business environment, businesses are hesitant to invest more in their businesses whilst others have found new opportunities due to the pandemic making it possible to inject more into the business. In terms of foreign capital investments, majority of the respondents at 35 percent increased their expenditure while 29 percent maintained the same levels.

Figure 14: Capital expenditure



4.5. Prospects for Exports and Imports

Figure 15 below provides export revenues for the year 2020. As shown in the figure, majority of the respondents indicated that this question did not apply to their business. This attests to the fact that Malawi is a predominantly importing country hence most of the respondents interviewed in the survey are not involved in any form of exporting. Although this is the case, majority of the few respondents who export to SADC, COMESA and Other countries saw a decline in export revenues. This was indeed caused by the shutdown of borders, restriction of movement of goods on the international scene and subdued demand for goods due to the impacts of Covid 19 pandemic.

Figure 15: Prospects for Exports

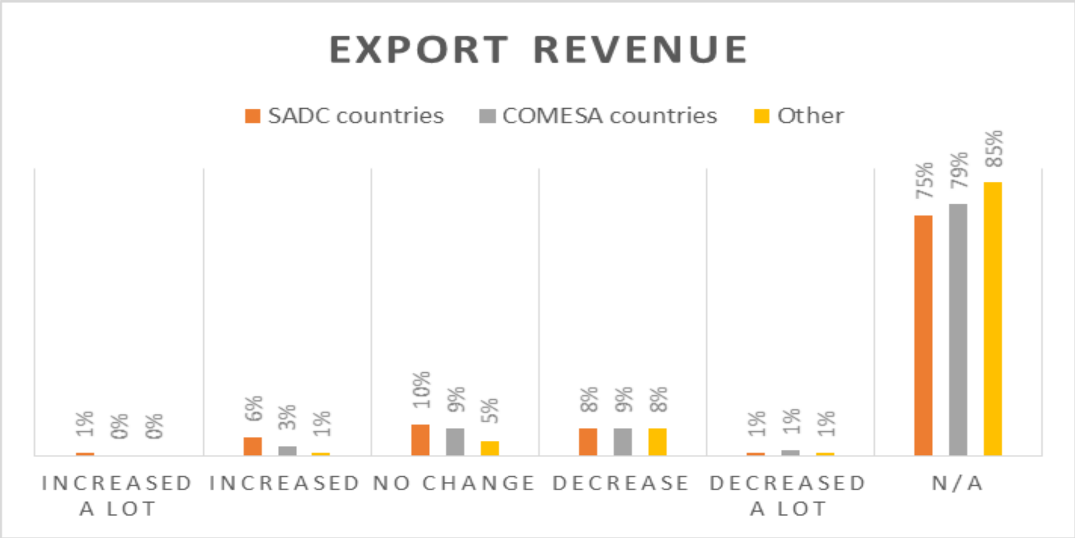
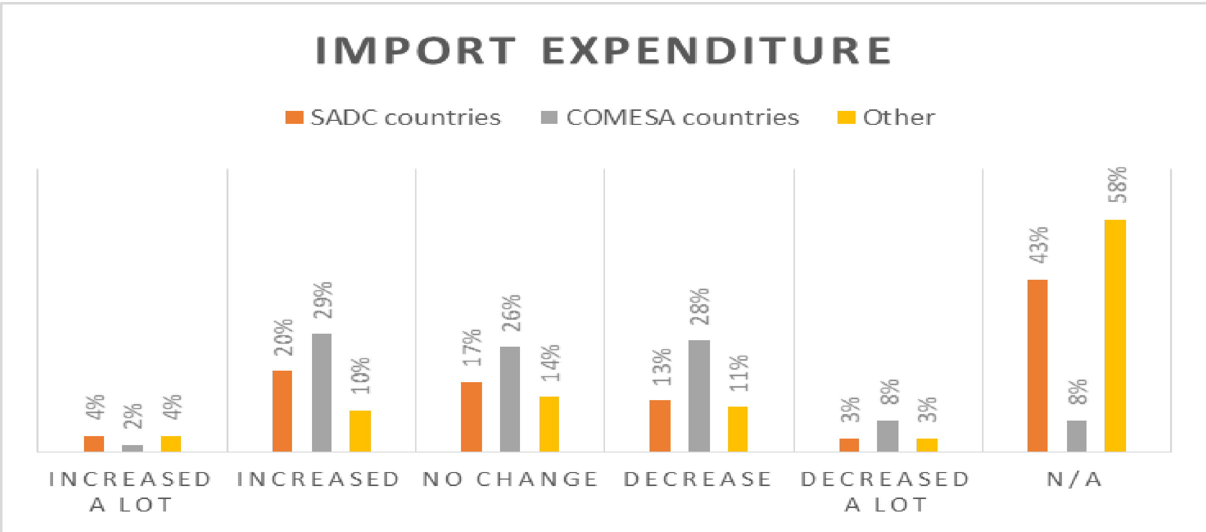


Figure 16 below shows changes in import revenue for 2020 which saw an increased number of the respondents sourcing imports from both the SADC and COMESA regions than the other regions. This may be due to the fact that the Covid-19 pandemic made it difficult for businesses to import from international markets such as China hence most of them resorted to sourcing materials within the region.

Figure 16: Prospects for Imports

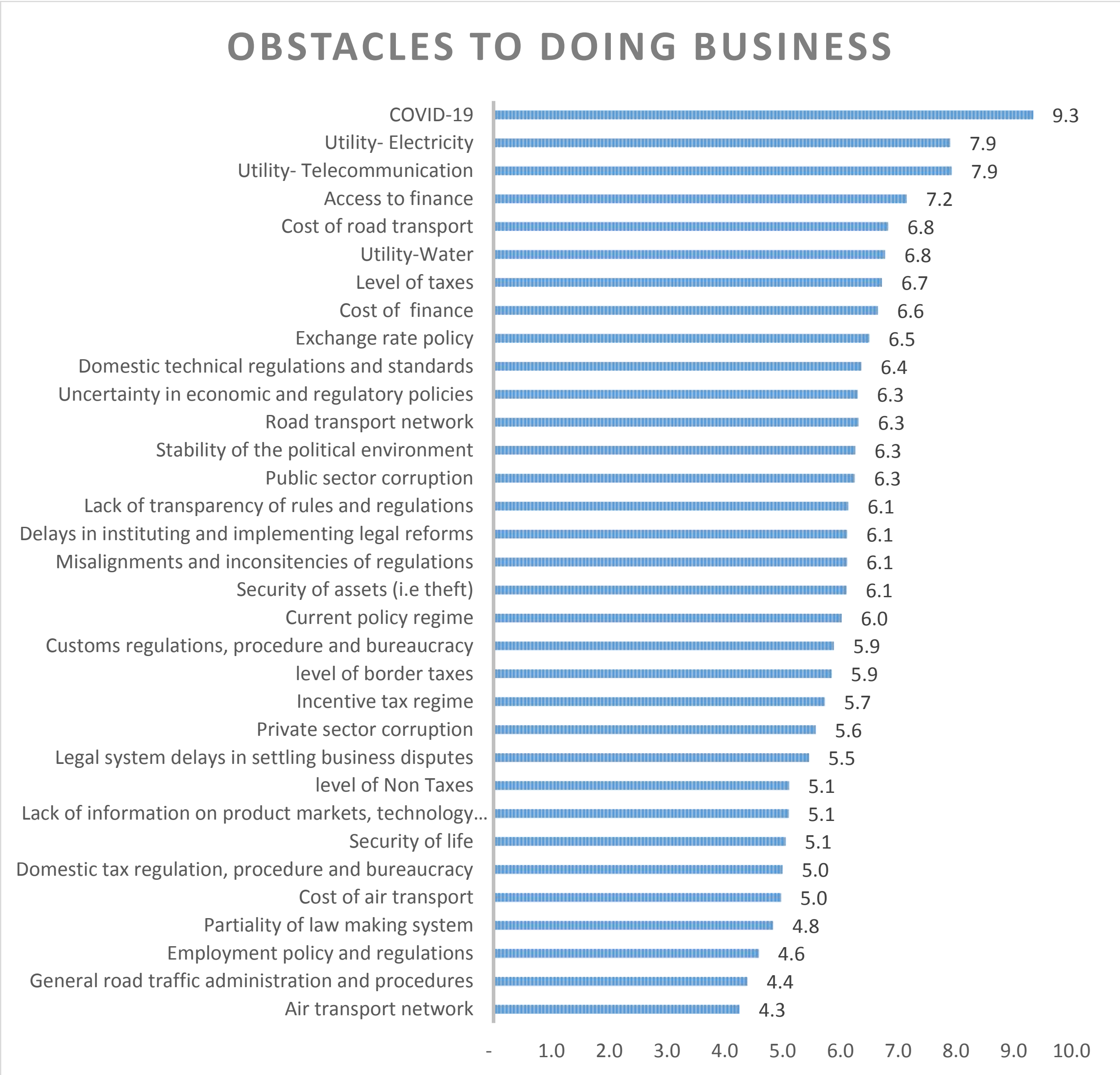


5. Obstacles to Doing Business

5.1. Overall Rating

Figure 17 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 17: Obstacles to Doing Business



5.2. Issues on Major Obstacles to Doing Business

5.2.1. COVID-19 Pandemic (9.3)

In 2020, the impact of the COVID-19 shock disrupted business activity for a prolonged period than anticipated and it is no surprise the pandemic was rated highly by businesses as being the top most obstacle to doing business.

The impact of the pandemic on the domestic economy came from two fronts as follows:

a) External shocks, and
b) Domestic social distancing measures arising from public health interventions to combat the spread of the pandemic.

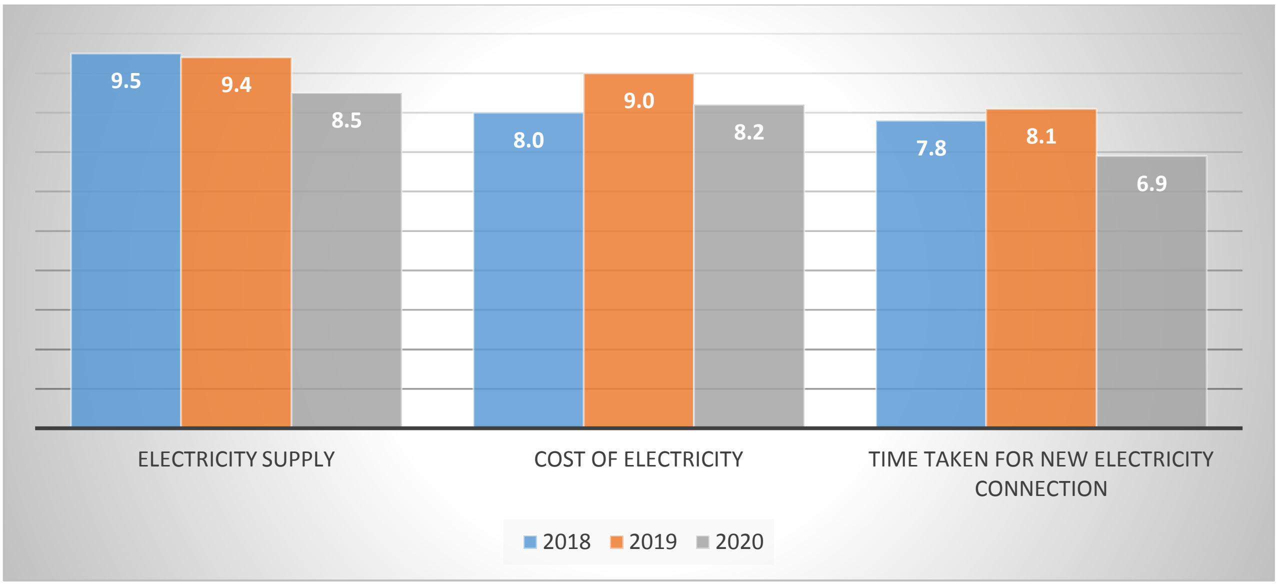
Due to the impact of external shocks, businesses struggled to obtain inputs and consumer goods from outside the country due to supply chain disruptions as well as shortage of foreign currency. While domestic containment measures affected local demand due to restrictions on public gatherings. Furthermore, the general fear of the pandemic by the local population resulted in reduced travel and this caused subdued demand for goods and services.

5.2.2. Utilities – Electricity (7.9)

Electricity was rated the second biggest obstacle to doing business in 2020 across all parameters in terms of cost; time taken for new connections; and electricity supply as presented in figure 18 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 miss deadlines and their future cannot be clearly determined such as the Kammwamba Coal Fired Plant, and Malawi – Mozambique Interconnector.

Businesses expressed their frustration at ESCOM's insistence to continue charging Maximum Demand Tariff even though it is quite obvious that most businesses are operating way below their maximum capacities. Such lack of consideration in policy implementation to match with prevailing business climate is an area business continue to point out as evidence of lack of seriousness by public institutions to support the private sector. Businesses also expressed frustration at the long period of time it takes to get a new electricity connection from ESCOM. Some businesses lamented that it took more than 2 years to get connected or have 3 phase systems installed on their premises.

Figure 18: Major Rated Obstacles in the Electricity Sector



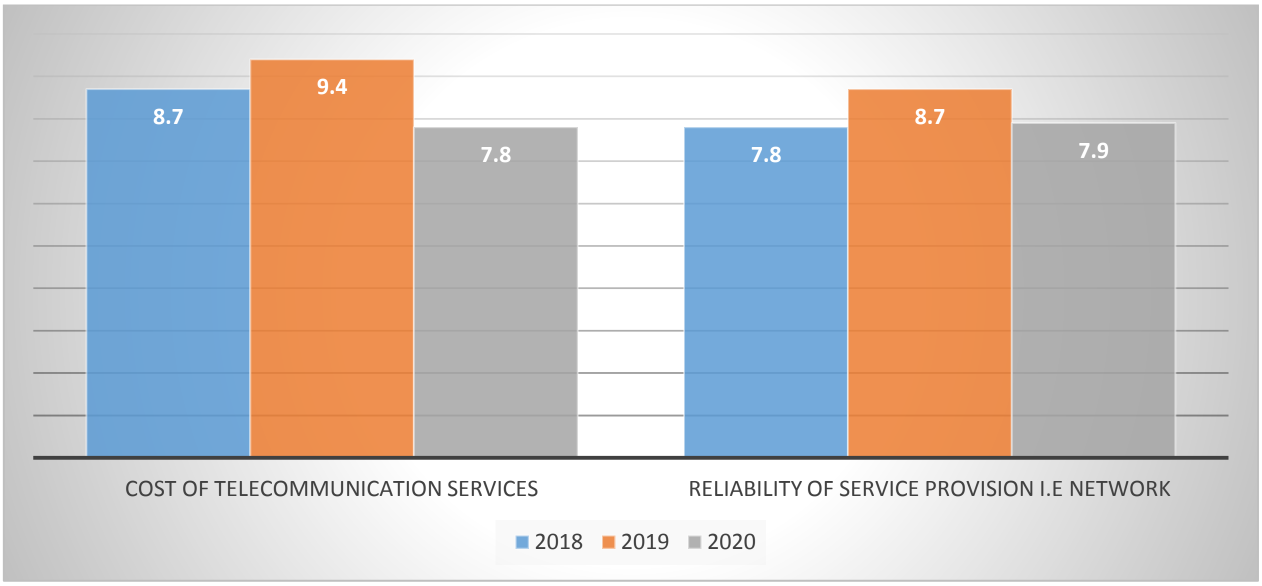
5.2.3. Utilities – Telecommunication (7.9)

Provision of telecommunication services is a catalyst for economic development in this era of digital transformation. These services among others include internet and voice communication which are crucial for businesses operations. 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 fiber coverage, low per capita income, 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. During the period of the pandemic, enforcement of social distancing has necessitated the usage of digital communication such that its usage is no longer a luxury but a must. Expansion of the digital economy has been accelerated by the impact of the pandemic and therefore, it is high time the key stakeholders took proactive steps to address some of these challenges, otherwise Malawi will be left out in the new digital economy.

As shown in figure 19, rating of both reliability of broad telecommunication services and cost of telecommunication services remain high in 2020. These challenges pose threats to digital transformation in Malawi.

Figure 19: Major Rated Obstacles under Telecommunication



5.2.4. Access to finance (7.2)

Access to finance remains a major obstacle to the growth of Small & Medium Sized Enterprises in Malawi. The domestic economy lacks venture capitalists who can back small and emerging innovative businesses that are most of the times viewed by traditional financial institutions as high risk.

On several occasions, entrepreneurs have emerged with disruptive ideas but their businesses have often died in infancy due to lack of financial backing. Furthermore, those businesses that have survived have failed to graduate from micro to SME's due to lack of investors.

The development of the National Business Incubation Policy is a welcome idea as it shows Government's commitment to promoting growth of MSME's in the country. However, the policy needs to go beyond just training entrepreneurs and include strategies that will facilitate access to capital for MSMEs. Government institutions such as Export Development Fund, the National Economic Empowerment Fund (NEEF), Malawi Agricultural and industrial Investment Corporation (MAIIC) were established for such purposes, but they lack adequate financial support and face implementation challenges. The National Business Incubation Policy is aimed at providing technical capacity in business management as well as financial capacity to entrepreneurs as a part of enhancing MSMEs. MAIIC as an institution is already mandated to provide both technical and financial capacity to entrepreneurs therefore this institution should be enhanced with more funding.

5.2.5. Cost of road transport (6.8)

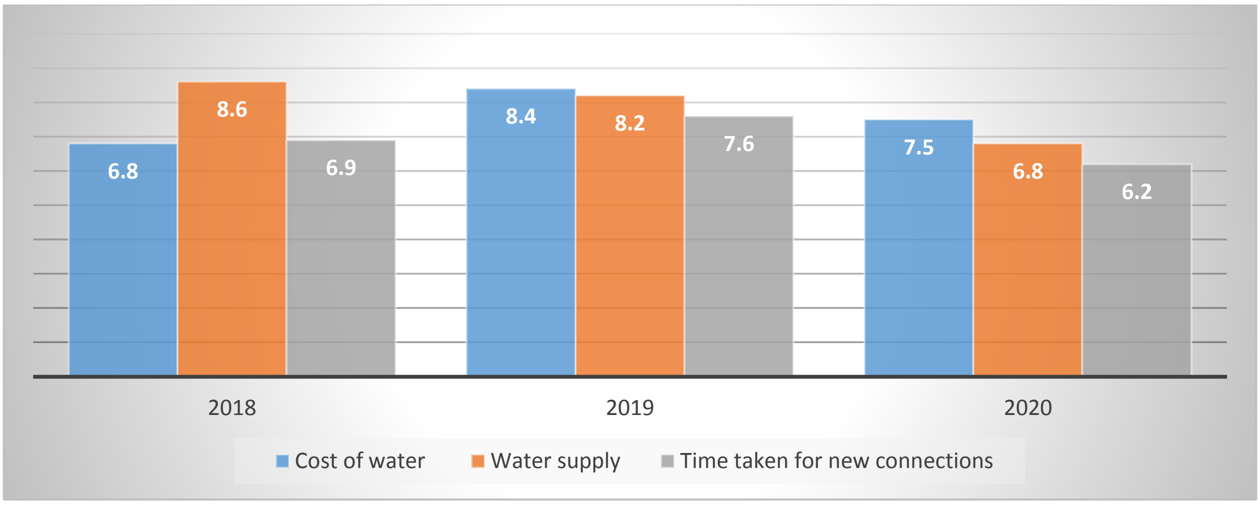
Cost of road transport was rated at 6.8 in 2020. In order for any country to achieve sustainable economic and social development, a good and efficient transport network is very important as it directly affects business competitiveness. Specifically, transportation cost is an important determinant of business profitability as it factors directly into the cost of operation. Furthermore, quality of road network influences distribution efficiency which affects production decisions. Thus, the cost of transportation and quality of the road infrastructure respectively have a direct causal relationship to the level of profits and production efficiency of businesses.

The country's poor road network is a major obstacle to doing business as it increases the cost of doing business. Most of the value chains in the domestic economy are affected by poor road network and the situation worsens during the rainy season when most roads in the rural areas are hardly usable.

5.2.6. Utilities – Water (6.8)

Water was rated at 6.8 in 2020. Businesses indicated that the cost of water was very high and the performance of the country's regional Water Boards did not live 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 on electricity also contributed to water challenges during the year. As shown in figure 20 below, cost of water, time taken for new connections and water supply were 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 20: Major Obstacles under Water Sector



5.2.7. Level of taxes (6.7)

This factor is a direct influence of reforms introduced during the presentation of the National Budget. The outcome of domestic tax reforms introduced during the 2020/21 National Budget were somewhat encouraging but more can still be done. In 2020/21 Financial Year, the Government indicated that it would be implementing policies aimed at turning informal businesses into the formal sector via the creation of Associations, Cooperatives and incubation centers. This is a commendable move by Government to widen the currently narrow tax base and enforce tax payer compliance instead of just placing the tax burden on a few businesses. Furthermore, Government also increased the income tax free threshold under the Personal Income Tax regime from MK45, 000 per month to MK100, 000 per month as well as the Withholding tax threshold for casual labor from MK15, 000.00 to MK35, 000.00 per transaction. This was a good development as it helped increase household income for a significant proportion of people in the low-income bracket and thus increased disposable income in the economy. However, it must be pointed out that none of the tax proposals presented by the private sector mainly to do with corporates were taken into consideration during the 2020/21 National Budget as such the impact of the specific tax burdens have most likely exacerbated due to the impact of the pandemic. Even though a tax compliance window was given by Malawi Revenue Authority (MRA), this did not make a significant impact on business operations as it only brought temporary relief while the tax burdens continued to be too high in a poor business environment.

5.2.8. Cost of finance (6.6)

Cost of finance is one of the factors that has remained a major obstacle in Malawi. Even though the policy rate has been on a down-ward trend since November 2016, the decline has not been significant enough to trigger increased private sector borrowing since the rates from commercial banks remain high. Furthermore, Malawi lacks long-term financial instruments which can help make capital affordable for investment. Businesses are still expectant of better interest rates and access to long term finance with the establishment of financial institutions such as MAIIC, however, the institution seems to be lacking adequate financing.

5.3. Trend of the Obstacles to Doing Business

Figure 21: Trend of Obstacles to Doing Business

	2014	2015	2016	2017	2018	2019	2020
1	Uncertainty in Economic & Regulator Policies	Cost of Finance	Cost of Finance	Electricity	Cost of Finance	Political stability	Covid-19 pandemic
2	Crime/Theft	Electricity	Telecom	Telecom	Electricity	Telecommunication	Electricity
3	Electricity	Telecom	Electricity	Uncertainty in Economic & Regulator Policies	Telecom	Electricty	Telecommunication
4	Cost of Finance	Uncertainty in Economic & Regulatory Policies	Uncertainty in Economic & Regulator Policies	Customs regulations, Procedures & bureaucr	Crime/Theft	Effectiveness of National Assembly as law making body	Access to finance

5	Water	Crime/Theft	Crime/Theft	Domestic Tax and Non Tax Reforms	Effectiveness of National Assembly as law making body	Cost of Finance	Cost of road transport
6	Corruption	Customs regulations, Procedures & bureacr	Customs regulations, Procedures & bureacr	Domestic Tax Regulation, Procedure and Bureaucr	Customs regulations, Procedures & bureacr	Domestic technical regulations & standards	Water

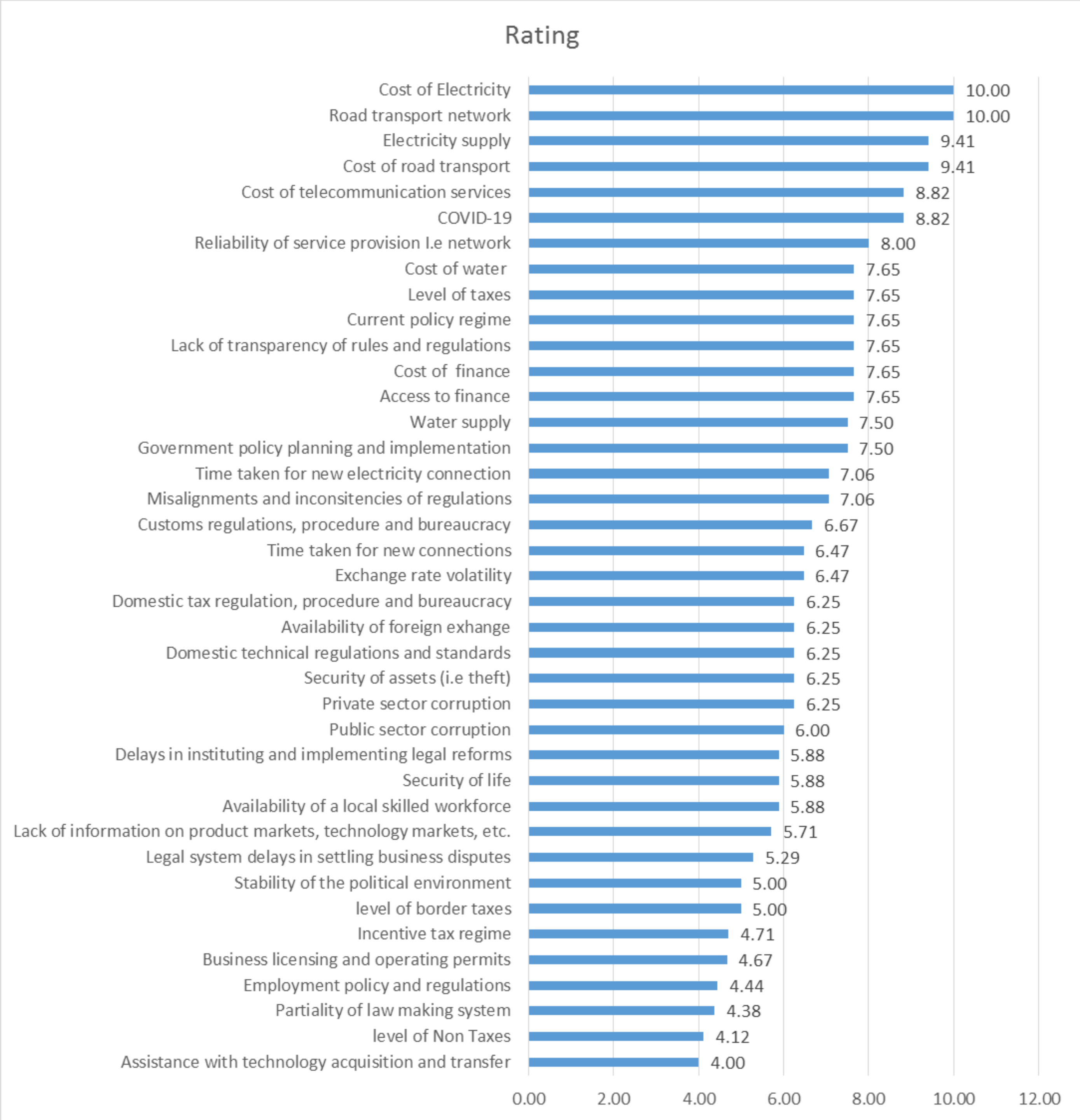
5.4. Obstacles by Sector

5.4.1. Agriculture, Forestry and Fishing

The agriculture sector continues to be the major contributor to the growth of the economy of Malawi. However, the sector's growth continues to be hampered by several challenges.

According to figure 22 below, the rating of obstacles by players in the agriculture sector depicts cost of electricity, road transport network, electricity supply, cost of road transport and Covid-19 as the top most obstacles to doing business in the sector in the year 2020. Furthermore, reliability of telecommunication network provision, cost of water, level of taxes, current exchange rate policy regime, lack of transparency of rules and regulations as well as cost of finance have also had a significant negative effect on this sector.

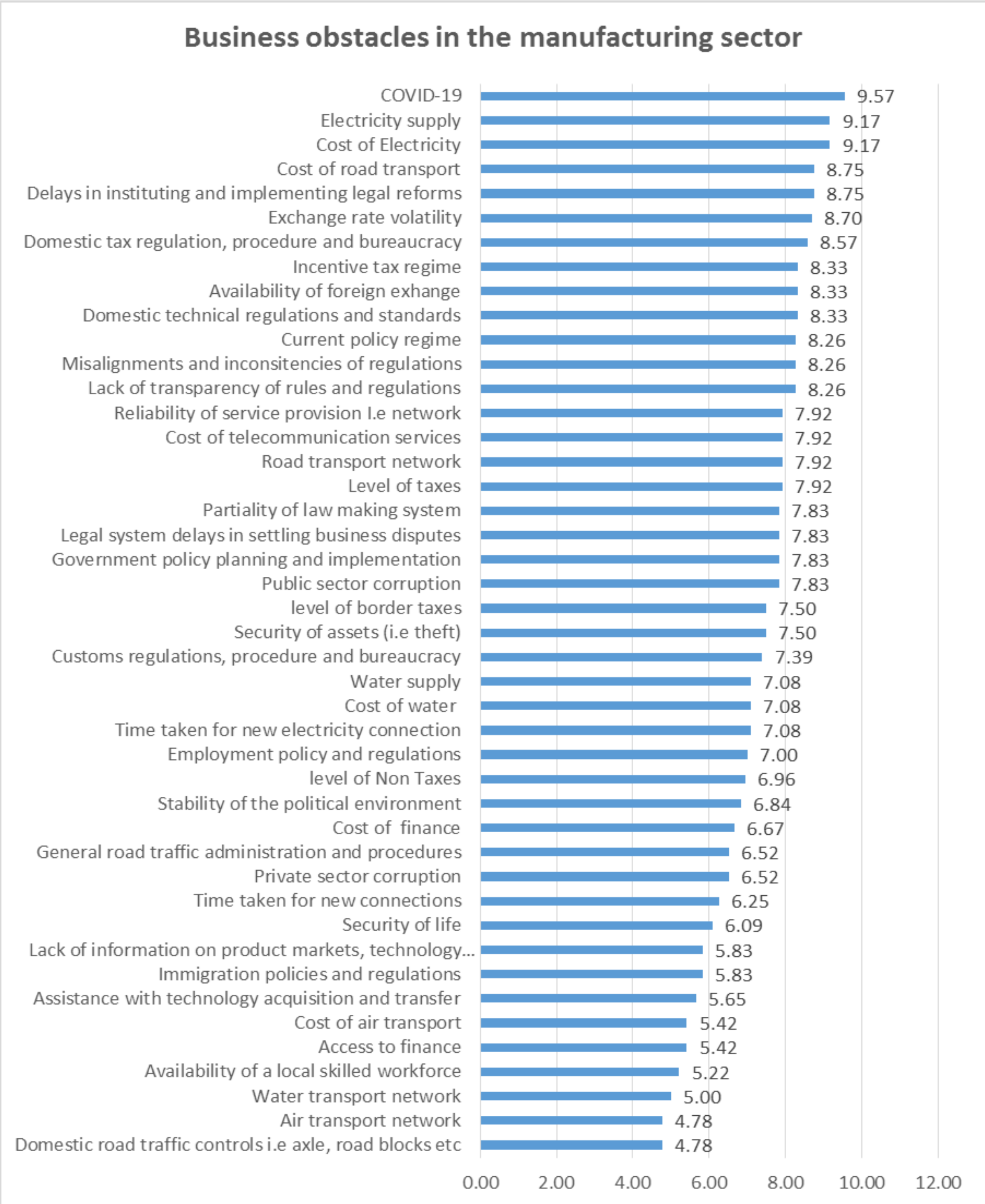
Figure 22: Obstacles of Doing Business in the Agriculture Sector



5.4.2. Manufacturing Sector

The rating of key obstacles as perceived by the manufacturing sector are shown in figure 23 below. As observed, Covid-19, electricity supply, cost of electricity, cost of road transport, delays in instituting and implementing legal reforms and regulations as well as exchange rate volatility were the top major challenges in the sector. The manufacturing sector remains relatively small and underdeveloped. Major enterprises within the sector include: textiles, footwear and clothing, Agro-processing (tobacco, tea, sugar, soya, and macadamia nuts), furniture, beverages, food processing, steel and building materials (cement and joinery). Despite the aforementioned diverse sectors of manufacturing, overall, the economy remains largely service based, with low levels of industrialization. Over the years, the manufacturing sector's contribution to GDP has been declining steadily and has fallen from 17.1 percent in 1994 to 9.1 percent in 2019. The major obstacles highlighted in figure 23 below as well as other contributing factors such as macroeconomic imbalances, policies that are not conducive to attract investment in the sector as well as the influx of manufactured imports need solutions if the industry is to progress.

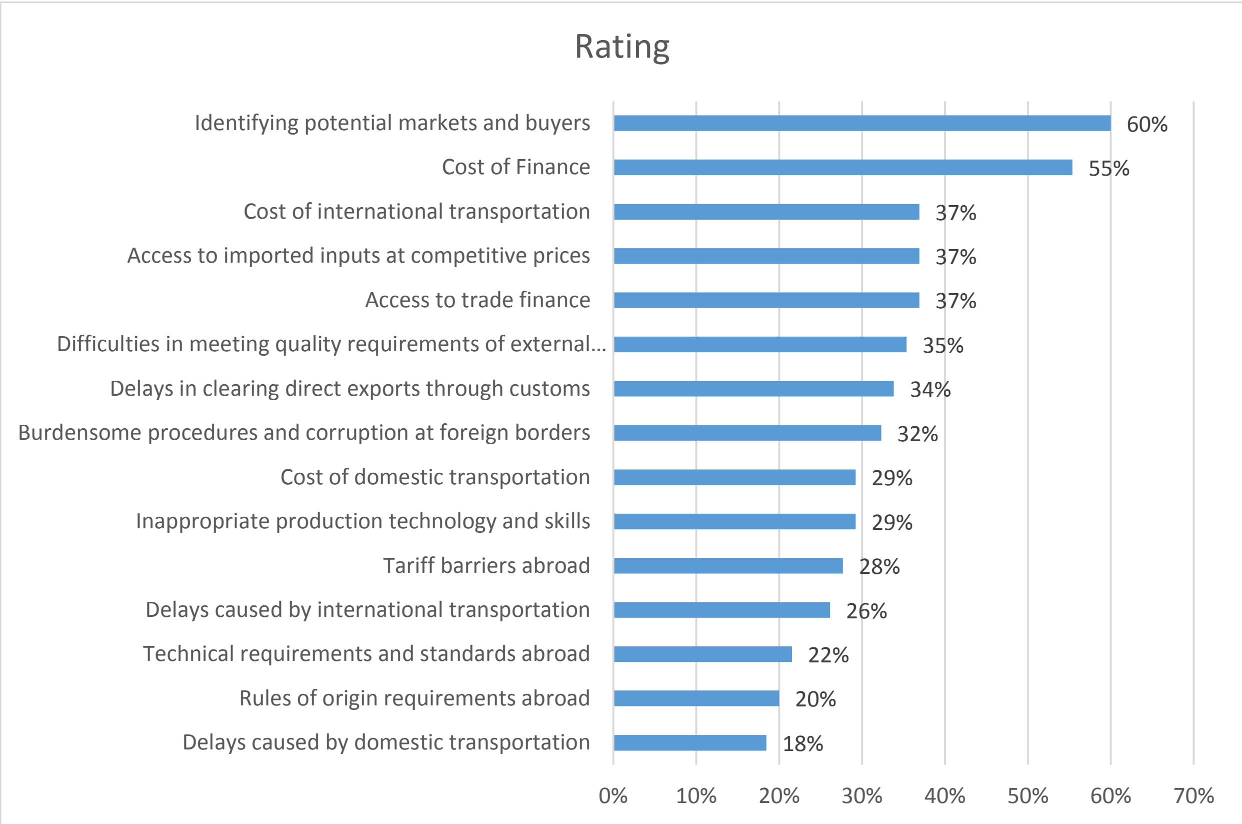
Figure 23: Obstacles of Doing Business in Manufacturing Sector



5.4.3. Obstacles for Exporter and Importers

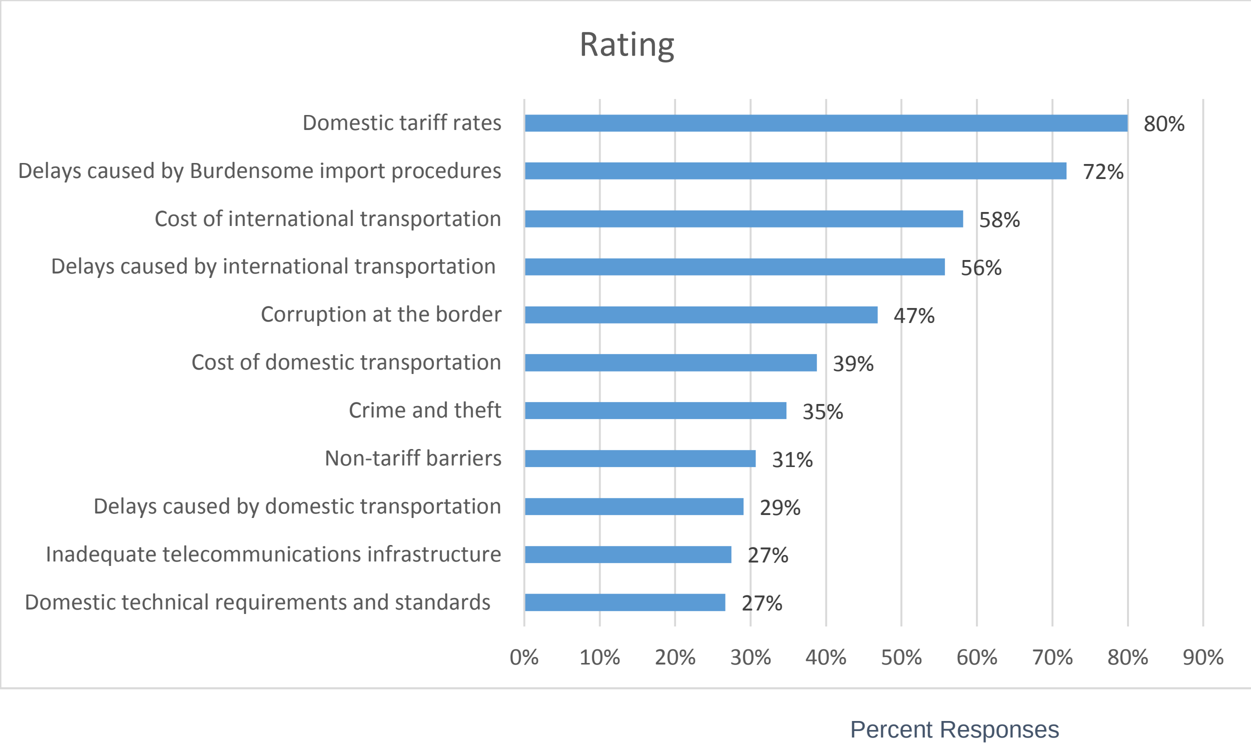
The survey also obtained views to assess the ease of doing business for exporters and importers. Businesses were asked to identify the top five most problematic challenges among several challenges which were assessed and shown in figures 24 and 25 below. The rating is done in a way that the common challenges that get picked the most by businesses are considered the top most challenges and these are rated in percentages based on the frequency of selection.

Figure 24: Problematic Factors to Export



Percent Responses

Figure 25: Problematic Factors to Import



6. COMPANY PRODUCTIVITY AND COMPETITIVENESS

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

6.1. Research and Development

Research and development are undertaken in order to develop and expand a business' productivity. Table 1 below presents recorded data from 2015 to 2020 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 1: Distribution or Proportional Responses on Research & Development

	2015	2016	2017	2018	2019	2020
Extent to which research findings are important for growth of business						
Not at all	9%	9%	5%	5%	6%	10%
Somehow	34%	33%	20%	23%	32%	28%
Very much	57%	58%	75%	71%	62%	61%
Extent to which companies plan and budget to benefit from new technology						
Not at all	20%	26%	15%	27%	24%	52%
Somehow	43%	46%	39%	40%	31%	36%
Very much	37%	28%	45%	32%	44%	12%
Extent to which companies spend on research and development						
Not at all	30%	27%	25%	25%	23%	36%
Somehow	50%	59%	55%	60%	47%	49%
Extensively	20%	14%	18%	16%	30%	16%

6.2 Innovation and Technology Absorption

Figure 26 below shows distribution of responses of how various businesses used and absorbed technology in 2020 as compared to 2019. The results indicate a significant drop in respondents who usually use and absorb technology from 70% to 49% percent while the number of those that somehow use and absorb technology has increased to 28 percent from 15 percent, while those that do not use or absorb new technology has increased from 6% to 14 percent. The number of respondents considering to use technology has remained the same at 9 percent.

Figure 26: Extent of Use and Absorption of New Technology

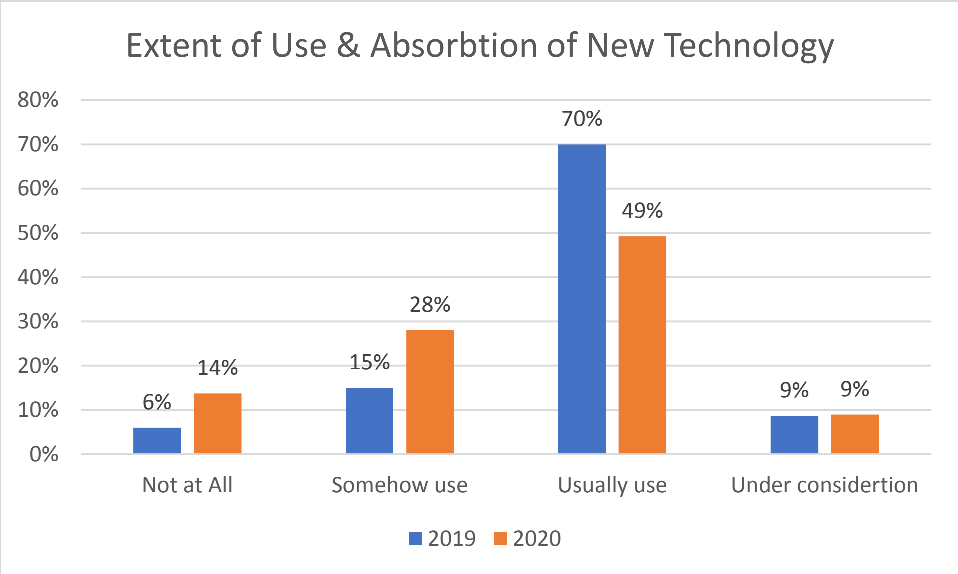


Table 2 below further analyzes the extent to which businesses collaborate with suppliers, competitors, clients, universities and research organizations in risk spreading, combining ideas and leveraging on each other which allows them to lower costs which they would otherwise face as a standalone investor. Results show a general decline in the respondents who do extensive collaborations and somehow collaborate while there is an increase in those that do not collaborate.

Table 2: Collaboration on Technology Flows and Innovations (Proportional Responses)

	2015	2016	2017	2018	2019	2020
Extent to which businesses collaborate with other firms to promote technology flows and innovation						
Do not collaborate	11%	10%	7%	9%	6%	14%
Somehow collaborate	39%	49%	48%	50%	37%	32%
Collaborate extensively	50%	40%	44%	41%	57%	54%

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. The data shows that the majority of respondents do in fact use internet despite the perceived high cost of communication in the country. The use of Automated accounting systems is also significantly high among the respondents.

Figure 27 Distribution of responses of Businesses Utilization of Information and Communication Technologies

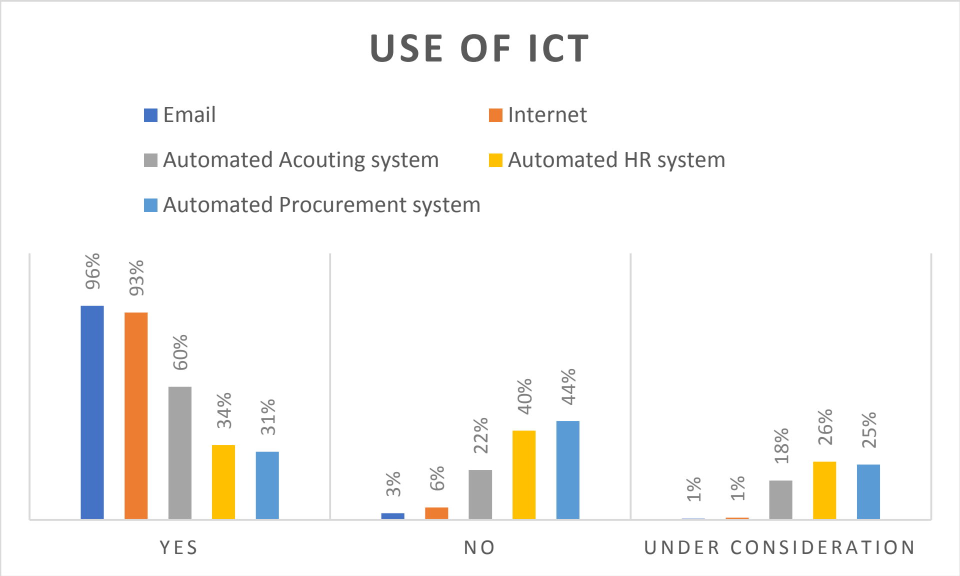
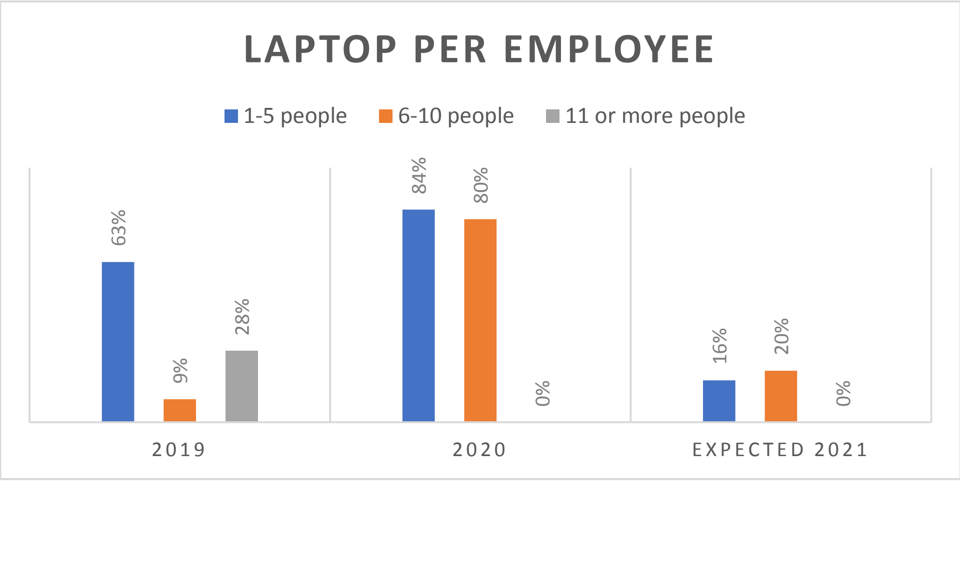


Figure 28 below demonstrate the trends on the ratio of employees to one computer which has experienced some changes over the past year. As shown in the figure, 84 percent of the respondents have a maximum of 5 employees per one computer which is a significant increase from 63 percent in 2019. The results also exhibit that the use of computers is increasingly being adopted by many enterprises.

Figure 28: Distribution of responses to Number of Employees per Desktop or Laptop



6.3 Human Resource Development, Employment and Productivity

Human resource development is one of the top factors that assists in attaining a productive and efficient workforce. The availability of skilled workforce positively affects productivity. Unskilled labor is an extra cost to doing business as companies are forced to give employees on the job training to fulfill perceived skill gaps.

Figure 29 below depicts the level of qualification in the respondents' labor force which shows that 75 percent of the respondents have at least 21 – 50 employees with a university degree which indicates a high demand for a workforce with tertiary education. The figure also shows a high prevalence of on the job trained workers cementing the fact that there is more demand for individuals with skilled labor.

*Figure 29: **Distribution of responses to Employee Qualification***

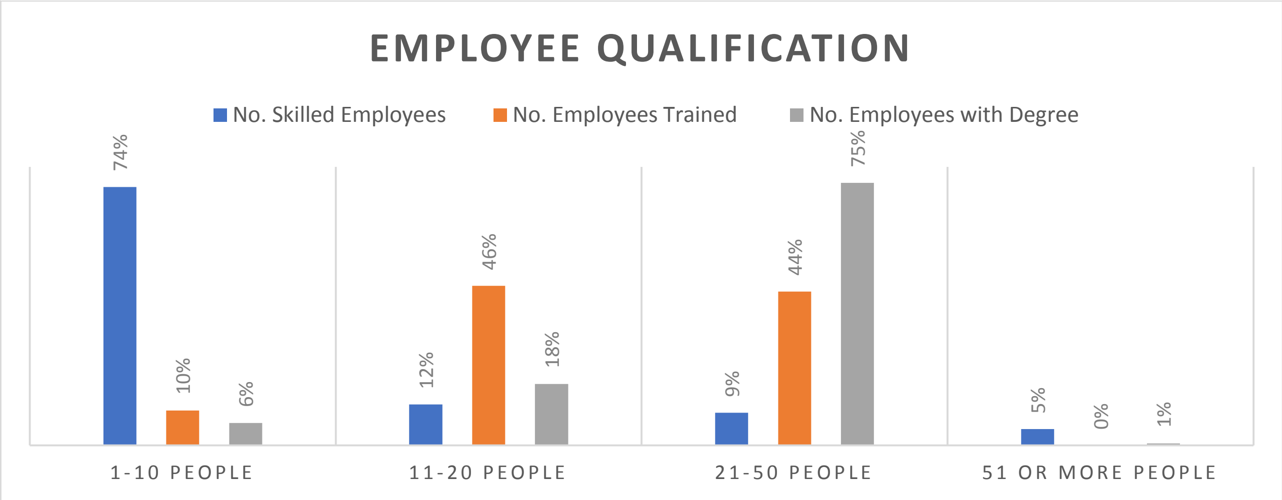


Table 3 below presents complementary factors that explain worker productivity by investigating response distribution for 2020 compared to the past 6 years. Results show that the majority of the businesses indicated that education system in the country somehow meets their company needs but not to a great extent. The results also show that majority of businesses attract and retain employees. It also shows that majority of respondents have their wages and salaries partly related to qualification and expertise.

Table 3: Education and Worker Productivity (Proportional Responses)

Educational system meets needs of your company	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Not well at all	13%	18%	7%	50%	17%	10%
Somehow	64%	61%	65%	12%	51%	46%
Very much	23%	21%	28%	38%	32%	44%

Extent to which businesses attract and retain						
Not for long, the best leave	1%	11%	2%	10%	2%	6%
a few remain, more leave	19%	20%	6%	16%	27%	18%
majority remain	80%	69%	92%	73%	71%	76%
Extent of hiring and firing employees?						
Rarely	78%	77%	81%	68%	79%	84%
Often	22%	18%	18%	25%	15%	11%
very often	0%	5%	0%	7.02%	6%	5%
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	14%	34%	9%	29%	18%	18%
related partly to qualification and partly to expertise	52%	43%	53%	50%	49%	52%
strongly directly related to worker productivity	33%	23%	38%	21%	33%	29%

6.4 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 programs and strategies to encourage behavioral change.

Figure 30: Impact of HIV/AIDS

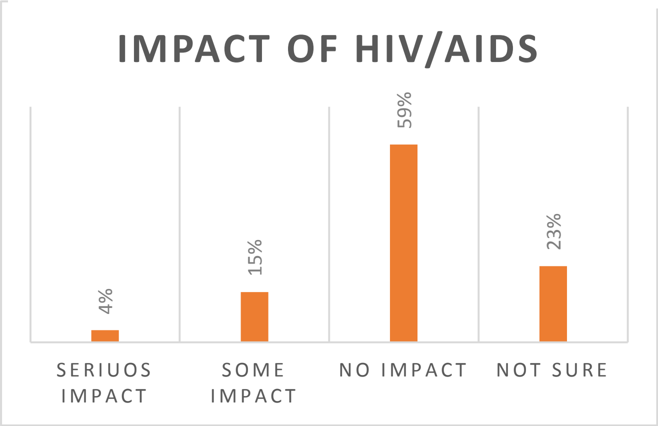
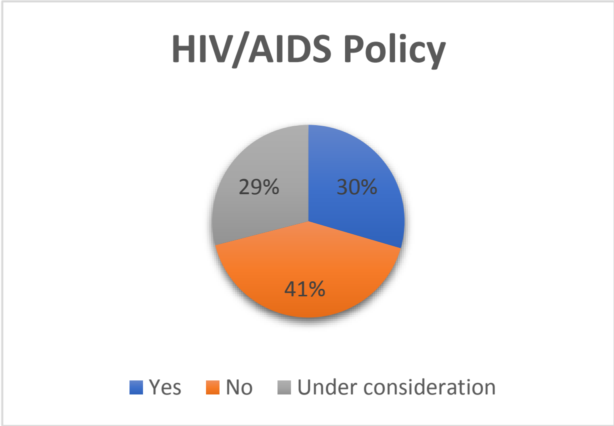


Figure 31: Development of HIV/AIDS

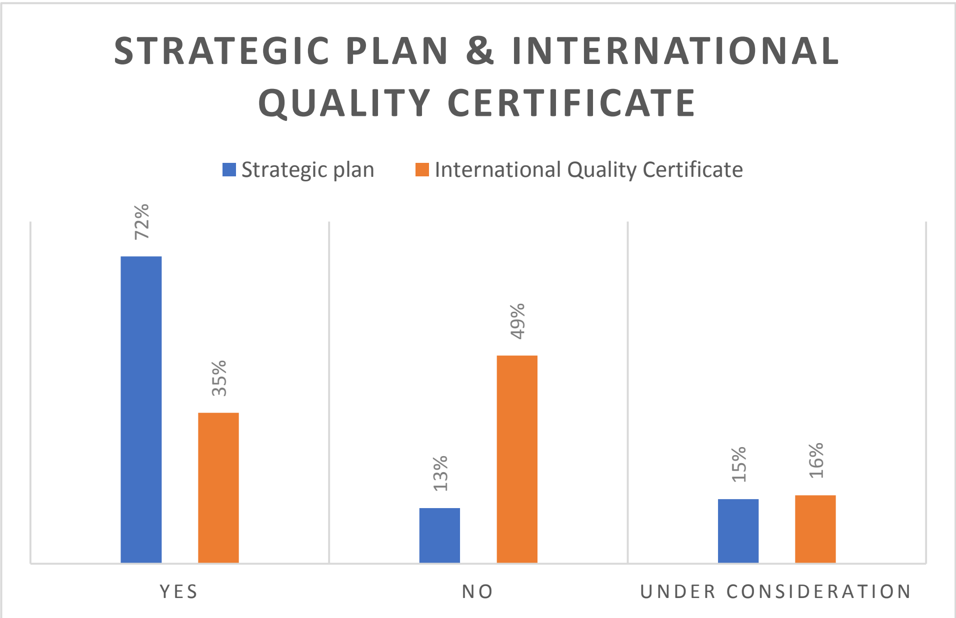


At least 30% percent of businesses have an HIV/AIDS policy and 19 percent of businesses indicated that their businesses are impacted by HIV/AIDS. Despite being very marginal, the 4 percent of respondents that were seriously impacted by the disease point to the need for more awareness and creation of HIV/AIDS policies to be put in place in all business corporations.

6.5 STRATEGIC PLANNING

Change is a certainty in both the internal and external environments of a business. Having a strategic plan not only ensures that businesses execute their daily operations towards a number of goals they would like to achieve but it also ensures that businesses are able to modify their business activity to take full advantage of change that occurs. For local companies to compete on the international scene, it is very important to get their products' quality certified by an internationally recognized standards board. This gives the products a competitive edge on the international market. Figure 32 below shows the distribution of responses on businesses who have a strategic plan and internationally recognized certificate. Consistently, the figure shows that most businesses have a strategic plan

Figure 32: Availability of a Strategic Plan & International Quality Certificate



7. SUMMARY OF KEY OBSERVATIONS AND RECOMMENDATIONS

Overall, the survey findings show a highly suppressed business environment during the year 2020 which was heavily influenced by the worldwide health crisis instituted by the novel Corona Virus. This is also reflected in the macroeconomic performance of the country for the year 2020. For the past three years, Malawi's economy has been growing registering a GDP growth rate of 5.1 percent in 2017, 4.0 in 2018 and 5.0 in 2019. The growth in 2019 was mainly on account of good performance in the Agriculture sector owing to an increase in output in the sector. In 2020, the economy grew by a mere 0.9 percent due to the negative impact of the COVID-19 pandemic. The impact of the pandemic on the domestic economy has been mainly through external shocks due to its overreliance on foreign goods. The impact of the pandemic serves as a warning to policy makers to move away from a consumption based economic regime which is highly vulnerable to external shocks and towards an inward-looking production-based economy.

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 which 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 impact of Covid-19 was the top most challenge to doing business in 2020, and there is no doubt that the pandemic has affected Government revenue operations as well. However, Government needs to put more effort in supporting businesses in order to create a friendly environment for business growth, especially during this crisis period of Covid 19, to ensure business sustainability. Even though Government has responded with a number of policies, the general feeling from the private sector is that the Government could have done more to support the sector. In this regard, the report advances the following recommendations in regards to COVID-19 response:

a) Government should consider assisting businesses whose orientation is domestic but use local resources (i.e. inputs) to upscale production. This can be done through incentives such as tax breaks, Value Added Tax (VAT) and corporate tax rate reduction, reduced electricity charges and loans to upscale their production.

b) Maximum Demand Tariff on electricity for industries should be waived during this lean period considering that companies are producing below capacity.

c) Government should pay all arrears to businesses including Value Added Tax (VAT), and withholding tax (WHT) refunds to improve businesses' liquidity positions and thus enable them meet wage and other statutory obligations.

d) Government should provide special lines of credit to be accessed by larger businesses as a way of revitalizing the economy, in addition to the K40 billion announced by Government and earmarked for lending to SMEs.

e) Review of the Pension Act to allow temporal suspension of payment of pension contributions from both the employers and employees during the crisis, especially for companies that have been severely affected by the crisis to give them relief. This moratorium on pension should be on a case by case basis, and not necessarily wholesale. The employee would profit from higher disposal income while the employer will benefit from increased liquidity.

2. Electricity was the number two obstacle to doing business in 2020. According to the World Bank, access to reliable energy is currently the most pressing infrastructure need in Malawi. Malawi has one of the lowest electricity access rates—at 11 percent of population compared to 42 percent in low income countries (LICs) and 48 percent in Sub-Saharan Africa (excluding high-income countries). Current generation capacity of about 485 MW is not adequate to meet the demand, which is expected to reach 719 MW by 2020, 1,873 MW by 2030, and 4,620 MW by 2040.

   In addition, the production capacity is highly dependent on hydropower stations in the Shire river (about 76 percent of the installed capacity), with the balance of generation coming from expensive emergency diesel generators. As such, until diversification of generation capacity occurs, Malawi's capacity to meet demand will continue to be vulnerable to climate volatility and will continue to depend on emergency diesel generators which are very costly and unstainable. Therefore, Government must commit to ensuring that flagship electricity projects such as the Salima Solar Project and Mpatamanga Hydropower Project are completed as this would send a powerful signal to the market and can catalyze wider investment in the manufacturing sector.

   In regards the issue of electricity, businesses also expressed their frustration at ESCOM's insistence to continue charging Maximum Demand Tariff even though it is quite obvious that most business were operating way below their maximum capacities in 2020. We urge the energy regulator in the country, Malawi Energy Regulatory Authority (MERA) to review the cost structure of power supply as the Maximum Demand charges are too high and inhibit growth of the local industry. Irrigation farming and manufacturing sectors suffer a lot of costs from Maximum Demand Charges. The report proposes the removal of Maximum Demand Charges as an incentive for businesses to inject the resources in scaling up investment. Similarly, fixed charges for irrigation farming should be removed as a matter of priority. If properly natured, irrigation farming has the potential to offer seasonal employment in large numbers.

3. Telecommunication has remained in the top three obstacles to doing business in Malawi. High cost and poor quality of telecommunication services particularly of electronic forms such as internet and mobile network remain a big challenge in the country. The mobile usage in the country is slowly growing, but remains one of the highest tariffs in the SADC region. Service providers offer substandard services at very high costs with the networks often experiencing interferences and random cuts during phone calls. According to the World Bank, as of 2019, 47.8 percent of Malawians had access mobile cellular phone subscriptions while 13.8 percent had access to internet. While these statistics might have improved since 2019, what is evident is that the mobile phone reach in the country is small and 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 large 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. Access to finance remains a big challenge particularly for Micro, Small and Medium sized (MSME's) businesses in Malawi. In 2020 due to the impact of the pandemic, demand for credit was elevated as most businesses faced liquid challenges. However, access to credit was quite a big challenge especially for MSMEs as they were generally viewed as high risk during the period of great economic uncertainty. Traditionally in Malawi, MSMEs have always struggled in terms of access to finance and most startup businesses have died in their infancy. The impact of COVID-19 has simply made the situation worse. Therefore, there is a growing need for the Government to develop deliberate policies that will encourage venture capital firms to invest in the local economy and support small and emerging innovative businesses that are most of the times viewed by traditional financial institutions as high risk.

5. Cost of road Transport has been a major obstacle to doing business in Malawi for a number of years and it is high time lasting solutions were developed. In order for any country to achieve sustainable economic and social development, a good and efficient transport network is very important as it directly affects the competitiveness of businesses. To this extent, the country must consider investing in rail transportation to bring down the transportation cost which will translate to reduction in cost of production as well as make exports competitive.

6. Cost of finance is still one of the top most challenges to doing business in Malawi 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 the majority of businesses to access these funds from reputable financial institutions due to the high cost of borrowing. Although the policy rate has been reduced to 12 percent, interest rates remain high whilst savings rate remains low.

   For businesses that manage to acquire such loans, 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 Non-Performing Loans Ration being persistently above the acceptable limit of 5.0 percent in the past few years. For example, according to RBM statistics, as at December 2019, the banking sector NPL ratio stood at 6.3 while as December, 2020 the banking sector NPL ratio stood at 6.3. Over the years, efforts by Government have been observed in the improvements of the macroeconomic environment and establishment of a development financial corporation such as MAIIC as well as rebranding of NEEF. However, Government should curb its borrowing appetite from the local financial market to free resources for the private sector. Statistics from the Ministry of Finance indicate that at the close of the 2019/20 FY, public domestic debt increased by MK 395 billion to MK 2.4 trillion representing 37 percent of GDP, while the total public debt stock stood at MK 4.13 trillion representing 65 percent of GDP.

7. Water supply is another obstacle to doing business in Malawi. The country has been facing a 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 as well as in production. The government needs to implement innovative recycling water systems to reserve and preserve water and invest in water resources management

8. 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.