THE MALAWI CONFEDERATION OF
CHAMBERS OF COMMERCE AND INDUSTRY

The 2021 Malawi Business Climate Report

MAY 11, 2022

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
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
MF&E	Ministry of Finance & Economic Affairs
MRA	Malawi Revenue Authority
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 2021 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. These observations and 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.

1.0. 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.

1.1. Methodology

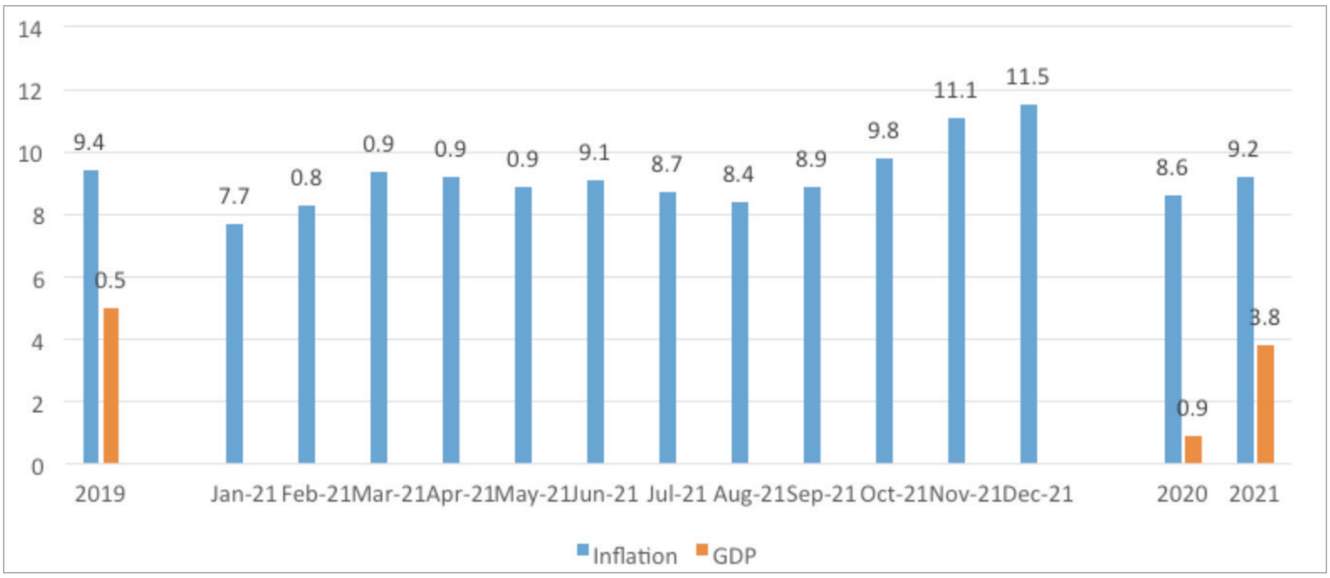
A standard survey questionnaire was administered and 216 out of 250 questionnaires were returned duly completed, representing an 86.0 percent response rate. The sample was randomly drawn with sectoral representation depending on contribution of each sector to the economy but aimed at getting at least 50 percent of repeat respondents. The survey was conducted in the month of March 2022. Data management and analysis was done by MCCCI for the production of this report.

2. Economic Outlook for 2021 and Prospects for 2022

According to the Ministry of Finance (MoF, 2022), Malawi's economy is projected to have recovered in 2021 and real GDP is projected to have grown by 3.8 percent from as low as 0.9 percent in 2020. The recovery is largely a reflection of the good agricultural performance, Covid-19 vaccination as well as reduced disruptions caused by Coivid-19 restrictions which shored up consumer and business confidence. Going forward into 2022, the Ministry projects that the economy will grow by 4.1 percent assuming the effects of exogenous shocks such as natural disasters like Tropical Storm Ana and Gombe as well as the Russian-Ukraine war do not persist. This growth will be supported by an increase in economic activities in mining and quarrying, manufacturing, transportation, construction, and wholesale and retail sectors. In 2023, the economy is projected to grow by 4.0 percent.

In terms of price developments, consumer prices accelerated markedly in 2021 mostly driven by an increase in food and fuel prices. Headline inflation, which had been in single digits for close to two years, crept back into double digits. Headline inflation accelerated to 11.5 percent in December from 9.1 percent in June 2021. Food inflation, which has been the main driver of inflation in the country, rose to 13.6 percent in December 2021 from 11.1 percent in June 2021. For 2022, the annual average headline is projected at 12.3 percent from the earlier forecast of 10.4 percent.

Figure 1 Trend of Inflation and GDP Growth Rates

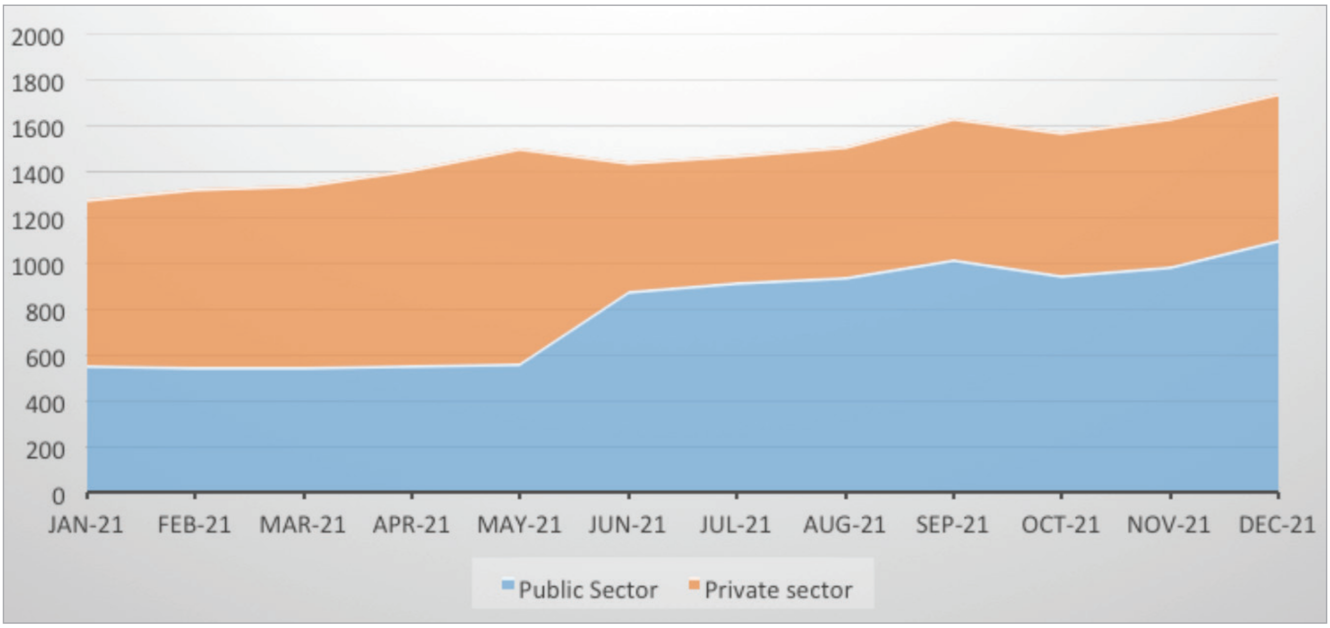


Source: National Statistical Office and Ministry of Finance Annual Economic Reports, World Economic Outlook Report, Reserve Bank of Malawi

In 2021, RBM implemented an accommodative monetary policy stance that included maintaining the Policy Rate at 12 percent, the Liquidity Reserve Requirement (LRR) on domestic currency deposits at 3.75 percent and the Lombard Rate at 20 basis points above the Policy rate.

Reflective of the stability of the policy stance, Reserve Bank of Malawi statistics show no movement in 2021 in the Lending Rate (Max) which remained at 23.95 percent and Savings Deposit Rate which remained at 4.35 percent. Notwithstanding these developments, consumption of credit in 2021 was dominated by the public sector more than private sector as demonstrated by the trend below in figure 2:

Figure 2 Share of Domestic credit

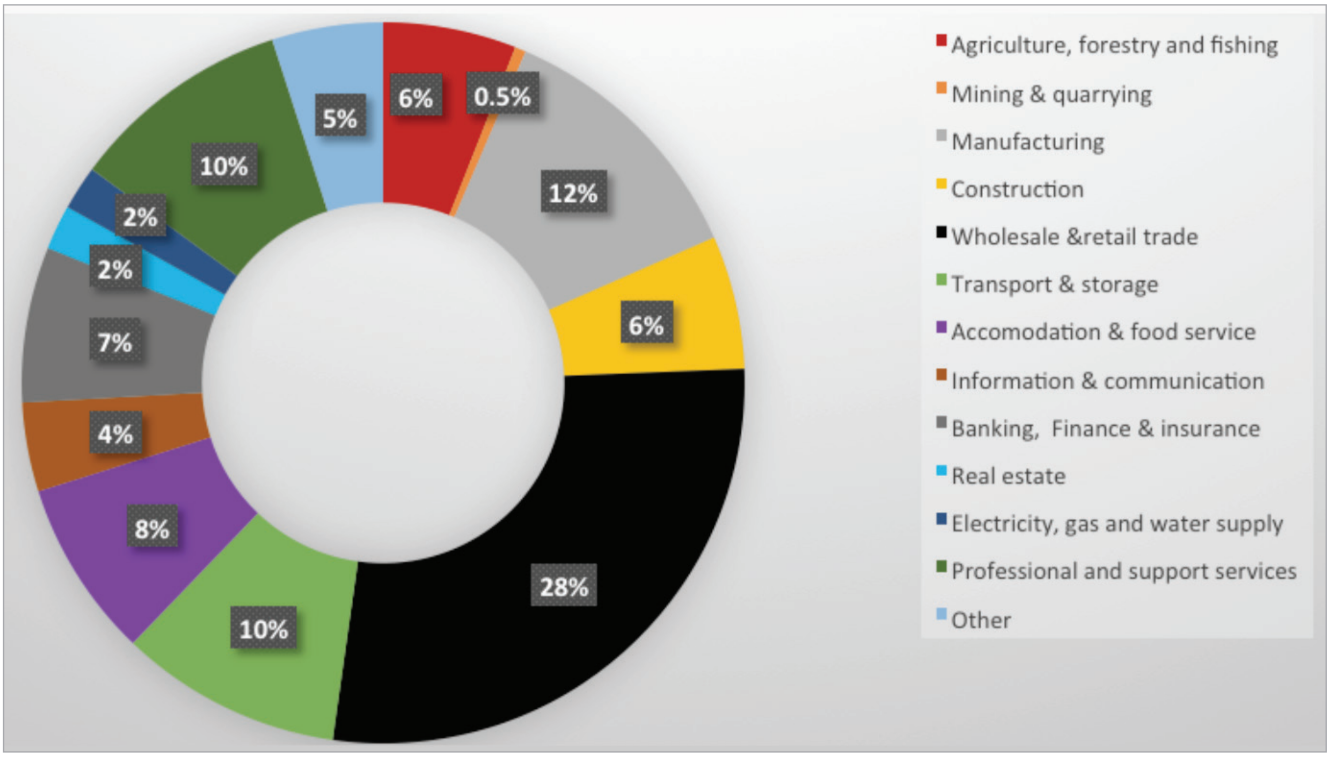


In 2021, the underperformance of the external sector continued into 2021Q4 as demand for imported goods remained higher than the amount of exports receipts required to finance them. Merchandise trade closed 2021Q4 with a balance of minus US$610.3 million compared to minus US$484.0 million in 2021Q3. Consequently, exports declined to US$260.3 million during 2021Q4 from US$338.4 million in 2021Q3, while imports increased to US$870.6 million from 2021Q3's position of US$822.4 million. Reflective of the deficit registered in the current account, the local foreign exchange market continued to experience foreign exchange supply shortages. As such, the Kwacha depreciated by 5.91 percent, closing at K 816.40 per US Dollar in December 2021 compared to K 770.84 per US Dollar registered in December 2020.

3. Distribution of Survey Respondents

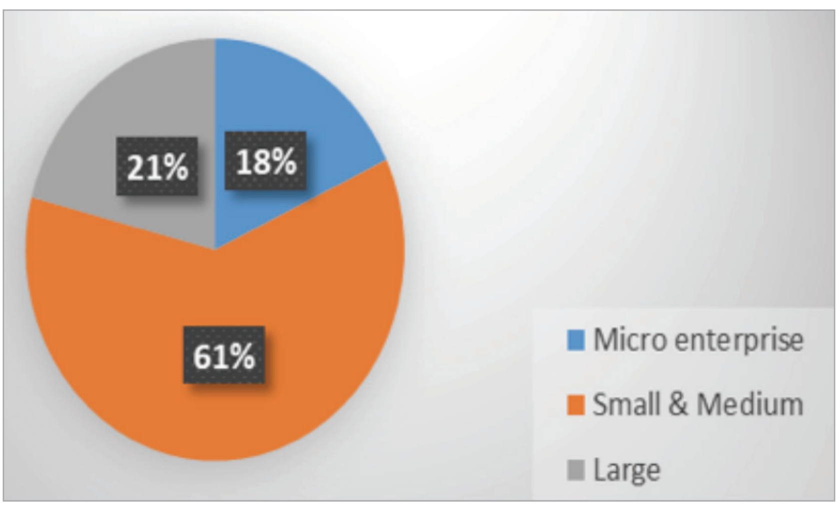
The figure below shows the distribution of survey responses according to the business' economic sectors;

Figure 3: Distribution of respondents by economic sector



As shown in the figure above, the majority of the businesses that participated in the survey were from the Wholesale & Retail Trade sector comprising 28% of responses, seconded by manufacturing sector with 12%. Furthermore, Transport and storage, Professional & Support Services, Accommodation & Food services, Agriculture, Forestry and Fishing as well as banking, finance and insurance sectors also provided a higher response rate as compared to the rest of the sectors. However, the mining and Quarrying sector had the lowest response rate represented by 0.5%. 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.

Figure 4: Distribution of respondents by enterprise type



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

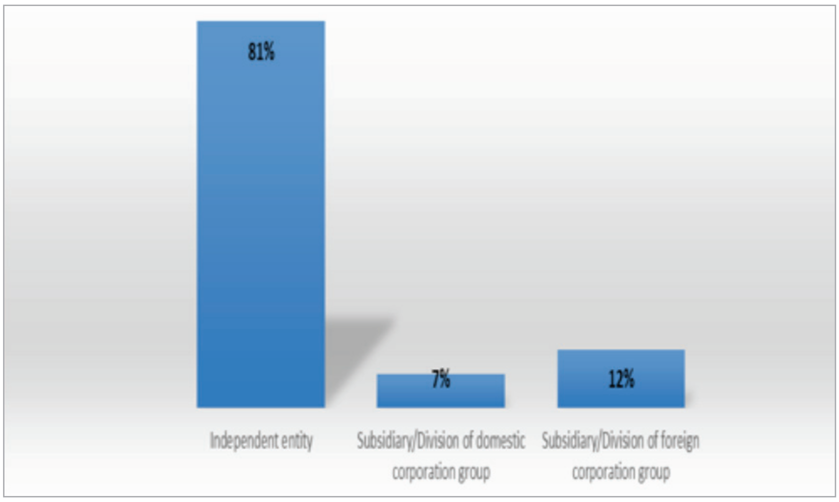
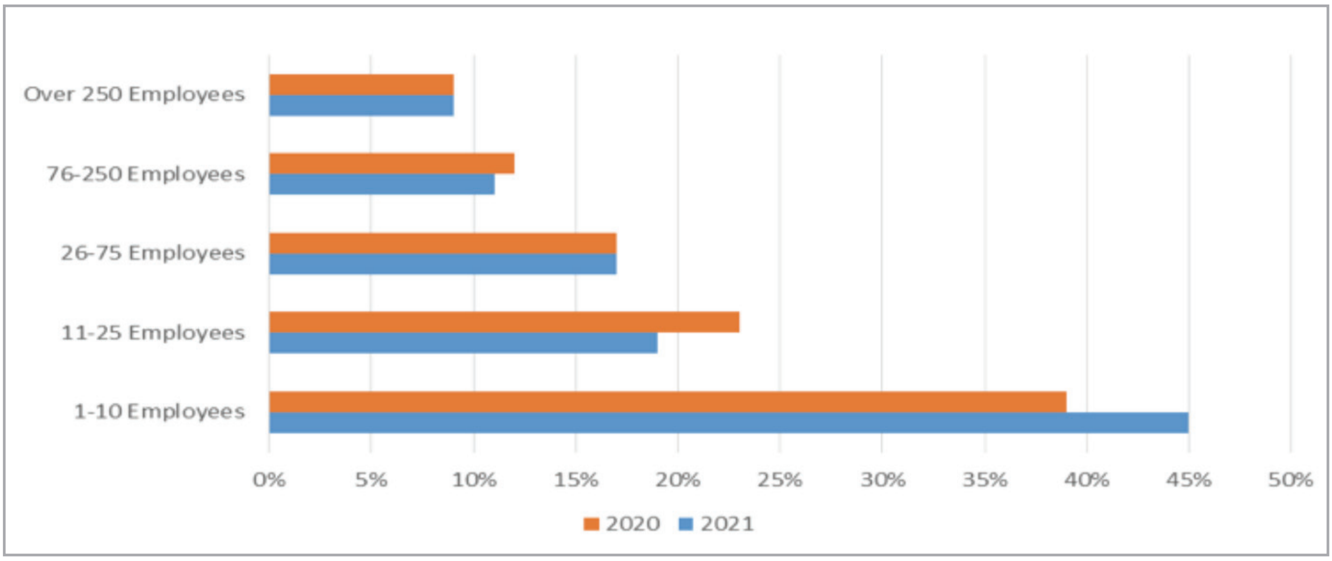


Figure 5 shows the distribution of respondents by ownership type. The majority of the respondents were independent entities represented by 81 percent.

Figure 6 Comparative distribution of respondent by employees' category for 2021 compared to 2020



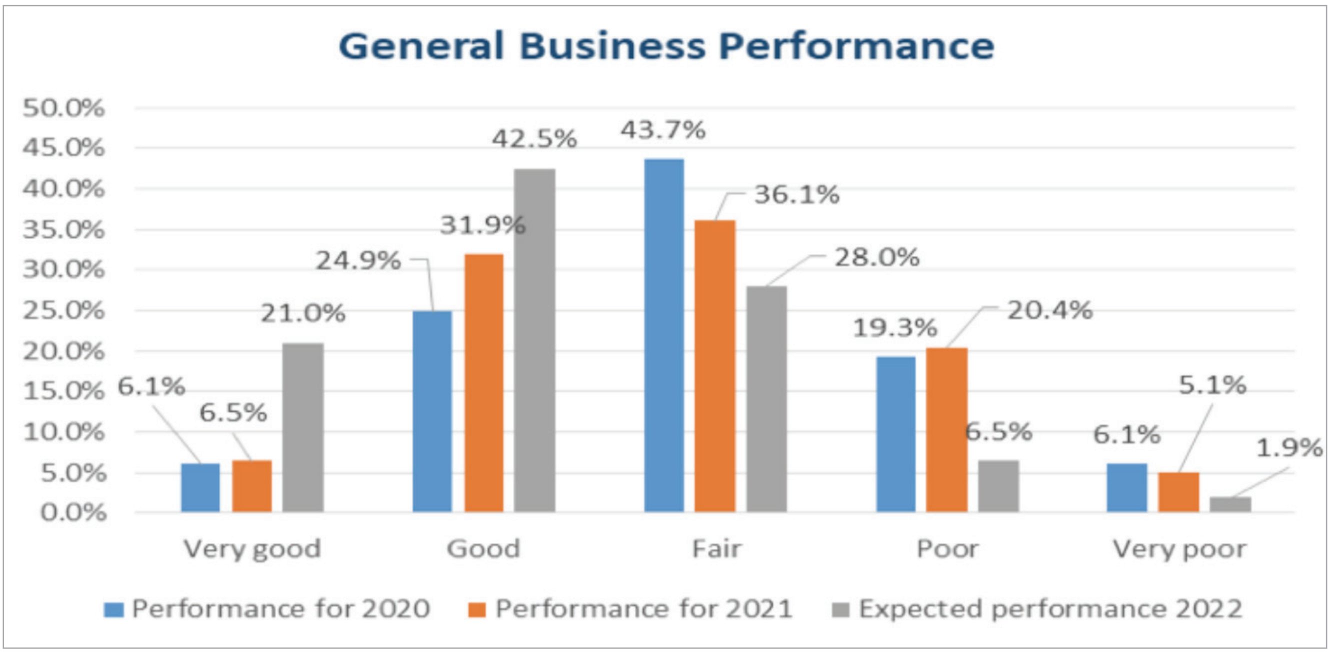
Based on the distribution of the employment category as per figure 6, a large number of the responses were from Small & Medium sized enterprises in 2021 and it was the same with the previous survey for 2020 compared to the large enterprises. This is not surprising as the businesses continue to operate in an economy affected by Covid 19 hence the increasing willingness of SMEs to express their views during this period. This category of businesses is also more prone to economic shocks due to their small size and sensitivity to environmental change.

4. Business Climate and Performance

4.0. General Business Performance

During the 2021 Malawi Business Climate Survey, enterprises were asked to rate the performance of their business in 2021 and their expectations for 2022. In terms of the performance for 2021, approximately 38.4 percent rated their performance positively compared to 25.5 percent that rated their performance negatively. Conversely, 36.1 percent were neutral in their assessment of their business performance as they managed to break even and survive in a tough business environment of 2021. Compared to the results of the same survey in 2020, the 2021 results show a slight improvement in business performance which could be attributed to businesses adjusting and adapting to the impact of the COVID-19 Pandemic. In the year 2020, the pandemic was a new phenomenon as such most businesses were still coming to terms on how to cope with the shock. As figure 7 below indicates, in the year 2020 MBC Survey, approximately 31.0 percent rated their performance positively while 25.4 percent that rated their performance negatively compared to 43.6 percent that were neutral in the assessment of their business performance.

Figure 7 Comparative Business Performance from 2020 to 2021 and Expectations for 2022



For businesses that rated their performance in 2021 as being poor and very poor, the majority of them belonged to the Accommodation & Food Services Sector, Manufacturing sector and Wholesale & Retail Trade Sector, respectively.

The main reasons businesses gave for their poor performance include the following:

- The emergence of new variants of Covid19 such as Delta Variant and Omicron variant which led to the imposition of partial lock-downs which affected economic activity by restricting the movement of goods and people.
- In addition, pandemic induced shocks such as: rising shipping charges, supply chain disruptions, clogged ports, logistics strains and weak exchange rate broadened price pressures which created a tough business environment.

- Furthermore, shortage of foreign currency made it difficult for companies, especially manufacturers to purchase raw materials for production while the distribution sector that depends on imported goods had challenges supplying imported finished goods.

On the other hand, for the businesses that rated their performance in 2021 as being very good and good attributed their good performance to the following:

- Good customer service, better brand visibility and business expansion.
- Some enterprises involved in wholesale & retailing had already imported enough stock at the start of the year 2021 and as such were not affected that much by shortage of foreign currency and logistics challenges.
- For service providers, Government's deliberate efforts to award contracts to local companies led to improved business performance.
- Government's deliberate efforts to clear tax arrears in 2021 also improved cash flow for businesses.

In regards to expectations for 2022, the expected business performance for 2022 shows a slight improvement compared to 2021 performance as depicted in figure 7 above. In 2022 there is an upward adjustment on the ratings of good and very good relative to 2021.

Some of the reasons for the improved optimism for 2022 include the following:

- It is expected that enhanced COVID-19 vaccination for locals could lead to a drop in cases which offers hope that things will return to normal.
- Continued deliberate efforts by Government to prioritize local companies in awarding of Government contracts.
- Implementation of the economic recovery plan set by Government.

Despite the increased optimism by a large number of enterprises in regards to business performance in 2022, some enterprises expect 2022 to be a very tough year business wise.

The following are some of the other reasons businesses in general expect 2022 to be a poor year business wise:

- Increase in prices of raw materials and finished goods globally due to broadened price pressures.
- Prolonged foreign currency shortages in the country will continue to affect ability to purchase inputs.
- Poor road connectivity will continue to increase the cost of doing business.
- Prospects for prolonged erratic electricity supply will affect production and increase cost of doing business due to the high cost of using alternative sources of energy such as diesel.

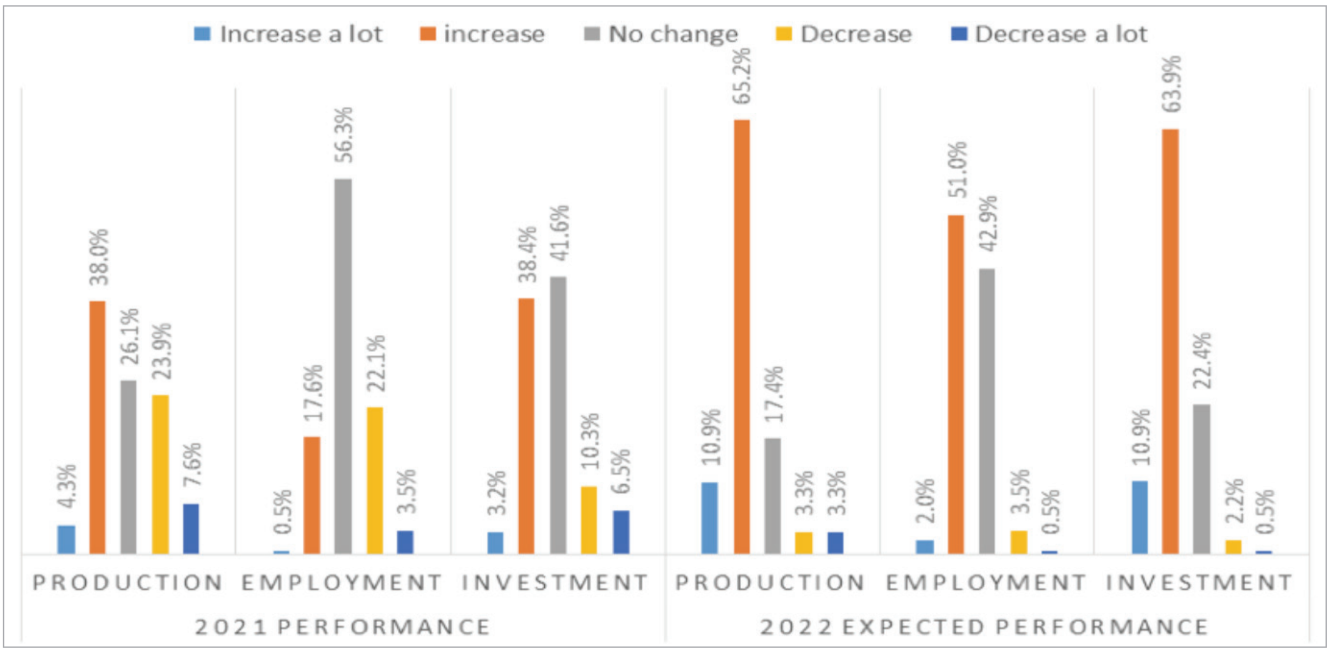
4.1. Production, Employment and Investment Trend

This section analyzes economic performance in 2021 in terms of three macro-level indicators: production, employment and investment levels. In regards to production, the results of the survey show that in 2021, 42.4 percent of the enterprises that participated in the survey increased their production levels while 31.5 percent decreased their production levels compared to 26.1 percent that maintained the same production levels. In terms of employment, the results of the survey show that in 2021, 18.1 percent of the enterprises that participated in the survey increased the number of employees in their work force while 56.3 percent decreased the number of employees in their work force compared to 25.6 percent that maintained the same number of employees in their work force.

Looking at the results above, one would expect that increase in production would also translate into increase in employment since labor as a factor of production is positively related to output. However, it should be pointed out that this assumption does not assume causality between labor and output but rather that the two variables are simply positively related. The results of the survey show that a significant number of enterprises (56.3 percent) decreased the number of employees in their work force even though a significant percent (42.3 percent) of the enterprises increased their production levels in 2021. A possible explanation for this would be that the increase in production in 2021 was attributed to companies trying to get back to their pre-pandemic levels of production and not necessarily expanding production. Therefore, taking into consideration the tight financial conditions that most businesses operated under in 2021, it would make sense that most businesses would try to cut production cost during the recovery process and hence downsizing of the labor force.

On the other hand, in regards to investment, the results of the survey show that in 2021, 58.4 percent of the enterprises did not increase their investment portfolio while 41.6 percent increased their investment portfolio. This shows that businesses did not have full confidence in the business environment in order to make changes in their operations.

Figure 8 Investment, Production and Employment Outlook

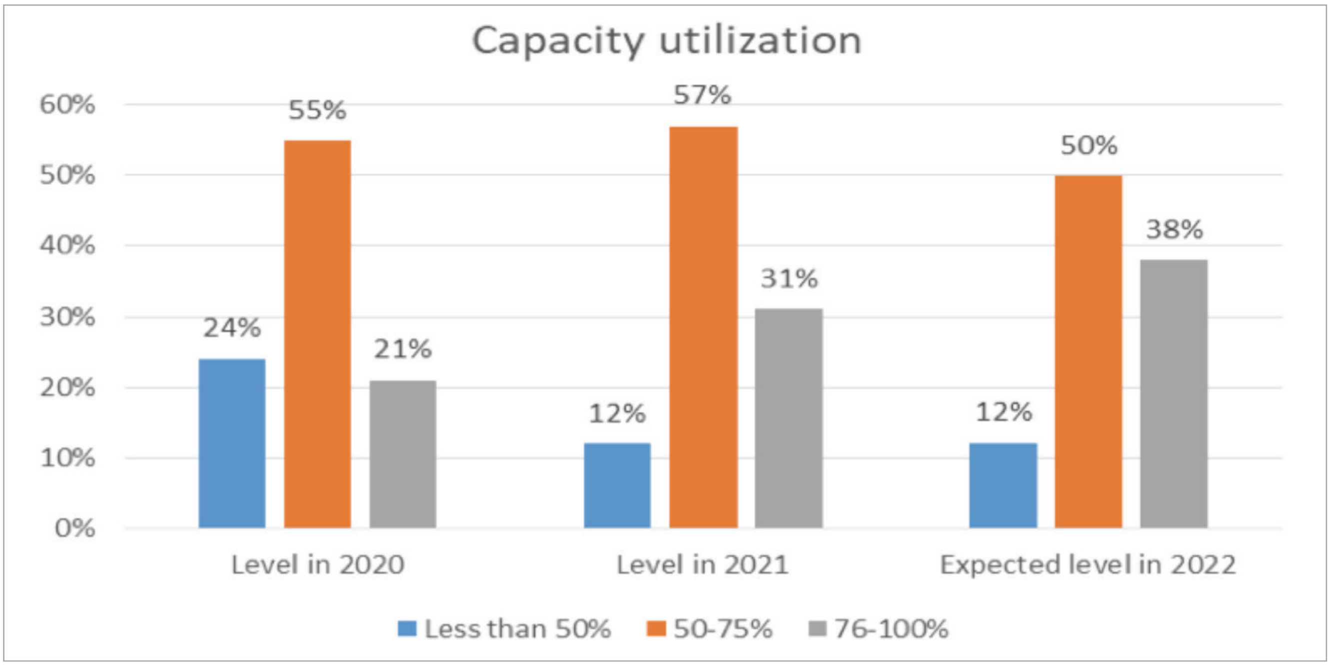


The outlook for 2022 in terms of these three macro-level indicators looks promising. In regards to production, the results of the survey show that in 2022, 76.1 percent of the enterprises that participated in the survey expect to increase their production levels while 6.5 percent expect to decrease their production levels compared to 17.4 percent that expect to maintain the same production levels. In terms of employment, the results of the survey show that in 2022, 53.0 percent of the enterprises that participated in the survey expect to increase the number of employees in their work force while 4.0 percent expect to decrease the number of employees in their work force compared to 42.9 percent who expect to maintain the same number of employees in their work force. Similarly, in regards to investment, the results of the survey show that in 2022, 74.9 percent of the enterprises that participated in the survey plan to increase their investment portfolio while 22.4 percent expect to maintain the same level of investment compared to 2.7 percent that plan to decrease their investment levels. This is a sign of improved confidence in the business environment in 2022.

4.2. Production Capacity Utilization

Capacity utilization measures firm's total actual output as a percentage of total potential output in a given time period. Figure 9 below captures the trend of capacity utilization for the past two years and projection for 2022. The results of the survey show that in 2021 the percentage of those producing above 76% rose significantly by 10 percent from 21 percent registered in 2020. Similarly, an increase was also noted in the percentage of enterprises producing in the capacity utilization category between 50-75 percent. Specifically, in 2021, 57 percent of the enterprises that participated in the survey utilized 50-75 percent of their total capacity compared to 2020 where the number was at 55 percent. The data also shows a significant decrease in percentage of respondents operating under 50 percent capacity from 24 percent in 2020 to 12 percent in 2021. The production capacity statistics in 2021 is testament to re-bounding of economic activity.

Figure 9 Production capacity utilization trends

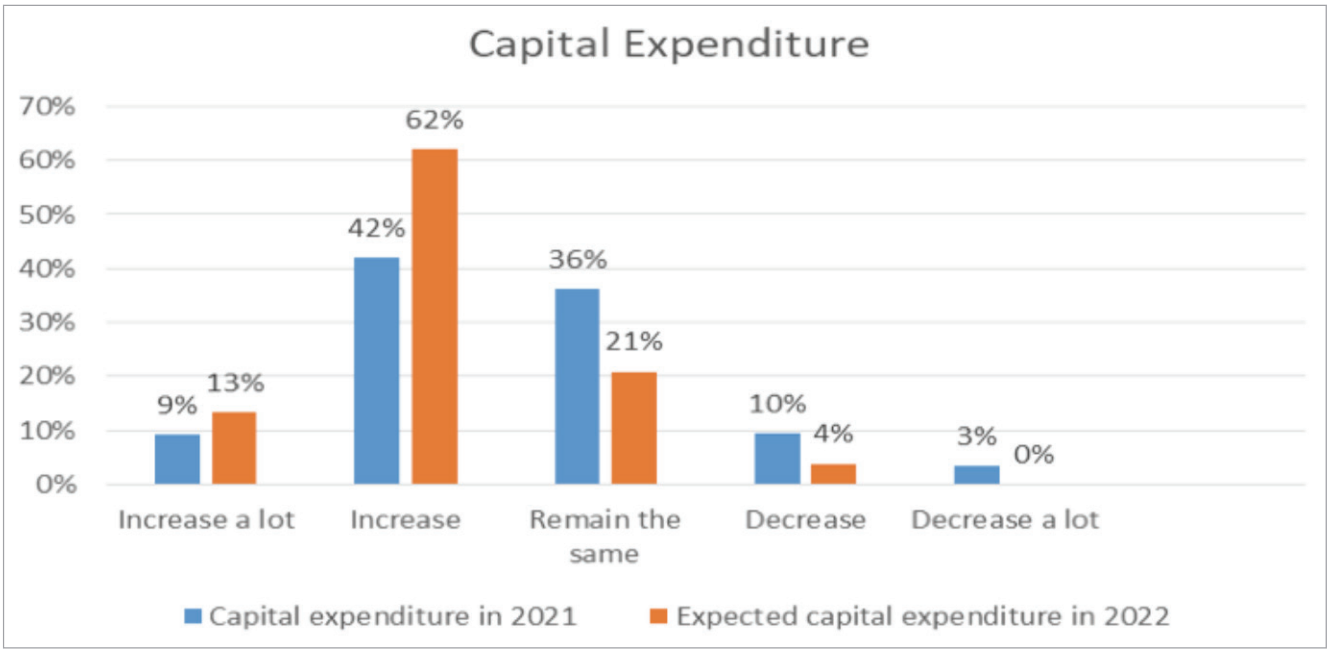


Further to this, the outlook for 2022 from the perception of businesses is quite optimistic. The results of the survey show that in 2022, 38 percent of the enterprises that participated in the survey expect to operate between 76-100 percent capacity utilization. This is because a number of firms expect to move from the 50-75 percent capacity utilization category to the 76-100 percent capacity utilization category.

4.3. Capital expenditure

Capital expenditure measures the amount of money a firm spends on acquiring or maintaining its assets. Figure 10 indicates that in 2021, majority of the enterprises that participated in the survey at least 51 percent of them, increased their domestic capital expenditure while 36 percent maintained similar expenditure levels relative to 2020. Further to this, 13 percent of the businesses registered a decrease in their capital expenditure. The results above indicate that the majority of the enterprises that participated in this survey registered an increase in their capital expenditure. However, it should be pointed out that most of the increase in capital expenditure is not attributed to increase in purchase of capital goods which would mean increase in investment but rather increase in repair cost of capital goods caused by increase in prices of imported spare parts and other accessories.

Figure 10 Capital expenditure trends



In 2022, most enterprises that participated in the survey expect their capital expenditure to go up. This is no doubt due to the anticipation that inflation pressures will remain elevated in 2022.

4.4. Prospects for Exports and Imports

This section analyses the trend of export revenue and import expenditure by businesses in Malawi across the various trading blocs. Figure 11 below provides the trend of export revenue generated by businesses for the year 2021. The majority of the enterprises that participated in the survey did not respond to this question as it did not apply to their business. This was not surprising because Malawi is a predominantly importing country and most businesses are domestic market oriented. However, for the few enterprises that export, 2021 was relatively a great year compared to 2020 as most of them registered an increase in their export revenues across the selected trading blocs. This was attributed to re-bounding of international trade following the slump of 2020.

Figure 11 Trend of export revenue

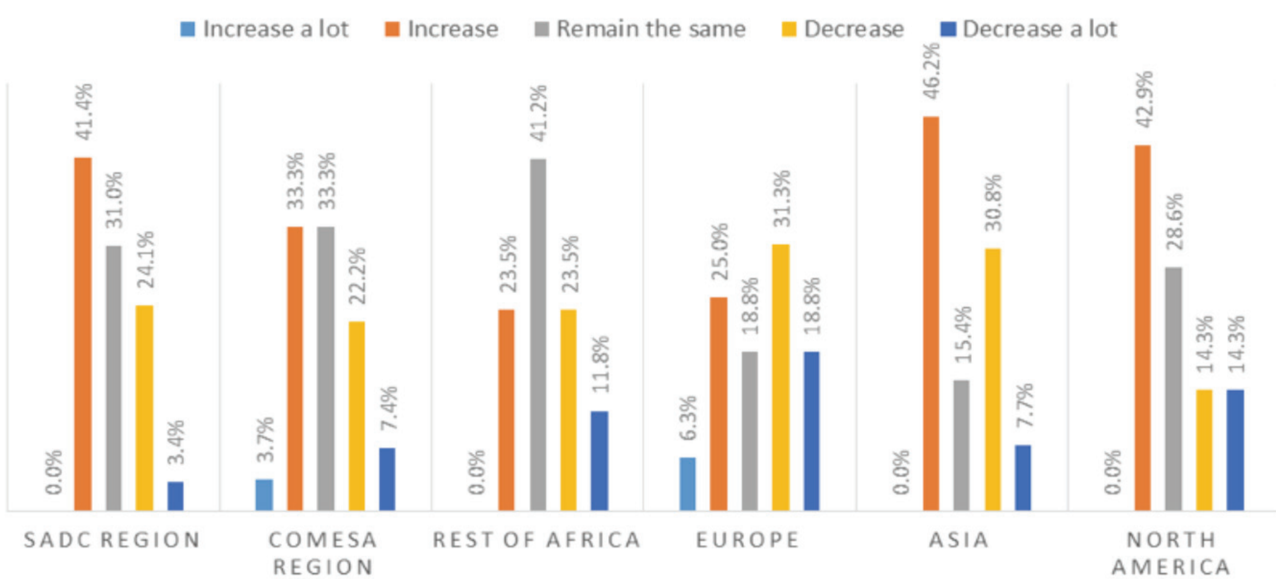
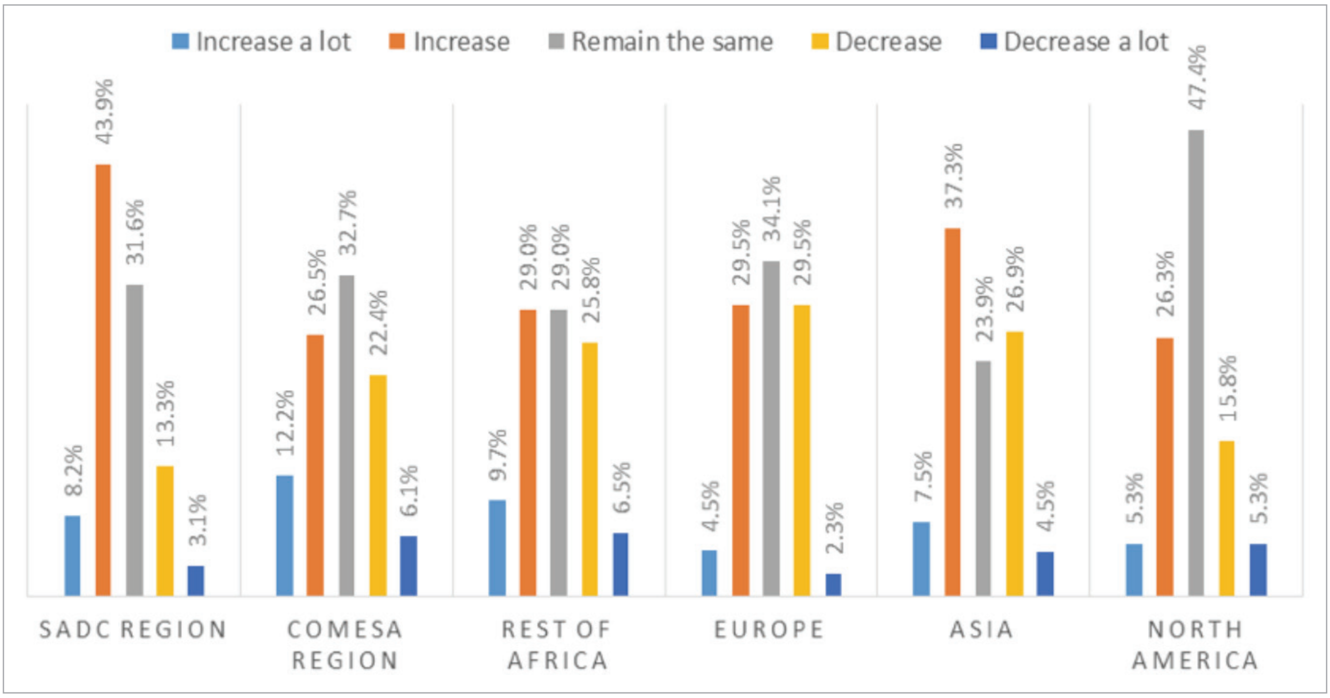


Figure 12 below shows the trend of expenditure on imports made by businesses across the various trading blocs. The figure shows that expenditure on imports relatively increased across the selected trading blocs with the only exception being North America where it largely remained the same.

Figure 12 Trend of import expenditure

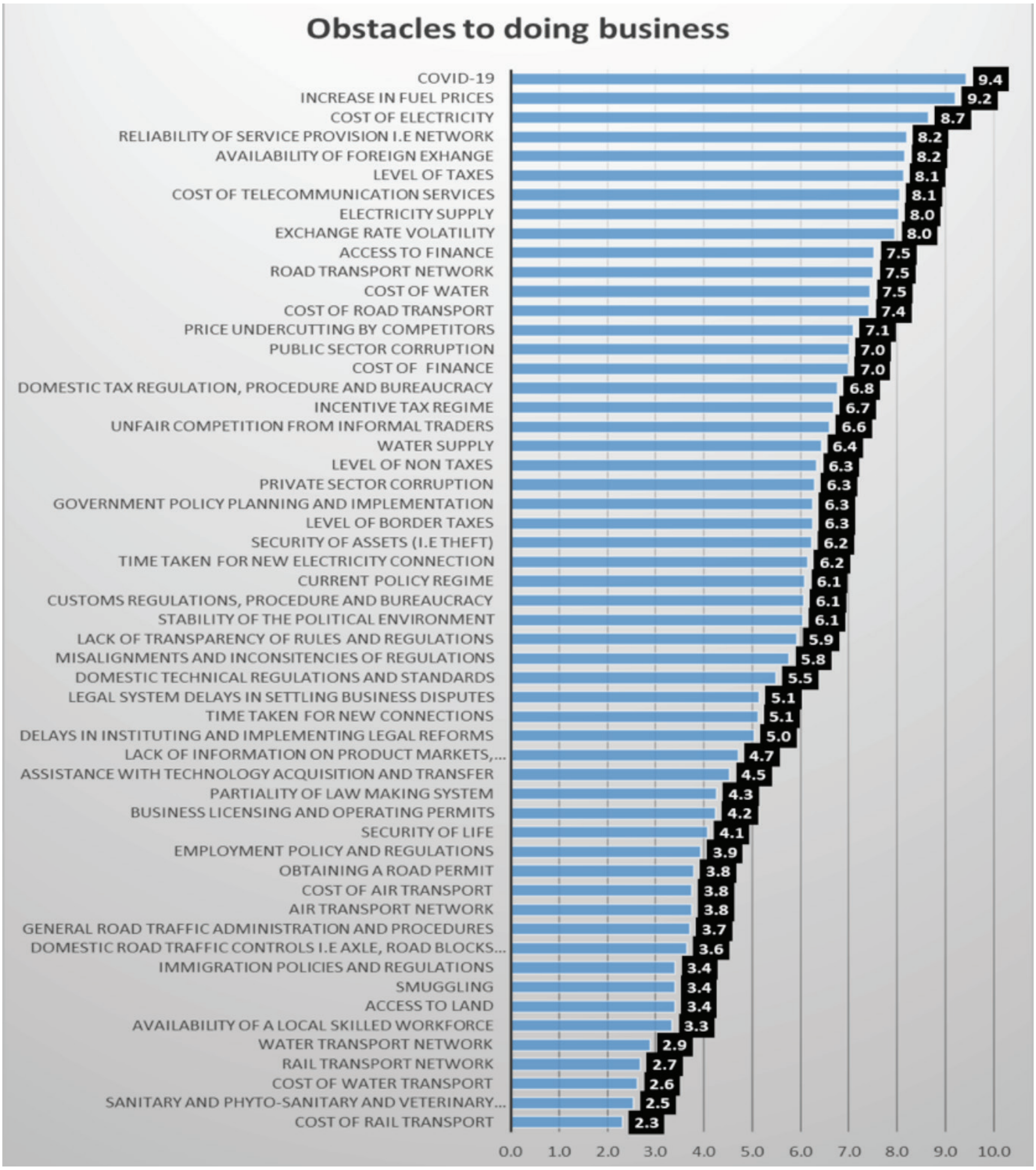


5. Obstacles to Doing Business

5.0. 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 1.0 to 5.9 are minor, those rated 6.0 to 7.9 are moderate and those rated from 8.0 to 10.0 are considered as major obstacles.

Figure 13: Obstacles to doing business



5.1. Issues on Major Obstacles to Doing Business

5.1.1. COVID-19 Pandemic (9.4)

In 2021, the impact of the COVID-19 shock continued to undermine business activity and it is not surprising that 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 instituted in the first quarter of 2021 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. Domestic containment measures also affected local demand due to restrictions on public gatherings in the first quarter of 2021.

5.1.2. Increase in fuel prices (9.2)

Increase in fuel prices was rated the second biggest obstacle to doing business in 2021. During the year 2021, fuel prices increased twice, in March and October, respectively. The increase averaged 7.7 percent and 28.0 percent respectively. The increase in domestic fuel pump prices triggered upwards Non-Food Inflation which undermined demand for manufactured products. Furthermore, the increase in fuel prices also increased the cost of doing business on account of increase in transportation cost.

5.1.3. Cost of Electricity (8.7)

Cost of Electricity continued to be a major obstacle to doing business in Malawi in 2021. The continuous high rating reflects lack of seriousness by authorities to make policy changes. Businesses expressed their frustration at ESCOM's insistence to continue charging Maximum Demand Tariff even though it was 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 businesses continue to point out as evidence of lack of seriousness by public institutions to support the private sector. The private sector is of the view that reviewing the cost structure of power supply should have been considered with priority as the Maximum Demand charges are too high for industries that have potential to promote growth. Irrigation farming, Tourism and manufacturing sector suffer a lot of costs from Maximum Demand Charges. Revision of Maximum Demand Charges would act as an incentive for these productive sectors to inject the resources in scaling up investment. If Malawi is to reduce the current balance of payment pressures and mitigate impact of climatic shocks on the economy, then surely policies that promote irrigation farming, industrialization and tourism should be prioritized.

5.1.4. Reliability of network service provision (8.2)

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 businesses. Over the past five years, reliability of network service provision has been consistently rated as a major obstacle to doing business in Malawi. Businesses experience a lot of telecommunication network hiccups.

Telecommunication providers are not coping with changing demands by the populace such as increased usage of teleconferences. During the period of the COVID-19 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 key stakeholders took proactive steps to address some of these challenges, otherwise Malawi will be left behind in the new digital economy.

5.1.5. Availability of Foreign Exchange (8.2)

Foreign currency is very important especially in facilitating international trade because most global trade is invoiced in a few currencies most notably the US dollar, a feature dubbed Dominant Currency Pricing. For import dependent countries like Malawi, availability of dominant currencies like US Dollars is crucial in determining business performance because this influences availability of imported goods which include raw materials and consumer goods. In 2021, availability of foreign currency was a major challenge because of supply-side imbalances on the foreign exchange market. Most businesses faced prolonged delays to access foreign currency and this affected business planning and fulfilment of deadlines.

5.1.6. Level of taxes (8.1)

This is a direct influence of the country's National Tax Policy. For a long time, businesses have complained about the unfair competition that comes from the informal sector due to failure by Government to regulate the informal economy. Government has mainly concentrated on taxing formal businesses which has resulted in formal businesses paying quite high taxes. MCCCI has on many occasions asked Government to find ways to widen the tax base to ensure that the tax burden is shared by many businesses and not just a few tax compliant formal businesses. In 2021, private businesses for instance in the ICT Sector lamented that the fees that Malawi Communications Regulatory (MERA) charge companies that provide internet services are high. Internet providers are asked to pay annual license fees, spectrum fees and an annual sales turnover levy of 3.5%. On top of this internet is heavily taxed; excise tax of 10 percent and Value Added Tax (VAT) at 16.5 percent. This means that a large portion is paid to Government as levies and consequently most of this is lumped to the final consumer making internet expensive and thus limiting the customer base.

5.1.7. Cost of telecommunication services (8.1)

While considerable efforts have been made by Government to bring down the cost of telecommunication services, in 2021 businesses still rated it as an obstacle to doing businesses. A number of issues still exist which make cost of service provision high. These include: 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 which influences final price paid by the consumer is less friendly. For instance, the MACRA levy is based on Gross Revenue which greatly influences the cost of services.

5.1.8. Electricity supply (8.0)

While there has been a slight improvement in electricity supply compared to the previous years, power outages continue to occur. This is due to a lack of investment in energy generation as planned. There are a number of developments taking place in the energy sector such as the Malawi-Mozambique Interconnector Project; the Malawi Zambia Interconnector Project; development of a 350-Megawatt hydropower station at Mpatamanga, and solar plants being developed; among others which could improve electricity generation in the mid-term. However, most of these interventions have deadlines that cannot be clearly determined. There is need therefore for government to continue providing the necessary support towards energy projects so that they materialize.

5.1.9. Exchange rate volatility (8.0)

In 2021, depreciation of the Kwacha was one of the challenges which negatively impacted businesses. Official statistics show that the Kwacha depreciated by 5.91 percent, closing at K 816.40 per US Dollar in December 2021 compared to K 770.84 per US Dollar registered in December 2020. Further to this, what was evident was the difference in the spread between the official foreign exchange selling prices and the actual selling price on the ground. This affected planning for most businesses as the cost of purchasing foreign currency was higher than planned.

5.2. Trend of the Obstacles to Doing Business

Table 1: Trend of Obstacles to Doing Business

	2015	2016	2017	2018	2019	2020	2021
1	Cost of Finance	Cost of Finance	Electricity	Cost of Finance	Political stability	Covid-19 pandemic	Covid-19 pandemic
2	Electricity	Telecom	Telecom	Electricity	Telecommunication	Electricity	Increase in fuel prices
3	Telecom	Electricity	Uncertainty in Economic & Regulator Policies	Telecom	Electricity	Telecommunication	Cost of electricity
4	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	Reliability of network service provision
5	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	Availability of foreign exchange
6	Customs regulations, Procedures & bureaucracy	Customs regulations, Procedures & bureaucracy	Domestic Tax Regulation, Procedure and Bureaucr	Customs regulations, Procedures & bureaucracy	Domestic technical regulations & standards	Water	Level of taxes

5.3. Obstacles by Sector

5.3.1. Agriculture, Forestry and Fishing

The agriculture sector continues to be the major contributor to the growth of the economy as well as the major source of export revenue in Malawi. However, the sector's growth continues to be hampered by several challenges as shown in figure 14 below.

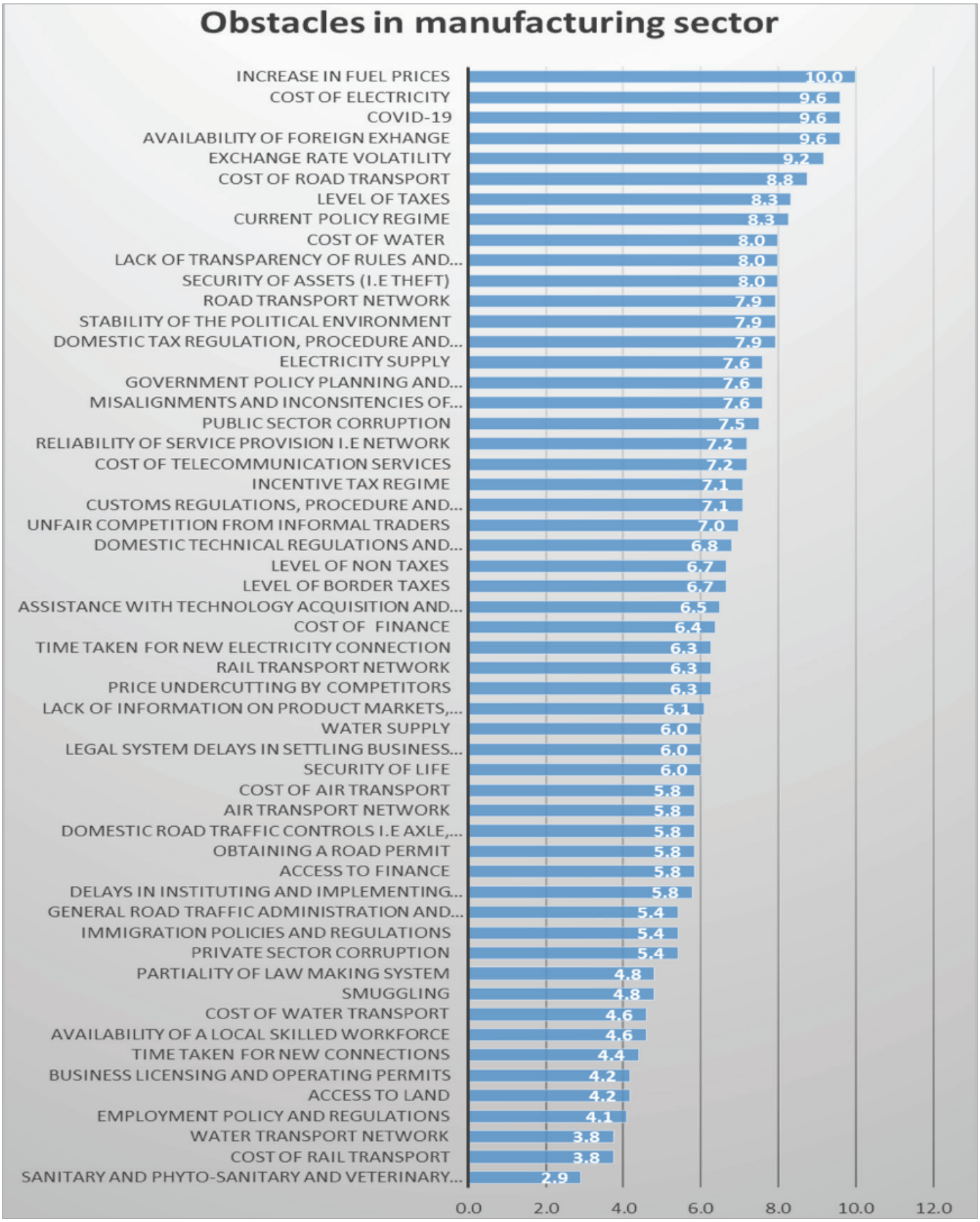
According to figure 14 below, the rating of obstacles by businesses in the agriculture sector depicts: level of border taxes, increase in fuel prices, Covid-19 pandemic, telecommunication services, electricity and private sector corruption as the top most obstacles to doing business in the sector in the year 2021. Furthermore, cost of road transport, customs regulation, procedure and bureaucracy, security of assets, public sector corruption, access to finance, availability of foreign exchange and unfair competition from informal traders also had a significant impact.

Figure 14: Obstacles to doing business in the Agriculture sector

5.3.2. Manufacturing Sector

The rating of key obstacles as perceived by the manufacturing sector are shown in figure 15 below. As observed, increase in fuel prices, cost of electricity, Covid-19 pandemic, availability of foreign exchange, exchange rate volatility, cost of road transport, level of taxes, current exchange rate policy regime, cost of water, lack of transparency of rules and regulations as well as security of assets 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 12.2 percent in 2021. The major obstacles highlighted in figure 15 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.

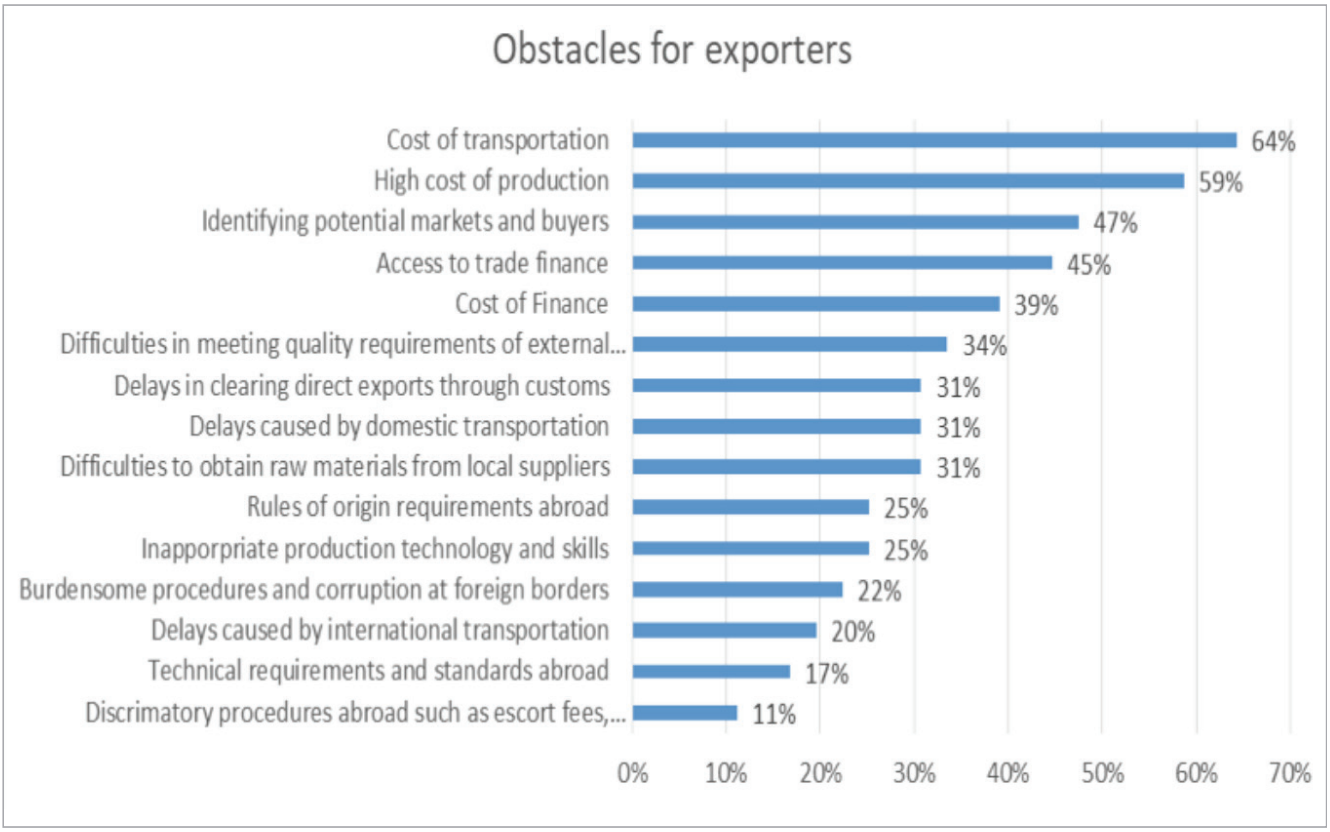
Figure 15 Obstacles of Doing Business in Manufacturing Sector



5.3.3. Obstacles for Exporters 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 16 and 17 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 selection.

Figure 16 Problematic factors to Export

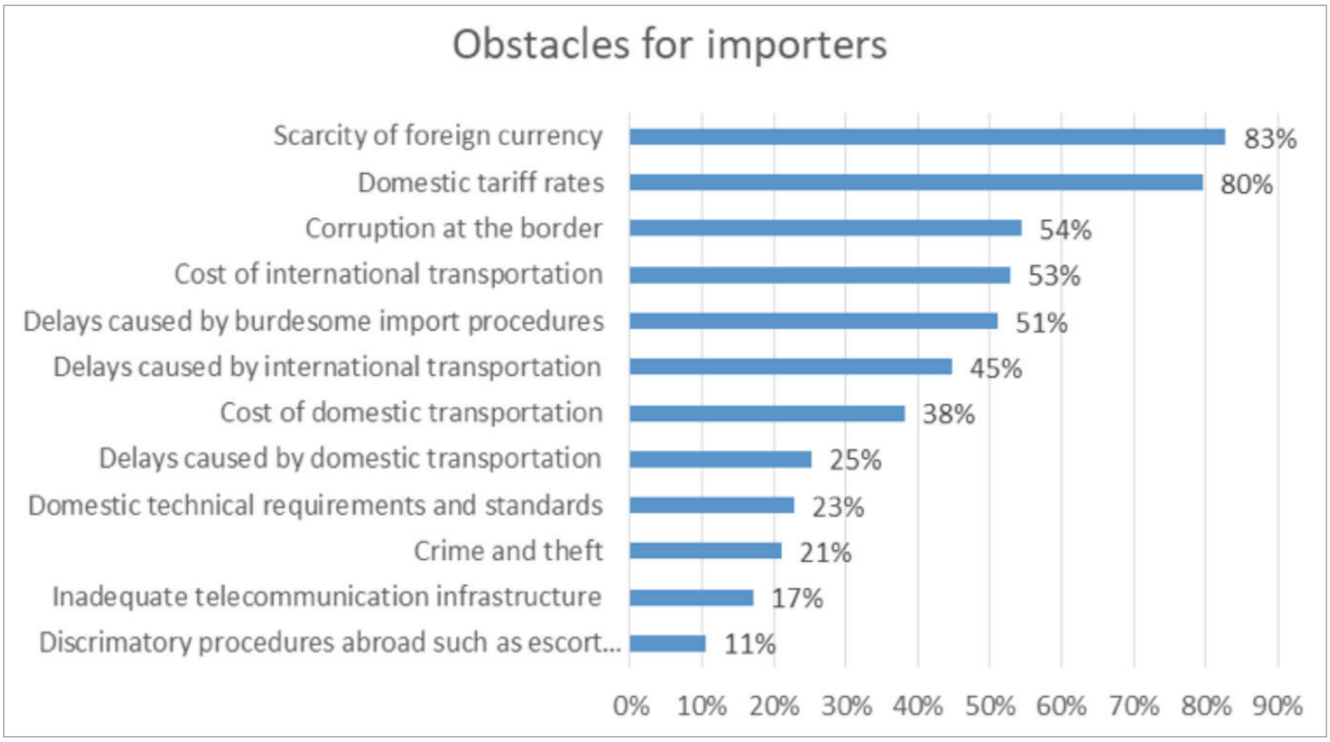


Percent Responses

Other obstacles that exporters faced in 2021 include:

- Lack of clarity on rules and regulations in regards to VAT refunds for exporters;
- Difficulties to find markets outside Malawi due to lack of information;
- High farm input prices and high electricity tariffs increased the cost of production for most agro exports;
- Complex export regulations and bureaucracy;
- Difficulty in meeting technical standards requirements in foreign markets; and
- Inadequate information on required qualifications for one to be an exporter.

Figure 17 Problematic factors to import



Percent Responses

6. Company Productivity and Competitiveness

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

6.0. Research and Development

Research and development are undertaken in order to develop and expand business' productivity. Table 2 below presents recorded data from 2015 to 2021 on the use of research findings. Results show that there is a decrease in the number of companies that find research findings as very important by a margin of 14 percent from 2020. However, the number of businesses that somehow plan and budget to benefit from new technology has increased from 36 percent to 42 percent. Furthermore, the results also show that the majority of businesses do not spend much on research and development. The businesses that somehow spend on research and development has remained the same.

Table 2: Distribution or Proportional Responses on Research & Development

	2015	2016	2017	2018	2019	2020	2021
Extent to which research findings are important for growth of business							
Not at all	9%	9%	5%	5%	6%	10%	17%
Somehow	34%	33%	20%	23%	32%	28%	36%
Very much	57%	58%	75%	71%	62%	61%	47%
Extent to which companies plan and budget to benefit from new technology							
Not at all	20%	26%	15%	27%	24%	52%	50%
Somehow	43%	46%	39%	40%	31%	36%	42%
Significantly plan and budget	37%	28%	45%	32%	44%	12%	8%
Extent to which companies spend on research and development							
Not at all	30%	27%	25%	25%	23%	36%	43%
Somehow	50%	59%	55%	60%	47%	49%	49%
Very much	20%	14%	18%	16%	30%	16%	8%

6.2 Innovation and Technology Absorption

Figure 18 below shows distribution of responses of how various businesses used and absorbed technology in 2021 as compared to 2020. The results indicate a significant drop in the percentage of businesses who usually use and absorb technology from 50 percent to 38 percent. The number of those that somehow use and absorb new technology has increased to 44 percent from 27 percent while those that do not use or absorb new technology has decreased by 1 percent to 12 percent.

Figure 18 Distribution of responses to Extent of Use and Absorption of New Technology

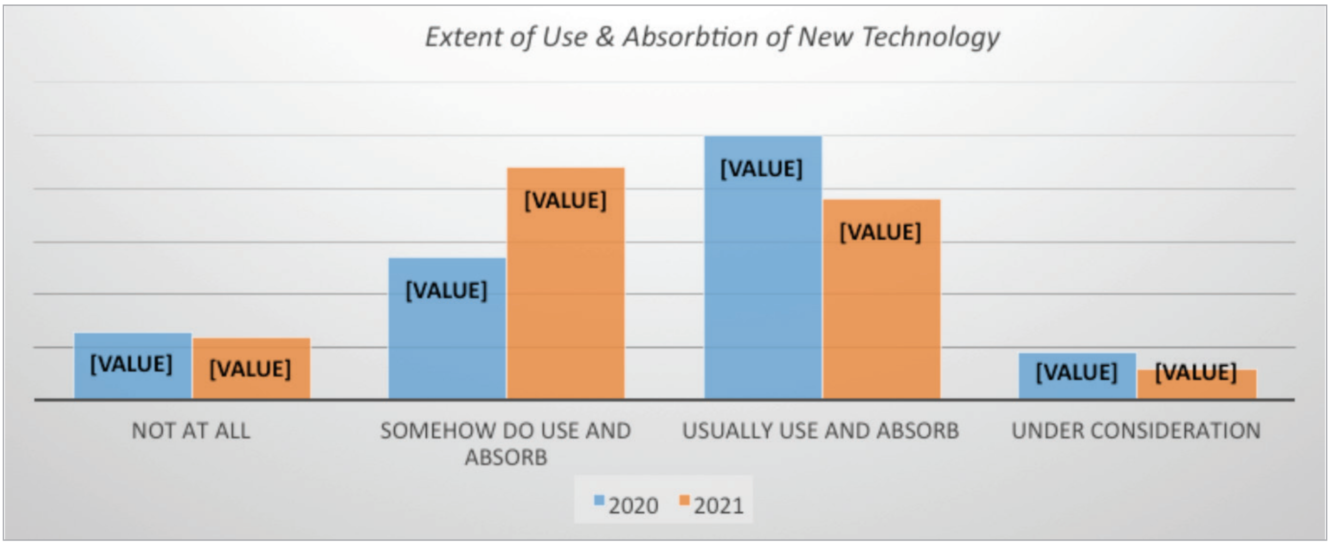


Table 3 below further analyzes the extent to which businesses collaborate with suppliers, competitors, clients, universities and research organizations in risk spreading, combining ideas and leveraging on each other which allows them to lower costs which they would otherwise face as a standalone investor. There is a general decline by 12 percent in businesses that do collaborations extensively from the previous year while there is a slight increase in number of businesses that somehow collaborate with other firms from 32 percent in 2020 to 47 percent in 2021.

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

	2015	2016	2017	2018	2019	2020	2021
Extent to which businesses collaborate with other firms to promote technology flows and innovation							
Do not collaborate	11%	10%	7%	9%	6%	14%	11%
Somehow collaborate	39%	49%	48%	50%	37%	32%	47%
Collaborate extensively	50%	40%	44%	41%	57%	54%	42%

Figure 19 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, automated accounting systems, automated human resource system, automated procurement system and production and processing systems. The data shows that the majority of businesses do in fact heavily use internet and emails at 95 percent and 94 percent respectively despite the perceived high cost of communication services in the country. The use of Automated accounting systems is also significantly high among the businesses that participated in the survey. Nevertheless, majority of the businesses do not use Production system, Automated Procurement system and Automated Human Resource Management system compared to those who use them.

Figure 19 Distribution of responses of Businesses Utilization of Information and Communication

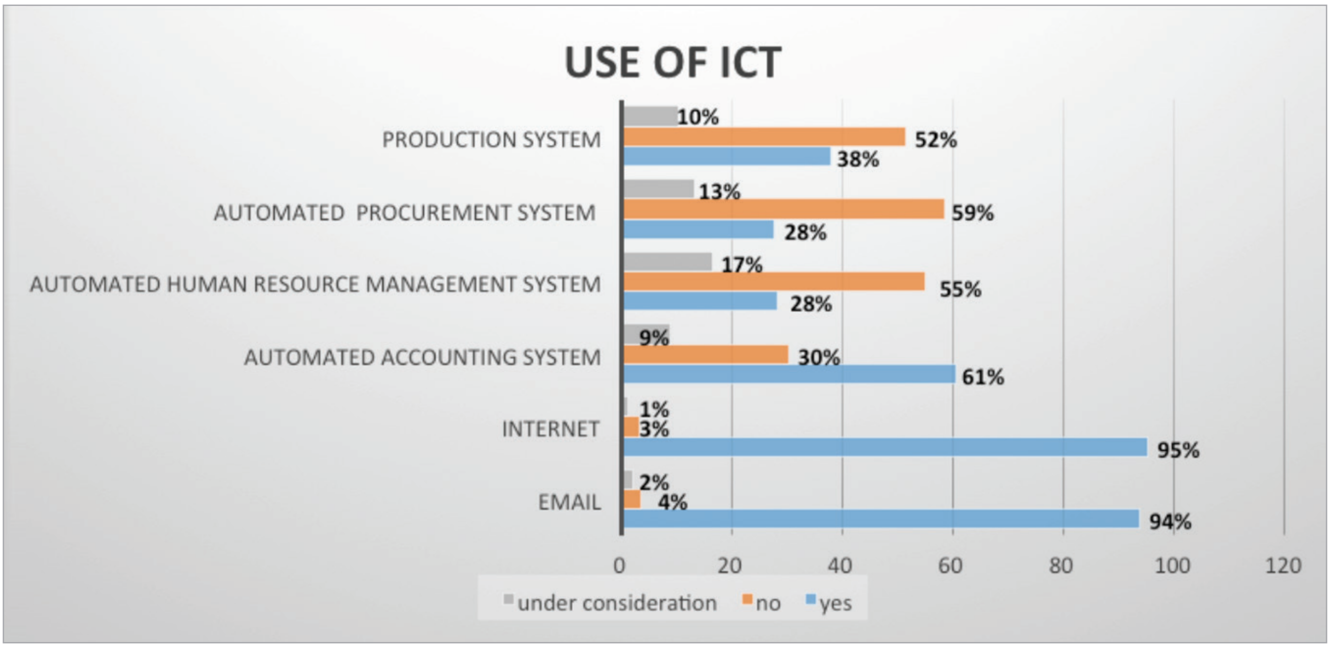
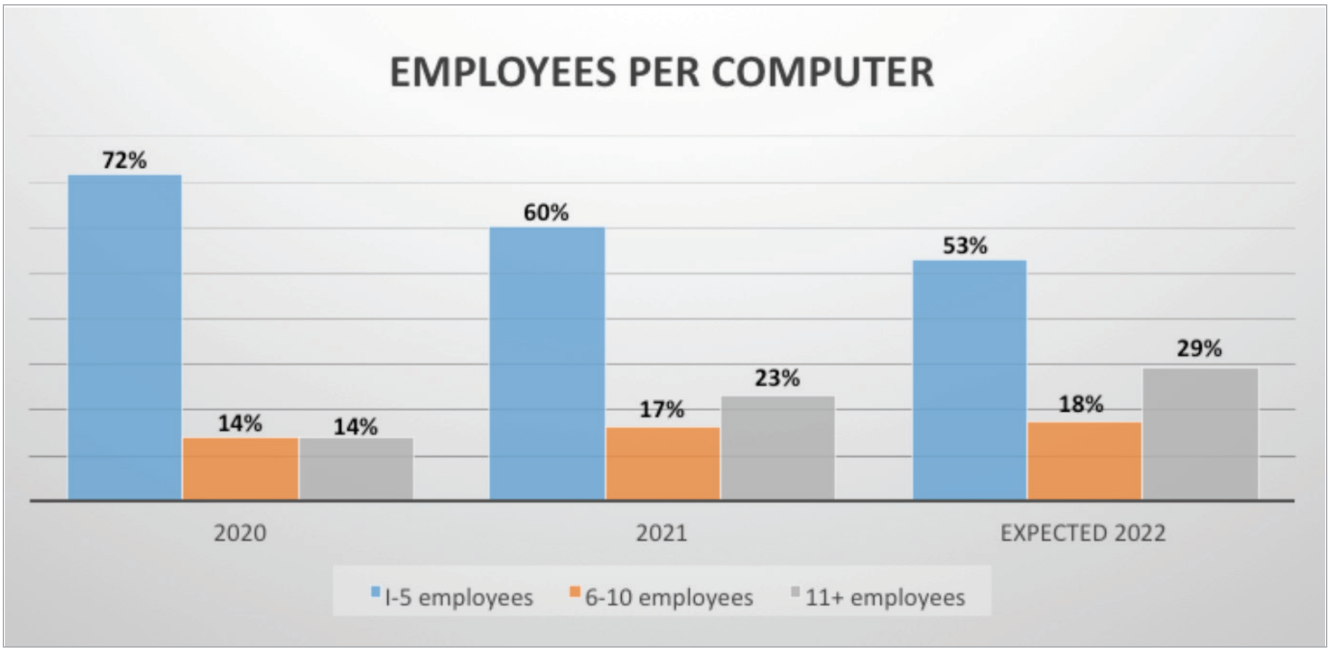


Figure 20 below demonstrates the trends on the ratio of employees to one computer which has experienced some changes over the past year. As shown in the figure, 60 percent of the respondents have a maximum of 5 employees per one computer which is a significant decreased from 72 percent in 2020. In 2021, there was also an increase of respondents who had over 11 maximum employees per laptop. The expectation of the respondents on the ratio of employees using one computer is promising for 2022 as it is expected that there will be a decrease with the ratio of maximum 5 employees per computer from 60 percent to 52 percent. It is also expected by the respondents that the ratio of more than 11 employees per computer will increase from 23 percent in 2021 to 29 percent in 2022.

Figure 20 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 21 below depicts the level of qualification in the respondents' labor force which shows that majority of businesses have workers with university degrees, trained employees and skilled employees. The figure indicates that 71 percent of the businesses have at least 1 to 10 employees with university degree, 67 percent with trained employees and 57 percent of the businesses have skilled employees. The results show a significant change from the findings recorded in 2020 as 75 percent of the respondents had at least 21 – 50 employees with a university degree.

Figure 21 Distribution of responses to Employee Qualification

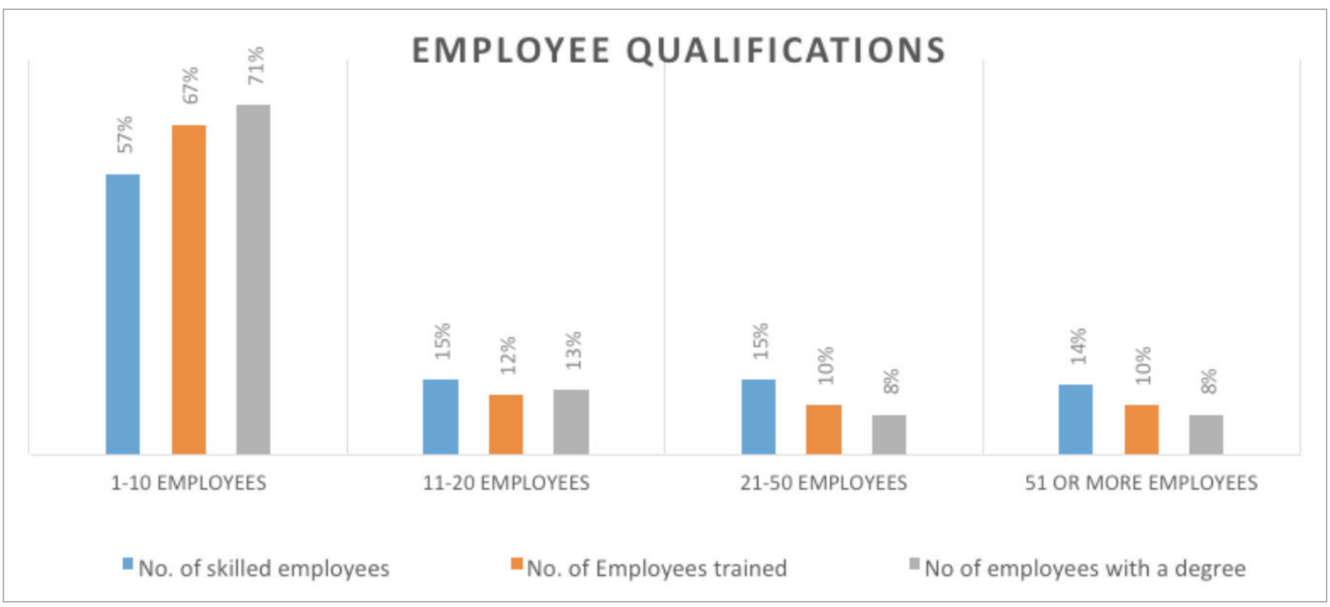


Table 4 below presents complementary factors that explain worker productivity by investigating response distribution for 2021. Results show that the majority of the businesses indicated that education system in the country somehow meets their company needs but not to a great extent. Specifically, 38 percent of the businesses indicated that they benefit a lot from education system, compared to 52% that somehow benefit from the education system in Malawi. The results also show that majority of businesses attract and retain employees. Furthermore, majority of the businesses (91 percent) indicated that they rarely hire and fire their employees.

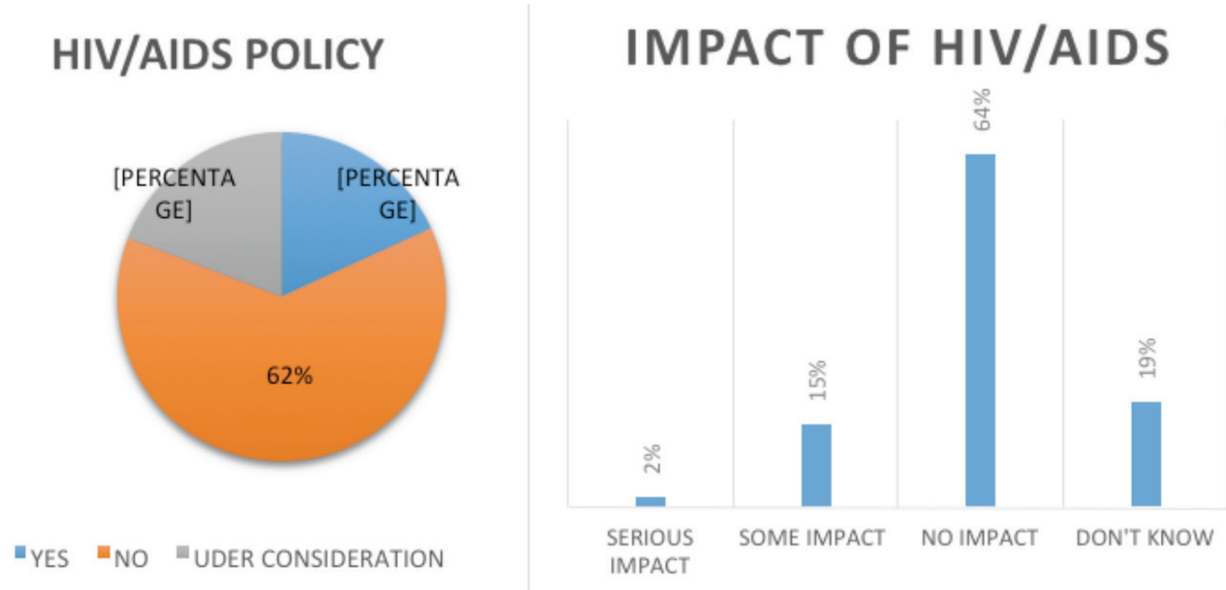
Table 4: Education and Worker Productivity (Proportional Responses)

	2015	2016	2017	2018	2019	2020	2021
Educational system meets needs of your company							
Not well at all	13%	18%	7%	50%	17%	10%	10%
Somehow	64%	61%	65%	12%	51%	46%	52%
Very much	23%	21%	28%	38%	32%	44%	38%
Extent to which businesses attract and retain							
Not for long, the best leave	1%	11%	2%	10%	2%	6%	2%
a few remain, more leave	19%	20%	6%	16%	27%	18%	19%
majority remain	80%	69%	92%	73%	71%	76%	79%
Extent of hiring and firing employees?							
Rarely	78%	77%	81%	68%	79%	84%	91%
Often	22%	18%	18%	25%	15%	11%	7%
very often	0%	5%	0%	7%	6%	5%	2%
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%	22%
related partly to qualification and partly to expertise	52%	43%	53%	50%	49%	52%	51%
strongly directly related to worker productivity	33%	23%	38%	21%	33%	29%	27%

6.4 Hiv and Aids

HIV and AIDS has affected a good number of the Malawian population which affects quality of the 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 22: Development of HIV/AIDS policy and Impact of HIV/AIDS



The findings show that majority of the businesses do not have HIV/AIDS policy. only 18% percent of businesses indicated that they had an HIV/AIDS policy. The results on the impact of HIV/AIDS on businesses shows that majority of the businesses were not impacted by HIV/AIDS. This clearly shows why the majority of them do not have an HIV/AIDS policy.

6.5 Strategic Planning

Change is a certainty in both the internal and external environments to a business. Having a strategic plan not only ensures that businesses execute their daily operations towards a set 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 23 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. From the figure below, 71 percent of the businesses have a strategic plan for their business. This shows the willingness of businesses to adapt to the new business environment. On the other hand, 60 percent of the businesses that participated in the survey indicated that they do not have an international quality certificate. This is not a good development as it will hinder penetration of Malawian products on the international market.

7. Summary of Key Observations and Recommendations

Overall, the survey findings show a highly suppressed business environment during the year 2021 which was heavily influenced by the continued impact of COVID-19 and subsequent shocks such as global fuel price increase, foreign currency shortages as well as disruption in the global supply chains. This is also reflected in the macroeconomic performance of the country for the year 2021. In the past years prior to the COVID-19 shock, Malawi's economy had registered GDP growth rates of 5.1 percent in 2017, 4.0 percent in 2018 and 5.0 percent in 2019.

However, over the period of the COVID-19 Pandemic in 2020 and 2021, the economy has grown by 0.9 percent and 3.8 percent respectively. The impact of the pandemic on the domestic economy has been severe mainly through external shocks due to its over-reliance on imported goods.

The impact of the pandemic underlines the importance of building a resilient and inclusive economy to mitigate the domestic economy's susceptibility to external shocks. Building a resilient and inclusive economy will require putting in place new foundations to ensure that future economic shocks do not have the same level of catastrophic impact that the COVID-19 crisis had on the most vulnerable households and small businesses.

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 are hindering growth of the economy.

Rather than offering an exhaustive list of policy recommendations, this year, the survey offers recommendations that can serve as a starting point to inform a forward-looking conversation. The report therefore advances the following specific recommendations:

1. Investment in digital technology

The COVID-19 pandemic has proven to be a game changer for the adoption and use of digital technology globally to the extent that use of digital technology in economic activities is no longer a luxury but a necessity. Looking at the way digital technology has become very essential in maintaining economic activity during the period of limited human mobility; it is expected that many organizations will not go back to the pre-pandemic ways of working.

Across the globe, because of technology: people are able to communicate effectively from different parts of the world while firms are able to organize work more flexibly. As such most likely, we are going to see a rapid modernization in how operations are done. The expectation is that the global economy will witness a tremendous expansion of e-commerce, e-learning, e-transfers, e-payments, and e-governance.

The 2021 Malawi Business Climate Survey has found that utilization of digital technology still remains negligible among most businesses in Malawi. To ensure that Malawi does not get left behind in the new digital economy, both the public sector and private sector have a role to play to avoid a great divide in the country in which access to digital skills and infrastructure is limited for some and unlimited for others.

Therefore, investment in human capital in regards to digital skills development should be a priority as well as addressing underlining challenges such as: digital technology infrastructure deficits; a highly concentrated uncompetitive mobile industry and the presence of high taxes in the telecommunication sector.

2. Building the local production base

The impact of COVID-19 shock on manufacturing in Malawi, occurred within a context of a prolonged weakness in the sector. COVID-19 created compounding challenges in the local manufacturing industry due to the sector's reliance on imports. Global supply chain shocks and scarcity of foreign currency are both a result of the impact of the pandemic. As such, deviating from imported products to local manufacturing would reduce local manufacturing's susceptibility to shocks of this nature. For instance, investing in local supply chains to boost local capacity could help local manufacturers reduce supply side constraints that are often cited.

Further to this, there is a need for investment in skills development, technology and infrastructure to ensure that local production is competitive and is able to produce the right amount of capacity to match local demand.

3. Improving access to finance by private firms

Access to finance remains a major obstacle to the growth of domestic investment in Malawi. The domestic economy lacks development financing which takes into consideration the operational life of a business. Despite the establishment of the Malawi Stock Exchange, which is a source of credit on top of investment opportunities available on the market, few companies are accessing long term capital through public listing which has hampered private sector growth over the years. Currently there are only 16 listed companies on the exchange market and this has limited the number of securities that the public can invest in. The capital market remains largely under-developed and under-utilized compared to, for instance, growth of pension funds.

Further to this, 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 Small Enterprises to Medium and Large Enterprises due to lack of investors.

Private sector has not grown in line with aspirations of the country due to lack of access to long term sustainable finance and therefore, there is a need to promote alternative investment vehicles such as Capital markets and venture capital.

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