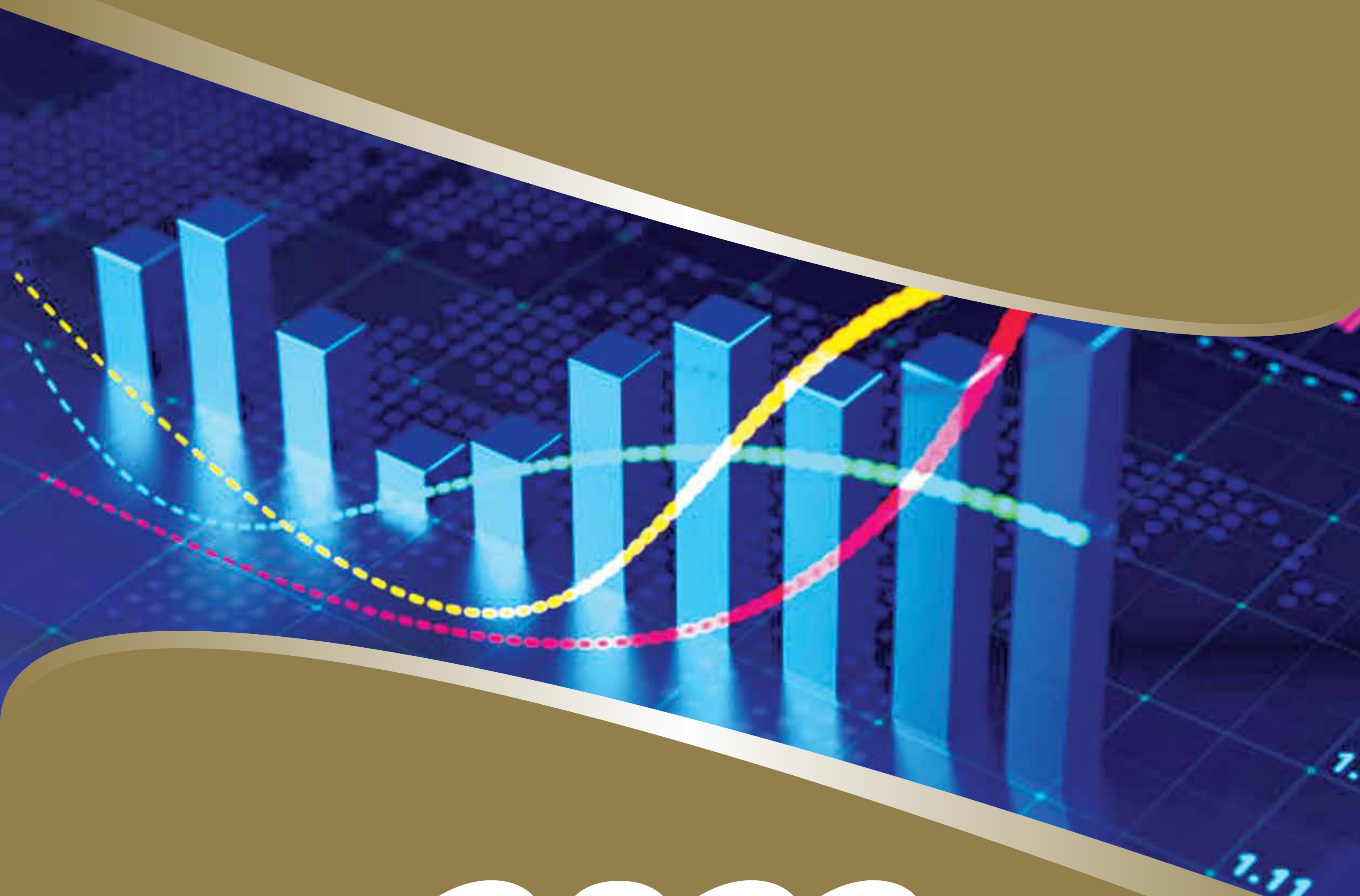
THE MALAWI CONFEDERATION
OF CHAMBERS OF COMMERCE AND INDUSTRY



2022

MALAWI BUSINESS CLIMATE REPORT

FEBRUARY 20, 2023

CONTENTS

ACRONYMS

BCI	Business Confidence Index
COMESA	Common Market for Eastern and Southern Africa
ESCOM	Electricity Supply Commission of Malawi
GDP	Gross Domestic Product
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
NEEF	National Economic Empowerment Fund
NES	National Export Strategy
NSO	National Statistics Office
RBM	Reserve Bank of Malawi
SADC	Southern Africa Development Community
WB	World Bank

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FOREWORD

I present to you the 2022 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

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

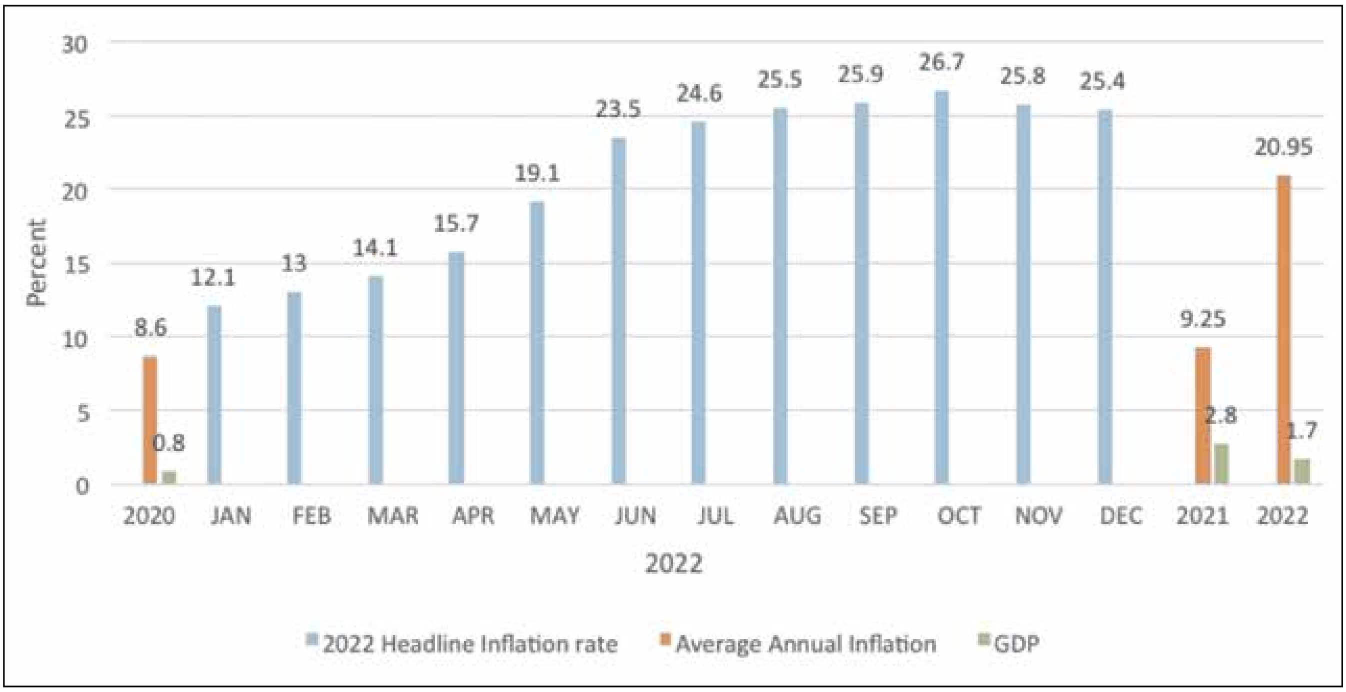
A standard survey questionnaire was administered and 95 out of 112 questionnaires were returned duly completed, representing an 84.8 percent response rate. The sample was randomly drawn with sectoral representation depending on contribution of each sector to the economy but aimed at getting at least 50 percent of repeat respondents. The survey was conducted in the month of December 2022. Data management and analysis was done by MCCCI for the production of this report.

2. Economic Outlook for 2022 and Prospects for 2023

After its tepid rebound in 2021, GDP growth is estimated to have slowed sharply to 1.7 percent in 2022 from 2.8 percent GDP growth rate recorded in 2021 and projected to grow by 2 percent in 2023, according to National Statistical Office and Ministry of Finance and Economic Affairs. These growth rates constitute a per-capita contraction in GDP. External shocks, in particular, the impacts of the war in Ukraine and of two cyclones that have affected agricultural production, energy (fuel and electricity) challenges, together with a balance-of-payments crisis and foreign exchange shortage which has affected importation of intermediate goods and services are at the core of this.

In terms of price developments, consumer prices accelerated markedly in 2022 mostly driven by an increase in food prices, devaluation of the local currency and fuel prices. Headline inflation, which crept back into double digits in 2021, reached higher height in 2022. The average annual inflation was recorded at 20.95 percent in 2022, up from the 9.25 percent recorded for 2021. Inflation in 2022 was mainly driven by food inflation, which recorded an annual average of 26.8 percent, up from 11.2 percent in 2021. The annual inflation average for nonfood commodities also increased to 15.09 percent in 2022 from 7.38 percent in the previous year. The headline inflation was at its peak in October 2022 since July 2013 where it was recorded at 27 percent.

Figure 1: Trend of Inflation and GDP Growth Rates



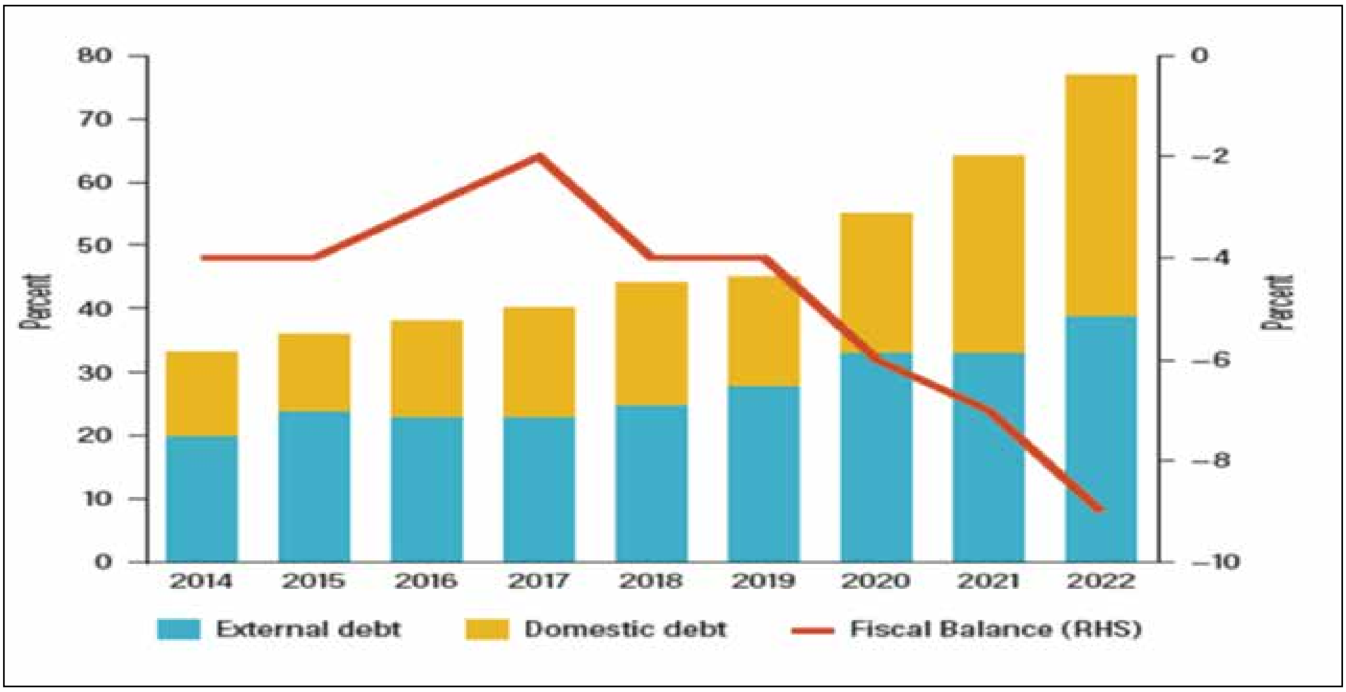
Source: National Statistical Office and Ministry of Finance Annual Economic Reports.

In 2022, RBM implemented an accommodative monetary policy in the first quarter, maintaining policy rate at 12 percent. However, in April 2022, the Monetary Policy Committee decided to raise the Policy rate by 200 basis points to 14.0 percent. Meanwhile, the MPC maintained the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign currency denominated deposits at 3.75 percent; and the Lombard rate at 20 basis points above the Policy rate. This was due to inflation pressures which continued to mount following persistence of the pandemic-induced supply-demand imbalances, supply-chain disruptions, and rising global energy and food prices.

Furthermore, in October, the Policy rate was raised again by 400 basis points from 14 percent to 18.0 percent while maintaining the rest of monetary policing tools.

Reflecting on the country's public debt, the public debt has grown to unsustainable levels which has been driven by sustained fiscal deficits and the uptake of high-interest commercial debt. Malawi's external debt is now in distress. The fiscal deficit reached 8.8 percent of GDP in Financial Year 2021/22, while public debt was estimated to have reached 76.6 percent of GDP by the end of 2022. The high interest rates charged on this debt mean that government spending on essential public services has been constrained.

Figure 2: Public debt

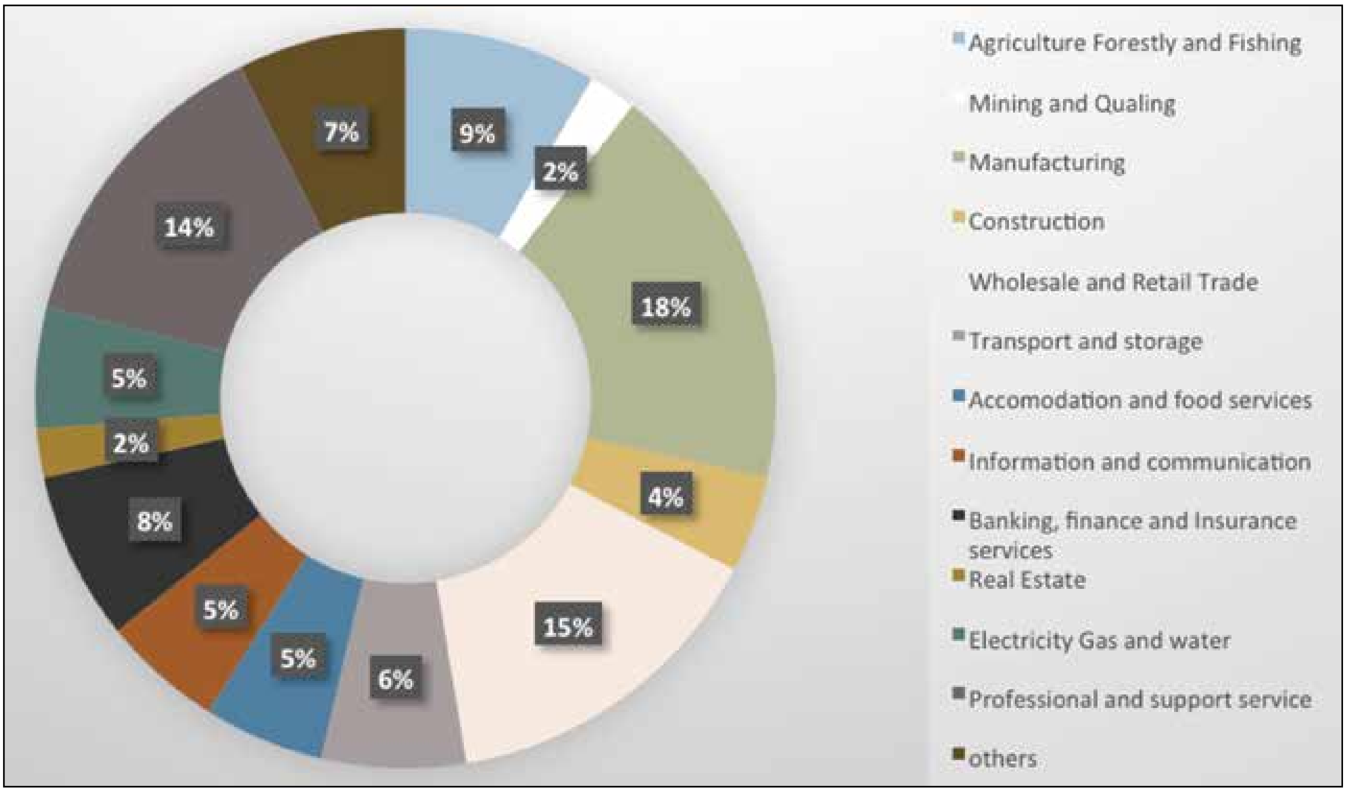


Source: World Bank

3. Distribution of Survey Respondents

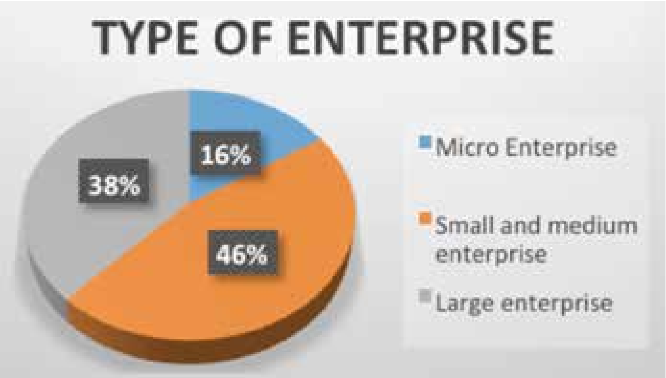
The figure below shows the distribution of survey responses according to the business' economic sectors;

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 Manufacturing sector comprising 18 percent of responses, seconded by Wholesale and Retail Trade sector with 15 percent and Professional and Support service with 14 percent on the third. Furthermore, Agriculture, Forestry and Fishing, Transport and storage, banking, Finance and Insurance, Information and Communication, Accommodation & Food services, as well as Electricity, Gas and Water 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 2 percent. 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 respondents were also distributed by enterprise type as shown in Figure 4.

As depicted in the pie chart, 46 percent of the respondents were Small and Medium Enterprises (SMEs). This reflects the significant importance of SMEs to Malawi's economy. Large Enterprises were also well presented at 38 percent of the respondents.

Figure 5: Distribution of Respondents by Ownership Structure

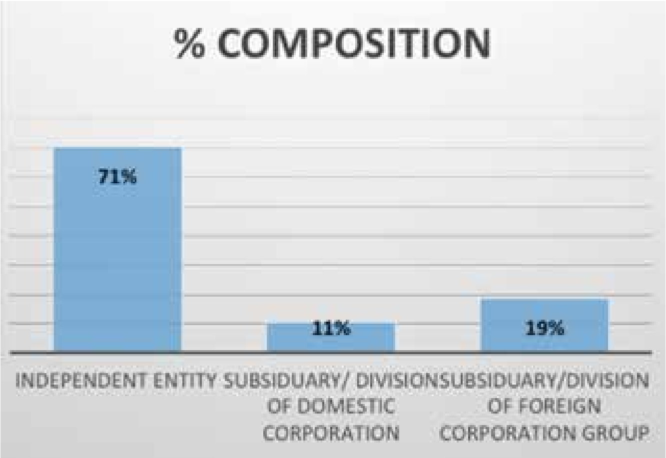
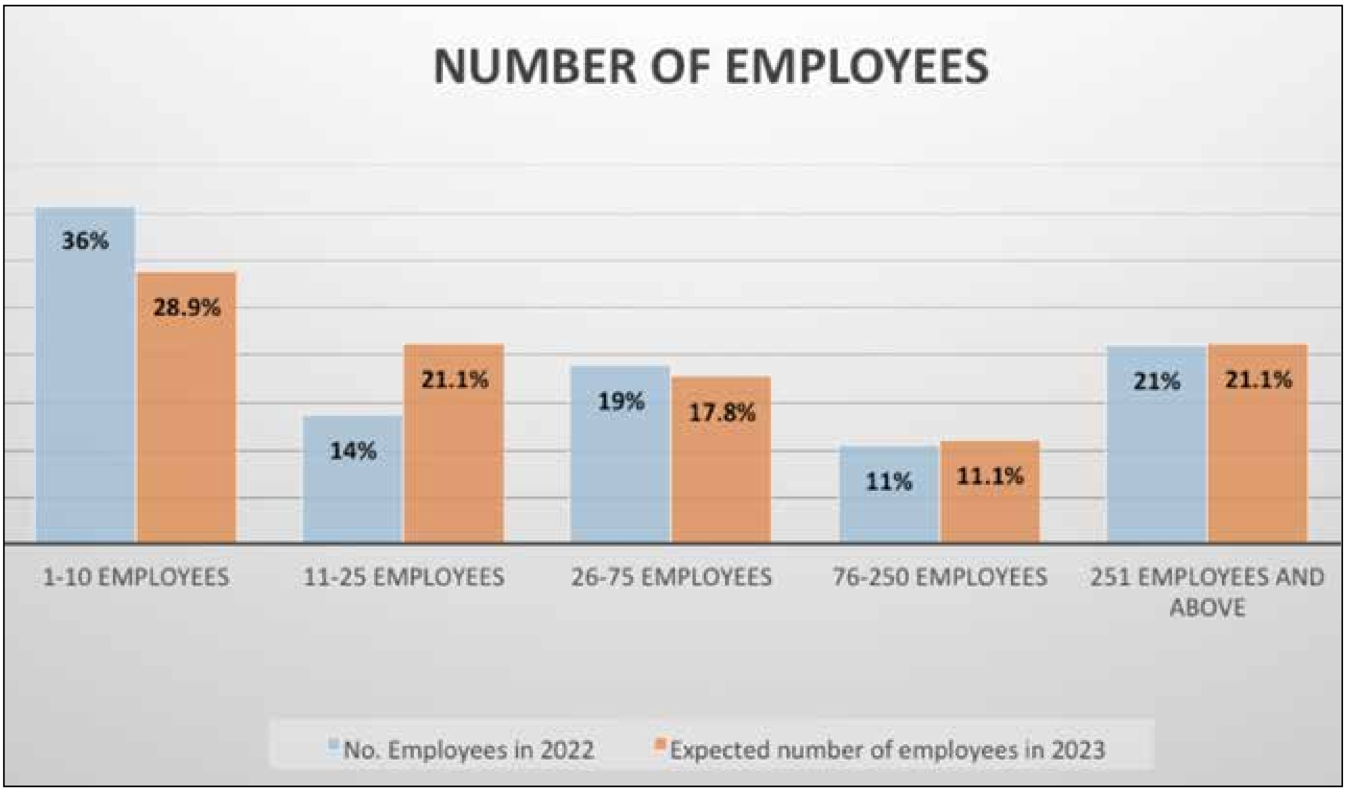


Figure 5 shows the distribution of respondents by ownership type. The majority of the respondents were independent entities represented by 71 percent.

Figure 6: Distribution of Respondents by Employee category



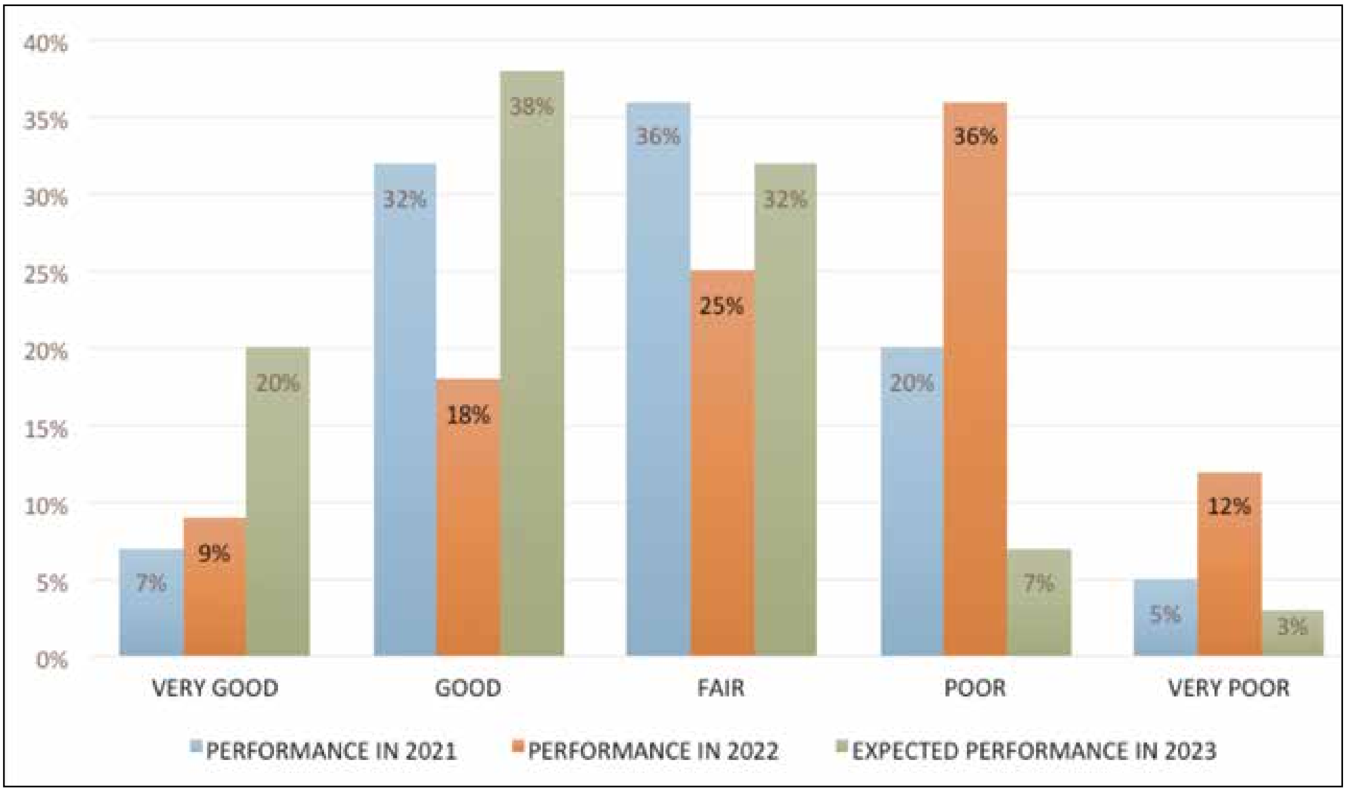
Based on the distribution of the employment category as per figure 6, in 2022, a large number of the responses were from Small & Medium sized enterprises compared to the large enterprises and it was the same with the previous survey for 2021. This is not surprising as the largest percentage of businesses are SMEs. Most SMEs were also willing to participate in the survey to express their views on the challenging business environment they continue to operate in. 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 2022 Malawi Business Climate Survey, enterprises were asked to rate the performance of their business and their expectations for 2023. In terms of the performance for the year 2022, majority of the business had a negative performance compared to 2021. In 2022, 48 percent of the enterprises which participated in the survey rated their performance negatively compared to 25 percent in the previous year. Conversely, 25 percent were neutral in their assessment of their business performance for 2022 as they managed to break even and survive compared to 36 percent in 2021. Going into 2023, majority of the businesses expect their business performance to be improve, represented by 58 percent of the responses.

Figure 7: Comparative Business Performance from 2021 to 2022 and Expectations for 2023



The majority of the businesses which performed poorly in 2022 belonged to the Manufacturing sector and Wholesale & Retail Trade Sector. The poor business performance was among others due to the following challenges:

- Shortage of foreign currency which made it difficult for companies, especially manufacturers to purchase raw materials for production while the distribution sector which mainly depends on imported goods had challenges supplying imported finished goods. The other sector which was heavily affect by this was Wholesale and Retail.
- Global Developments such as the Russia-Ukraine War which disrupted the supply chain commodities like fuels.

- Devaluation of the local currency by 25 percent which affected cost of production as both local and imported goods became more expensive as well as increasing production costs.
- Shortage of electricity supply affected production capacity by increasing idle time when using generators which do not run most machines to their full capacity.
- Scarcity and increase in fuel costs increased production cost, increasing transportation costs as well as costs of running the machines.
- Unconducive economic environment reduced demand for health services
- Bad Weather heavily affected the electricity suppliers by destroying one of their power station.

On the other hand, some businesses performed well in 2022 among others due to the following reasons:

- The opening up of markets due to low cases of covid-19.
- lifting up of covid-19 restrictions and opening of borders led to improved performance of Accommodation and food service sector.
- Good customer service, better brand visibility and business expansion.
- Increased demand for financial services due to economic hardships.
- Increased sales volume of heavy construction and manufacturing equipment.
- Availability of packaging materials and increase in demand in alcoholic beverages sector.
- Increased exports of produce in Macadamia sector.
- Opening up of new markets and new leather products due to Increased exposure during 2022 international trade fair.

Majority of businesses were optimistic of good business performance in the year 2023 and this is mainly attributed to the following:

- Rehabilitation of the Kapichira dam which would improve electricity supply.
- Availability of foreign currency in the domestic economy.
- Optimism for tighter measures by Government to contain smuggling of commodities like flour.
- Stability of Kwacha which would make business transactions more predictable.
- Optimism that there would be good agricultural production which could reduce the prices of agricultural raw materials.
- Internal factors like market research and improved marketing strategy in Accommodation and Food services sector. For instance, brand visibility will be increased, good customs service, relationships with key stakeholders.

The following are some of the key reasons some businesses in general expect 2023 to be a challenging year which could lead to poor performance:

- Increase in prices of raw materials and finished goods globally due to broadened price pressures.
- Prolonged foreign currency shortages in the country could continue to affect ability to purchase inputs.
- War between Russia and Ukraine could potentially affect the supply of raw materials
- Continued depreciation of the Kwacha which could affect cost of raw materials, goods and services.
- Prospects for prolonged erratic electricity supply could affect production and increase cost of doing business due to the high cost of using alternative sources of energy such as diesel.

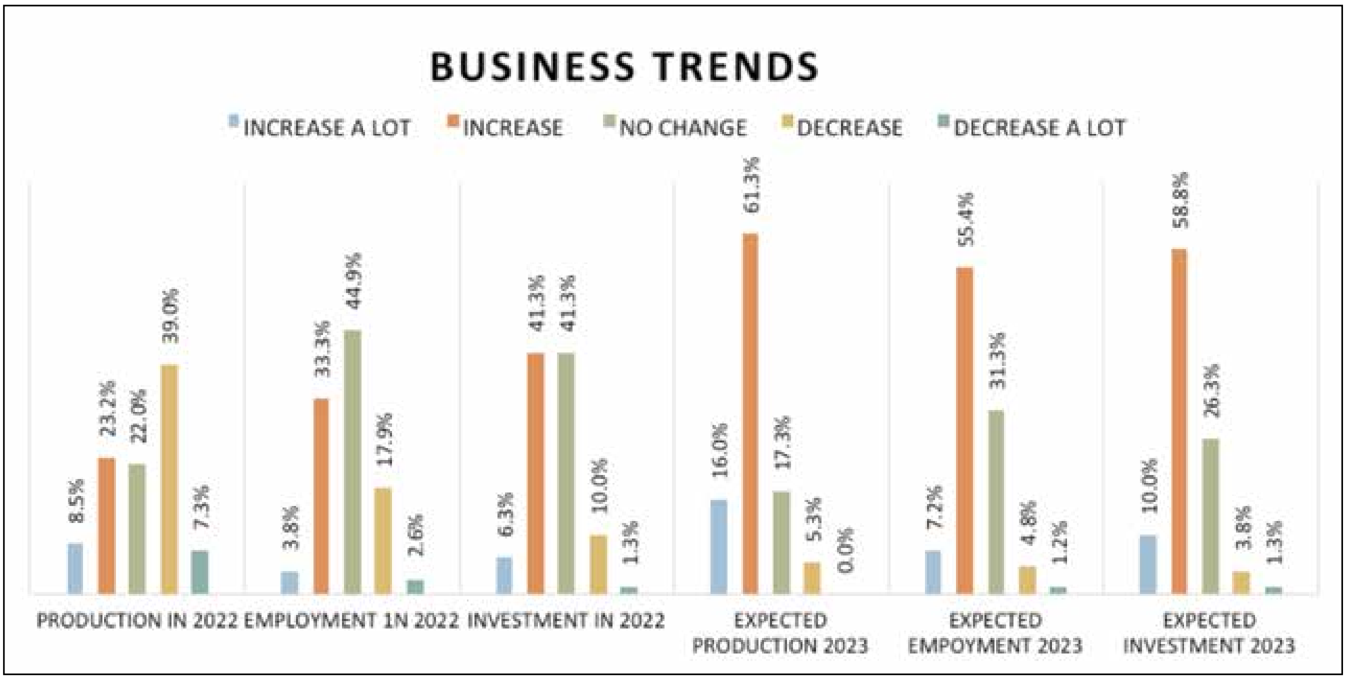
4.1. PRODUCTION, EMPLOYMENT AND INVESTMENT TREND

This section analyzes economic performance in 2022 in terms of three macro-level indicators: production, employment and investment levels. In terms of production, the results of the survey show that in 2022, majority of businesses decreased their production. Of the enterprises that participated in the survey, 46.3 percent decreased their production levels while 31.7 percent increased their production levels.

Looking at the outlook in terms of employment, businesses had confidence in the prospects for 2023 as the recovery from Covid-19 effects was well on track in 2022. This is shown by the increase in employment and investments levels by businesses. From the survey conducted, 33.3 percent of the enterprises increased the number of employees in their work force while 44.9 percent maintained the same number of employees in their work force. Only 17.9 percent of the businesses decreased the number of employees in their work force.

On the other hand, 47.6 percent of the respondents increased their investments portfolio,11 percent decreased their investments while 41 percent maintained the level of their investments. 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 2023 in terms of these three macro-level indicators show that businesses have high hopes for a more favorable business climate as the majority anticipate an increase in production, employment and investment levels. The survey results show that in 2023, 61.3 percent of enterprises expect to increase their production levels while only 5.3 percent expect a decline in their production levels while 17.3 percent expect to maintain the same production levels.

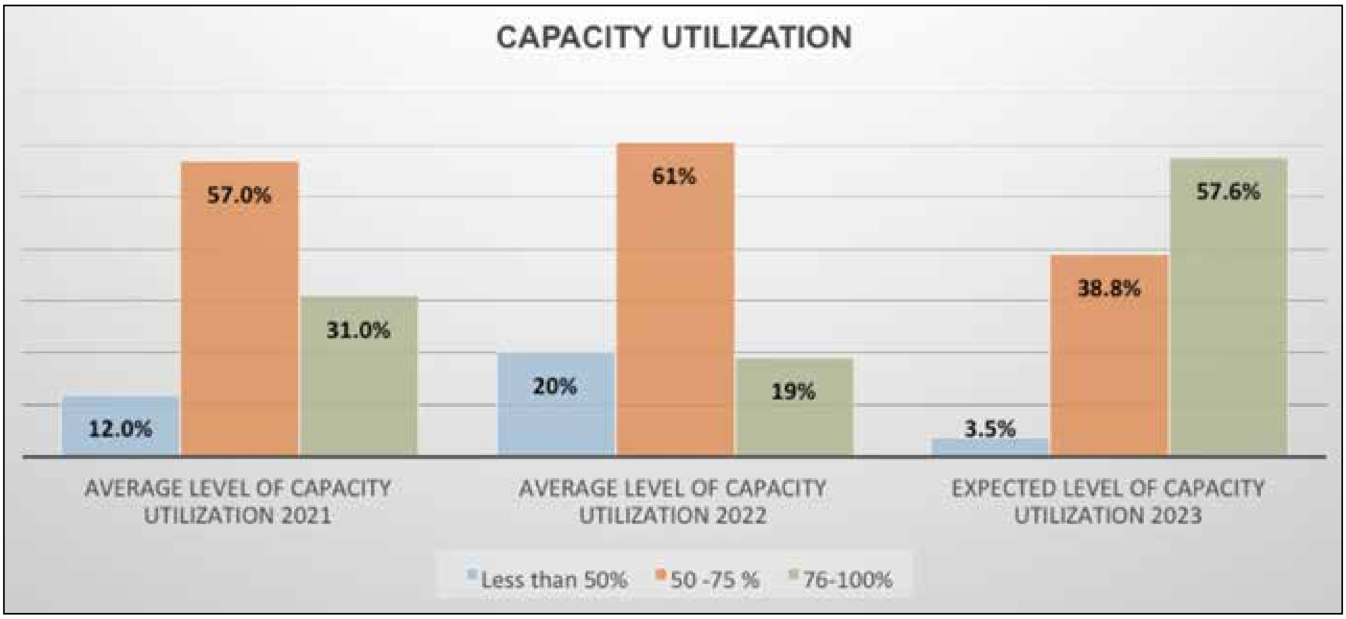
In terms of employment, the results of the survey show that in 2023, 55.4 percent of the businesses expect to increase the number of employees in their work force while 4.8 percent anticipate a reduction in the number of employees compared to 31.3 percent who expect to maintain the same number of employees.

Similarly, in terms of investment, the results of the survey show that in 2023, 58.8 percent of the respondents plan to increase their investment portfolio while 26.3 percent expect to maintain the same level of investment compared to 3.8 percent that plan to decrease their investment levels. This is a sign of improved confidence in the business environment in 2023.

4.2. PRODUCTION CAPACITY UTILIZATION

Capacity utilization measures a firm's total actual output as a percentage of total potential output in a given time period. According to the survey, a number of businesses were not able to utilize their capacity to the maximum compared to 2021. The results in the figure below show that in 2022 the percentage of businesses producing above 76 percent capacity declined significantly to 19 percent from 31 percent registered in 2021. An increase however was noted in the percentage of enterprises producing in the capacity utilization category between 50-75 percent. Specifically, in 2022, 61 percent of enterprises utilized 50-75 percent of their total capacity compared to 2021 where the number was at 57 percent. The increase in the category of businesses utilizing 50-75 percent of their capacity can be explained by the fact that those who were not able to utilize their capacity above 76 percent, fell into the category of 50-75 percent capacity utilization. The data also shows a significant increase in percentage of respondents operating below 50 percent capacity from 12 percent in 2021 to 20 percent in 2022. The production capacity statistics in 2022 is testament to the decline of economic activity.

Figure 9: Production capacity utilization trends

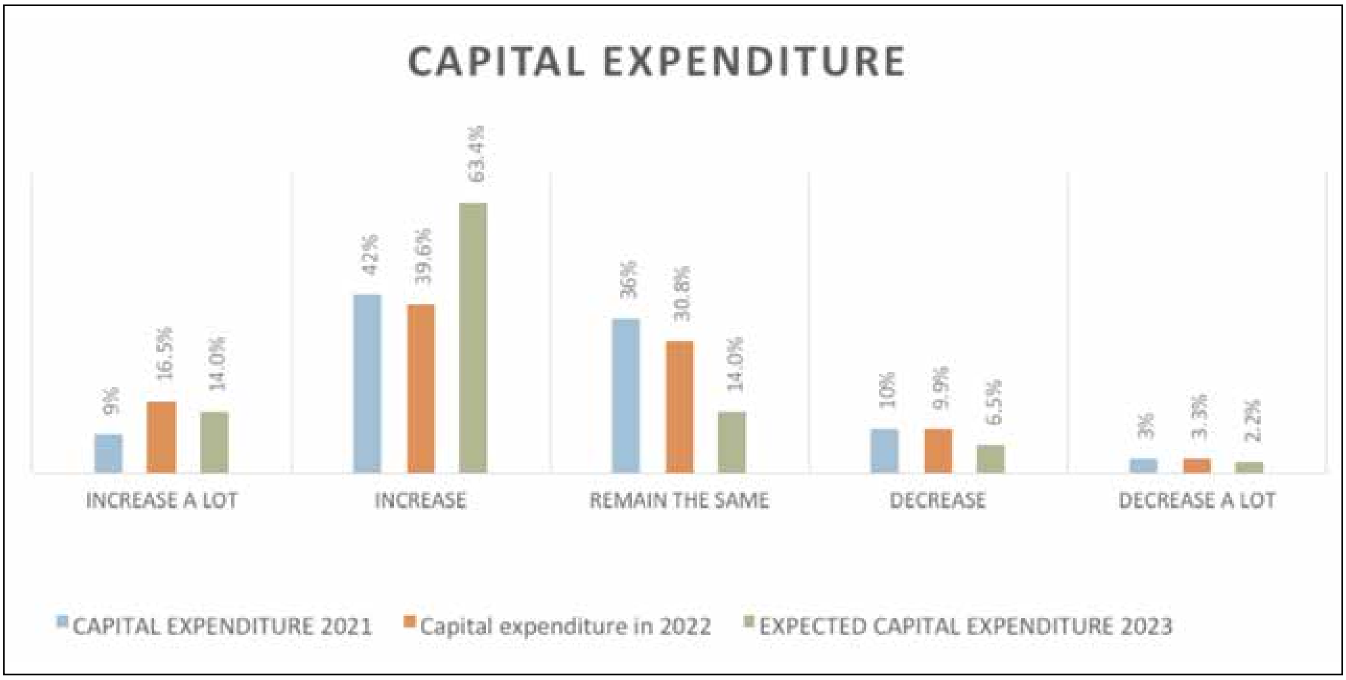


The results of the survey show that in 2023, 57.6 percent of the enterprises that participated in the survey expect to operate between 76-100 percent capacity utilization. This is because a number of firms are optimistic of better performance in 2022 and therefore expect to increase capacity utilization from the 50-75 percent category to the 76-100 percent capacity utilization category if some of the challenges in the business environment can be resolved.

4.3. CAPITAL EXPENDITURE

Capital expenditure measures the amount of money a firm spends on acquiring or maintaining its assets. In the year 2022, majority of the businesses increased their capital expenditure in 2022 compared to 2021. Figure 9 indicates that in 2022, at least 55.5 percent of the enterprises increased their domestic capital expenditure, while 13.2 percent of the businesses registered a decrease in their capital expenditure. In 2023, 77.4 percent of the enterprises expect their capital expenditure to go up.

Figure 10: Capital expenditure trends



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 2022. The majority of the enterprises that participated in the survey did not respond to this question as their business do not engage in export activities. This was not surprising because Malawi is a predominantly importing country with the main exports coming from agriculture sector and most businesses are domestic market oriented. However, for the few enterprises that export, most of them registered an increase in their export revenues across the selected trading blocs like SADC, other parts of Africa, Europe and Asia. These statistics shows that both Africa regional markets and beyond remain great opportunities for exportation.

Figure 11: Trend of export revenue

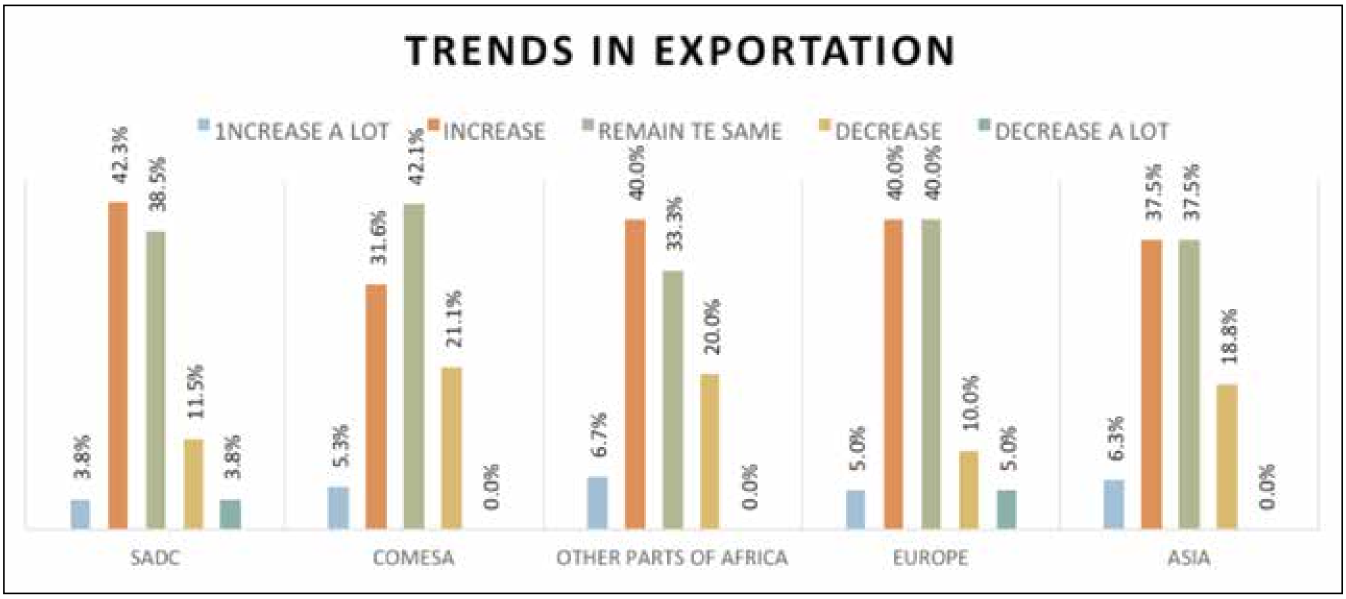
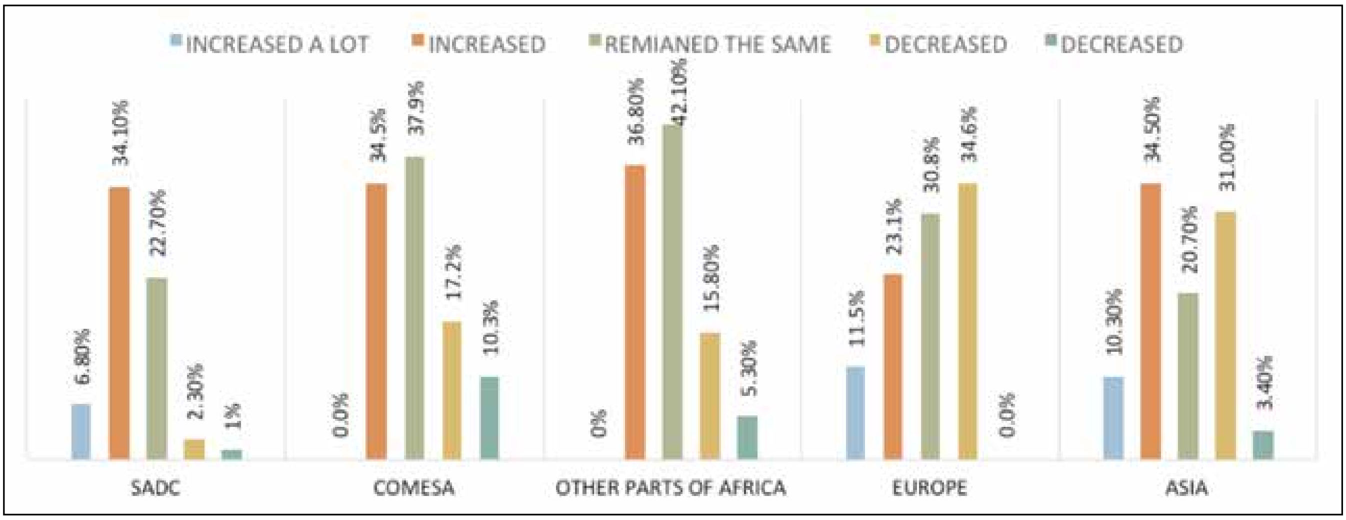


Figure 12 below shows the trend of expenditure on imports made by businesses across the various trading blocs. The figure shows that expenditure on imports relatively increased across SADC, Asia and remained high in COMESA and other parts of Africa. The results also show a decrease in importation expenditure by businesses from Europe and in Asia in 2022. The statistics confirm the notion that the nation imports more from its trading partners which are within Africa.

Figure 12: Trend of import expenditure

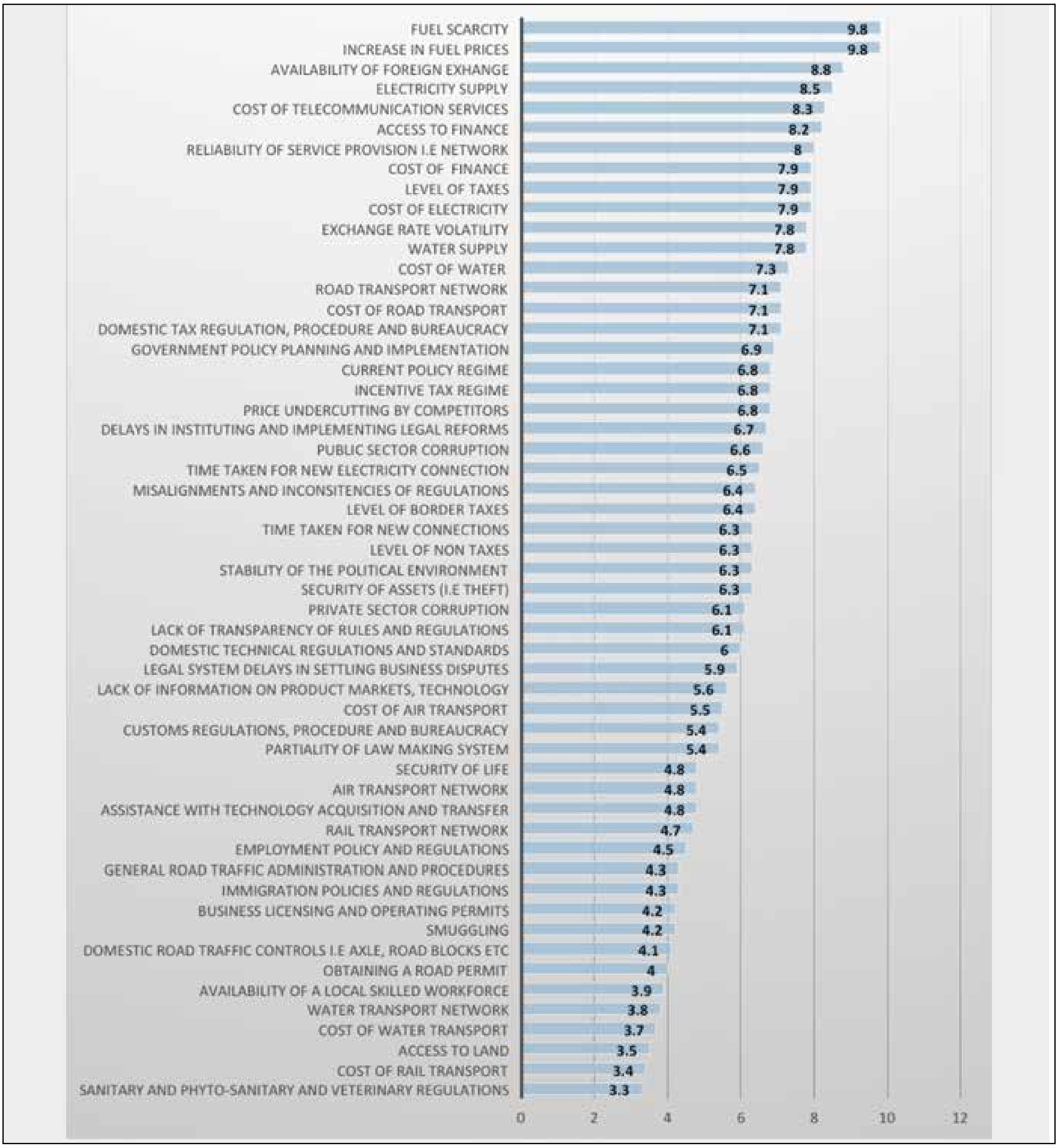


5. Obstacles to Doing Business

5.0. OVERALL RATING

Figure 13 below shows the overall 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

In 2022, businesses were affected by a number of obstacles which undermined their performance. Some of the top most obstacles faced by businesses were fuel scarcity, increase in fuel prices, availability of foreign exchange, electricity supply, cost of telecommunication, access to finance, reliability of network service provision and cost of finance.

5.1.1. FUEL SCARCITY (9.8)

In 2022, fuel scarcity was one of the top-most challenges that undermined business activity and it is not surprising that it was rated highly by businesses as a major obstacle to doing business. The impact of fuel scarcity on the domestic economy came from shortage of foreign exchange that the country experienced during the year. Due to the fuel scarcity, businesses struggled for fuel to run their business activities as fuel plays a great role in transportation of goods, running machines and others. Fuel challenges worsened in the second and third quarter of 2022.

5.1.2. INCREASE IN FUEL PRICES (9.8)

Increase in fuel prices was rated the biggest obstacle to doing business in 2022, as well. During the year 2022, fuel prices increased twice. In April 2022, petrol prices increased to K1,380 from K1,150 per liter, diesel increased to K1,470 from K1,120 per liter while paraffin was increased to K956 from K833 per liter. In June 2022, the price of fuel was increased further by an average of 34 percent. The price of petrol jumped by 44.92 percent from K1,380 to K1,999 per liter, diesel increased to K1,920 from K1,470 per liter representing a 30.61 percent hike while paraffin increased to K1,236 from K956 per liter representing a 29.29 percent increase. The hikes were as a result of rise in Free On-Board price, movements in the exchange rate regime and devaluation of Kwacha. The Ukraine-Russia War disrupted the supply chain of fuel and this increased the pressure on fuel prices on the international market. The average price of crude oil on the international market reached its peak in June 2023 registering $116.80/bbl, the highest since march 2012.

However, in August 2022, Malawi Energy Regulatory Authority (MERA) adjusted downwards petrol prices from K1999 to K1946 per liter while maintaining prices of diesel and paraffin at K1920 and K1236 per liter respectively. Furthermore, in September 2022, the price of petrol reduced by 10.28 percent from K1946 to K1746 per liter. Nevertheless, fuel prices remained high and led to increased commodity prices as transportation and production costs increased.

Box 1: Impacts of fuel scarcity and increase in fuel prices on the different sectors

Impacts of fuel scarcity and increase in fuel prices on the different sectors

MCCCI engaged stakeholders in different sectors to establish the extent of business disruption due to intermittent fuel supply and the increase in fuel price during the year 2022. Below are some of the effects in different sectors;

In Wholesale and Retail Sector, transportation costs command a huge share in determining the cost of goods and services on the market. When fuel price increased during the year, suppliers had to adjust their prices too to cover the costs. However, some suppliers indicated that their supply process is done through contracts and it is very hard to adjust prices. This resulted in reduction of their profit margins.

In Construction sector, most of the companies in the sector use heavy equipment powered by fuel. Due to shortage of fuel in the second half of 2022, most of these companies could not operate. This idle period saw most companies accumulating extra costs.

Small and Medium Enterprises were not spared as most of them indicated that transport is a huge aspect in their business, either to carry their commodities to and from the market or to travel themselves to their business locations. Cost of making such trips increased in response to the increased fuel prices. To make matters worse, even the already expensive trips were even harder to undertake during the period of fuel scarcity. This affected their business in 2022.

5.1.3. AVAILABILITY OF FOREIGN EXCHANGE (8.8)

Shortage of foreign exchange remains a major obstacle to the growth of domestic investment in Malawi. 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.

The problem of availability of foreign exchange rate is largely structural, emanating from imbalances between the country’s limited capacities in generating foreign exchange against insatiable appetite for imports. The highest import cover that the country had in a month in 2022 was 1.66 months import cover in June. On average, for 2022, the country had 1.47-month import cover which was below the recommended import cover of three months each month.

Box 2: Impact of Forex shortage and devaluation on Plastic Manufacturers

Impact of Forex shortage and devaluation on Plastic Manufacturers

Shortage of forex and devaluation was one of the major impediments to conducting business in 2022. One of the sectors that was greatly affected with this issue was the plastic manufacturing sector.

MCCCI engaged plastic manufacturers to find out the extent to which they were affected due to forex shortage and devaluation. The manufacturers lamented that it has affected the Importation of machinery, tools and law materials like Linear Low-Density Polyethylene (LLDPE), High-density Polyethylene (HDP) and Biaxially-Oriented Polypropylene (BOPP).

Unavailability of forex also hindered Payment of debt to foreign lenders and suppliers. This affected their reputation in the business community such that some business partners declined to do business with them.

Devaluation of kwacha usually has inflationary results as it is followed by a general rise in prices of goods and services. The increase in the price of plastic products that followed after the devaluation in 2022 resulted in reduced demand of plastic products. Some of the manufacturers resorted to maintaining the old prices just to keep their customers and to fend off competitors whilst making losses. These factors induced such manufacturers to produce way below potential.

Despite all this, the manufacturers were very optimistic of better performance in 2023 which would take business on a more desirable path. Therefore, the government should accelerate its effort to resolve the macroeconomic imbalances to create a conducive environment to doing business as increased productivity increases government revenue.

5.1.4. ELECTRICITY SUPPLY (8.5)

Businesses continued to experience electricity supply disruptions as had been the case in the past years. However, in 2022, the impact was more severe in comparison to the previous years. Projected electricity demand for Malawi for 2022, was estimated at 618MW while installed capacity sits at 528MW (hydro plus solar) against available capacity of 355MW and operating capacity of 285MW. Malawi has been experiencing a power supply deficit due to the damage of Kapichira dam at Kapichira Power Station caused by Cyclone Ana in January 2022 that resulted in the loss of 129MW. The rehabilitation of the dam was estimated to take about six months at first, with prospects of having the lost power back by December 2022 but progress has been slow such that rehabilitation of the station is expected to take longer than previously estimated. Some of the reasons cited as reasons for the slow progress in finalizing the rehabilitation works include delays in securing funding for the rehabilitation project, scarcity of fuel, inadequate cement on the domestic market and modification of the dam designs to withstand the current climate change.

Box 3 :MCCCI interviews with SMEs on blackouts cost.

MCCCI INTERVIEWS WITH SMES ON BLACKOUTS COST.

Malawi is currently facing an acute power deficit following the damage of 130 megawatts (MW) Kapichira Hydro Power Station in January 2022. The situation forced power utility supplier Electricity Supply Corporation of Malawi (ESCOM) to ration the available power to industries and households. Shortage of electricity supply affected both large enterprises as well as small and medium enterprises. MCCCI interviewed a number of SMEs to assess the effects of the prolonged power cuts which, according to most SMEs, had a knock-on effect on businesses. At the peak of the electricity crisis, some small-scale businesses indicated that electricity was a top obstacle to doing business, thereby affecting their profitability.

One such business in bakery services highlighted that it struggled to remain afloat due to prolonged power outages. Its output was reduced by about 65 percent as it was forced to stop production when power was not available. For such businesses, loss of production time means failure to supply orders to customers. This automatically slowed down the overall growth of the business, increasing the cost of production resulting in low revenues.

For another business, a maize mill in Blantyre, the story was the same. Persistent power cuts pushed the business to borrow money to ensure that it survives. The revenues generated from the business drastically reduced by 45 percent. The business was forced to borrow to settle bills.

A firm business in manufacturing of leather shoes also highlighted that the prolonged black outs reduced their production capacity as they lost a lot of production time. The workers were staying idle without work yet their pay ticket was running because they did not have back up energy for production.

5.1.5. COST OF TELECOMMUNICATION SERVICES (8.3)

While considerable efforts have been made by the Government to bring down the cost of telecommunication services, businesses still rated it as an obstacle to doing business in 2022. A number of issues still exist which make the cost of service provision high. These include pricing and legal framework. The domestic tariff rates (VAT, Excise and Duty) for all imports which are capital investments are high as well as high road transportation cost. This makes the investments to be expensive.

5.1.6. ACCESS TO FINANCE (8.2)

Access to finance was rated the fifth obstacle to doing business in Malawi. Most people do not have access to formal loans to invest in their business. In 2022, having access to credit was crucial as most of businesses viewed it as an opportune year to bounce back from the negative impacts of Covid-19 pandemic. There is need to create strategies and policy options that could stimulate access to finance for unbanked and underbanked. While government took the initiative to address this challenge through creation of funds such as the National Economic Empowerment Fund (NEEF) in order to increase access to finance, for some reason, the initiative has not yielded the expected results. Malawi lacks a variety of financial instruments especially long-term financial instruments which can help make available affordable capital for investment and growth of SMEs.

5.1.7. RELIABILITY OF NETWORK SERVICE PROVISION (8)

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 necessitated the usage of digital communication such that its usage is no longer a luxury but a necessity for businesses. 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.

5.1.8. COST OF FINANCE (7.9)

Apart from access to finance being a challenge in 2022, the cost of finance was also rated as a major challenge of doing business in Malawi. The cost of finance is high. Specifically, the policy rate which is a key driver of interests on loans was adjusted upwards twice in 2022. On 29th April 2022, Monetary Policy Committee decided to raise policy rate by 200 basis points from 12 to14 percent. In October 2022, the policy rate was raised further to 18 percent. These decisions aimed at controlling the inflation rate which kept on increasing in 2022. Nevertheless, the upward adjustment of policy rate, helped stabilize the inflation towards the end of 2022 though inflation still remained high. On the other hand, the high rates made it difficult for the private sector to borrow for investments.

5.1.9. LEVEL OF TAXES

The level of taxes 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 the government to regulate the informal economy. Government has mainly concentrated on taxing formal businesses which has resulted in formal businesses paying quite high taxes.

Stakeholders have on numerous occasions asked the 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. The main result of high taxes has been smuggling of similar goods from neighboring countries because they are cheaper compared to our products.

5.2. TREND OF THE OBSTACLES TO DOING BUSINESS

Table 1: Trend of Obstacles to Doing Business

No.	2015	2016	2017	2018	2019	2020	2021	2022
1	Cost of Finance	Cost of Finance	Electricity	Cost of Finance	Political stability	Covid-19 pandemic	Covid-19 pandemic	Fuel Scarcity
2	Electricity	Telecom-munication	Telecom-munication	Electricity	Telecom-munication	Electricity	Increase in fuel prices	Increase in fuel prices
3	Telecom-munication	Electricity	Uncertainty in Economic & Regula-tor Policies	Telecom-munication	Electricity	Telecom-munication	Cost of electricity	Availability of Foreign Exchange
4	Uncertainty in Economic and Regulatory Policies	Uncertainty in Economic and Regulator Policies	Customs regulations, Procedures & bureau-cracy	Crime/ Theft	Effective-ness of National Assembly as law making body	Access to finance	Reliability of network service provision	Electricity supply
5	Crime/ Theft	Crime/ Theft	Domestic Tax and Non-Tax Reforms	Effective-ness of National Assembly as law making body	Cost of Finance	Cost of road transport	Availability of foreign exchange	Cost of telecom-munication services
6	Customs regulations, Procedures & bureau-cracy	Customs regulations, Procedures & bureau-cracy	Domes-tic Tax Regulation, Procedure and Bu-reaucracy	Customs regulations, Procedures & bureau-cracy	Domestic technical regulations and standards	Water	Level of taxes	Access to Finance

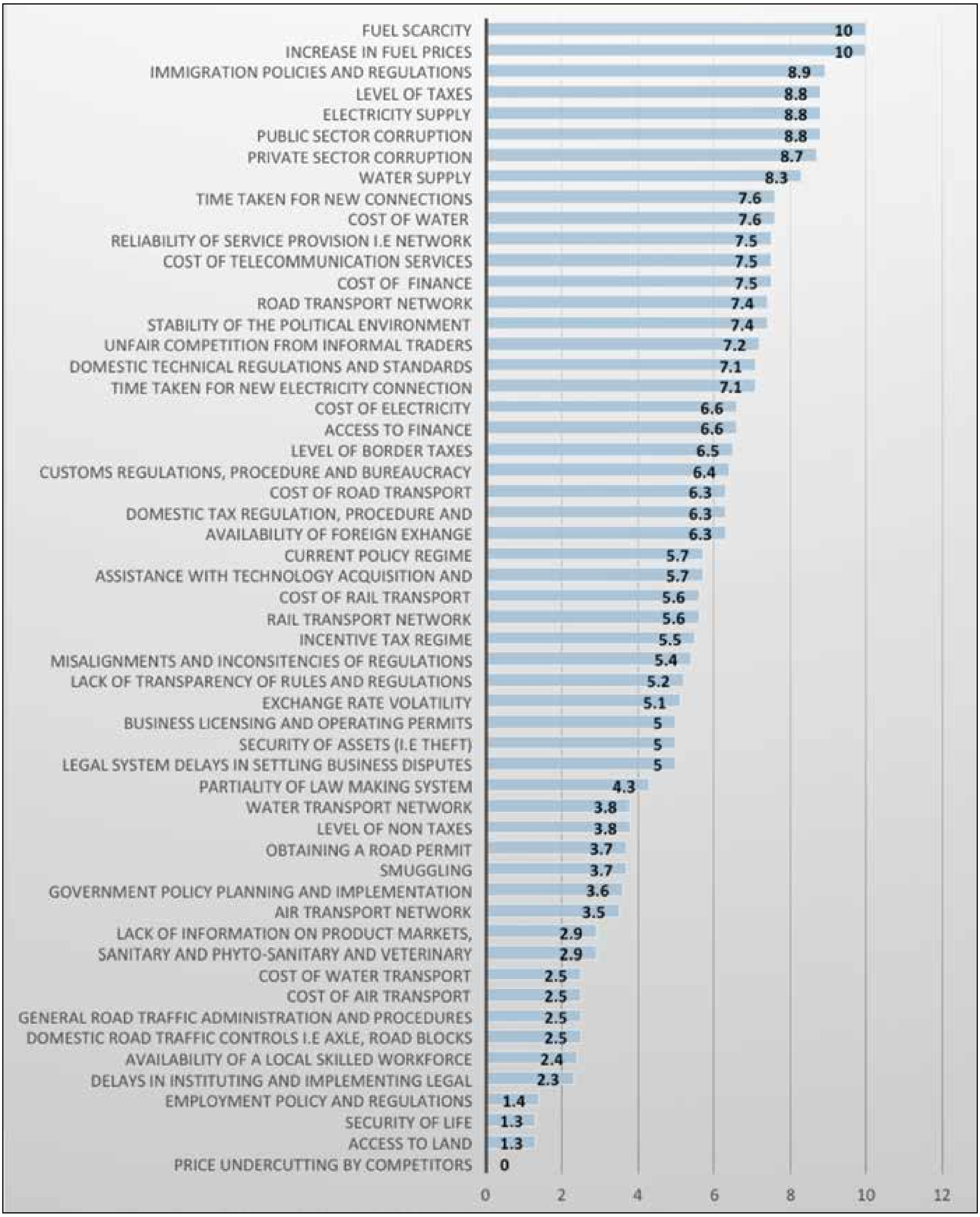
5.3. OBSTACLES BY SECTOR

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.

Figure 14 below shows the rating of obstacles by businesses in the agriculture sector. Fuel scarcity, increase in fuel prices, availability of foreign exchange, immigration policy and regulations, level of taxes, electricity supply, public sector corruption and private sector corruption were rated as the top most obstacles to doing business in the sector in the year 2022. Furthermore, water supply, time taken for new connections, cost of water, reliability of service provision i.e. network, cost of telecommunication services, cost of finance, road transport network, unfair competition from informal traders also had a significant impact. Some businesses also pointed out inflation as one of the main obstacles in Agriculture sector in term of high prices of inputs.

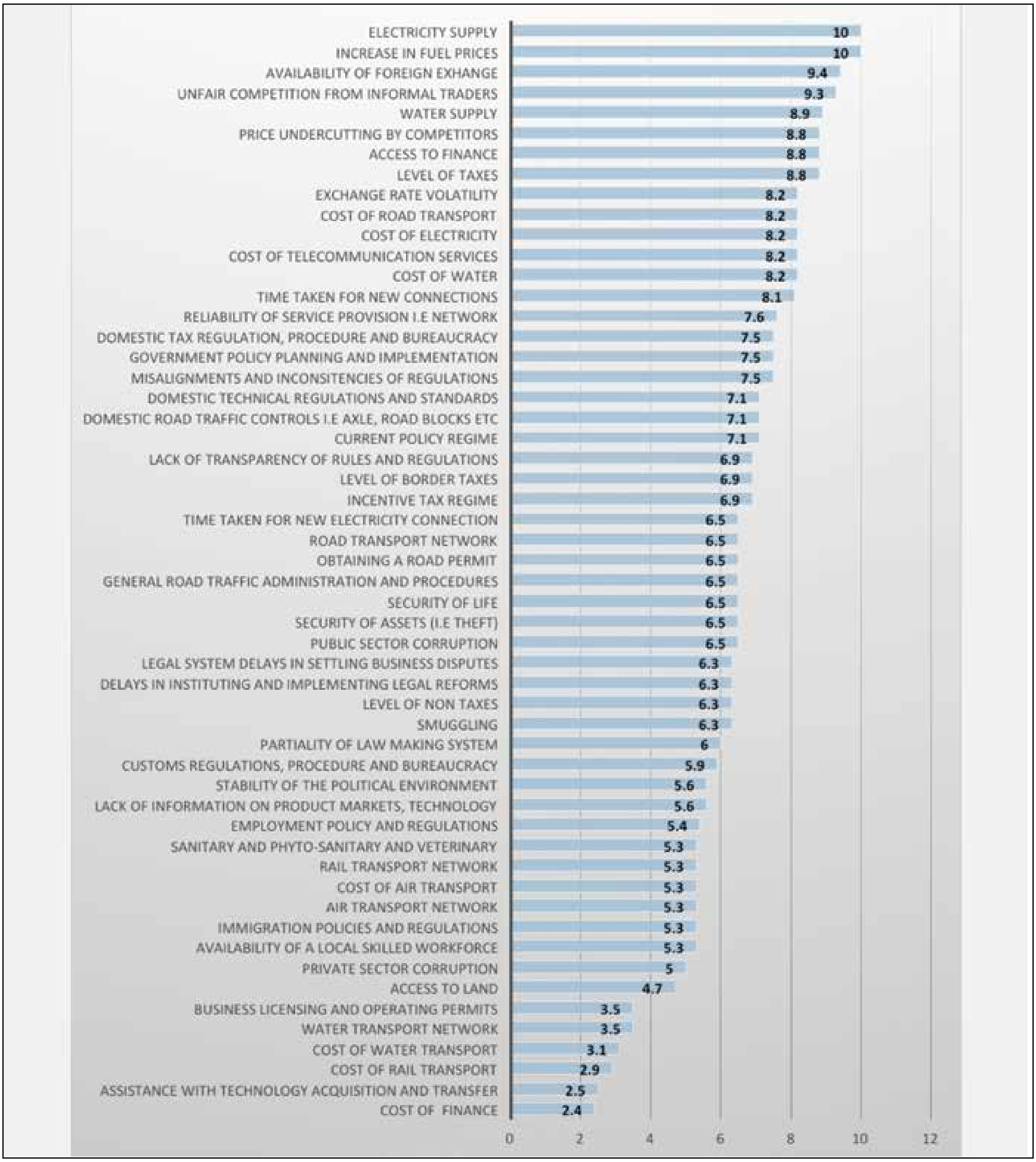
Figure 14: Obstacles to doing business in the Agriculture sector



5.3.2. MANUFACTURING SECTOR

The rating of key obstacles as perceived by the manufacturing sector are shown in figure 14 below. As observed, electricity supply, increase in fuel prices, availability of foreign exchange, unfair competition from informal traders, price undercutting by competitors, access to finance and level of taxes were the top major challenges affecting manufacturers in the sector. The manufacturing sector remains relatively small and underdeveloped. Major enterprises within the sector include: textiles, Agro-processing (tobacco, tea, sugar, soya, and macadamia nuts), 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. Manufacturing industry is seen as a potential industry to resolve some of the macroeconomic imbalances the country is facing. The major obstacles highlighted in figure 14 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 urgent solutions if the industry is to progress.

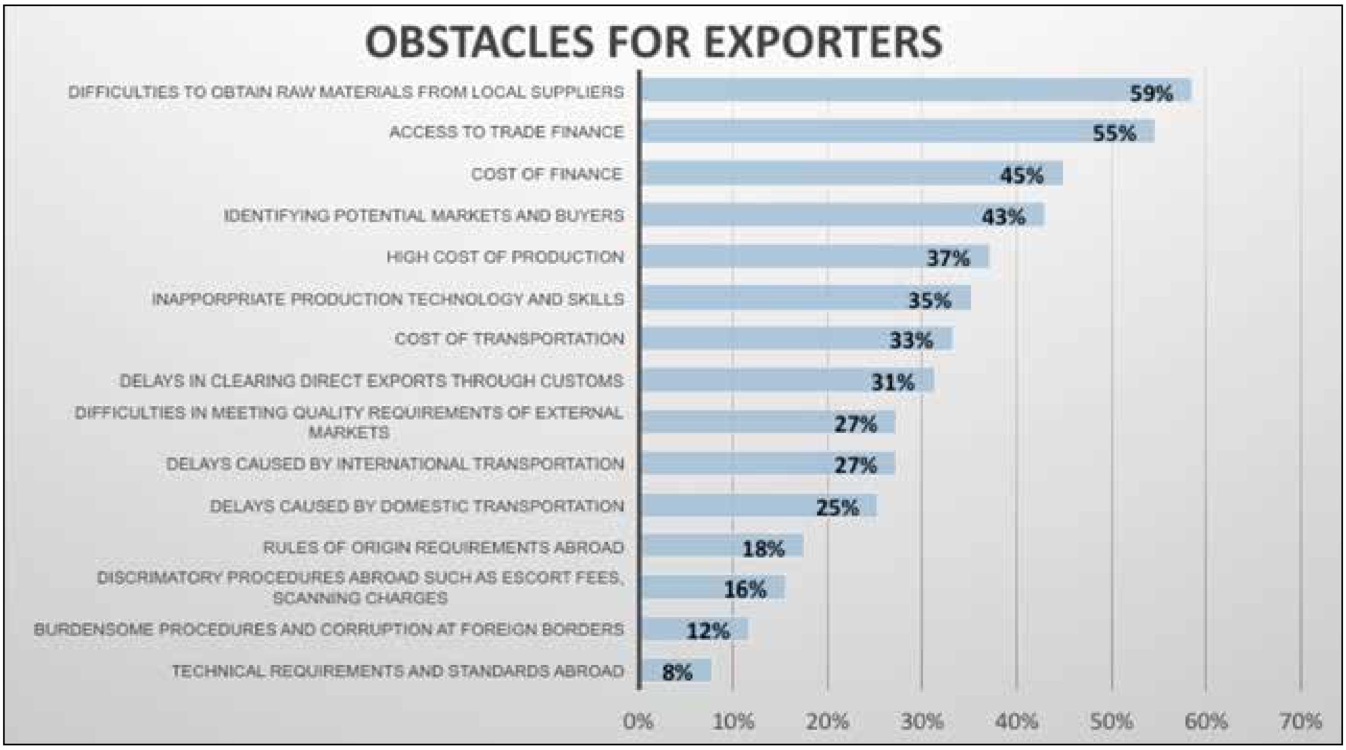
Figure 15: Obstacles of Doing Business in Manufacturing Sector



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 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.

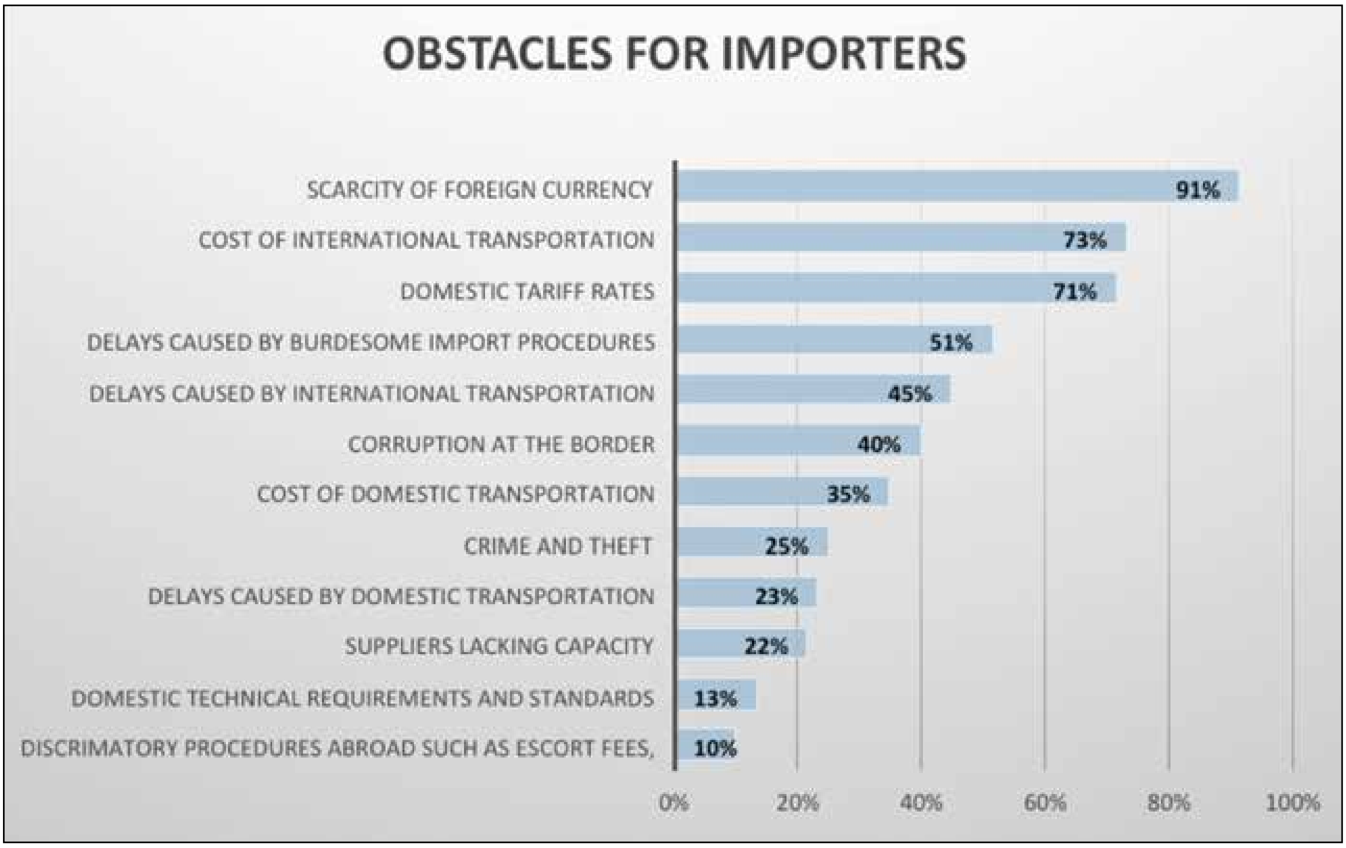
Figure 16: Problematic factors to Export



Other obstacles that exporters faced in 2022 include:

- High corruption levels at the border
- Lack of recognition and certification of domestic products on the international markets.
- 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;
- Inadequate information on required qualifications for one to be an exporter.

Figure 17: Problematic factors to import



Other obstacles that importers faced in 2022 include:

- Devaluation of the domestic currency
- Higher levels of corruption at the border

6. Company Productivity and Competitiveness

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

6.0. RESEARCH AND DEVELOPMENT

Research and development projects are undertaken in order to develop and expand business' productivity. Table 2 below presents recorded data from 2015 to 2022 on the use of research findings. The results show that there is an increase in the number of companies that find research findings as very important by a margin of 9.7 percent compared to 2021. On the other hand, the number of businesses that significantly plan and budget to benefit from new technology has increased from 8 percent to 44 percent highlighting how businesses are willing to adapt to new technologies. Furthermore, the results from the survey also show that 34 percent of businesses do not spend much on research and development. The businesses that spend much on research and development increased from 8 percent in 2021 to 15 percent in 2022.

Table 2: Distribution or Proportional Responses on Research & Development

	2015	2016	2017	2018	2019	2020	2021	2022
Extent to which research findings are important for growth of business								
Not at all	9%	9%	5%	5%	6%	10%	17%	10%
Somehow	34%	33%	20%	23%	32%	28%	36%	33.3%
Very much	57%	58%	75%	71%	62%	61%	47%	56.7%
Extent to which companies plan and budget to benefit from new technology								
Not at all	20%	26%	15%	27%	24%	52%	50%	22.7%
Somehow	43%	46%	39%	40%	31%	36%	42%	33%
Significantly plan and budget	37%	28%	45%	32%	44%	12%	8%	44.3%
Extent to which companies spend on research and development								
Not at all	30%	27%	25%	25%	23%	36%	43%	34%
Somehow	50%	59%	55%	60%	47%	49%	49%	50%
Very much	20%	14%	18%	16%	30%	16%	8%	15.2%

6.1. INNOVATION AND TECHNOLOGY ABSORPTION

Figure 18 below shows distribution of responses of how various businesses used and absorbed technology in 2022 as compared to 2021. The results indicate a significant increase in the percentage of businesses who usually use and absorb technology from 38 percent in 2021 to 56 percent in 2022. The number of those that somehow use and absorb new technology has decreased to 33 percent from 44 percent while those that do not use or absorb new technology also decreased by 5 percent to 7 percent in 2022.

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

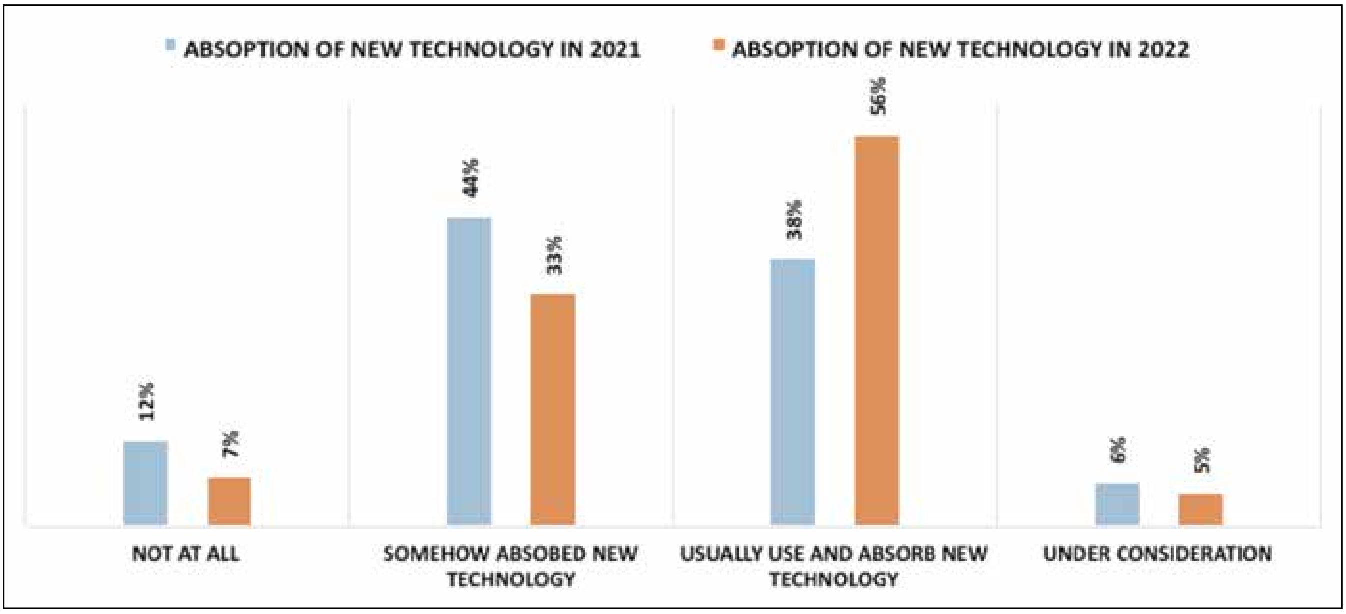


Table 3 below further analyzes the extent to which businesses collaborate with suppliers, competitors, clients, universities and research organizations in risk spreading, combining ideas and leveraging on each other which allows them to lower costs which they would otherwise face as a standalone investor. The results show that in 2022, businesses collaborated massively with other businesses in risk spreading, combining ideas and leveraging on each other which allowed them to lower costs which they would otherwise face as a standalone investor. There was a general increase in businesses that do collaborations extensively with other businesses by 22.4 percent compared to 2021.

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

	2016	2017	2018	2019	2020	2021	2022
Extent to which businesses collaborate with other firms to promote technology flows and innovation							
Do not collaborate	10%	7%	9%	6%	14%	11%	5.7%
Somehow collaborate	49%	48%	50%	37%	32%	47%	29.9%
Collaborate extensively	40%	44%	41%	57%	54%	42%	64.4%

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 (AAS), Automated Human Resource Management System (AHRS), Automated Procurement System (APS) and Production and Processing systems. The data shows that the majority of businesses do in fact heavily use internet and email services despite the perceived high cost of communication services in the country. The use of Automated Accounting Systems was also significantly high among businesses that participated in the survey. Nevertheless, the majority of businesses do not use Automated Procurement system and Automated Human Resource Management system.

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

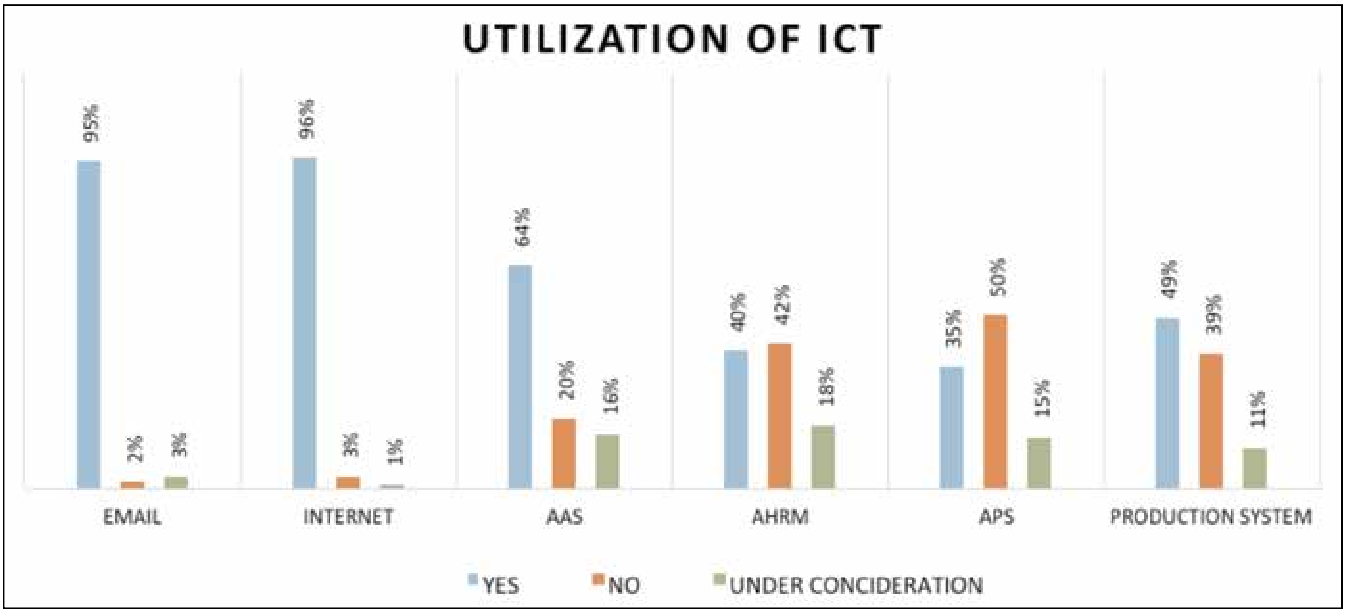
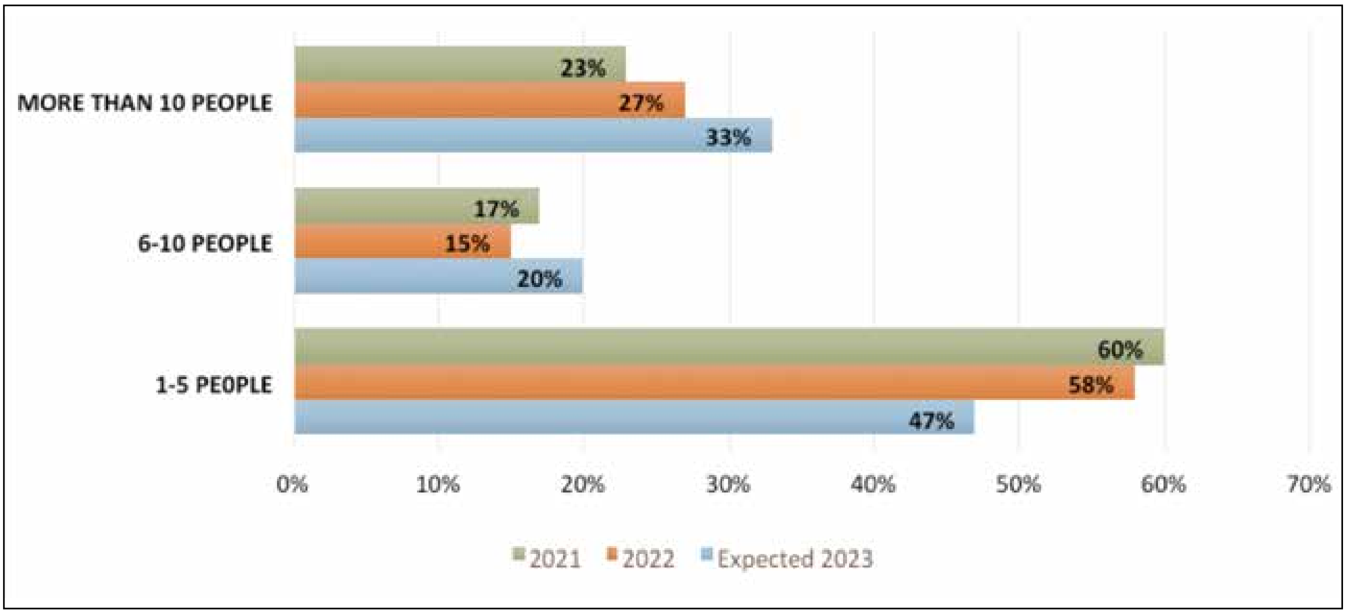


Figure 20 below demonstrates the trends on the ratio of employees to one computer which has experienced some changes over the past year. As shown in the figure, 58 percent of the respondents have a maximum of 5 employees per one computer which is a slight decrease from 60 percent in 2021. In 2022, there was also an increase of respondents who had over 11 maximum employees per laptop. The ratio of maximum 5 employees using one computer in 2023 is expected to decline from 58 percent to 47 percent. Businesses also expect the ratio of more than 11 employees per computer to increase from 27 percent in 2022 to 33 percent in 2023.

Figure 20: Distribution of responses to Number of Employees per Desktop or Laptop



6.2. HUMAN RESOURCE DEVELOPMENT, EMPLOYMENT AND PRODUCTIVITY

Human resource development is one of the main 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 58.2 percent of businesses have at least 1 to 10 employees with university degrees, 60.3 percent with trained employees and 58 percent of businesses have skilled employees. The number of businesses that have at least 12-20 employees with a degree has also increased by 8 percent in 2022.

Figure 21: Distribution of responses to Employee Qualification

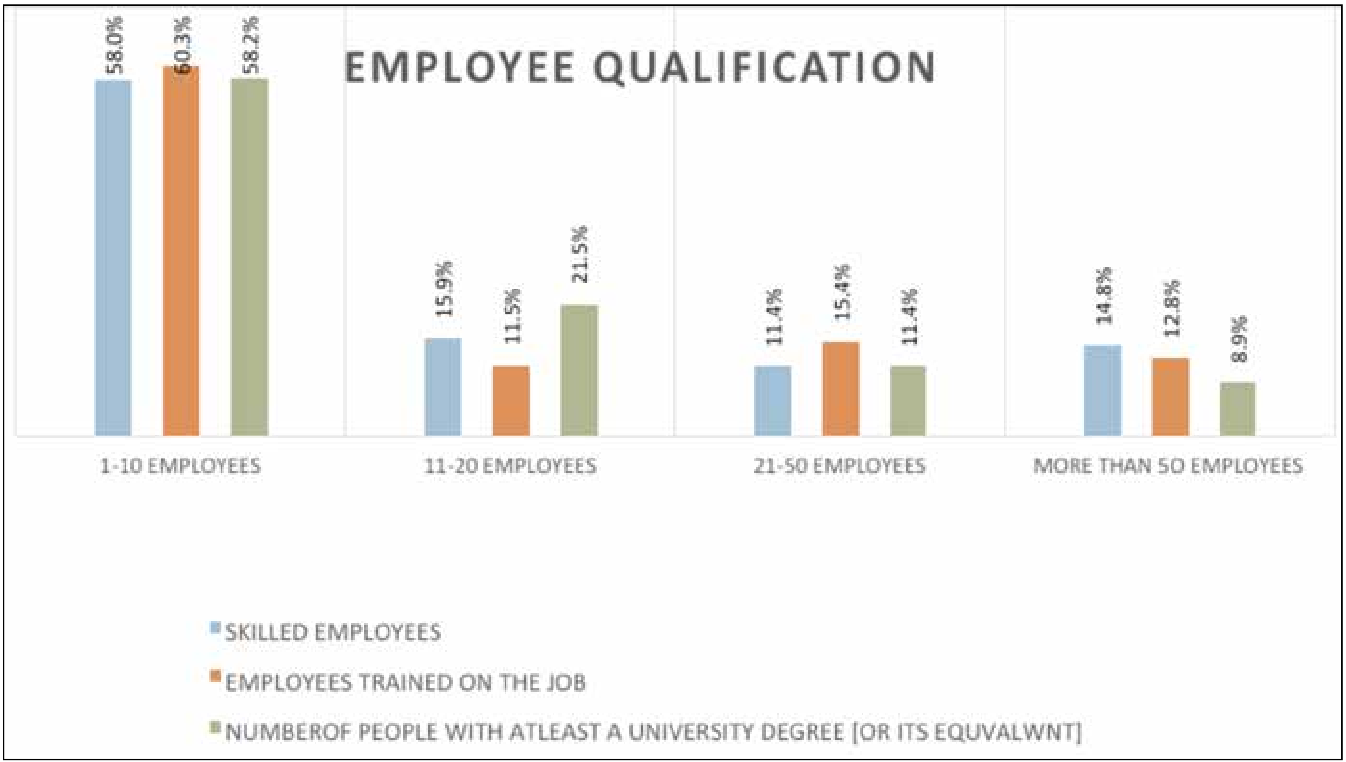


Table 4 below presents complementary factors that explain worker productivity by investigating response distribution for 2022. As shown in the table below, the most businesses indicated that the education system in the country meets their company needs. Specifically, 42.9 percent of the businesses indicated that they benefit a lot from the education system, compared to 53 percent that somehow benefit from the education system in Malawi. The results also show that majority of businesses attract and retain employees. Furthermore, the majority of the businesses indicated that they rarely hire and fire their employees.

Table 4: Education and Worker Productivity (Proportional Responses)

	2015	2016	2017	2018	2019	2020	2021	2022
Educational system meets needs of your company								
Not well at all	13%	18%	7%	50%	17%	10%	10%	3.3%
Somehow	64%	61%	65%	12%	51%	46%	52%	53.8%
Very much	23%	21%	28%	38%	32%	44%	38%	42.9%
Extent to which businesses attract and retain								
Not for long, the best leave	1%	11%	2%	10%	2%	6%	2%	10%
a few remain, more leave	19%	20%	6%	16%	27%	18%	19%	20%
majority remain	80%	69%	92%	73%	71%	76%	79%	70%

	2015	2016	2017	2018	2019	2020	2021	2022
Extent of hiring and firing employees?								
Rarely	78%	77%	81%	68%	79%	84%	91%	68.2%
Often	22%	18%	18%	25%	15%	11%	7%	23.9%
very often	0%	5%	0%	7%	6%	5%	2%	8%
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%	21.3%
Related partly to qualification and partly to expertise	52%	43%	53%	50%	49%	52%	51%	57.3%
Strongly directly related to worker productivity	33%	23%	38%	21%	33%	29%	27%	21.3%

6.3. STRATEGIC PLANNING

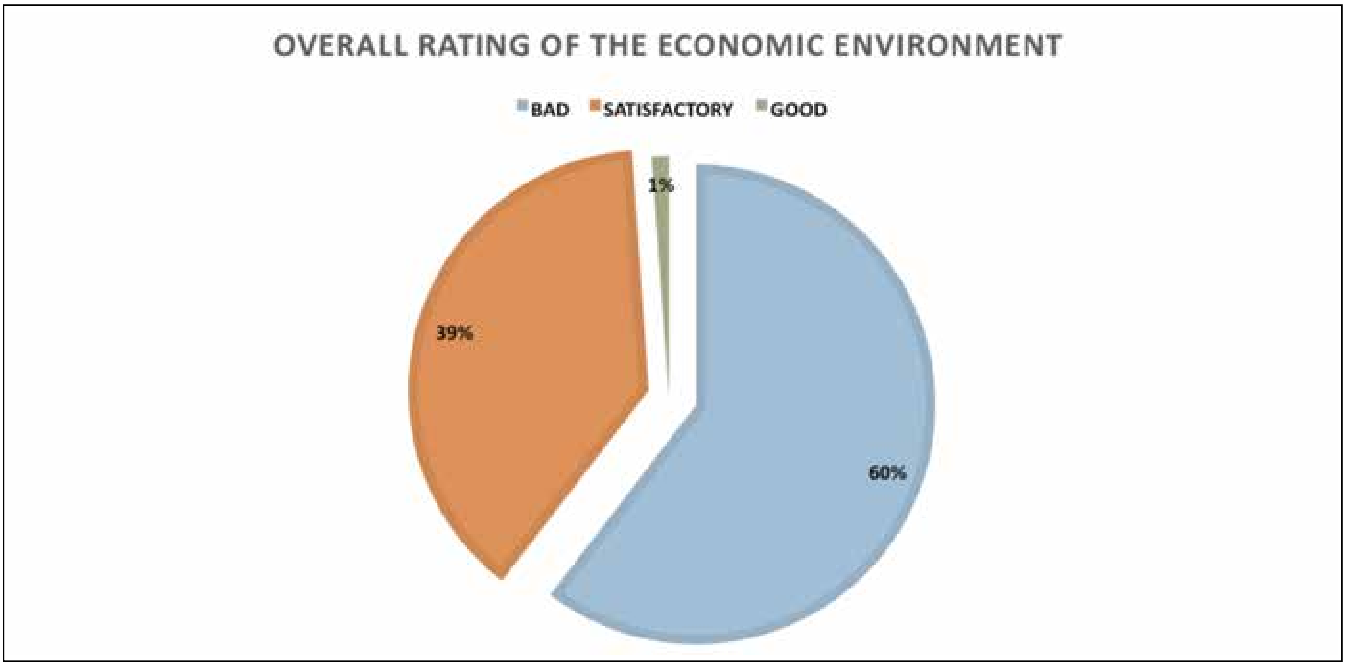
Change is a certainty in both the internal and external environments to a business. Having a strategic plan not only ensures that businesses execute their daily operations towards a set number of goals they would like to achieve but it also ensures that businesses are able to modify their business activity 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. Figure 23 below shows the distribution of responses on businesses who have a strategic plan and internationally recognized certificate. The figure below shows that most businesses have a strategic plan represented by 72 percent of the businesses. This shows the willingness of businesses to adapt to the new business environment. On the other hand, 40 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.

Figure 22: Distribution of responses on businesses who have a strategic plan and internationally recognized certificate

7. Overall Rating for The Economic Environment

The respondents were also asked to rate the overall economic environment for 2022 as good, satisfactory or bad. As shown in the figure below, the business environment in 2022 was not conducive for majority of the businesses. The results show that 60 percent of the enterprises which were interviewed rated it as bad, 39 percent rated it as satisfactory and only 1 percent rated it as good.

Figure 23: overall rating of the economic environment



8. Summary of Key Observations and Recommendations

Overall, the business operating environment in 2022 was largely suppressed owing to imported supply disruption caused by the Russia-Ukraine war and unfavorable agricultural weather conditions including tropical Storms and cyclones. Flooding from Cyclone Ana caused loss of lives, damaged cropland and destruction of Kapichira Hydro Power Station. These shocks had a huge negative impact on the business environment. In the year 2021, Malawi's economy registered GDP growth rate of 2.8 percent while in 2022, it is estimated to have grown by 1.7 percent.

The downturn is mainly a result of unfavorable weather conditions during the 2021/22 season, which translated into relatively low agricultural production; intermittent electricity power supply resulting from the damage to the power generation infrastructure caused by the tropical cyclones at the beginning of the year 2022; fuel scarcity; low supply of foreign exchange which affected importation of intermediate goods; and the impact of the Russia Ukraine which manifested through high commodity prices.

The economy was seriously weakened by a series of external shocks and severe macro-fiscal imbalances that impacted growth and performance of businesses. As the macroeconomic crisis worsens, the need to move toward greater economic stability becomes increasingly urgent.

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 help the country develop the private sector to be able to generate more revenue for the country. The report therefore advances the following specific recommendations:

1. SPEED UP OF REHABILITATION OF KAPICHIRA DAM AND OTHER ENERGY PROJECTS

Electricity supply has been one of the major challenges for businesses, both small enterprises and large enterprises, in the past years. The incessant power blackouts suffocate business operations as players are forced to incur extra costs to run generators during the outage periods. Such situations reduce production capacities for many players in the industrial sector as generators cannot run some machines to full capacity. Electricity demand for Malawi in 2022 was estimated at 618MW. Installed capacity sits at 528MW (hydro plus solar) against available capacity of 355MW and operating capacity of 285MW. There is a need for the government to speed up rehabilitation of Kapichira Dam to bring back the 129 MW which was lost on top of the already limited supply and finalizing other energy projects. The country sees the manufacturing sector as a hope to revenue generation but the sector cannot develop with insufficient supply of electricity. Malawi Business Climate survey for 2022 has clearly shown how the manufacturing sector has been negatively impacted by the meagre supply of electricity.

2. BUILDING THE LOCAL PRODUCTION BASE FOR EXPORTS

Malawi's balance of payment crisis became more acute over the course of 2022, with foreign exchange widely unavailable. Scarcity of foreign exchange created compounding challenges in the local manufacturing industry due to the sector's reliance on imports. Most industry players and a significant portion of small medium enterprises (SMEs) import their raw materials and products from other countries. Industry players struggled to import key raw materials due to the worsening shortage of foreign exchange which forced some firms to suspend manufacturing and packaging activities. Scarcity of foreign currency is a result of negative trade imbalances. Ensuring that sectors like manufacturing have ideal taxes, electricity supply and conducive environment for manufacturing can help close the trade imbalance and ensure that the country generates enough foreign exchange.

On the other hand, Government and the private sector should jointly work together in taking advantage of export deals that exist with other countries. We should aim at maximizing revenue by taking full advantage of existing export deals with other countries like South Sudan, India, AGOA and others. In order to achieve this, agricultural production needs to be substantially increased in order to fulfil both domestic and export demand. This will only be possible through agricultural Commercialization and mega farms. Government and the private sector should accelerate the efforts of establishing such farms.

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

Government should also focus on import substitution. This should mainly target products which are already manufactured or can be produced in the country. It will help protect the growth of local industry as well as reduce demand for foreign exchange. Government should therefore Incentivize local production of fertilizers and cooking oil to reduce imports, disincentivize importation of vegetables to encourage local production and develop a medium term (say 5 year) strategy for developing the textile and garment industry, and move towards banning of importation of secondhand clothes, which rank among the top ten imports as well. In additional to that, the government should procure goods and services from local industry where possible. This will help protect the growth of the domestic industry as well as reduce forex outflows and increase forex inflow.

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.

4. PROMOTING SELF RELIANCE

For the past 5 years the global economy has not been stable, first it was the Covid-19 induced recession in 2020 and then the disruption of the global supply chain due to the Russian-Ukraine war in 2022. Despite living in a globalized world, the government should strive to build an economy that will withstand and adapt to global economic shocks. This can easily be achieved by growing the domestic production base to boost its responsiveness toward supply and demand adjustments. This can be achievable through increased investment in research and development, skills development, technology and infrastructure investment and investment to have a healthier labor force.

5. DEALING WITH LOGISTICAL CHALLENGES.

Malawi being a land linked country is facing a lot of logistical impediments both within the country and in neighboring countries. These problems include, unsettling process of clearing goods at the borders, poor infrastructure and higher transportation costs. This has contributed to higher cost of production. Malawi has a high ratio of transportation costs estimated at 55 percent of the cost of landed goods compared to an average of 20 percent in sub-Saharan regions.

On logistic challenges, MCCCI commends the government for setting up one-stop border post at Mchinji and Dedza Border posts, this is a great move towards facilitating trade for businesses. Government should however extend this intervention to other borders at Songwe and Mloza where construction is yet to start and speed up construction at Mwaza Border. Another intervention with the potential of improving business processes is the national single window whose implementation needs to be fast-tracked. In addition to that, efforts ought to be made to allow Malawi Bureau of Standards (MBS) expand the areas of certification that are recognised internationally. All these interventions would help trade processes to be faster and less costly.

On transport infrastructure, there is a need to improve existing road networks which are in bad shape. In addition, government should put in more efforts to rejuvenate the rail and water modes of transportation. The private sector should also take interest in utilisation of the rail system which is underutilised at the moment.

6. REVIEWS OF TAX REGIME

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 more especially the manufacturing sector which is the potential sector for revenue generation.

THE MALAWI CONFEDERATION OF CHAMBERS OF COMMERCE & INDUSTRY

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