



REPUBLIC OF MALAWI

Standard Bank Moving Forward™

INTRODUCING

COUNTRY PROFILE – FACTS AND FINDINGS



Location: The Republic of Malawi is located in south-east Africa. It shares its borders with Zambia to the north-west, Tanzania to the north-east and Mozambique on the east, south and west. The capital city of Malawi is Lilongwe. Malawi is home to Lake Malawi, which it shares with Tanzania and Mozambique. The lake provides an abundance of fish.

Chambers/Associations:

- The Malawi Confederation of Chambers of Commerce and Industry (MCCCI) is a partnership of enterprises and associations which represent all sectors of the Malawian economy.
- Malawi is a member of the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). Malawi is a signatory to the COMESA Customs Union and the SADC Free Trade Area.

PESTEL ANALYSIS

INTERNATIONAL TRADE

Top five export locations	Top five import locations
1. Belgium (11.20%)	1. South Africa (18.75%)
2. South Africa (7.57%)	2. India (11.94%)
3. Zimbabwe (6.31%)	3. Mozambique (11.78%)
4. Mozambique (5.12%)	4. China (9.72%)
5. United Arab Emirates (5.03%)	5. United Arab Emirates (5.46%)

Top five exported goods	Top five imported goods
1. Tobacco and manufactured tobacco substitutes (45.54%)	1. Mineral fuels, oils, distillation products (13.54%)
2. Sugars and sugar confectionery (8.93%)	2. Machinery (10.04%)
3. Machinery, nuclear reactors, boilers (8.29%)	3. Pharmaceutical products (8.83%)
4. Coffee, tea, mate and spices (5.90%)	4. Fertilizers (7.52%)
5. Oil seed, oleagic fruits, grain, seed and fruit (5.27%)	5. Vehicles other than railway (5.79%)

Source: National Statistical Office of Malawi and UN COMTRADE statistics

MALAWI'S OPENNESS TO FOREIGN DIRECT INVESTMENT

- The government of Malawi encourages both domestic and foreign direct investment (FDI) in agriculture, mining, tourism, energy and transport infrastructure. There are no restrictions on ownership, size of investment, sources of funds or where the final product goes to.
- All trade regulations apply equally to foreign and domestic investors. Both foreign and domestic investors have access to Malawi's legal system, which is generally unbiased.
- Malawi does not discriminate against foreign investors. However, there are a number of administrative processes that investors have to follow. These may include licensing and land use permissions, which can be time consuming

and could hamper investment. Little has been done to simplify the process in order to attract more investment.

- FDI needs to be registered with the Malawi Investment and Trade Centre (MITC). The investment capital must be registered with the Reserve Bank of Malawi.
- The regulations of the Malawi Stock Exchange set certain limits to participation. An individual foreign portfolio investor may invest a maximum of 10% of any class or category of security under the privatisation of state-owned enterprises programme. The maximum total foreign investment in any portfolio is 49%.
- Relations with South Africa are strained. This follows the tightening of South Africa's stance on migrant workers, most of whom are Malawian.

SOUTH AFRICA IN MALAWI

- Metropolitan Health Limited, Illovo Sugar Malawi Limited, Get Bucks, MacSteel, Shoprite, Game, Pep Stores, Nedbank, InterCape buses and South African Airways all have a presence in Malawi. South African construction companies have also been involved in the construction of a Malawi mall. Following the xenophobic attacks in South Africa against Malawians in April, Malawi's Consumer Association of Retailers has been boycotting Game, Pep Stores and Shoprite. This has dented the local investment climate.

POLITICAL

- Malawi has a democratic multi-party government. Its legal system is based on English Common Law, and its constitution was put in place in 1995.
- Malawi has an independent judiciary. There is little government interference in the court system. The court system in Malawi accepts and enforces foreign court judgments that are registered in accordance with established legal procedure.
- Malawi is a member of the International Centre for Settlement of Investment Disputes. It accepts binding international arbitration of investment disputes between foreign investors and the state.
- President Peter Mutharika succeeded Joyce Banda in May 2014.
- The leading party is the Democratic Progressive Party.
- Political stability is fragile, mostly for two reasons. The first is increasing living costs. The second is the eruption of a large government corruption scandal in 2013. The corruption scandal led donors to suspend their donations

to the country, which has resulted in pressure on public service delivery.

ECONOMIC

- Malawi's economy relies heavily on tobacco for exports and generating foreign exchange inflow. There is also a heavy reliance on tea, sugar and coffee which, together with tobacco, make up close to 90% of the country's total exports.
- Malawi's strong reliance on tobacco has hurt its economy as world prices have been declining and the international community has been pushing harder for tobacco production to be limited.
- Economic diversification will be slow, with Malawi being vulnerable to external shocks. Real GDP growth is forecasted at 3.8% in 2015. Floods have affected agricultural output, and the suspension of donor support has weighed heavily on investment growth. Growth will increase to an annual average of 5.1% in 2016 as investment levels pick up.
- Inflation is forecasted at 22.2% in 2015. This is due to the impact of low global food and oil prices being offset by a weak harvest and currency depreciation. Inflation will gradually stabilise thereafter as domestic food availability normalises.
- A lower international oil price brought relief to the country, as Malawi is an oil-importing country.
- Malawi was approved for relief under the heavily indebted poor countries (HIPC) programme in 2006. The HIPC programme is a joint IMF and World Bank initiative designed to ensure that no poor country faces a debt burden that it cannot manage.
- The Malawian economy is heavily dependent on assistance from the International Monetary Fund, the World Bank and



individual donor nations. These donations make up close to 40% of Malawi's GDP.

- The financial inflows of Malawi have suffered due to a "cash-gate" corruption scandal. This scandal involved civil servants, business people and members of parliament defrauding the state. The initial review conducted for April to September 2013 found that US\$32 million had been defrauded from the state. This cast a huge shadow over Malawi.
- The African Development Bank, the IMF, several European countries and the United States indefinitely froze \$150 million in direct budgetary support in response to the cash-gate corruption scandal, citing a lack of trust in the government's financial management system and civil service. Aid will be continued once it has been made clear that the funds are not being misused.
- The aid freeze has forced the Malawian government to continue to seek external support from non-traditional partners, including China and India.
- The IMF approved the release of US\$18.1 million in March 2015 under the Extended Credit Facility. This brings the total disbursement under this arrangement to US\$90.3 million so far, out of the total US\$144.4 million approved in July 2012. The IMF's decision to release the funds is welcomed by the country, as the IMF's support is a step towards resuming international budgetary support following the cash-gate scandal.
- The country has suffered various setbacks. These include a shortage of foreign exchange, affecting the country's ability to pay for imported goods, and fuel shortages which are hindering transportation and productivity.
- Currency: Malawian Kwacha (MK)
 - MK588.36: US\$1 (19 November 2015)
 - MK41.59: R1 (19 November 2015)

ECONOMIC GROWTH: CURRENT VS OUTLOOK

Economic growth (%)						
	2014	2015 ^(f)	2016 ^(f)	2017 ^(f)	2018 ^(f)	2019 ^(f)
Economic Intelligence Unit (EIU) ⁽¹⁾	5.7	3.8	5.1	5.4	5.7	5.5
– Agriculture	6.1	2.1	4.8	5.0	5.5	5.4
– Industry	4.8	3.7	4.8	6.5	6.6	5.9
– Services	5.7	4.8	5.1	5.2	5.5	5.7
Inflation (%)						
EIU (Year-on-year average)	24.4	22.2	19.9	12.0	10.3	9.1

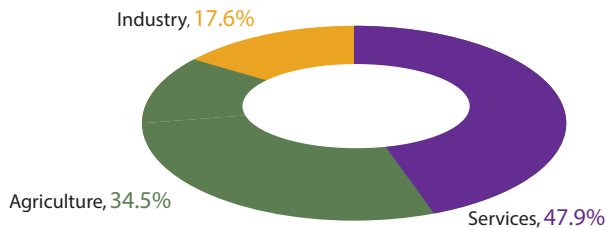
^(f)Forecasted

Sources: ⁽¹⁾EIU: Country Report Malawi, 9 November 2015

THE STRUCTURE OF THE ECONOMY:

- Malawi's economic structure is dominated by agricultural activities. However, the services sector contributes more towards GDP.
- **Agriculture**
 - Malawi is greatly dependent on its agricultural sector to sustain the economy. This means it is vulnerable to extreme weather changes such as the floods that recently affected the country. Damage to the agricultural sector leads to a rise in food imports, which adds further pressure to the country's current account.
 - Tobacco production decreased by 33.8% in 2015 due to weather-related challenges as well as lower prices.
 - Malawi's agricultural products also include sugarcane, cotton, tea, corn, potatoes, cassava (tapioca), sorghum, pulses, groundnuts, Macadamia nuts, and cattle and goats.
 - The sector is expected to grow by 5.2% in 2015. If agriculture does not achieve growth forecasts, it will have a spillover effect on the manufacturing and wholesale retail and trade sectors whose performance is linked to agriculture. Growth is forecasted at 5.9% for 2016 on the assumption that weather conditions will be more favourable.

SECTOR CONTRIBUTION TO GDP



Source: KPMG: Malawi Economic Snapshot, Quarter 2 2015

- The **industrial sector** has the most potential in the Malawian economy.
- **Manufacturing** is expected to grow by 6% in 2015 and 7.1% in 2016. This is due to increased export demand for processed tea and sugar following the drought experienced in Brazil.
- The **construction** sector is expected to grow by 4.7% in 2016 as the government is committed to investing in road infrastructure. Further growth will be driven by major construction works such as the national football stadium and housing projects in Lilongwe.
 - Other construction projects include a cement production plant and the Blantyre-Zomba road reconstruction project, Chikhwaka-Balaka railway line, Eastern Africa Submarine Cable System, Shire-Zambezi waterway, Kasungu water supply scheme, Lilongwe dam project, Malawi National Water Development programme, Nacala railway corridor project, Nacala road corridor development and Zalewa coal-fired power plant project.
 - The development of the Nacala transport corridor with Mozambique (road and rail) is expected to reduce transport costs significantly. It will also improve Malawi's connectivity to regional and global markets.
- The **mining** sector has been dominated by uranium production. However, production at Malawi's only uranium mine, Kayelekera, was suspended in February 2014 after low uranium global prices had the mine operating at a continual loss. The initial findings of a feasibility study commissioned by Paladin Energy Limited have revealed that the mine remains a valuable strategic asset and that production can be resumed quickly when justified by a higher uranium price. Malawi also has deposits of coal, limestone, bauxite and hydropower. The government of Malawi is in the process of introducing a new minerals act, which has resulted in the

halting of all applications for mining and exploration.

- New projects such as the Kanyika Niobum Project will boost growth in the mining sector. It is expected that mineral exploration will increase pending the release of the results of the countrywide Geo-Physical Airborne Survey. Growth for 2016 is expected to be 3.2%.

- **Electricity, gas and water**

- The utilities sector is expected to grow by 3.6% in 2015 from a growth rate of 3.4% in 2014. This follows plans by the Electricity Supply Corporation of Malawi (ESCOM) to continue rehabilitating and modernising its infrastructure and to increase its capacity generation from 290MW to 439MW. The floods at the beginning of the year resulted in lower growth forecasts as they damaged power stations. The water sub-sector is anticipating fewer losses and an increase in water supply through the increased investment in the sub-sector. Water boards are investing in the construction, extension and rehabilitation of a number of water supply schemes through the National Water Development programme. The sector is expected to grow by 6% in 2016. This growth will come from the improvement in electricity supply and the completion of the refurbishment of generators and transmission lines.
- Hydroelectric plants generate 99% of electricity in the country. There have been problems with hydroelectricity due to climate change and low water levels. The Ministry of Natural Resources, Energy and Environment revealed that 15 companies are interested in investing in the generation of solar power in the country. There are opportunities to pursue alternative sources of power such as solar, coal and wind energy.
- The Kapichira II hydropower project added 64 MW to the existing power generation capacity in 2014. This relieved the pressure on power supply somewhat.

- **Transportation and storage services**

- As a landlocked country, Malawi faces high transport costs. This is worsened by delays in transit and the clearance of goods at the border. Such constraints limit Malawi's competitiveness with other countries.
- The transportation and storage services sector is estimated to grow by 6.3% in 2015, compared to the 5.4% growth rate that was registered in 2014. The expected growth is based on anticipated improvements in air transportation with the coming of Malawian Airlines as well as a reduction in fuel prices and the completion of the Nacala corridor railway project.
- In contrast, the sector is also expected to be adversely affected by challenges in road infrastructure and agriculture. The road infrastructure was badly damaged by the floods, and lower agricultural output means there will be less demand for transport and storage services. The sector is expected to grow by 5.1% in 2016.

- **The services sector**

- Important services sub-sectors include government services, information and communication technology, finance and insurance, accommodation and food, and wholesale and retail trade.
- This sector is expected to show good growth. There has been strong expansion in the information and communication technology sub-sector, and the financial and insurance sub-sector has also performed well.

- **Information and communication technology**

- Growth in this sector has been helped along by the rollout of new television stations and increased telecommunications and internet services in the country. The sector is projected to grow by 5.9% as internet service providers seek to grow their customer base and mobile phone operators seek to increase sales of units

and internet subscriptions, and expand new services such as mobile banking. Mobile phone operators continue to make major investments in infrastructure to support their services

- **Finance and insurance services**

- The sector is expected to grow by 6.7% in 2016 compared to 3.3% in 2014. The sector benefits from high interest rates. The major challenge facing the sector is non-performing loans. The growth in the medium term is expected to be driven by more people being included in the financial services sector. This is due mainly to the introduction of new technologies such as mobile banking.

- **Accommodation and food services**

- The hospitality sector is estimated to grow by 3.1% in 2015 from the 6% growth registered in 2014. The 2014 growth rate was much higher due to the elections, which led to an increase in the demand for accommodation and related services by local politicians and foreign observers monitoring the elections on behalf of international organisations. The growth rate in 2015 is estimated to be modest as the government is spending less on travel and conferences, which are a major source of revenue for most hotels. The sector is estimated to grow by 4.9% in 2016 with the opening of the five star Umodzi Park Resorts next to Bingi International Conference Centre.

- **Wholesale and retail trade**

- The wholesale and retail trade sector is estimated to grow by 5.3% in 2015 compared to 5.7% in 2014. The lower growth is due to less growth in the agricultural sector, as the performance of the two sectors is linked. In 2016, growth is expected to increase to 7.7% as most companies' revenues and performance should continue to grow.

SOCIAL

- Population: 16 829 144
- Main languages: Chichewa, English, Chitumbuka, Chiyao, Chinyanja and Chilomwe
- Malawi is one of the most culturally diverse communities in Africa, with several ethnic and racial groups living together peacefully. Only a small percentage of Malawians speak and understand English.
- Religions: 82.6% Christian, 13% Muslim and 4.4% other
- Most the population live as subsistence farmers in rural areas, where they grow crops and rear animals to feed themselves and their families.
- Poverty is still widespread. More than 50% of the population live below the poverty line.
- Social challenges include the need to improve educational facilities and deal with the rapidly growing problem of HIV/AIDS.
- The government established free primary school education for all children in 1994. This increased attendance rates. Secondary school is not free, though. More males than females are educated.

TECHNOLOGY

- The mobile penetration rate is very low – 30.5% in 2014. The market has a high potential for further development.
- There are limited fixed line subscriptions. Mobile cellular services are expanding, but network coverage is limited and concentrated mainly in urban areas.
- There are plans to roll out new television stations and to increase internet services throughout the country. Mobile phone operators are investing in infrastructure to improve their network coverage.

ENVIRONMENT

- The country is prone to natural disasters such as flooding and droughts. Recent floods limited tobacco production, so less foreign exchange revenue was earned from exports.
- Malawi's rate of deforestation is high, as wood is used for energy. Environmental degradation is linked to poverty, high population growth, limited alternative sources of livelihood and not enough other affordable and reliable energy sources. Other forms of environmental degradation include the loss of soil fertility, soil erosion, water depletion and loss of biodiversity.
- The government has developed policies, strategies and programmes to better manage its natural resources. If Malawi is to achieve sustainable development, it will have to start using its natural resources in a more sustainable manner.

OPPORTUNITIES FOR DOING BUSINESS

- Malawi is developing regional transport corridors in collaboration with neighbouring countries. It is also implementing regional programmes to harmonise trade regimes and transit procedures.
- The government is implementing measures to make it easier to trade with the country. This includes the establishment of one-stop border posts and a national single window. The single window aims to cut the cost and time of trade transactions by simplifying and harmonising the documents involved.
- The higher projected growth in the wholesale retail and trade, financial and insurance, and manufacturing sectors presents opportunities for companies that want to enter the Malawian market.

OPERATIONAL RISKS/ BARRIERS TO DOING BUSINESS

The growth and development across Africa has attracted foreign investment and many multi-national companies to the continent. Yet there are many risks associated with doing business or operating in African countries.

The following are some of the potential risks facing investors operating in Malawi:

- Malawi has a low ranking in the World Bank's doing business report. The main bottlenecks to private sector development include weak infrastructural services, limited access to finance, lack of skilled labour, lengthy procedures, and weak trade facilitation. The business environment has also been affected by high inflation and excessive lending rates.
- Barriers to investment include unreliable power, water shortages, transportation costs, poor telecommunications infrastructure, difficulty in accessing foreign exchange, government market interventions and the high cost of services.
- Many businesses have complained that there is not enough foreign exchange to pay for the importation of raw materials. This is causing such businesses to operate below their capacity. Foreign exchange follows the agricultural cycle – it is plentiful from April up to September (when tobacco sales generate foreign exchange inflows) and scarce from October up to March. During periods of scarcity, investors may not have enough access to foreign exchange. The shortage of foreign exchange reached crisis levels in 2011 and created shortages of medicines and fuel.
- Expatriate employees who live and work in Malawi have to have temporary employment permits, which are sometimes difficult to get. Investors may employ expatriate employees in areas where there is a shortage of suitable

and qualified Malawians. Foreign nationals who own or operate businesses in Malawi must have business residence permits. The permits are issued for five-year periods and are renewable.

- There are some restrictions to land ownership by foreigners. Sale of land to foreigners is approved only after no Malawian has shown interest to match the price offered by the foreigner. However, this rule does not apply to land acquired as part of a business establishment. In principle, public enterprises compete on an equal footing with private entities when it comes to access to markets, credit and other business operations.

SOURCES:

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