2009 FOREIGN PRIVATE CAPITAL AND INVESTOR PERCEPTIONS SURVEY REPORT

MALAWI

NATIONAL STATISTICAL OFFICE

RESERVE BANK OF MALAWI

MALAWI INVESTMENT PROMOTION AGENCY

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PREFACE

The 2009 Foreign Private Capital (FPC) and Investor Perceptions (IPs) Survey was conducted between June and August 2009 and collected data for the years 2007 and 2008.

The National Statistical Office (NSO) collaborated with the following institutions in administering the survey: Reserve Bank of Malawi (RBM), Malawi Investment Promotion Agency (MIPA), Ministry of Finance (MoF), Ministry of Development Planning and Cooperation (MDPC) and Ministry of Industry and Trade (MoIT).

The report shows that Malawi registered persistent increase in the stock of foreign liabilities since 2003. The largest share of foreign liabilities has been in form of FDI which is long-term in nature. This suggests investors' confidence in the economy.

The economy recorded a robust performance in 2008 with total stocks of foreign liabilities more than doubling to US$2,887.0 million compared to US$1,319.5 million in 2007, implying that the economy was not affected by the first round of the Global Financial Crisis. The largest component of these liability stocks as at end of 2008 was in form of Foreign Direct Investment (FDI) which accounted for 89.5 percent.

Regarding the assessment of Investors Perceptions (IPs), which were based on a number of factors that affected their operations, the main objective was to evaluate the investment environment. This is instrumental in government's strategy of reducing poverty and increasing economic growth.

The report therefore offers some useful insights into how government policies and institutions that affect the investment environment were perceived at the time of the survey. International investors as well as other development partners are also provided with insights into the investment environment, potential mediums of investment as well as profitability levels on all forms of Foreign Assets and Liabilities (FAL).

Charles Machinjili

Commissioner of Statistics

ACKNOWLEDGEMENTS

On behalf of stakeholder institutions, NSO is highly appreciative of the dedication of staff comprising the Balance of Payments Committee (BOPC) for successfully carrying out the survey and producing this report. Their contribution was immeasurable and is duly recognized.

NSO also wishes to record gratitude to the Government of Malawi and Macro-Economic and Financial Management Institute of Eastern and Southern Africa (MEFMI) for providing funds for the survey. The technical advice provided by MEFMI, Development Finance International (DFI), and staff from other Statistical Institutions and Central Banks in other countries is acknowledged.

Most importantly, special thanks are extended to the respondents who had a commitment to duty through provision of the requested data but also suggested some areas of improvement for the next cycle. Without their input, the economy would not have been able to make an assessment of not only the magnitude of FPC and their perceptions regarding the domestic investment climate but also trends in foreign investment in Malawi as well as domestic investment abroad. Our hope is that, on the basis of the same understanding, we will continue to cooperate in similar activities in future.

Lizzie Chikoti

Survey Coordinator

LIST OF ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
BOP	Balance of Payments
BOPC	Balance of Payments Committee
BPM5	Balance of Payments Manual, 5th Edition
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
DFI	Development Finance International
FAL	Foreign Assets and/or Liabilities
FDEA	Foreign Direct Equity Assets
FDEI	Foreign Direct Equity Investment
FDI	Foreign Direct Investment
FPC	Foreign Private Capital
FPEI	Foreign Portfolio Equity Investment
FPI	Foreign Portfolio Investment
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GFC	Global Economic and Financial Crisis
HIV	Human Immuno-Deficiency Virus
IIP	International Investment Position
IMF	International Monetary Fund
IPs	Investor Perceptions
ISIC	International Standard for Industrial Classification
IT	Information Technology
LDCs	Least Developed Countries
M&A	Mergers and Acquisitions
MEFMI	Macro-Economic and Financial Management Institute of Eastern and Southern Africa
MDPC	Ministry of Development Planning and Cooperation
MEPC	Malawi Export Promotion Council
MIPA	Malawi Investment Promotion Agency
MITC	Malawi Investment and Trade Centre
MOF	Ministry of Finance
MoIT	Ministry of Industry and Trade
MRA	Malawi Revenue Authority
MV	Market Value
NA	National Accounts
NSO	National Statistical Office

OECD	Organization for Economic Co-operation and Development
OI	Other Investment
PCMS	Private Capital Monitoring System
PI	Portfolio Investment
PSED	Private Sector External Debt
RBM	Reserve Bank of Malawi
ROE	Return on Equity
SADC	Southern Africa Development Community
TNCs	Transnational Corporations
TV	Television
USA	United States of America
US$	United States Dollar

EXECUTIVE SUMMARY

This report presents findings of the 2009 Survey of Foreign Private Capital (FPC) and Investor Perceptions (IPs) conducted between 8th June and 28th August 2009. It was a fourth cycle covering stock data for 2007 and 2008 and transaction data for 2008. The survey was jointly conducted by National Statistical Office (NSO), Reserve Bank of Malawi (RBM), Malawi Investment Promotion Agency (MIPA), Ministry of Finance (MoF), Ministry of Development Planning and Cooperation (MDPC), and the Ministry of Industry and Trade (MoIT).

Survey Findings:

This survey recorded a highest response rate of 91.3 percent compared to any of the previous three cycles, mainly attributable to a more simplified questionnaire and increased cooperation from respondents. The response rate originates from 149 enterprises to which questionnaires were administered.

It is pertinent to note that whereas the majority of resident enterprises contracted both long- and short-term liabilities with the rest of the world during the period under review, some of them also extended similar investments to non-resident enterprises.

Malawi recorded a robust performance in 2008 with total stocks of liabilities doubling to US$2,887.0 million compared to US$1,319.5 million in 2007, implying that that the economy was not affected by the first round of the Global Financial Crisis. As at end 2008, the largest proportion of foreign liabilities was in form of Foreign Direct Investment (FDI) accounting for 89.5 percent. The remaining components which are other investment and portfolio investment accounted for 10.4 percent and 0.2 percent, respectively.

Manufacturing accounted for the largest share over the two years with an average of 47.9 percent of the total in 2008, followed by construction and agriculture with averages of 13.5 percent and 12.9 percent, respectively.

The survey findings showed that Southern Africa Development Community (SADC) was the leading source of foreign private investments in Malawi with 60.6 percent (US$893.0 million) of the total stock in 2007 followed by the Organization for Economic Co-operation and Development (OECD) with 23.5 percent (US$310.5). On a country basis, the largest stock of these investments were from Mauritius, South Africa and United Kingdom, each on average accounting for 35.2 percent, 18.0 percent and 16.8 percent, respectively during the period under review. Within the MEFMI region, Kenya, Zimbabwe and Tanzania also made considerable investment in the country.

The southern region continued to be the largest recipient of foreign investment stocks during 2007 and 2008, with an average of 82.2 percent of the total stock.

The net flows of FDI during 2008 surged to US$8.7 million compared to US$0.2 million in 2007, mainly driven by equity liabilities. During the same period, the non-equity liabilities posted a negative net inflow of US$95.7 million compared to US$0.2 million on account of short-terms loans. In 2008, these were concentrated in the construction, information and communication, and wholesale and retail trade sectors.

The total stock of Private Sector External Debt (PSED) as at end 2008 stood at US$607.5 million, having increased from US$1.8 million in 2007, mainly driven by short-term loans in form of trade/suppliers credits.

On the whole, return on equity (ROE) for 2008 was 30.5 percent with information and communication, and financial and insurance services sectors registering the highest return on equity of 55.3 percent and 44.8 percent, respectively. The survey further revealed that total dividends paid during 2008 amounted to US$43.5 million. Manufacturing, wholesale and retail trade, and agriculture accounted for 64.8 percent, 13.3 percent and 10.5 percent, respectively.

Malawi’s claims on the rest of the world stood at US$0.24 million at end 2007, which increased substantially to US$28.9 million at end 2008. In 2007, most of the assets were in form of FDI which accounted for 54.2 percent followed by portfolio investment at 30.1 percent. Net flows amounting to US$26.4 million were recorded in 2008 and were largely constituted by supplier credits to affiliated enterprises in the rest of the world accounting for about 95.0 percent. While the total stock of foreign assets were concentrated in the manufacturing and professional, scientific and technical services in 2007, it was predominated by construction and wholesale and retail trade services in 2008. The major investment destinations of Malawian private investors were South Africa and Tanzania accounting for about 50.0 percent of the total stock of Malawi’s foreign assets in 2008.

Results from investor perceptions revealed that the majority of companies indicated the domestic environment as a key determining factor that initially led them to invest in Malawi. In particular, the stability of the domestic political and economic environment as well as the domestic market size were the main factors. About 75.0 percent of the respondents indicated that the negative effects of the Global Economic and Financial Crisis (GFC) that started affecting the Global Economy from 2007 also affected the domestic economy.

Respondents expressed intentions to expand their investments in turnover accounted for (85.0 percent), staff training (75.0 percent), technology (72.0 percent) and diversification of products and services (60.0 percent). In terms of investment and trade factors (assessed by considering investment policy and incentives, trade policy, informal trade and import competition), it was observed that business operations were negatively affected by informal trade and import competition. Effects of economic and fiscal factors presented a general negative picture with the availability of foreign exchange having a very strong negative effect on business operations. The fluctuation of the exchange rate, exchange controls and the corporate tax burden also had negative effects.

The analysis revealed that the Regional and domestic political environment had a positive effect on business operations. On the other hand, the level of corruption and bureaucracy/regulatory framework/state intervention were seen to have a negative effect on business operations.

With regard to cost, telecommunications was rated as having a relatively high negative effect on business operations, followed by road transport, air transport, electricity supply, banking and insurance, and water supply. The inefficiency of electricity and water supply highly negatively affected business operations as well as railway transport, telecommunications, air and road transport.

Investors revealed a positive effect on business operations with respect to availability of labour in all categories (i.e. management, technical, semi-skilled and casual). A similar positive effect was evident with respect to cost and productivity. However, labour turnover, legislation and restrictions regarding bringing in expatriates had a negative effect.

Respondents identified HIV/AIDS and malaria as the most significant environmental and health factors negatively affecting their business operations. However, environmental legislation and controls, and availability of health care services depicted some positive effect on business operations. Concerning usefulness of information sources, investors relied mostly on internet, actions of competitors, business partners and the national media as key sources of information for investment decision making.

The total amount spent by investors on Corporate Social Responsibility (CSR) in 2008 was US$14.6 million up from US$12.0 million recorded in 2007 of which about 70.0 percent went into health, education and infrastructure sectors.

Policy Implications and Recommendations:

Historically, high concentration of FDI has been in the Southern region compared to the Central and Northern regions, largely attributable to resource endowments as well as better developed infrastructure. This calls for government to formulate deliberate policies to attract more investment in the other regions particularly the northern region.

Like in the previous surveys, findings from this survey showed that the source of FDI in Malawi continues to be highly concentrated from only three countries namely Mauritius, South Africa and United Kingdom accounting for about 58.4 percent of FDI in 2008. This is not healthy for the economy as it is exposed to risks should any of these countries face economic crisis. There is, therefore, a need for the government in collaboration with the investment promotion authority to intensify its promotional efforts to more countries in a more diversified manner in order to minimize such risks.

During the period under review, the stock of other investment posted a remarkable increase from US$1.2 million in 2007 to US$298.9 million in 2008, mainly dominated by trade credits. This pattern of other investment is partly due to scarcity of foreign currency amid increasing investment activities since debtors were not able to pay upfront. Government should create a conducive environment for private enterprises to diversify into sectors that generate more foreign exchange.

The effects of market size indicated that business operations were positively affected. This could be attributed to the various Regional and international trade arrangements that Malawi has with Common Market for Eastern and Southern Africa (COMESA), SADC and other countries in Europe, Asia, and the Americas.

In terms of investment and trade, it was observed that business operations were negatively affected by informal trade and import competition. There is therefore need for strengthening the country's borders to combat illegal cross-border trade and improve the quality of local products to make them competitive with imported products. Government efforts with respect to investment policy and incentives and the trade policy are also seen to be impacting positively on business operations in the country. This is a clear signal of the need for Government to continue efforts aimed at improving the investment and trade environment.

Effects of economic and fiscal factors presented a general negative outlook with the availability of foreign exchange having a very strong negative effect on business operations. The fluctuation of the exchange rate, exchange controls and the corporate tax burden also had negative effects. While interest rates, inflation, and availability of international credit were seen not to have a significant effect on business operations, there is need to effect policies in the banking system that would increase availability of capital to businesses.

Surveys on FPC in Malawi have shown that foreign private investment in Malawi is much more profitable than Malawi's private investment into the rest of the world. This is in tandem with low magnitudes of foreign private assets as this survey has revealed. The results suggest that investment incentives may be more favourable to foreign investors compared to domestic investors. There is therefore need to promote domestic investment abroad alongside foreign investment in Malawi.

In conclusion, the huge increase in PSED most of which is short-term in nature calls for a need to carry out another survey for 2011 with a view to capture the current position.

CHAPTER 1

Introduction

1.1 Global and Regional Perspective

The global economy expanded successively for four years up to 2007 as Gross Domestic Product (GDP) rose to an average of 5.0 percent, owing to a broad-based surge in the emerging and developing economies (World Economic Reports). However, the global economy slowed down markedly to 0.2 percent in 2008 following shocks in the mature financial markets. During 2009, the global economy entered into a severe recession owing to massive financial crisis and acute loss of confidence. Hence, output contracted by 0.6 percent in 2009. Advanced economies were the hardest hit, with output growth declining to 1.5 percent in 2008 before contracting by 3.2 percent in 2009. The world's largest economy, the United States of America (USA), failed to register growth in 2008 and contracted by 2.6 percent in 2009 compared to a solid growth of 2.0 percent in 2007. In the Euro area, economic output declined to 0.5 percent in 2008 and shrunk by 4.1 percent in 2009 in contrast to an expansion of 2.6 percent in 2007. Though growth momentum in China and India eased, GDP output remained robust at 9.6 percent and 6.4 percent in 2008 and 9.1 percent and 5.7 percent in 2009, respectively.

Recent developments indicate that economic recovery is underway and broad based though sluggish in most advanced economies and a few emerging economies. As such, global activity was forecasted to expand by 4.8 percent in 2010. Respective output growth for emerging and developing economies was projected at 7.1 percent and 6.4 percent, respectively, in 2010.

Economic growth in the Sub-Saharan region moderated to 5.5 percent in 2008 from 6.9 percent in 2007, as many of these countries were less affected by the first round effects of the financial crisis. Despite a weakening external environment, economic expansion in oil-exporting countries softened moderately with GDP growth declining to about 7.4 percent from nearly 7.9 percent in 2007, owing to a substantial improvement in the terms of trade in 2008. For oil importers, output growth marginally slowed down to 5.0 percent in 2008 from 5.3 percent in 2007. Notwithstanding this, other oil importers that did not benefit from the higher commodity prices experienced a deteriorating terms of trade, averaging 15–20 percent in 2008. In 2009, however, the second round effects had affected the region such that output grew by 2.6 percent in 2009. Nevertheless, the impact was contained by rapid implementation of countercyclical policies made possible by the policy room that many of these economies had built prior to the downturn. In the Sub-Saharan region, output growth was estimated to accelerate to 5.0 percent in 2010.

1.2 Global Trends in Foreign Direct Investment (FDI)

The global FDI grew for four consecutive years in tandem with global economic performance and reached a record high of US$1,979 billion in 2007 (World Investment reports). The growth was broad based as the advanced, emerging and the Sub-Saharan Africa economies experienced continued growth in FDI. The sustained rise in FDI in 2007 was driven by relatively high economic growth in many parts of the world coupled with expansion in cross-border mergers and acquisitions (M&A) across countries and sectors. After uninterrupted growths in FDI in the period 2003–2007, global FDI inflows fell by 16.0 percent to US$1,662 billion in 2008. This decline was, in general, a reflection of the turmoil in the financial markets and the accompanied worldwide economic downturn.

Regionally, FDI inflows into developing countries rose by 21.0 percent in 2007 to reach a new record level of US$500 billion. Inflows to Least Developed Countries (LDCs) alone reached US$13 billion, a 4.0 percent increase over the previous year. Meanwhile in Africa, FDI inflows rose to a historic high of US$53 billion in

2007. The inflows were supported by a boom in global commodity markets as well as by increased cross-border M&As in the extraction industries and related services, and the banking industry. These cases might illustrate a trend towards greater diversification of inflows in some of the LDCs, away from traditional sectors like oil and gas. Nigeria, Egypt, South Africa and Morocco were the largest recipients.

In 2008, however, the regional pattern of FDI flows varied by groups of economies. In developed countries, both FDI inflows and outflows plunged, with inflows declining by 41.8 percent to US$1,018 billion, and outflows by 17.5 percent to US$1,572 billion during 2008. The declines were registered in all three components of FDI inflows (equity, reinvested earnings and other capital flows mainly intra-company loans). In contrast, developing economies saw FDI inflows rising by 11.5 percent to record levels of US$630 billion, with their shares in global FDI inflows growing to 37.0 percent and 7.0 percent in developed and developing economies, respectively in 2008, from 27.0 percent and 5.0 percent in the previous year. It should be noted that the downturn in FDI inflows into developing and transition economies began almost one year after it had started in developed countries, reflecting the time lag associated with the initial economic downturn and consequent slump in demand in developed-country markets, which are important destinations for goods produced by developing countries.

There were declines in FDI inflows in late 2008 and early 2009, particularly in developed countries. In Africa, inflows rose to a record level of US$72.2 billion, with the fastest increase of 63.0 percent over 2007 recorded in West Africa. Sectoral analysis had shown that globally, the agriculture and extractive industries weathered the crisis relatively well, compared with business-cycle-sensitive industries such as metal manufacturing. In addition, FDI in industries such as agribusiness, services and pharmaceuticals were somewhat resilient. Overall, policy trends during 2008 were mostly favourable to FDI, both nationally and internationally. However, in some countries a more restrictive FDI approach had emerged as there was growing evidence of undisclosed protectionism.

Recent trends indicate that global FDI inflows drastically fell further by 37.0 percent to US$1,114 billion in 2009 while outflows fell some 43.0 percent to US$1,101 billion in 2009. FDI flows contracted in almost all major economies, except for a few FDI recipients such as Denmark, Germany and Luxembourg, and investment sources such as Mexico, Norway and Sweden. Both M&As and Greenfield investments declined due to reduced ability of Transnational Corporations (TNCs) to raise capital either through financial institutions, stock markets or internal resources. Nevertheless, most of the drop in FDI was due to a substantial decrease in M&As deals rather than Greenfield operations. Whilst some sectors were resilient in 2008, FDI inflows and outflows slumped in the primary, manufacturing and service sectors in 2009. FDI was, however, showing signs of recovery in 2010, sustained by a resumption of equity investment as well as increases in intra-company loans and reinvested earnings.

1.3 Malawi's Macroeconomic Performance

Malawi's economic performance had been so impressive in the past years with economic activity registering significant growths of 6.8 percent between 2005 and 2008 compared to that of 4.6 percent during the period of 2002 to 2004. Consequently, nominal per capita GDP rose from US$213.2 in 2005 to US$ 298.3 in 2008. This growth was mostly anchored by agriculture which saw tremendous growth owing to the implementation of the input subsidy program and improved macroeconomic environment. The macroeconomic fundamentals were very stable during this period as evidenced by the benign inflationary environment much owed to favourable supply side factors as well as prudent monetary policy, declining interest rates, declining domestic debt ratios and also stable external environment.

In 2009 and 2010, GDP growth slowed down relative to 2008, registering growth rates of 7.6 and 7.1 percent, respectively, as the second round effects of the global economic crisis hit the economy and due to unfavourable weather conditions that affected agricultural output in 2010. Sectors that contributed significantly to these growth rates, however, include mining and quarrying due to the onset and expansion of production of uranium at Kayerekera, construction, information and technology, and financial and insurance services. Prices, on the other hand, remained stable and registered inflation levels of 8.4 percent in 2009 and 7.4 percent in 2010. Like in the previous years, lower inflation figures have been achieved due to containment of food inflation which contributes 58.1 percent of the Consumer Price Index (CPI) basket. Lower oil prices on the international market in 2009 and 2010 eased pressure on non-food inflation.

The outlook for GDP growth in 2011 and in the medium-term depends on overcoming foreign exchange and fuel shortages which are affecting the economy. Besides reducing confidence in the economy thereby reducing investment, the twin shortages have potential to curtail production through reduction in importation of raw materials and distribution of goods.

Table 1: Selected Economic Indicators

Indicator	**2005**	**2006**	**2007**	**2008**	**2009**	**2010***
Real GDP Growth (%)	3.3	4.7	9.6	8.3	8.9	6.7
Nominal GDP per Capita (US$)	213.2	239.7	267.9	298.3	339.1	359.3
Average Exchange Rates (Kwacha/US$)	118.4	136.0	140.0	140.5	141.2	151.0
Current Account Deficit (% of GDP, Excluding Transfers)	-24.3	-21.6	-12.7	-23.6	-12.1	-16.1
Terms of Trade	0.4	6.3	24.8	30.6	10.1	-7.1
Average Headline Inflation (%)	15.4	13.9	8.0	8.7	8.4	7.4
Gross National Savings (% of GDP)	11.0	14.9	24.3	16.1	22.7	23.8
Gross Domestic Investment (% of GDP)	22.7	22.0	25.9	26.3	24.9	24.5

Source: NSO

*Note: * estimate, 151.0 is the IMF programme exchange rate*

Stable macroeconomic environment underpinned increases in savings and investment in the country between 2005 and 2010. In line with growth in GDP, gross national savings grew from 11.0 percent of GDP in 2005 to 23.8 percent of GDP in 2010. It reached a high of 24.5 percent in 2007 before declining in 2008. On the other hand, gross domestic investment increased marginally from 22.7 percent of GDP in 2005 to 24.5 percent of GDP in 2010. The faster growth in gross national savings reduced the saving investment balance from -11.7 percent of GDP in 2005 to -0.7 percent of GDP in 2010. The current account deficit remained volatile during 2005 to 2010. This was largely due to the substantial growth in imports that supported the growth in economic activity. In 2007, it registered a significant improvement to 12.7 percent of GDP from a deficit of 21.6 percent of GDP in 2006 owing to improving terms of trade. However, worsening terms of trade in 2010 to -7.1 percent from 10.1 percent in 2009 explains the widening current account deficit from 12.1 percent of GDP in 2009 to a deficit of 16.1 percent of GDP in 2010. Pressure on the current account triggered a depreciation of the Kwacha against the US dollar from K141.2 in 2009 to K151.0 in 2010.

Government policy on promoting foreign investment is focusing on improving the efficiency of all government agencies that facilitate the investment process as well as those that work towards establishing a conducive business operating environment. Of particular attention is the proposed establishment of a new institution, the Malawi Investment and Trade Centre (MITC), which will combine the functions of the national investment and export promotion institutions. Government is also undertaking targeted foreign trade and investment promotion missions to select developed and developing countries in a bid to establish international business partnerships and promote trade and investment.

The country’s overriding economic policy challenge remains establishing conditions for sustained growth and significant poverty reduction. Over the medium-term, government should endeavour to further improve the macroeconomic environment by implementing policies that enhance production of goods and services for domestic consumption and exports. Government should therefore seek to reduce the cost of doing business to foster private sector participation, ensuring enhanced and sustained supply of utilities like electricity and water, ensuring prudent fiscal and monetary policies, reforming key institutions and investing in basic infrastructure.

The rest of the report develops as follows: Chapter 2 provides the methodology used during survey implementation. Chapter 3 gives an account of main findings from the quantitative part of the survey (FAL). Chapter 4 details survey findings on the qualitative part of the survey (IPs). Chapter 5 concludes by proposing a catalogue of policy issues that arose from both the quantitative and the qualitative parts.

CHAPTER 2

Methodology

2.1 Introduction

This chapter covers the methodology used in conducting the survey of enterprises with foreign assets and liabilities in Malawi during 2007 and 2008. The main issues discussed include institutional setup, pre-survey activities, technical assistance, survey funding, and survey methods and techniques.

2.2 Institutional Set Up

This survey of enterprises with foreign assets and liabilities in Malawi was jointly conducted by six institutions namely National Statistical Office (NSO) – the lead institution, Reserve Bank of Malawi (RBM), Malawi Investment Promotion Agency (MIPA), Ministry of Finance (MoF), Ministry of Development Planning and Cooperation (MDPC), and the Ministry of Industry and Trade (MoIT). In terms of funding, the Malawi Government and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) contributed to the overall budget estimated at US$134,532. However, regarding human resource, all institutions contributed staff for undertaking survey activities which included review of survey documentation, pre-survey training, survey implementation and report writing.

2.3 Pre-Survey Activities

2.3.1 Pre-Survey Training

Before the survey commenced, a pre-survey training was organized for a week. It took place between 27th – 30th May 2009 at the Reserve Bank of Malawi Club

House in Lilongwe. The training involved representatives from all collaborating institutions, MEFMI and Development Finance International (DFI). The main objective of the training was to orient the researchers on the questionnaire to help them understand foreign private capital (FPC) concepts, learn fieldwork techniques and strategize on how to attain high response rates.

2.3.2 Sensitisation and Awareness Campaign

An awareness campaign was conducted before the launch of the survey through the print media. The main objective of the campaign was to make the public, particularly the respondents, aware of the exercise, its usefulness to the economy and requested for their cooperation. It is expected that respondents will be provided with copies of the final report during the administration of the next cycle to be conducted during 2011. This will be done as one of the feedback mechanisms.

2.4 Technical Assistance

The country received technical assistance from MEFMI in the form of a mission. The mission, conducted at the NSO offices in Lilongwe, involved technical staff from the NSO and the RBM. The technical staff are those that are involved in data input, Information Technology (IT) management, Balance of Payments (BOP) and National Accounts (NA) compilation. During the mission, discussions were held regarding the errors that had been observed after data entry and those resulting from the system. Recommendations were provided on how best to address them. The mission was also involved in data coverage, checking and verification with details provided in the subsequent sections.

2.5 Survey Methods and Techniques

2.5.1 Compilation of Enterprise Register

A comprehensive and reliable enterprise register is essential not only for facilitating sampling but also saving time and resources wasted in visiting companies that do not have foreign assets and/or liabilities. A reliable register should involve a continuous update of new and rehabilitated or expanded enterprises. It is also important to adjust for enterprises that have been closed, liquidated, under receivership, merged and/or changed business names.

In the case of Malawi, the enterprise register is usually updated during survey implementation in which case new companies are added to the initial list and closed ones removed. Updating is also done for those enterprises that have changed names, locations, line of business, mergers and/or acquisitions. There is a need, however, to ensure that the register is updated on a continuous basis.

2.5.2 Scope and Coverage of the Survey

Malawi has, at no time since the introduction of these surveys, sampled enterprises. Consequently, the survey targeted all enterprises known to have foreign assets and/or liabilities across all sectors and regions. Questionnaires were administered to a total of 149 enterprises most of which were located in the southern region (75.2%) followed by the central (21.5%) and northern (3.4%) regions. Classification of the sectors covered was based on the UN International Standards for Industrial Classifications of all economic activities (ISIC rev.3).

2.5.3 Questionnaire Design

The questionnaire consisted of four main parts namely: general information about the company, information on Malawi's foreign liabilities, Malawi's assets abroad and investor perceptions. Slight changes were made from the previous questionnaire particularly on equity to provide more details on its components at book value like paid-up share capital, capital and revaluation reserves, and retained earnings. Another notable change was made on the layout of tables not only to make the questionnaire user-friendly but also to reduce its bulkiness.

2.5.4 Survey Implementation

This survey was a fourth cycle and collected data for 2007 and 2008. It was implemented in two phases beginning with the central and northern regions followed by the southern region. A total of 17 researchers were involved in the survey. These were divided into 4 teams, each comprising a supervisor and research assistants. The role of a supervisor was to ensure that questionnaires were properly administered to respondents but also do other logistical issues.

2.5.5 Data Collection

The data collection exercise involved staff from all the collaborating institutions. Administration of the questionnaires was conducted between 8th June and 28th August 2009 and involved distribution of questionnaires (8th June - 3rd July 2009), first follow-up (13th – 31st July) and second follow-up (24th – 28th August) visits. The follow-up visits were undertaken to complete and collect questionnaires.

Face-to-face interviews were used on administration of the questionnaires. These facilitated understanding on the part of respondents about the objectives of the survey as well as how the questionnaires were supposed to be completed.

2.5.6 Response Rates

The summary of the enterprises that were surveyed and their response rates is provided in **Table 2**. The table reveals that questionnaires were administered to

149 enterprises. Of these 136 responded, representing a response rate of 91.3 percent. This is an encouraging performance compared to the previous survey which had a response rate of 63.5 percent. This improvement is attributable to a more simplified questionnaire coupled with increased cooperation from respondents mainly due to more understanding of the importance of the survey.

Table 2: Response Rates for the 2009 Survey Cycle by Region

Region	Questionnaires administered	Questionnaires returned	Response rate (%)
North	5	3	60.0
Central	32	26	81.3
South	112	107	95.5
Total	**149**	**136**	**91.3**

2.5.7 Data Coverage, Checking and Verification

Data checking and verification involved reviewing all questionnaires. Those submitted with financial statements that had been captured in the system were checked to establish whether all foreign assets and liabilities had been correctly reported. In this exercise, a total of 67 returned questionnaires which had been submitted with financial statements out of a total of 136 returned were reviewed. Checks on data coverage involved studying the financial statements to identify gaps in the responses provided to the questionnaires on FDI liabilities (equity and debt) and assets. With respect to equity, omissions of some components such as share premium and other reserves that were observed were rectified.

A number of enterprises did not report related party transactions and the corresponding amounts receivable and payable where such related parties were non-residents. These omissions were rectified and contributed towards a substantial increase in the stocks and flows of equity and other capital components of FDI.

Coverage checks were also made on account of enterprises whose financial statements provided both group and company accounts. Changes were made to questionnaires whose responses were provided for group as opposed to the company. For such enterprises, responses were replaced with information based on enterprise accounts to ensure accurate reflection of industrial sectors as group accounts in most of the cases included various enterprises engaged in different industrial sectors.

Data checking and verification was conducted to ensure accuracy of the responses provided as well as consistency among the different related parts of the survey form. Some of the company financial statements had figures in thousands and millions of kwacha and checks were made to ensure that the survey responses reflected the correct units. Checks were also made on financial statements reported in dollars to ensure that figures recorded on the questionnaire in Malawi Kwacha had been converted using appropriate end of period exchange rates for stocks and period average exchange rates for flows.

On consistency, responses were checked to ensure that data reported on accumulated retained earning under stock of FDI equity were reconcilable with data reported in the table on profits, dividends and retained earnings for the year. In addition, many of the responses did not accurately classify changes in reserves on account of volume adjustments and revaluations as other changes but rather as transactions. Responses on the questionnaire were also revised to ensure correct classification of reserves and revaluations. Consistency checks between flows and stocks for debt liabilities and assets were also conducted.

2.5.8 Generation of Time Series Data

The process of generating data time series missing for flows (2005, 2006 and 2007) and stocks (2005 and 2006) was based on the estimates from the 2005 survey which covered data for the years 2001 to 2004 and the 2009 survey which covered data for the years 2007 and 2008. The net flows were obtained by taking the difference between the stocks of FDI, foreign portfolio investment and other foreign investment for 2007 and 2004 classified by sectors. A detailed account of the methodology that was used in generating the time series is summarized in Box 1.

Box 1: Estimation of the missing data (flows for 2005 – 2007 and stocks for 2005 – 2006)

Let the stock of FDI for all enterprises within sector 1 at end 2007 and 2004 be denoted by F_{2007} and by F_{2004} respectively. Also let the output of sector 1 at current market prices for 2005, 2006 and 2007 be denoted by Y_{2005}, Y_{2006} and Y_{2007} respectively.
Change in FDI stock for sector 1 denoted by $DF = F_{2007} – F_{2004}$

Sum of sector output for 2005, 2006 and 2007 $SY = Y_{2005} + Y_{2006} + Y_{2007}$

$(DF)/(SY) = (F_{2007} – F_{2004})/(Y_{2005} + Y_{2006} +Y_{2007})$

Assuming that the annual share of change in FDI stocks to output at sector level is about the same for the years 2005, 2006 and 2007, then

$DF/SY \approx F_{2007} – F_{2006})/(Y_{2007}) \approx (F_{2006} – F_{2005})/Y_{2006} \approx (F_{2005}-F_{2004})/Y_{2005}$

Subsequently, if information for Y_{2007}, Y_{2006} and Y_{2005} is available then the respective flows can be obtained as

$(F_{2007} – F_{2006}) = DF/SY * Y_{2007}$
$(F_{2006} – F_{2005}) = DF/SY * Y_{2006}$ and
$(F_{2005} - F_{2004}) = DF/SY * Y_{2005}$

Similarly, since F_{2004} and F_{2007} values are available then stocks for 2005 and 2006 can be obtained as

$F_{2005} = DF/SY * Y_{2005} + F_{2004}$ or
$F_{2005} = F_{2006} – DF/SY * Y_{2006}$
$F_{2006} = DF/SY * Y_{2006} + F_{2005}$ or
$F_{2006} = F_{2007} – DF/SY * Y_{2007}$

Using this approach, the estimates for the 2005 and 2006 stocks and 2005, 2006 and 2007 net flows were derived.

It may be noted, however, that better results could be obtained if individual components of FDI such as reinvested earnings, reserves, paid-up share capital and intercompany debt were used as this would have taken care of any coverage revisions to the questionnaire for the 2009 survey. Company by company estimation was difficult not only because it is a tedious exercise but also because it was not possible to retrieve individual company information from the previous surveys for reconciliation with the current one due to the coding system that was used then.

It was deemed not necessary to gross up data for non response as well as for non surveyed companies on account of mainly two reasons. Firstly, the survey covered all enterprises known to be having foreign assets and liabilities. Secondly, given the high response rate obtained, the enterprises that did not respond form a negligible share of the value of total foreign assets and liabilities.

2.5.9 Adherence to International Standards

Compilation of the FPC statistics was in line with the acceptable international best practices. Classification of sectors was based on ISIC revision 3. However, in some cases, minor modifications were made to meet country specific needs. Data compilation procedures as captured in the questionnaire followed recommendations contained in the International Monetary Fund (IMF) Balance of Payments Manual, 5th Edition (BPM5).

2.5.10 Timeliness

The IMF's General Data Dissemination System (GDDS) requires that data be disseminated between six to nine months after fieldwork. This standard was however not met partly because of system/software challenges. However, with MEFMI Private Capital Monitoring System (PCMS) now in place, future reports are expected to be disseminated in a timely manner.

CHAPTER 3

Analysis of Foreign Private Capital

3.1 Stock of Foreign Liabilities

The stock of foreign liabilities constitutes FDI, Portfolio Investment (PI) and Other Investment (OI). Malawi registered persistent increase in the stock of foreign liabilities since 2003. The largest share of foreign liabilities has been in form of FDI which is long-term in nature. This suggests investors' confidence in the economy.

The robust performance was recorded in 2008 with total stocks of liabilities doubling to US$2,887.0 million compared to US$1,319.5 million in 2007 (**Table 3**). This implies that the economy was not affected by the first round of the Global Financial Crisis.

Table 3: Stock of Foreign Liabilities (US$ Millions)

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Share 2008**
FDI	419.2	390.4	409.7	562.2	767.2	1017.3	1315.4	2583.5	89.5
FPI	14.0	12.4	12.4	12.0	9.8	6.8	2.9	4.6	0.2
OI	47.3	24.7	19.3	31.2	23.3	13.4	1.2	298.9	10.4
Total	**480.5**	**427.5**	**441.4**	**605.4**	**800.4**	**1037.4**	**1319.5**	**2887.0**	100.0
% Change		***-11.0***	***3.2***	***37.2***	***32.2***	***29.6***	***27.2***	***118.8***	

Source: 2003, 2005 and 2009 Surveys

3.2 Composition of Stock of Foreign Liabilities 2007-2008

As at end 2008, the largest proportion of foreign liabilities in Malawi was in form of FDI accounting for 89.5 percent. The remaining components which are other investment and portfolio investment accounted for 10.4 percent and 0.2 percent, respectively (**Table3**).

Table 4: Stock of Foreign Liabilities (US$ Million)

Composition	**2007**	**2008**
1. Foreign Direct Investment (FDI)	**1,315.4**	**2,583.5**
A. Foreign Direct Equity Investment (FDEI)	**1,314.8**	**2,278.1**
Foreign Direct Equity Capital	*1,233.8*	*2,001.3*
Accumulated Reinvested Earnings	*81.1*	*276.8*
B. Foreign Direct Non-Equity Investment	**0.6**	**305.4**
Long-Term	*-*	*12.2*
Short-term	*0.6*	*293.2*
2. Foreign Portfolio Investment	**2.9**	**4.6**
Foreign Portfolio Equity Investment (FPEI)	*2.9*	*1.4*
Bonds	*0.04*	*3.2*
3. Other Non-Equity Investment (Non-Affiliates)	**1.2**	**298.9**
Long-term (Non-Affiliates)	0.4	82.8
Short-term (Non-Affiliates)	0.8	216.1
Total Stock of Foreign Liabilities/Investment	**1,319.5**	**2,887.0**

3.3 Foreign Liabilities by Sector

In terms of distribution of total foreign liabilities by sector, manufacturing accounted for the largest share over the two years with an average of 47.9 percent of the total. The sector registered US$776.9 million and US$1,065.5 million for 2007 and 2008, respectively. About 90.0 percent of the liabilities were in form of equity investments. Construction and agriculture followed with averages of 13.5 percent and 12.9 percent, respectively. Wholesale and retail trade sector received about 10.1 percent of the total stock of liabilities worth US$407.3 million in 2008. About 40.0 percent of the investment in this sector was financed through non-affiliated loans. Financial and insurance, and information and communication sectors, on average, accounted for 10.2 percent and 6.1 percent, respectively while the remaining sectors accounted for less than 1 percent each (**Table 5**).

Table 5: Foreign Liabilities by Sector in US$ Million

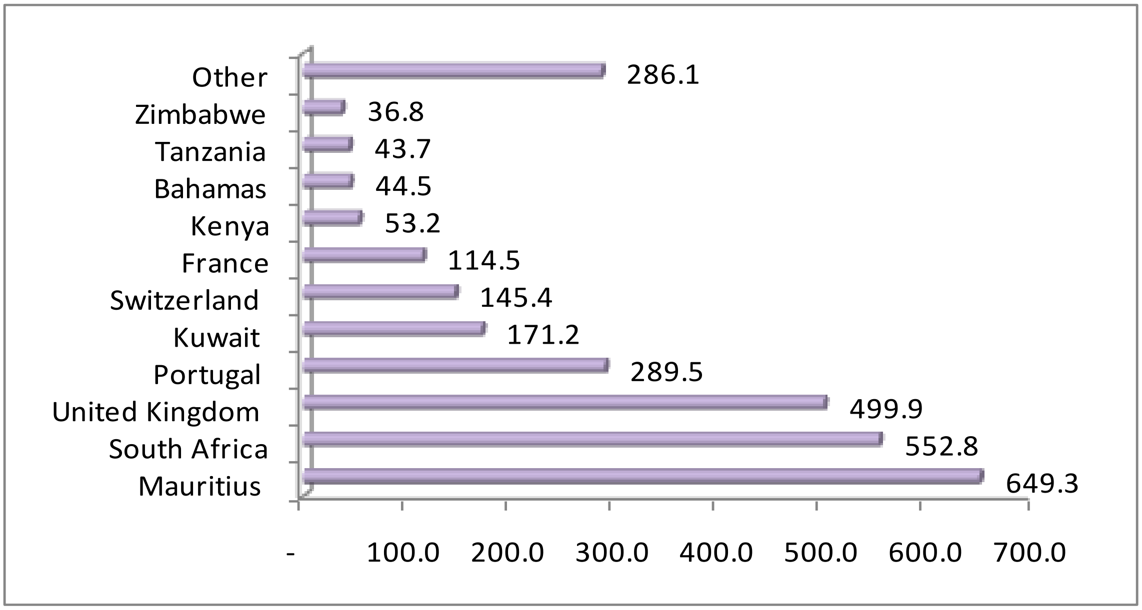
Sectors	2007 Stock	2007 Share	2008 Stock	2008 Share	Average
Manufacturing	776.9	*58.9*	1,065.5	*36.9*	*47.9*
Construction	108.9	*8.3*	540.2	*18.7*	*13.5*
Wholesale and retail trade	80.1	*6.1*	407.3	*14.1*	*10.1*
Agriculture	180.9	*13.7*	351.3	*12.2*	*12.9*
Financial and insurance activities	151.2	*11.5*	256.9	*8.9*	*10.2*
Information and Communication	66.3	*5.0*	205.0	*7.1*	*6.1*
Transportation	-	-	32.7	*1.1*	*0.6*
Accomodation and food service activities	4.3	*0.3*	15.2	*0.5*	*0.4*
Activities of households as employees	10.3	*0.8*	12.1	*0.4*	*0.6*
Other	0.7	*0.1*	0.9	*0.0*	*0.0*
Grand Total	**1,319.5**	***100.0***	**2,887.0**	***100.0***	***100.0***

3.4 Foreign Liabilities by Source Country

On the basis of regional economic blocks, the survey findings show that Southern Africa Development Community (SADC) was the leading source of foreign private investments in Malawi with 60.6 percent (US$893.0 million) of the total stock in 2007 followed by the Organization for Economic Co-operation and Development (OECD) with 23.5 percent (US$310.5). Although SADC maintained the lead in 2008, its share fell by about 16.0 percent to US$1,287.5 million while that of OECD improved by 19.6 percent to US$1,245.3 million.

On a country basis, the largest stock of these investments were Mauritius, South Africa, United Kingdom and Portugal, each on average accounting for 35.2 percent, 18.0 percent, 16.8 percent and 10.0 percent, respectively during the period under review. All of these accounted for about 80.0 percent of total investments. Within the MEFMI region, Kenya, Zimbabwe and Tanzania also made some considerable investment in the country. The total stock of private investments from the three countries increased from US$65.3 million (5.0 percent) recorded in 2007 to US$133.7 million (4.6 percent) in 2008 (**Figure1**).

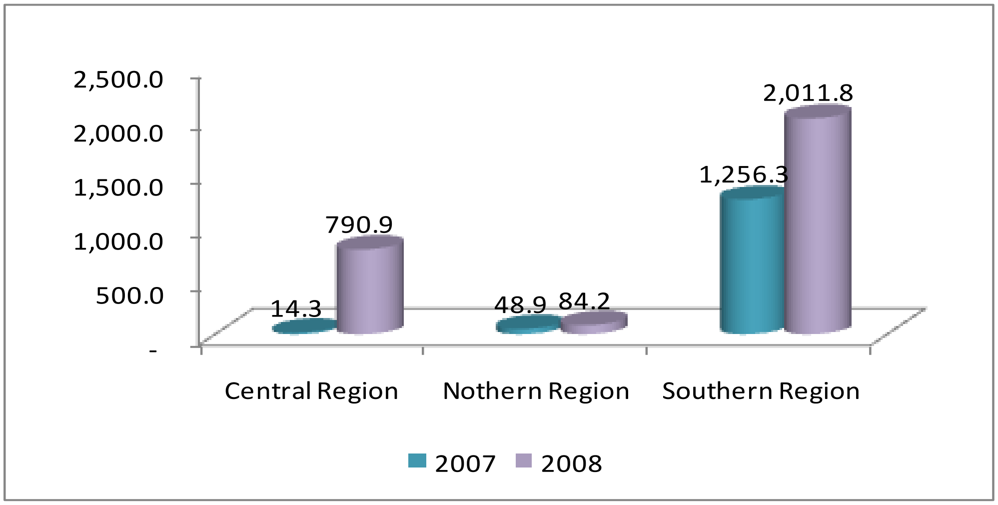
Figure 1: Foreign Liabilities by Country (US$ Million), 2008



3.5 Foreign Liabilities by Region

The southern region continued to be the largest recipient of foreign investment stocks during 2007 and 2008, with an average of 82.2 percent of the total stock (**Figure2**). This could largely be due to "the agglomeration effect" and availability of infrastructure and services. The central and northern regions accounted for 15.5 percent and 2.0 percent, respectively.

Figure 2: Foreign Liabilities by Region (US$ Million)

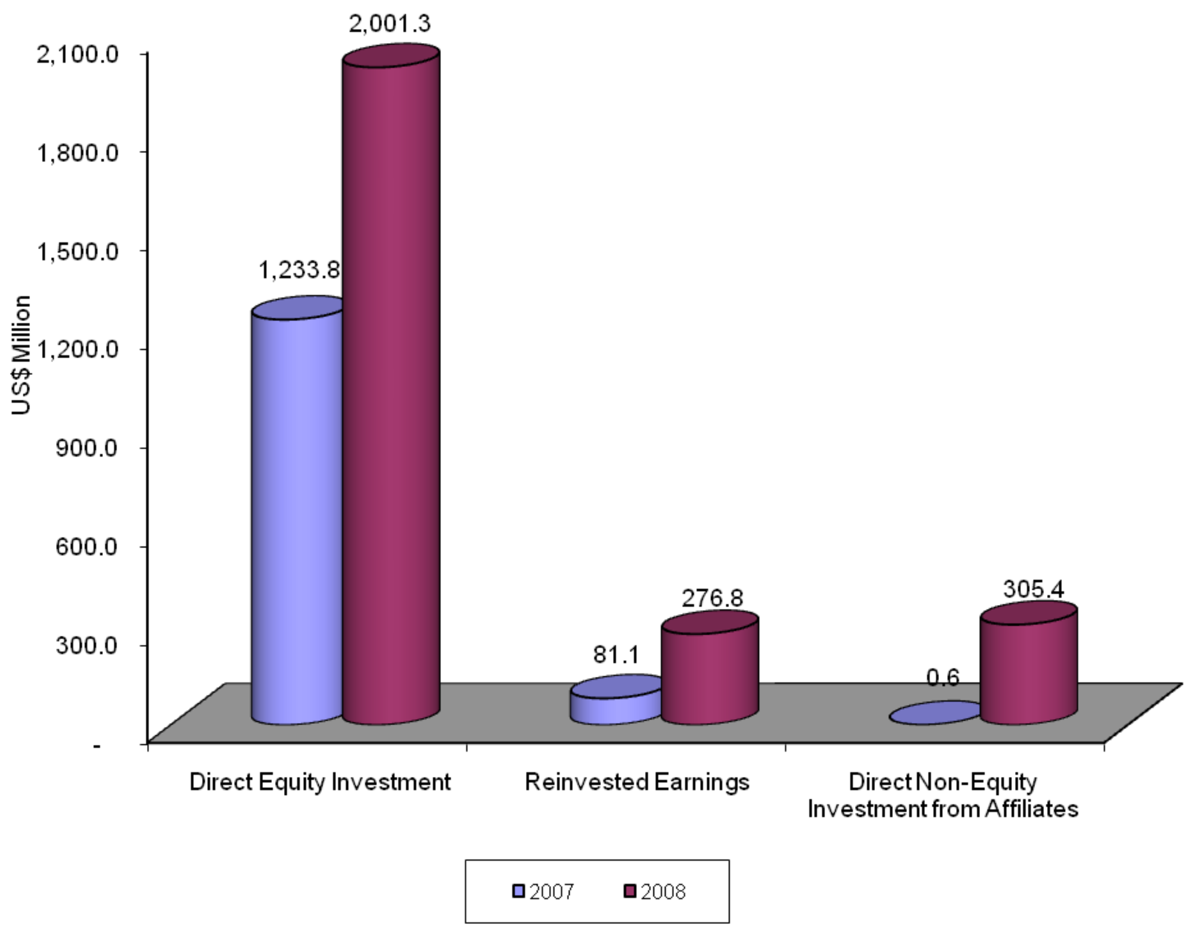


3.6 Foreign Direct Investment

3.6.1 FDI Stock by Type

Figure 3 indicates that the stock of FDI is increasingly being financed by direct equity capital to the tune of US$2,001.3 million in 2008 compared to US$1,233.8 million in 2007. Reinvested earnings and non-equity capital from affiliates also rose from US$81.1 million to US$276.8 million and US$ 0.6 million to US$ 305.4 million during the period under review, respectively.

Figure 3: FDI Stock by Mode of Financing (US$ Million)



3.6.2 FDI Stock by Source Country and Region

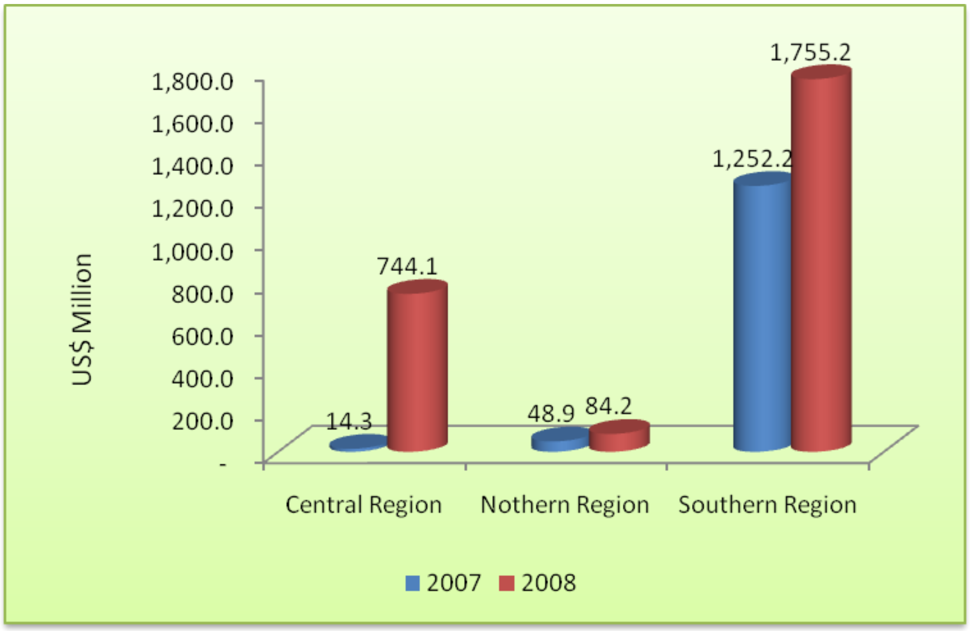
The sources of FDI in Malawi are highly concentrated from a few countries. In 2007 for instance, three countries namely Mauritius (45.5 percent), South Africa (19.5 percent) and United Kingdom (16.9 percent) accounted for about 81.9 percent of the total stock of FDI. **Table 6** shows that in 2008 the three countries continued to be the dominant source of FDI although their aggregate share fell to 58.4 percent. In the same year, France and the Netherlands were overtaken by Portugal and Kuwait in the list of top five source countries of FDI respectively. In terms of inflows, about 77.4 percent of the total FDI inflows recorded in 2008 came from four countries namely Switzerland (42.0 percent), South Africa (19.1 percent), Mauritius (8.3 percent) and Kuwait (8.0 percent). This kind of concentration is however not healthy as it exposes the country into risks should any of these countries face economic crisis. It is therefore necessary to diversify promotional efforts to more countries in order to minimize such risks.

Table 6: Stock of FDI by Top Five Source Countries (US$ Millions)

	2007			**2008**		
	Country	**Value**	**Percentage**	**Country**	**Value**	**Percentage**
1	Mauritius	598.7	45.5	Mauritius	644.8	25.0
2	South Africa	256.9	19.5	United Kingdom	495.5	19.2
3	United Kingdom	221.6	16.9	South Africa	369.4	14.3
4	France	80.3	6.1	Portugal	289.6	11.2
5	Netherlands	58.1	4.4	Kuwait	171.3	6.6

Regional distribution of the stock of FDI shows high concentration in the Southern region which recorded a total stock of US$1,252.2 million in 2007 and US$1,755.2 million in 2008 representing 95.2 percent and 67.9 percent, respectively. In 2008, there was a significant improvement in the Central region as its share increased by about 28.0 percent of the total stock of FDI to US$744.1 million compared to US$14.27 recorded in 2007 (**Figure4**). In the same period, the region attracted highest inflows of FDI worth US$186.72 million which is equivalent to 56.4 percent of the total FDI inflows. The Northern region attracted the lowest share of both stocks and flows of FDI during the period under review. High concentration of FDI in the Southern region is largely attributable to resource endowments as well as better developed infrastructure.

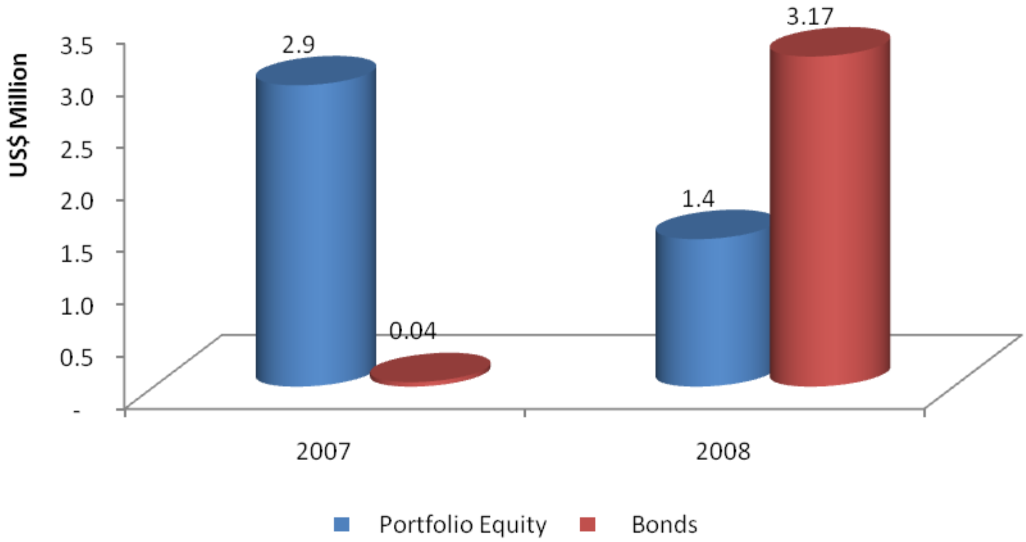
Figure 4: Distribution of FDI Stock by Region



3.7 Foreign Portfolio Investment (FPI)

The survey findings showed that FPI stock increased from US$2.9 million in 2007 to US$4.6 million in 2008. Portfolio equity accounted for over 99.0 percent in 2007 while in 2008 bonds dominated at 69.7 percent. This corroborates to the volatile nature of FPI (**Figure5**).

Figure 5: Stock of Foreign Portfolio Investment (US$ Millions)



3.7.1 FPI by Source Country and Region

It is indicated in **Table 7** that more than 93.0 percent of the total stock of FPI liabilities were due to five countries in 2007 and 2008. The United Kingdom, which also featured in the list of top five source countries of FDI, accounted for more than 60.0 percent of the total stock of FPI.

Table 7: Stock of FPI by Top Five Source Countries (US$ Millions)

	2007			**2008**		
	Country	**Value**	**Percentage**	**Country**	**Value**	**Percentage**
1	United Kingdom	2.0	67.1	Switzerland	2.8	60.9
2	Ghana	0.5	15.4	Ghana	0.7	14.2
3	Kenya	0.2	5.5	Zimbabwe	0.5	10.5
4	Switzerland	0.1	3.2	Mauritius	0.2	5.0
5	Tanzania	0.1	2.6	Tanzania	0.1	2.3

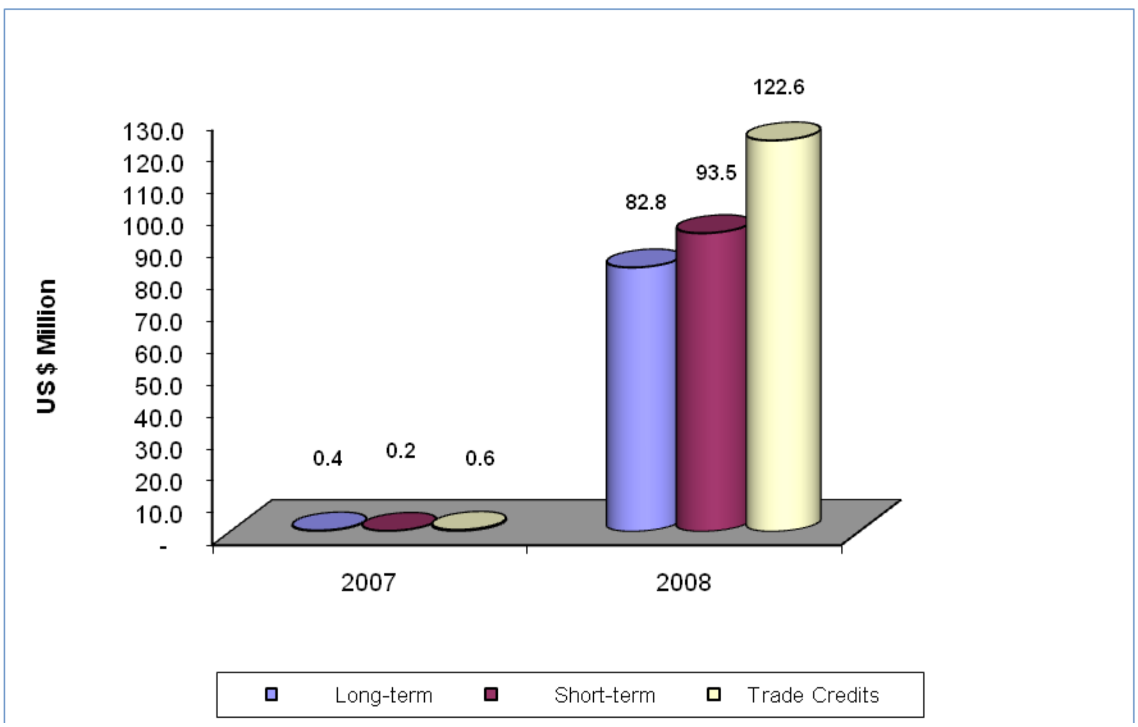
The largest share of FPI inflows however, originated from South Africa (US$0.4 million) and India (US$0.1 million) in 2008. In terms of regional distribution, the Southern region accounted for about 99.0 percent of the total for both stocks and flows of FPI in 2007 and 2008.

3.8 Other Investment

3.8.1 Stock of Other Investment

The stock of other investment constitutes short and long term borrowing from non affiliates. During the period under review, the stock of other investment posted a remarkable increase from US$1.2 million in 2007 to US$298.9 million in 2008, mainly dominated by trade credits (**Figure6**). This pattern of other investment is partly due to scarcity of foreign currency amid increasing investment activities.

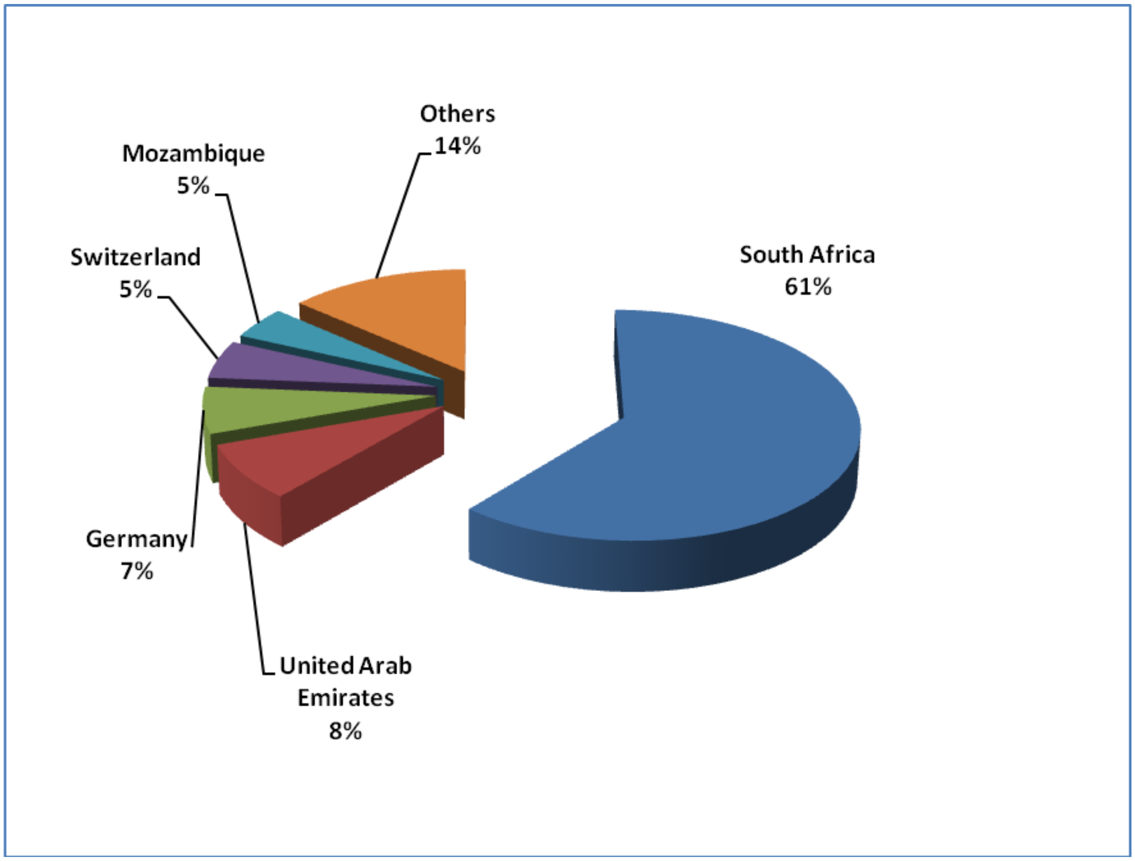
Figure 6: Stock of Other Investment during 2007-2008 (US$ Millions)



3.8.2 Other Investment by Source Country and Region

Similar to the case of FDI and FPI stocks, most liabilities of the stock of other investment were due to few countries, five of which accounted for about 86.4 percent in 2008. South Africa accounted for 61.3 percent of the total stock of other investment (**Figure7**). About 70.5 percent of borrowings from non-affiliates originated from five SADC member countries namely South Africa, Mozambique (4.6 percent), Tanzania (3.1 percent) and Mauritius (1.4 percent).

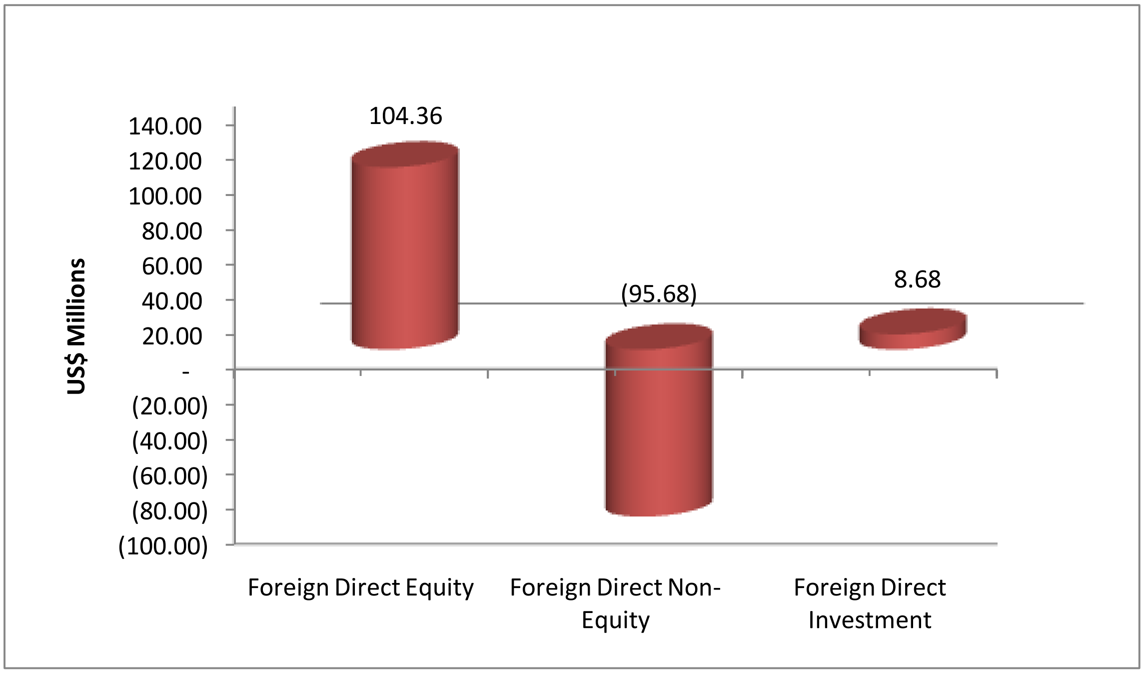
Figure 7: Stock of Other Investments by Top Five Source Countries, 2008



3.9 Flows of Foreign Direct Investment

The net flows of FDI during 2008 amounted to US$8.7 million mainly driven by equity liabilities. During the same period, the non-equity liabilities posted a negative net inflow of US$95.7 million on account of short-terms loans (**Figure8).**

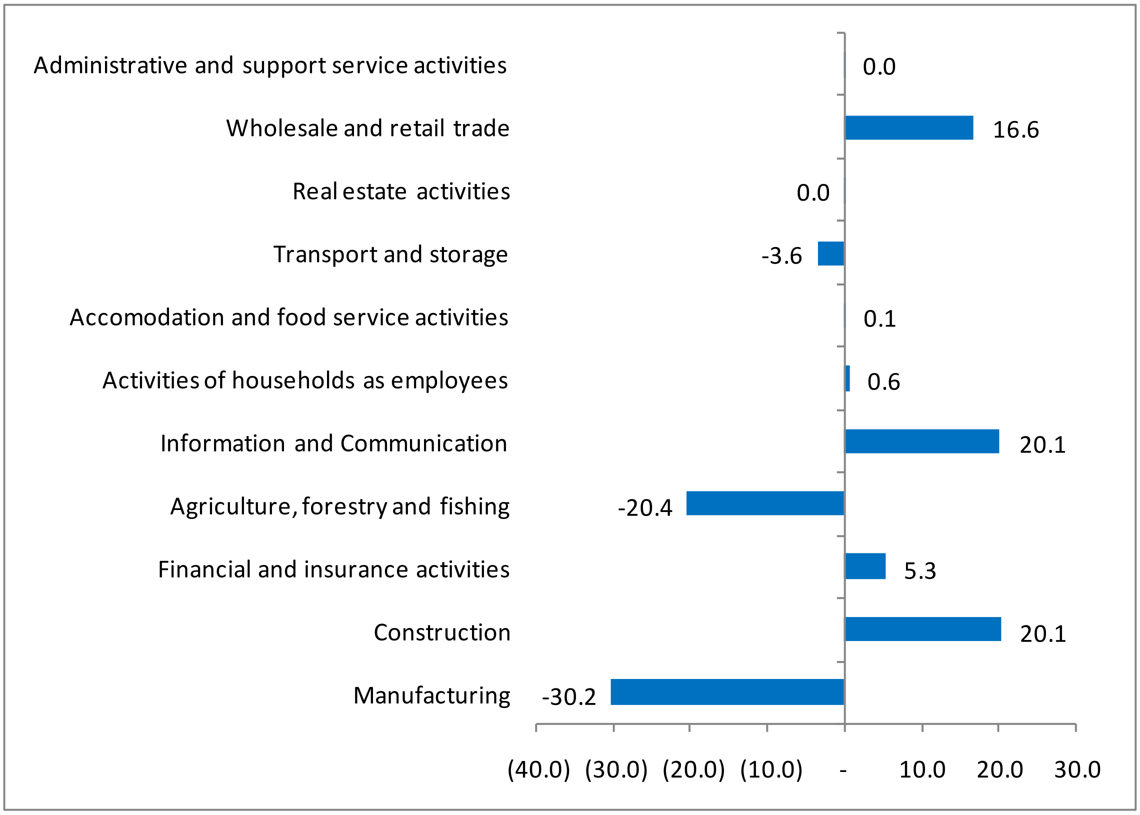
Figure 8: Net Liability Flows of FDI, 2008



3.9.1 Flows of FDI by Sector

A sectoral analysis shows that FDI inflows in Malawi in 2008 were concentrated in the construction, information and communication, and wholesale and retail trade sectors. As shown in **Figure9**, the three sectors attracted net FDI inflows worth US$56.8 million in 2008. Other sectors that received positive net inflows were financial and insurance, activities of households and accommodation. The remaining sectors registered net outflows and insignificant net inflows.

Figure 9: Flows of FDI by Sector (US$ Million), 2007 – 2008



3.10 Private Sector External Debt (PSED)

The total stock of PSED as at end 2008 stood at US$607.5 million, having increased from US$1.8 million in 2007, mainly driven by short-term loans in form of trade/suppliers credits (**Table 8**).

Table 8: Private Sector External Debt (US$ Million), 2007-2008

	2007	2008
Affiliates	**0.6**	**305.4**
Long-term loans	-	*12.2*
Short-term loans	*0.6*	*293.2*
	-	-
Non-Affiliates	**1.2**	**298.9**
Long-term loans	0.4	82.8
Short-term loans	0.8	216.1
	-	-
Other Claims (Bonds)	**0.0**	**3.2**
Total PSED	**1.8**	**607.5**

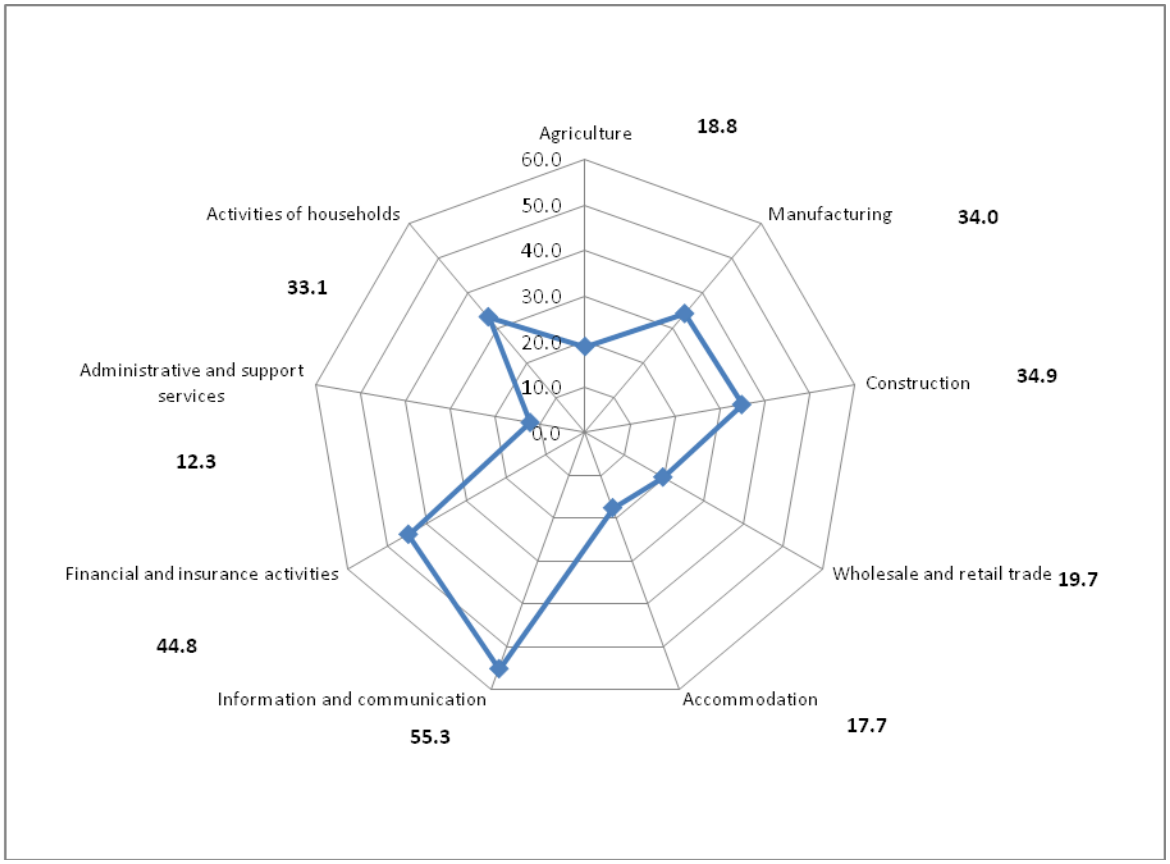
3.11 Profitability, Retained Earnings and Dividends Paid

3.11.1 Profitability

Overall net profits earned during 2008 amounted to US$163.0 million. The manufacturing sector accounted for 37.0 percent of total profits earned, followed by information and communication, and financial and insurance sectors which constituted 16.2 percent and 15.9 percent, respectively. Transportation and storage posted a net loss of US$ 3.3 million (**Figure10**).

On the whole, return on equity (ROE) for 2008 was 30.5 percent. Information and communication, and financial and insurance services sectors registered the highest return on equity of 55.3 percent and 44.8 percent, respectively.

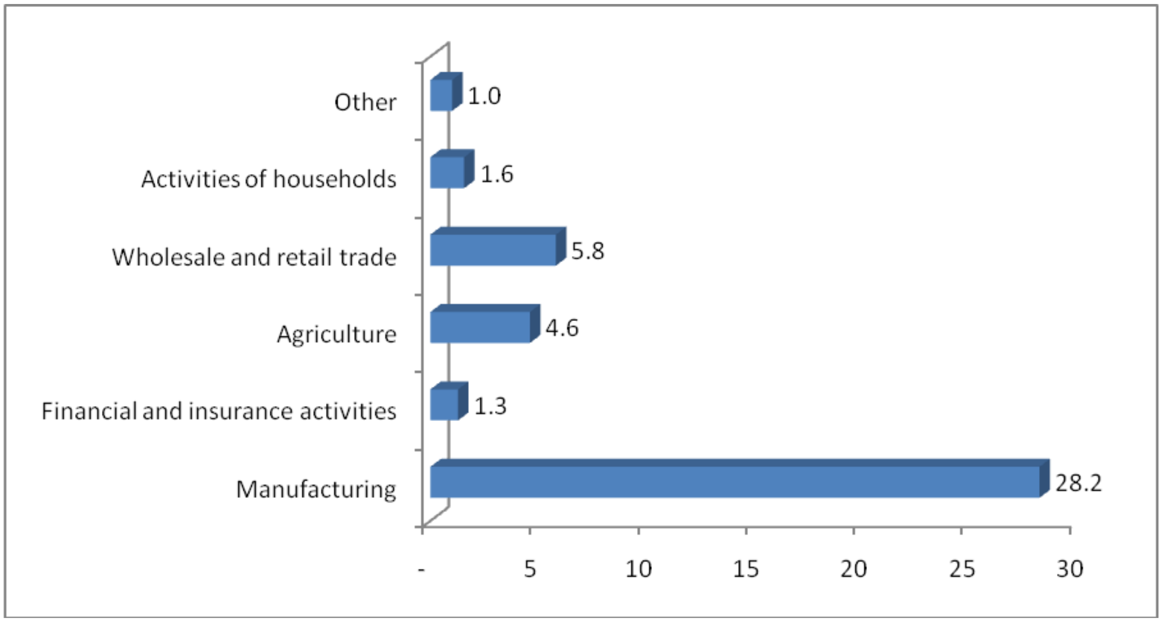
Figure10: Return on Equity by Sector in 2008 (Percentage)



3.11.2 Dividends Paid

The survey revealed that total dividends paid during 2008 amounted to US$43.5 million. Manufacturing, wholesale and retail trade, and agriculture accounted for 64.8 percent, 13.3 percent and 10.5 percent, respectively (**Figure11**). Financial and insurance, and information and communication sectors paid least dividends although they registered highest returns on equity. This suggests that most profits generated by these sectors were reinvested.

Figure11: Dividends Paid by Sector in 2008 (US$ Million)



3.12 Foreign Assets

Table 9 reveals that the total stock of Malawi's foreign assets was US$0.24 million at end 2007, which increased substantially to US$28.9 million at end 2008. In 2007, most of the assets were in form of FDI which accounted for 54.2 percent followed by portfolio investment and other investment at 30.1 percent and 15.6 percent, respectively. This composition changed dramatically in 2008 particularly for other investment which accounted for 49.6 percent. Net flows amounting to US$26.4 million were recorded in 2008 and were largely constituted by supplier credits to affiliated enterprises in the rest of the world accounting for about 95.0 percent. It is worth noting that the stocks of foreign assets reported were much lower than what was reported under foreign liabilities.

Table 9: Stock of Foreign Assets (US$ Millions), 2007 – 2008

Components	Stock 2007	Net Flows	Stock 2008
Direct Investment	**0.13**	**(19.49)**	**14.19**
Foreign Direct Equity Assets (FDEA) at MV	-	2.48	5.21
Other Capital from Affiliates	0.13	(21.97)	8.98
Long-Term	-	3.79	10.95
Short-term	0.13	(25.76)	(1.97)
Portfolio Investment	**0.07**	**(0.10)**	**0.36**
Other Investment	**0.04**	**(6.79)**	**14.33**
Loans	**0.02**	**0.05**	**7.22**
Trade Credits	**0.02**	**(6.84)**	**7.10**
Total Foreign Assets	**0.24**	**(26.39)**	**28.87**

Malawi’s total stock of foreign assets were concentrated only in the manufacturing and professional, scientific and technical services in 2007 whereas in 2008, it was predominated by construction and wholesale and retail trade services representing almost 84.0 percent. The major investment destinations of Malawian enterprises were South Africa and Tanzania that accounted for about 50.0 percent of the total stock of Malawi’s foreign assets in 2008.

CHAPTER 4

Investor Perceptions

4.1 Introduction

Investor Perceptions (IPs) aim to deliver an independent insight into how investors view the country's business operating environment and how it affects their business operations. Analysis of IPs essentially measure how satisfied existing investors are with the country's investment offerings and service delivery. The outcomes emanating from the analysis guide Government and policy makers in identifying areas of concern hampering business operations in the country, and therefore identify areas and means of intervention to improve the business operating environment.

4.2 Main Factors Covered and Rating Structure of Responses

The survey covered thirteen main categories as follows:

i. Initial investment factors;
ii. Global economic and financial crisis;
iii. Effects of the global economic and financial crisis;
iv. Business outlook during 2009 – 2011 and onwards;
v. Future likely direction of investment;
vi. Economic and financial factors;
vii. Political and governance factors;
viii. Operations of government agencies;
ix. Infrastructure and service factors;
x. Labour factors;
xi. Environmental and health factors;
xii. Information sources; and
xiii. Corporate social responsibility.

In order to identify initial investment factors and the effects of the global economic and financial crisis, investors were requested to select from among a number of factors that relate to each theme.

To determine the business outlook during 2009 – 2011 and onwards, respondents were expected to indicate their business outlook on a scale of 1 to 5 as presented in **Table 10**.

Table 10: Scale of Business Outlook Assessment

Rank	**1**	**2**	**3**	**4**	**5**
Definition	Very favourable	Slightly favourable	Neutral	Slightly unfavourable	Very unfavourable

To determine the future likely direction of investment, investors were requested to rank against each factor from a scale of 1 to 4 as presented in **Table 11**.

Table 11: Scale of Assessment of Future Likely Direction of Investment

Rank	**1**	**2**	**3**	**4**
Definition	Expand	Maintain (No Change)	Reduce	Close

In order to identify the effect of economic and financial factors, political and governance factors, operations of government agencies, infrastructure and service factors, labour factors, and environmental and health factors, respondents were requested to rank the various factors under each theme from a scale of 1 to 5 as presented in **Table 12**.

Table 12: Scale of Assessment of Several Factors Covered

Rank	**1**	**2**	**3**	**4**	**5**
Definition	Very positive	Quite positive	No effect	Quite negative	Very negative

To determine the importance of various sources of information, respondents were required to rate the various factors under the theme from a scale of 1 to 4 as presented in **Table 13**.

Table 13: Scale of Assessment of the Importance of Information Sources

Rank	**1**	**2**	**3**	**4**
Definition	Very Useful	Quite Useful	Not Useful	Not Consulted

Results for the analysis for the thirteen areas of study are presented in the subsequent sections.

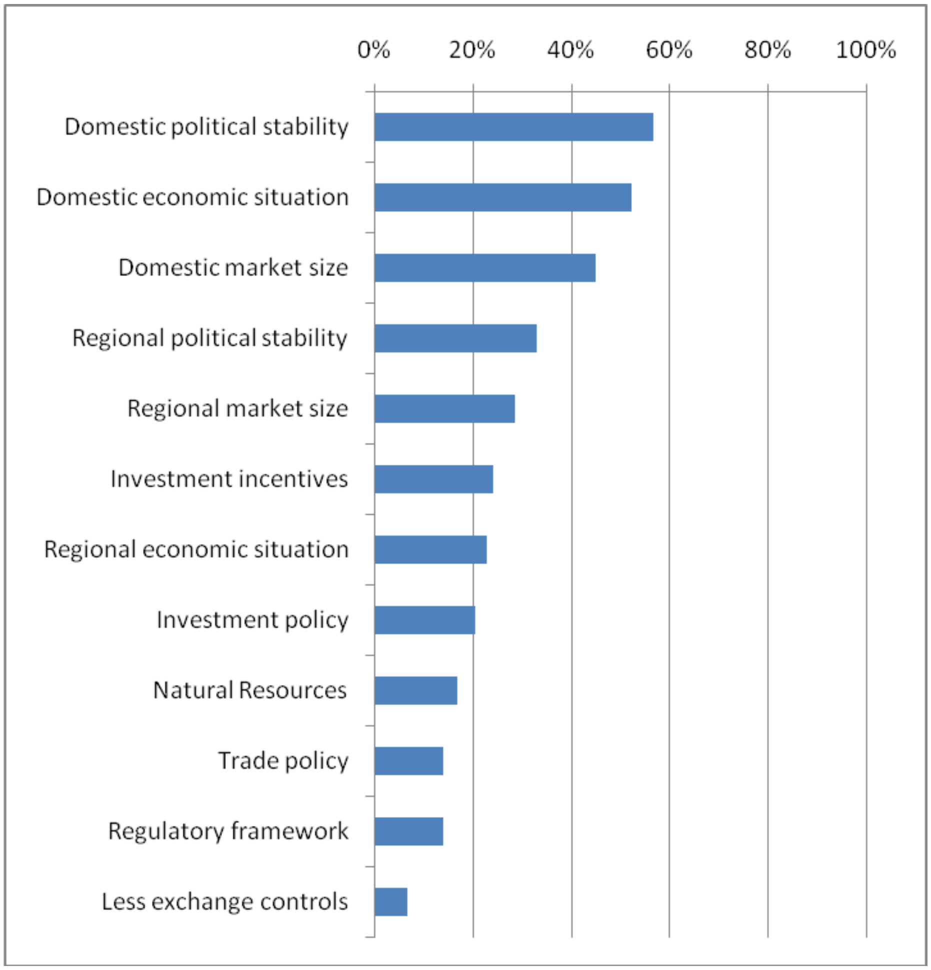
4.3 Detailed Findings

4.3.1 Initial Investment Factors

The questionnaire presented to the investors twelve factors that were expected to have influenced their initial decision to invest in Malawi. **Figure 12** provides a summary of the outcome.

The majority of companies (45.0 – 60.0 percent) indicated the domestic environment as a key determining factor that initially led them to invest in Malawi. In particular, the stability of the domestic political and economic environment as well as the domestic market size were the main factors. The Regional environment, investment incentives and policy were also rated as determining factors by a relatively large proportion of respondents.

Figure12: Initial Investment Factors



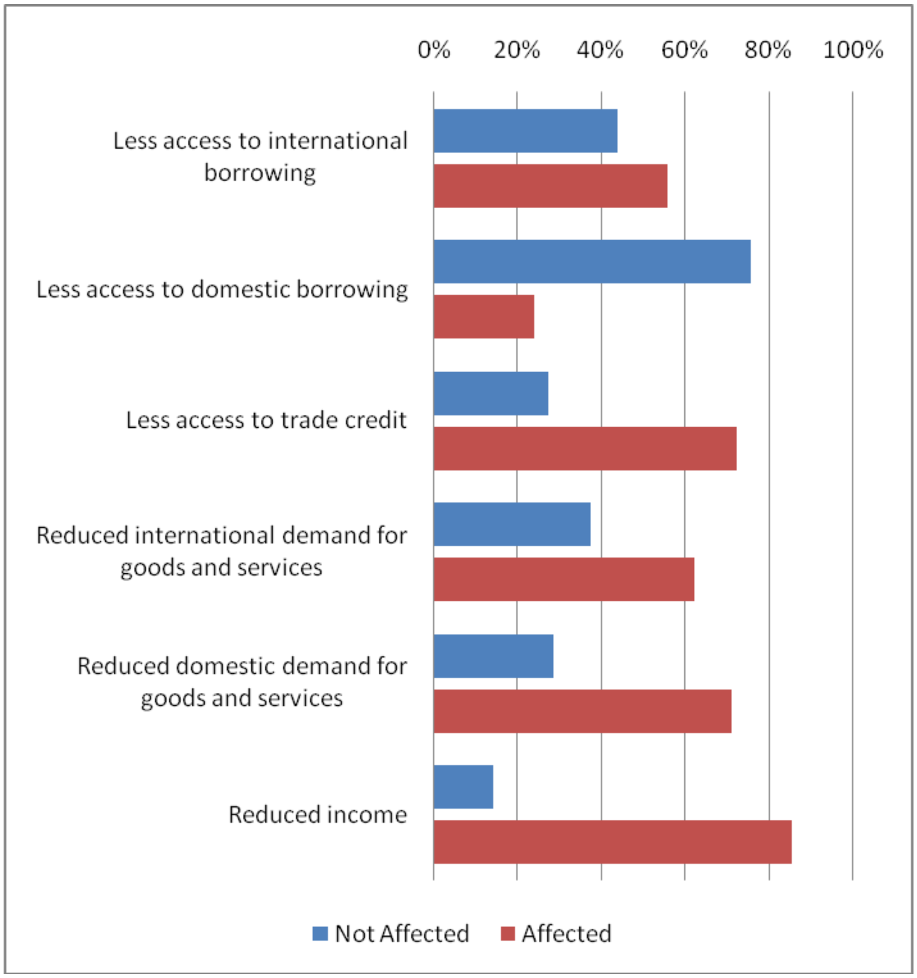
4.3.2 The Global Economic and Financial Crisis

The negative effects of the Global Economic and Financial Crisis (GFC) that started affecting the Global Economy from 2007 also affected the domestic economy. This is evident as 75.0 percent of respondents indicated to have been affected by the crisis. The specific effects of GFC were assessed against six factors and the outcome is presented in **Figure 13** which shows percentages of respondents affected.

Reduced income, less access to trade credit, and reduced domestic demand for goods and services were rated as the main factors through which the GFC affected business operations. About 85.0 percent of respondents indicated reduced income as the effect of the crisis, less access to trade credit (72.0

percent), reduced domestic demand for goods and services (71.0 percent), reduced international demand for goods and services (62.0 percent) and less access to international credit (56.0 percent).

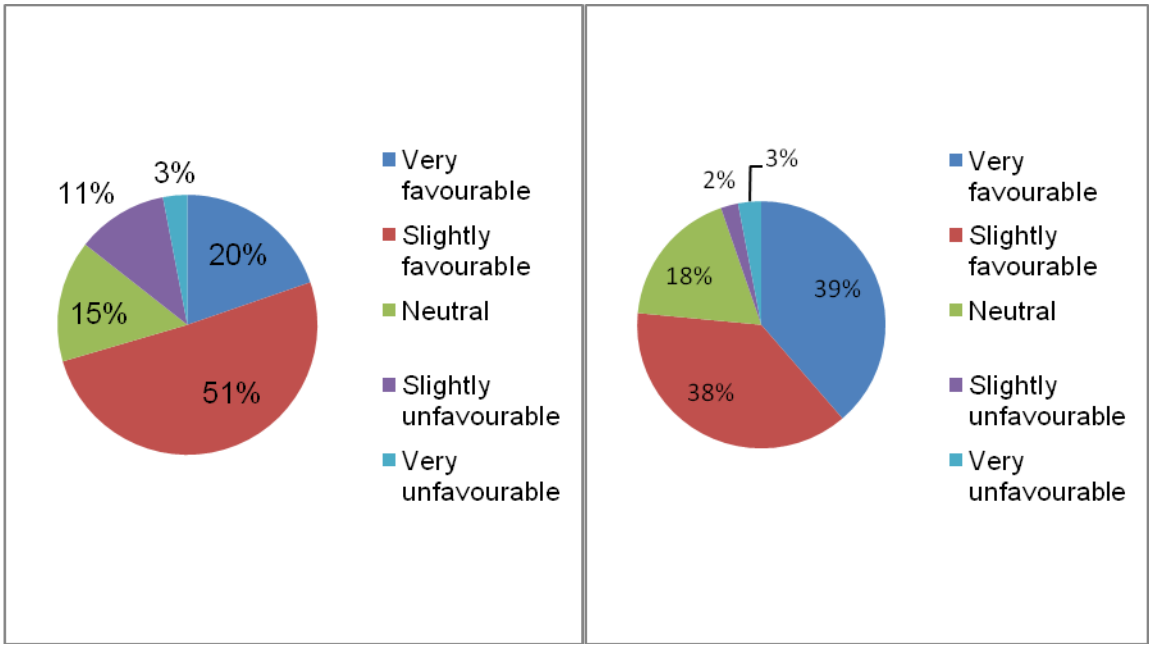
Figure13: Effects of the Global Economic and Financial Crisis



4.3.3 Business Outlook during 2009 – 2011 and Onwards

The survey also assessed the outlook of business operations during 2009 – 2011 and onwards. About 71.0 percent of respondents rated the business outlook during the period 2009 – 2010 as generally favourable. Only 14.0 percent of respondents rated the 2009 – 2010 environment as unfavourable. Respondents anticipated improved business outlook for 2011 and onwards with 77.0 percent indicating a favourable rating and 5.0 percent unfavourable (**Figure14**).

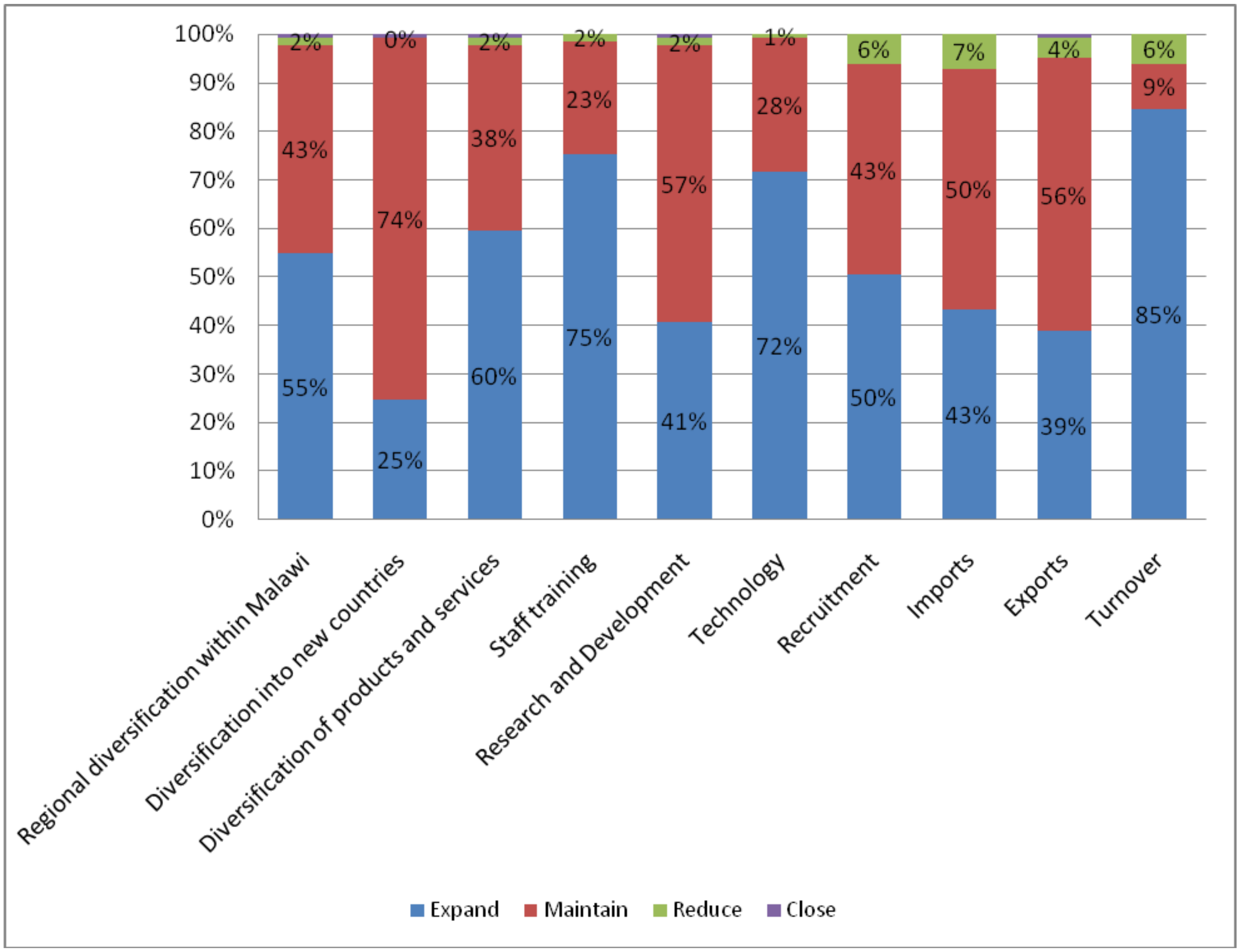
Figure14: Business Outlook during 2009 - 2011 and onwards



4.3.4 Future Likely Direction of Investment

Respondents were quite optimistic about the future and expressed strong business confidence with intentions to expand operations in almost all aspects of their operations in the next 3 – 4 years. As shown in **Figure15**, respondents expressed intentions to expand their investments in turnover (85.0 percent), staff training (75.0 percent), technology (72.0 percent) and diversification of products and services (60.0 percent). Such business confidence is also reflected in the results of the previous survey where investors also expressed similar plans.

Figure15: Direction of Business Activities



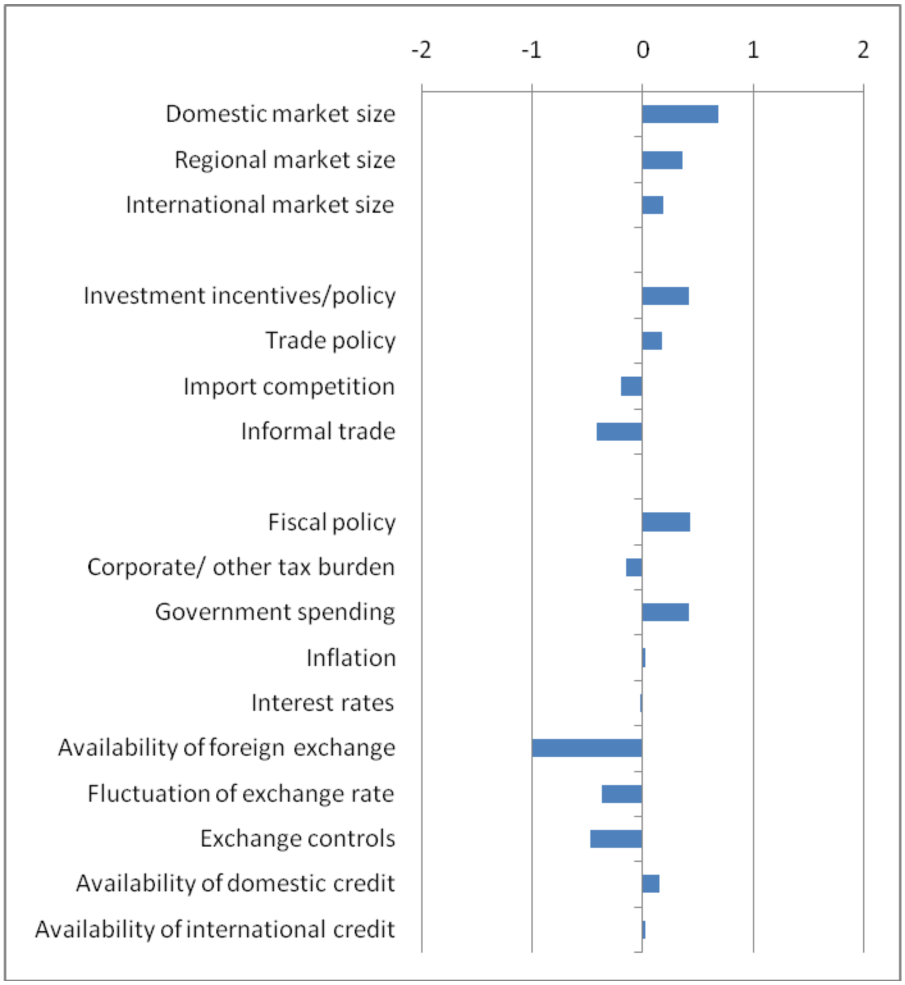
4.3.5 Economic and Financial Factors

The effects of economic and financial factors were assessed through 17 factors covering three broad categories namely, market size; investment and trade factors; and economic and fiscal factors. The outcome of the analysis is presented in **Figure16**.

The effects of the market size (captured by the domestic, regional and international market size factors) indicated that business operations were positively affected. This could be attributed to the various regional and international trade arrangements that Malawi has with Common Market for

Eastern and Southern Africa (COMESA), SADC and other countries in Europe, Asia, and the Americas.

Figure16: Economic and Financial Factors



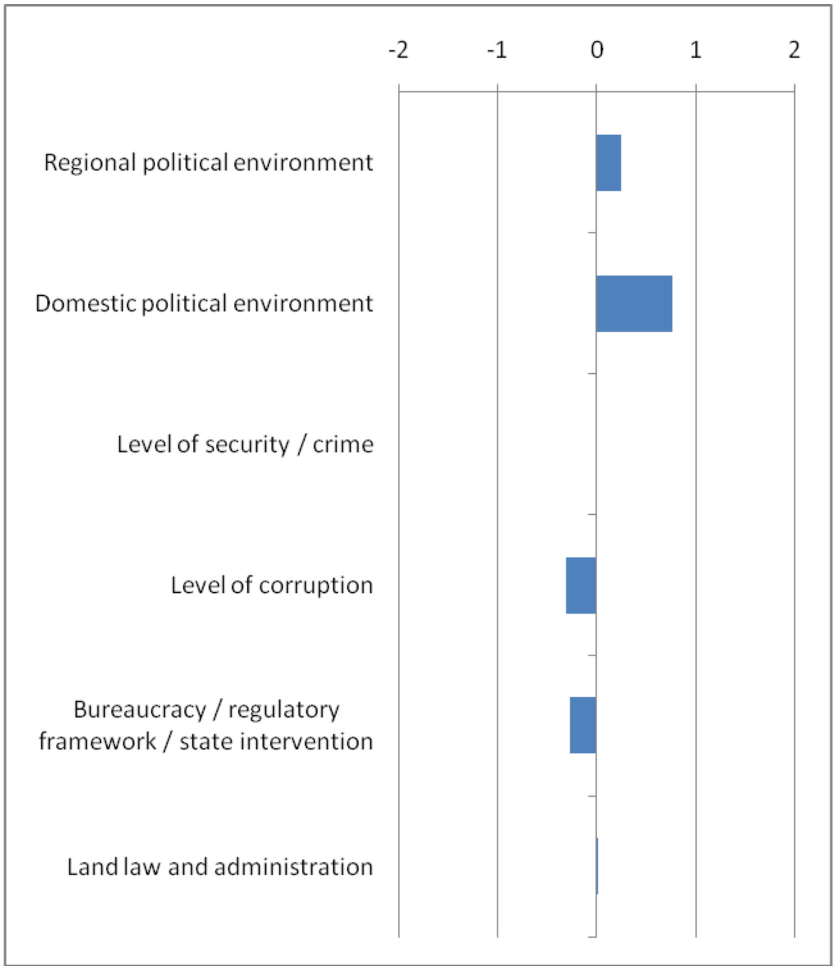
In terms of investment and trade factors (assessed by considering investment policy and incentives, trade policy, informal trade and import competition), it was observed that business operations were negatively affected by informal trade and import competition. There is therefore need to strengthen our borders to combat illegal cross-border trade and improve the quality of local products to make them competitive with imported products. Investment policy and incentives, and the trade policy were also impacting positively on business operations in the country.

Effects of economic and fiscal factors presented a general negative picture with the availability of foreign exchange having a very strong negative effect on business operations. The fluctuation of the exchange rate, exchange controls and the corporate tax burden also had negative effects. While interest rates, inflation, and availability of international credit were seen not to have a significant effect on business operations, there is need to effect policies in the banking system in order to increase availability of capital to businesses. However, government spending and the fiscal policy were seen to have a positive effect on business operations.

4.3.6 Political and Governance Factors

The effects of political and governance factors are presented in **Figure17**. The analysis revealed that the Regional and domestic political environment had a positive effect on business operations. This is consistent with findings in section 4.3.1 under initial investment decisions. On the other hand, the level of corruption and bureaucracy/regulatory framework/state intervention were seen to have a negative effect on business operations. The effects of land law administration and level of security/crime were however insignificant.

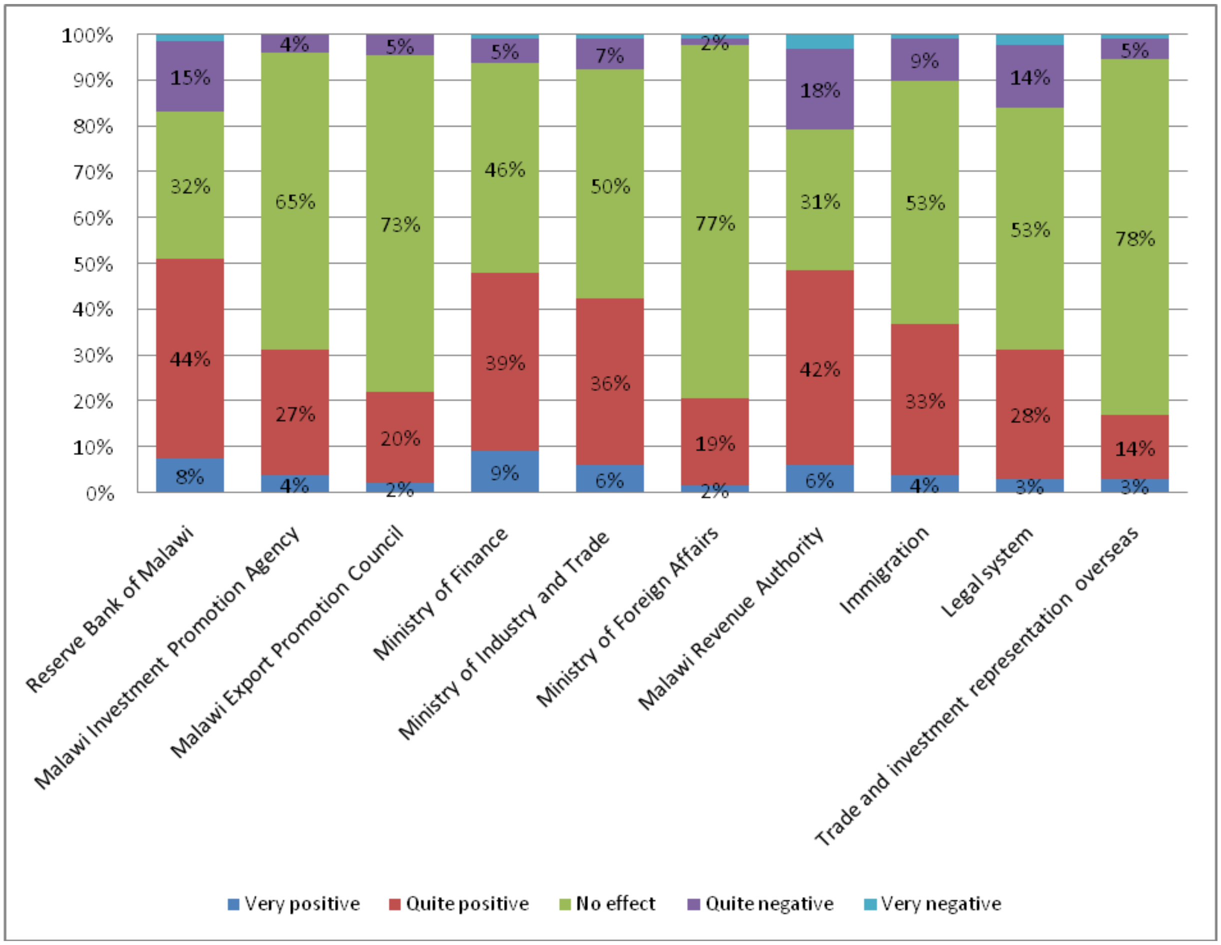
Figure17: Political and Governance Factors



4.3.7 Operations of Government Agencies

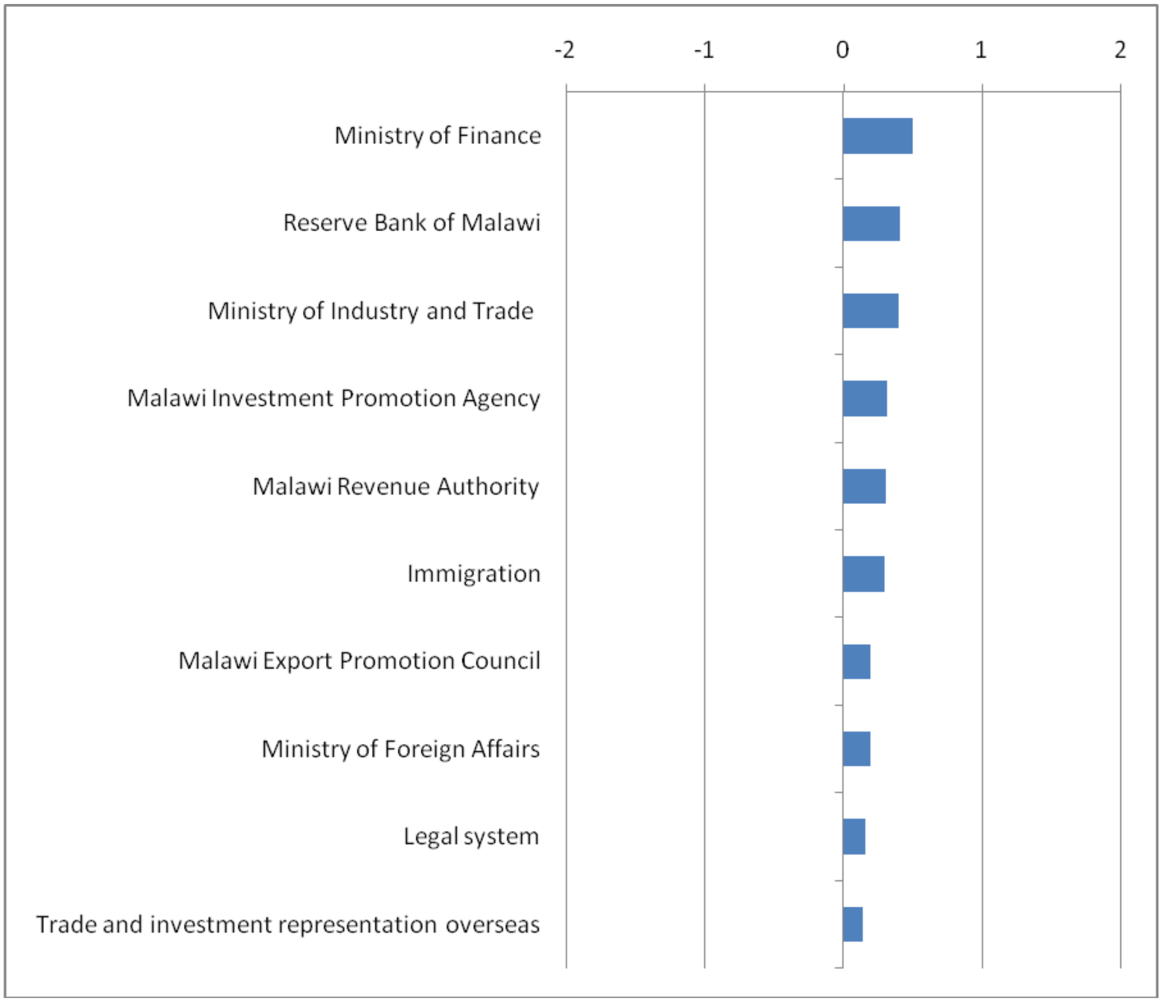
The majority of respondents reported not to have had any effect with regard to the operations of the agencies on their business operations. Top on list is Trade and Investment Representation abroad, the Ministry of Foreign Affairs and Malawi Export Promotion Council (MEPC) (**Figure18**). A few respondents indicated to have been positively affected by the Malawi Revenue Authority (MRA), Ministry of Finance, Ministry of Industry and Trade the Reserve Bank of Malawi.

Figure18: Operations of Agencies



As indicated in **Figure19**, although all the agencies were rated to have some positive effect on business operations, the effect was quite dismal. The Ministry of Finance, Reserve Bank of Malawi, Ministry of Industry and Trade, and Malawi Investment Promotion Agency had a relatively high level of positive effect on business operations while Trade and Investment representation overseas, the legal system, Ministry of Foreign Affairs, and Malawi Export Promotion Council scored a relatively low level of positive effect.

Figure19: Operations of Agencies

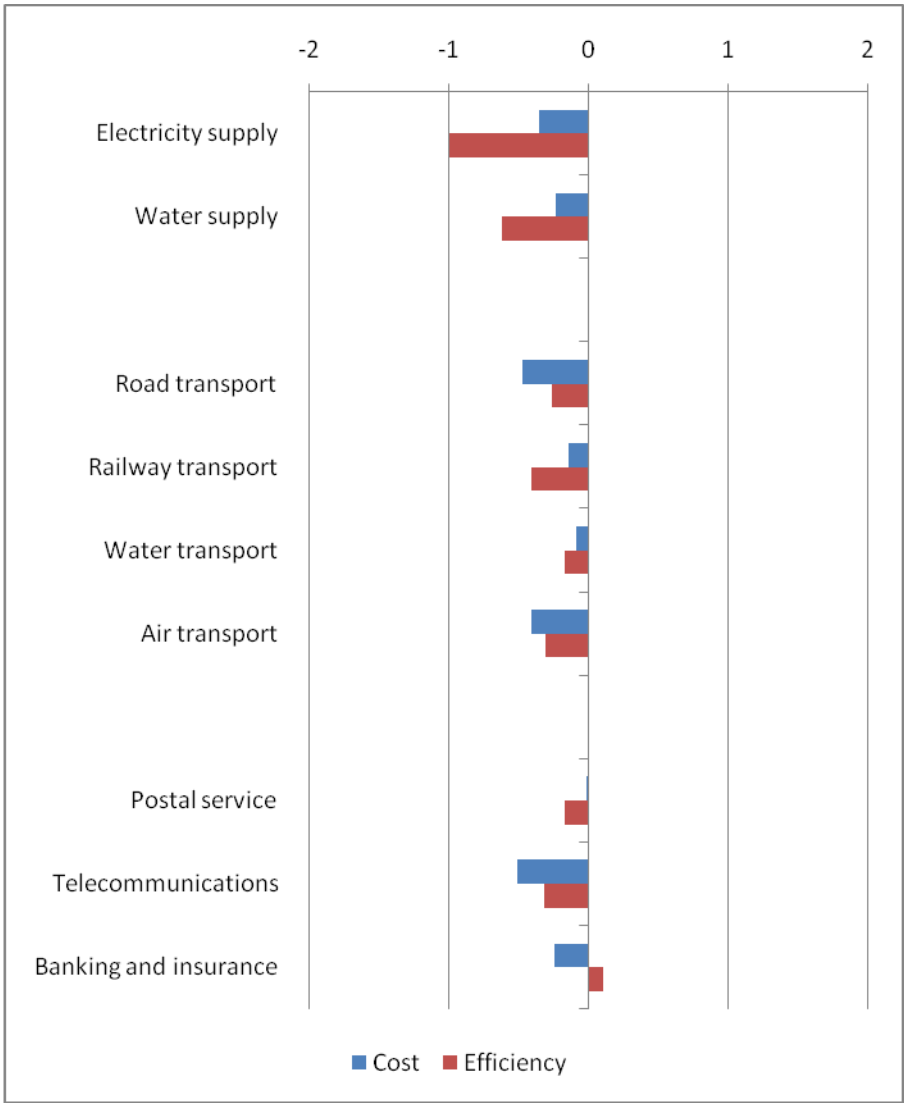


4.3.8 Infrastructure and Service Factors

Assessment of the effect of infrastructure and service factors was conducted from an efficiency and cost perspective. The factors were categories in three main groups namely utilities, transport and services. Most of the factors were rated as having a negative effect on business operations (**Figure20**).

With respect to cost, telecommunications was rated as having a relatively high negative effect on business operations. This was followed by road transport, air transport, electricity supply, banking and insurance, and water supply. The negative effect of the cost was however relatively lower in railway transport, water transport and postal services. The negative effect of the cost of telecommunications, banking services and transport were also evident in the previous survey signifiying that there has not been an improvement in the costing of the factors in the economy.

Figure20: Infrastructure and Service Factors

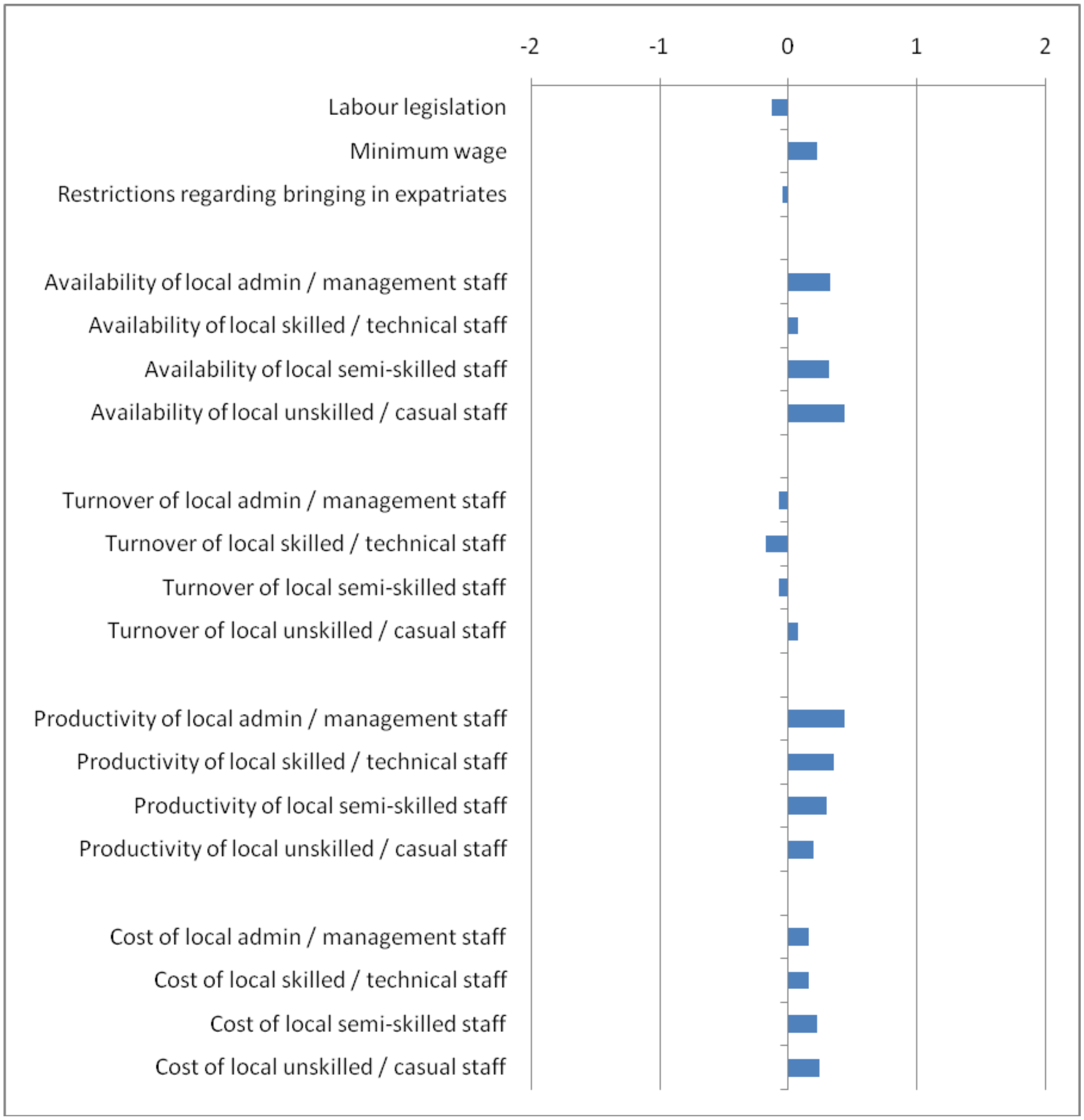


The efficiency of electricity and water supply highly negatively affected business operations as well as railway transport, telecommunications, air and road transport. While the negative effects of the efficiency of water transport and postal service were dismal, banking and insurance services was seen to have a positive effect.

4.3.9 Labour Factors

The labour factors were evaluated in terms of availability, turnover, cost and productivity (**Figure21**).

Figure21: Labour Factors

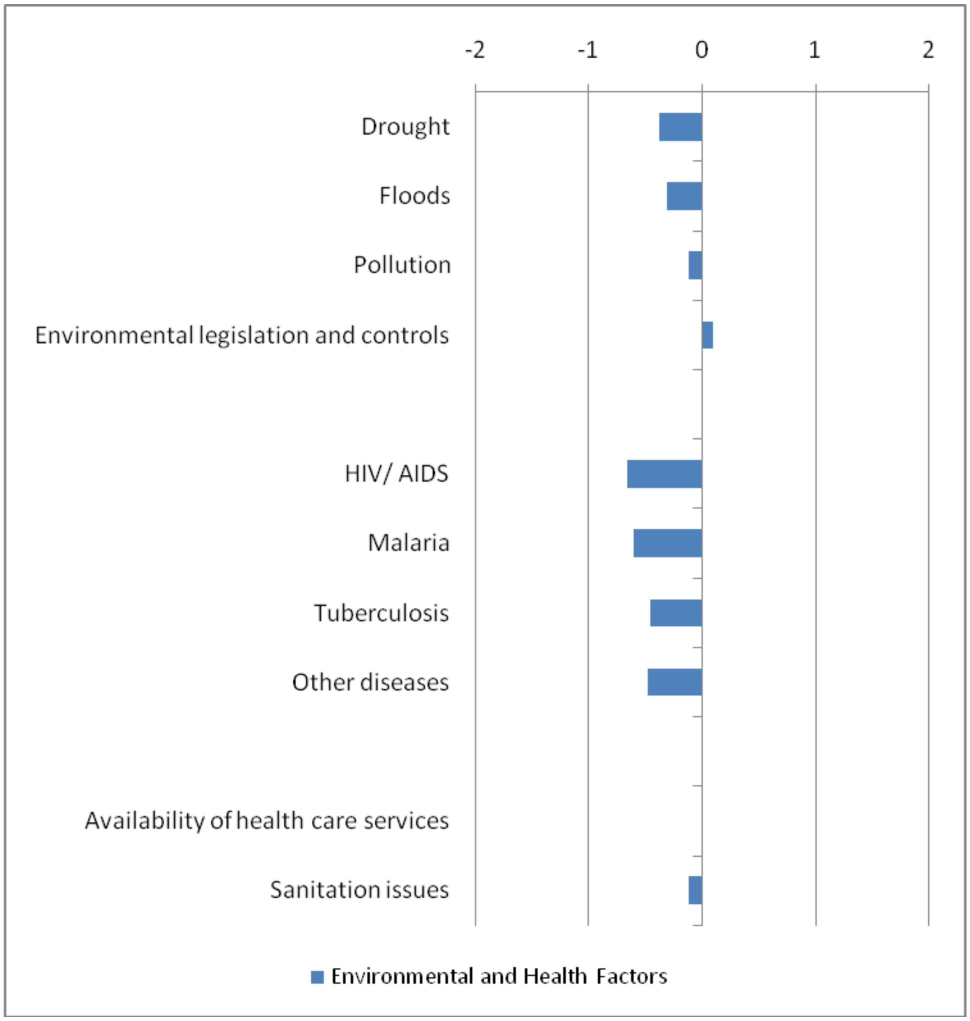


Investors revealed a positive effect on business operations with respect to availability of labour in all categories (i.e. management, technical, semi-skilled and casual). A similar positive effect was evident with respect to cost and productivity. However, labour turnover, legislation and restrictions regarding bringing in expatriates had a negative effect.

4.3.10 Environmental and Health Factors

Respondents identified HIV/AIDS and malaria as the most significant environmental and health factors negatively affecting their business operations. Other factors with significant negative effects on business operations include tuberculosis, drought and floods. Environmental legislation and controls, and availability of health care services however depict some positive though dismal effect on business operations (**Figure22**).

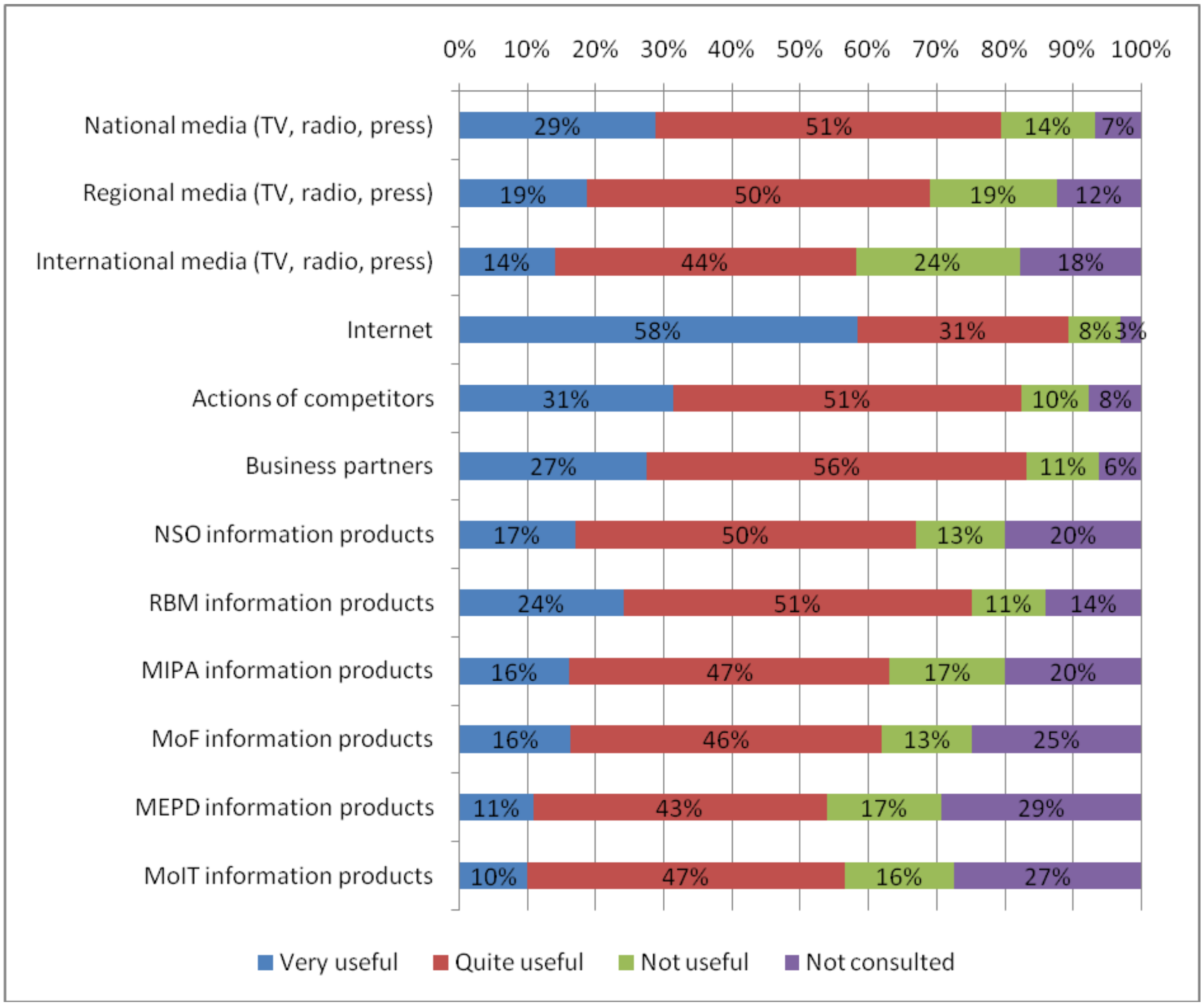
Figure22: Environmental and Health Factors



4.3.11 Information Sources

The usefulness of information sources available in the country to investors' business operations is presented in **Figure23**. It is apparent from the figure that investors relied mostly on internet, actions of competitors, business partners, and the national media as key sources of information for investment decision making. Reserve Bank of Malawi and National Statistical Office publications also featured as key sources of information although to a lesser degree.

Figure23: Information Sources



4.3.12 Corporate Social Responsibility (CSR)

The total amount spent as part of CSR in 2008 was US$14.6 million compared to US$12.0 million in 2007. In terms of resource allocation, about 70.0 percent went into health, education and infrastructure sectors (**Table 14**).

Table 14: Expenditure on CSR by Sector

	2007	2008
	Total Resources (%)	**Total Resources (%)**
Education	22	28
Health	20	19
Safety and Security	11	11
Other	13	9
Sports Development	6	6
Local Infrastructure (e.g. roads, water, electricity)	24	22
Environment (e.g. conservation / preservation	5	5
Arts and Culture	0	1

CHAPTER 5

Conclusion and Policy Implications

Historically, high concentration of FDI has been in the Southern region compared to the Central and Northern regions, largely attributable to resource endowments as well as better developed infrastructure. This calls for government to formulate deliberate policies to attract more investment in the other regions particularly the northern region by designing special investment incentive packages. Government should endeavour to continue streamlining the national budget towards development expenditure so as to invest more in infrastructure development in the underinvested regions.

Like in the previous surveys, findings from this survey showed that the source of FDI in Malawi continues to be predominated by only three countries namely Mauritius, South Africa and United Kingdom which collectively accounted for about 81.9 percent and 58.4 percent of the total stock of FDI in 2007 and 2008, respectively. This is not healthy for the economy as it is exposed to risks should an economic crisis hit any of these countries. There is, therefore, a need for government in collaboration with the investment promotion authority to intensify its promotional efforts to more countries in a more diversified manner in order to minimize such risks.

During the period under review, the stock of other investment posted a remarkable increase from US$1.2 million in 2007 to US$298.9 million in 2008, mainly dominated by trade credits. Domination of trade credits in loans from non-affiliates is partly a result of scarcity of foreign currency amid increasing investment activities. Given the nature of operations of foreign related enterprises, availability of foreign currency is crucial for their daily operations and its scarcity is likely to scare away investors from investing in Malawi. This calls for immediate efforts to rectify the scarcity as foreign investments provide important stimuli for the growth of the domestic economy. Government should create a conducive environment for private enterprises to diversify into sectors that generate more foreign exchange.

The effects of market size indicated that business operations were positively affected. This could be attributed to the various Regional and international trade arrangements that Malawi sustains with Common Market for Eastern and Southern Africa (COMESA), SADC and other countries in Europe, Asia, and the Americas. In this regard, it is important that initiatives are put in place to ensure that the country takes advantage of investment benefits accruing from Regional integration arrangements.

In terms of investment and trade factors, it was observed that business operations were negatively affected by informal trade and import competition. There is, therefore, a need for strengthening the country's borders to combat illegal cross-border trade and improve the quality of local products to make them competitive with imported products. Government efforts with respect to investment policy and incentives and the trade policy were also seen to be impacting positively on business operations in the country. This is a clear signal of the need for Government to continue efforts aimed at improving the investment and trade environment.

Effects of economic and fiscal factors presented a general negative outlook with the availability of foreign exchange having a very strong negative effect on business operations. The fluctuation of the exchange rate, exchange controls and the corporate tax burden also had negative effects. While interest rates, inflation, and availability of international credit were seen not to have a significant effect on business operations, there is need to effect policies in the banking system in order to increase availability of capital to businesses.

Surveys on FPC in Malawi have shown that foreign private investment is much more profitable than Malawi’s private investment into the rest of the world. This is in tandem with low magnitudes of foreign private assets as this survey has revealed. The results suggest that investment incentives may be more favourable to foreign investors compared to domestic investors. There is, thus, a need for government to promote domestic investment abroad alongside foreign investment in Malawi.

In conclusion, the huge increase in PSED, most of which is short-term in nature, calls for a need to carry out another survey for 2011 with a view to capture the current position. These surveys on FPC have always provided a rich source of information for the development and updating of not only balance of payments statistics but also international investment position (IIP), which constitutes Malawi’s stock composition of assets and liabilities.

APPENDICES

APPENDIX A: Supplementary Tables

Total Foreign Liabilities (US$ Million)

Components	Stock 2007	Net Flows	Stock 2008
Direct Investment	**1,315.4**	**8.7**	**2,583.5**
Foreign Direct Equity Capital at MV	1,233.8	-	2,001.3
Reinvested Earnings MV	81.1	104.4	276.8
Other Capital			
Long-Term Inter-company loans	-	5.2	12.2
Short-term Inter-company loans	-	2.2	71.3
Supplier credits from related companies	0.6	(103.0)	222.0
Portfolio Investment	**2.9**	**(0.8)**	**4.6**
FPEI	2.9	-	1.4
Bonds	0.0	(0.8)	3.2
Other Investment	**1.2**	**(51.5)**	**298.9**
Loans	0.6	(34.5)	176.3
Long-term	0.4	(34.5)	82.8
Short-term	0.2	(0.0)	93.5
Trade Credits	0.6	(17.0)	122.6
Total Foreign Liability	**1,319.5**	**(43.7)**	**2,887.0**

Total Foreign Liabilities by Sector (US$ Million)

Sectors	Stock 2007	Net Flows	Stock 2008
Manufacturing	776.9	(30.7)	1,065.5
Construction	108.9	20.8	540.2
Wholesale and retail trade	80.1	(4.5)	407.3
Agriculture	180.9	(21.0)	351.3
Financial and Insurance	151.2	3.2	256.9
Information and Communication	66.3	(10.1)	205.0
Transportation	(60.1)	(3.9)	32.7
Accommodation	4.3	1.9	15.2
Activities of Households	10.3	0.6	12.1
Other sectors	0.7	(0.0)	0.9
Grand Total	**1,319.5**	**(43.7)**	**2,887.0**

Total Foreign Liabilities by Country (US$ Million)

Countries	Stock 2007	Net Flows	Stock 2008
Mauritius	598.7	28.0	649.3
South Africa	258.0	(59.1)	552.8
United Kingdom	223.6	(52.5)	499.9
Portugal	21.0	14.8	289.5
Kuwait	54.8	20.3	171.2
Switzerland	(173.2)	(29.9)	145.4
France	80.3	3.3	114.5
Kenya	24.0	8.5	53.2
Bahamas	13.6	5.0	44.5
Tanzania	14.9	3.2	43.7
Netherlands	58.1	(1.8)	42.5
Italy and Vatican City	40.9	0.1	41.0
USA	28.8	6.8	40.1
Zimbabwe	26.4	4.0	36.8
Denmark	19.6	3.3	32.7
Other countries	30.0	2.4	129.8
Grand Total	**1,319.5**	**(43.7)**	**2,887.0**

Total Foreign Liabilities by Region (US$ Million)

Regions	Stock 2007	Net Flows	Stock 2008
Central Region	14.3	(91.0)	790.9
Northern Region	48.9	6.9	84.2
Southern Region	1,256.3	40.4	2,011.8
Grand Total	**1,319.5**	**(43.7)**	**2,887.0**

FDI Liabilities by Sector (US$ Million)

Sectors	Stock 2007	Net Flows	Stock 2008
Manufacturing	776.8	(30.2)	977.5
Construction	108.9	20.1	535.3
Agriculture	180.8	(20.4)	350.0
Financial and Insurance	150.4	5.3	252.5
Wholesale and Retail Trade	79.9	16.6	245.3
Information and Communication	65.6	20.1	174.1
Transportation	(60.6)	(3.6)	25.3
Activities of Households	10.3	0.6	12.1
Accommodation	2.5	0.1	10.6
Real Estate Activities	0.4	(0.0)	0.4
Administrative	0.2	0.0	0.4
Grand Total	**1,315.4**	**8.7**	**2,583.5**

FDI Liabilities by Country (US$ Million)

Countries	Stock 2007	Net Flows	Stock 2008
Mauritius	598.7	27.6	644.8
United Kingdom	221.6	(53.5)	495.5
South Africa	256.9	0.1	369.4
Portugal	21.0	14.6	289.5
Kuwait	54.8	20.3	171.2
Switzerland	(173.2)	(35.4)	126.1
France	80.3	3.1	114.0
Kenya	23.8	8.2	52.2
Bahamas	13.6	5.0	44.5
Netherlands	58.1	(1.8)	42.5
Italy and Vatican City	40.9	0.1	41.0
USA	28.7	6.8	40.0
Zimbabwe	26.4	4.5	35.5
Tanzania	14.9	4.5	34.3
Denmark	19.6	3.3	32.6
Other	29.4	1.4	50.3
Grand Total	**1,315.4**	**8.7**	**2,583.5**

Other Foreign Liabilities by Sector (US$ Million)

Sectors	Stock 2007	Net Flows	Stock 2008
Wholesale and Retail Trade	-	(21.2)	161.8
Manufacturing	-	0.4	84.7
Information and Communication	0.6	(30.2)	30.9
Transportation	0.4	(0.3)	7.3
Construction	-	0.7	4.9
Accommodation	-	1.8	4.5
Financial and Insurance	-	(2.1)	3.2
Agriculture	-	(0.6)	1.3
Professional, Scientific and Technical	0.0	-	0.1
Activities of Households	0.1	0.0	0.0
Grand Total	**1.2**	**(51.5)**	**298.9**

Other Foreign Liabilities by Country (US$ Million)

Countries	Stock 2007	Net Flows	Stock 2008
South Africa	1.1	(59.3)	183.3
United Arab Emirates	-	1.6	24.6
Germany	-	(4.3)	20.1
Switzerland	-	6.0	16.4
Mozambique	-	8.8	13.7
British Virgin Island	-	(6.7)	13.4
Tanzania	-	(1.3)	9.3
United Kingdom	-	1.0	4.3
Mauritius	-	0.4	4.3
Japan	-	-	4.1
Other	0.0	2.4	5.3
Grand Total	**1.2**	**(51.5)**	**298.9**

Total Foreign Investment Assets (US$ Million)

Components	Stock 2007	Transaction	Stock 2008
Direct Investment	**0.1**	**(19.5)**	**14.2**
Foreign Direct Equity Capital at MV	-	2.2	5.2
Reinvested Earnings MV	-	0.3	-
Other Capital	0.1	(22.0)	9.0
Long-Term Inter-company loans	-	3.8	10.9
Short-term Inter-company loans	-	(0.7)	-
Supplier credits from related companies	0.1	(25.0)	(2.0)
Portfolio Investment	**0.1**	**(0.1)**	**0.4**
FPEI	-	(0.1)	0.1
Bonds	0.1	-	-
Financial derivatives	-	-	0.3
Other Investment	**0.0**	**(6.8)**	**14.3**
Loans			
Long-term	-	-	1.7
Short-term	0.0	0.1	5.6
Trade Credits	0.0	(6.8)	7.1
Total Foreign Investment Assets	**0.2**	**(26.4)**	**28.9**

Income on Equity Liabilities by Sector (US$ Million)

Sector	Income on Equity - 2008			
	Dividends declared	Dividends paid	Net Profit/Loss	Reinvested Earnings
Manufacturing	3.9	28.2	60.2	28.0
Information and Communication	0.1	-	26.4	26.2
Financial and Insurance	11.4	1.3	25.9	17.2
Construction	-	-	16.1	15.7
Agriculture	1.1	4.6	17.1	11.7
Other Sectors	1.2	8.4	13.6	5.7
Total	**17.8**	**42.5**	**159.2**	**104.6**

Income on Equity Liabilities by Country (US$ Million)

Country	Income on Equity - 2008			
	Dividends declared	Dividends paid	Net Profit/Loss	Reinvested Earnings
Mauritius	0.8	24.1	41.4	16.4
Portugal	-	(0.0)	14.9	14.6
South Africa	5.6	5.5	19.3	12.9
United Kingdom	4.0	10.4	19.1	9.4
USA	0.8	0.2	11.2	6.9
France	1.2	1.0	7.4	5.2
Zimbabwe	4.2	0.1	9.0	4.7
Tanzania	0.0	-	3.9	3.9
Denmark	-	-	3.3	3.3
Other countries	1.2	1.1	29.8	27.4
Total	**17.8**	**42.5**	**159.2**	**104.6**

APPENDIX B: 2009 Survey of FPC and IPs Team

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Mr. E. Mgangaluma	MEFMI, Programme Officer

APPENDIX C: Summary Budget for the 2009 FPC and IPs Survey

Item	**Amount (US$)**
1.Printing of questionnaires, manuals & reports	5, 688
2. Training workshop for research assistants	4, 922
3. Publicity campaign	2, 270
4. Survey implementation (First visit)	44, 333
5. First survey follow-up	35, 837
6. Second survey follow-up	18, 589
7. Data processing, analysis & report writing	16, 546
8. Final report dissemination (hand delivery)	6, 348
GRAND TOTAL	**134,533**