PN-ABS-340

THE AGENCY FOR INTERNATIONAL DEVELOPMENT
PRESENTS

Critical Issues
For American Investors in
Malawi

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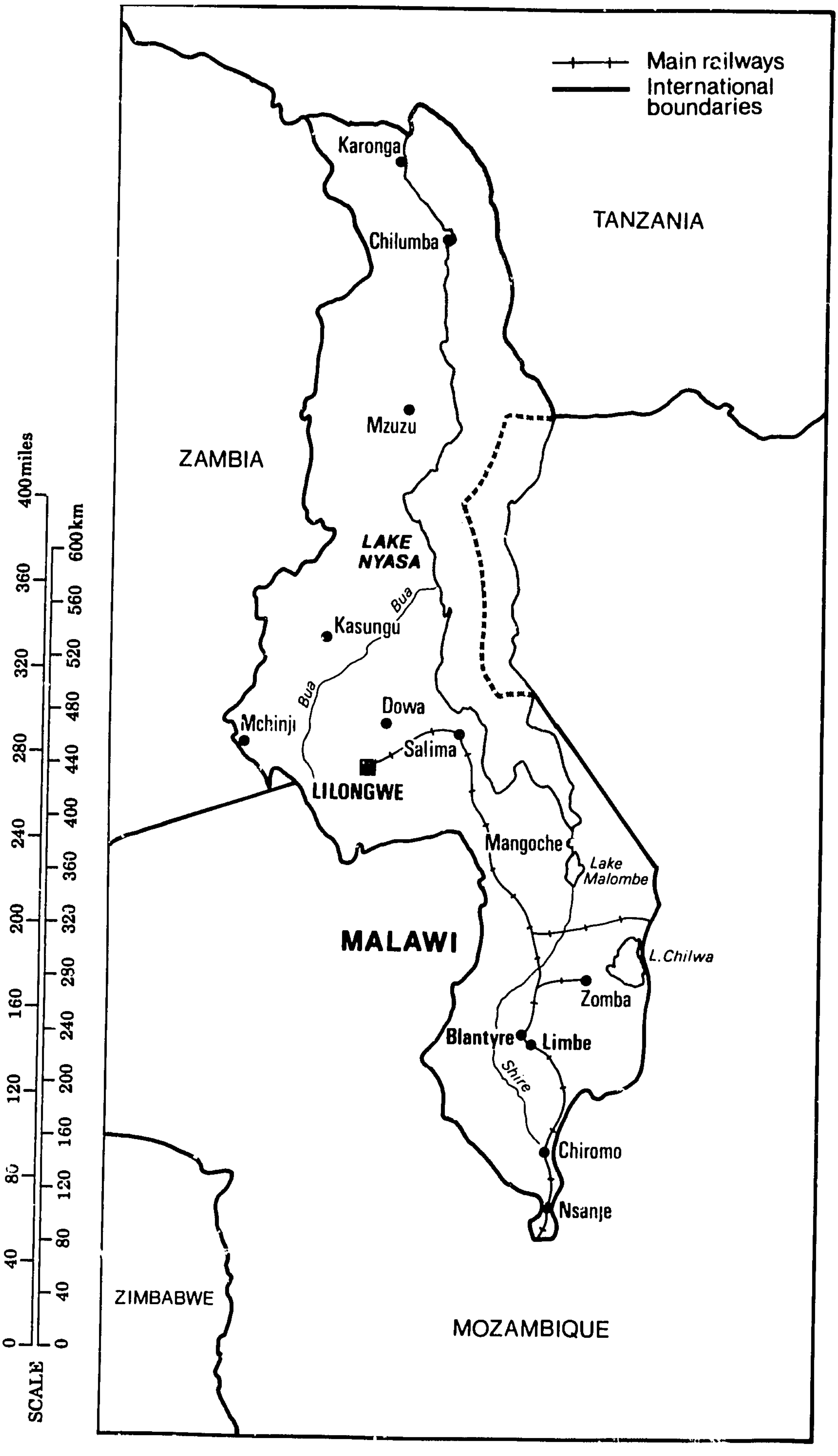
Prepared and published by
Business International
40 Duke Street, London W1A 1DW
United Kingdom



Main railways
International boundaries
TANZANIA
Karonga
Chilumba
Mzuzu
ZAMBIA
LAKE NYASA
Bua
Kasungu
Mchinji
Dowa
Salima
LILONGWE
Mangoche
Lake Malombe
MALAWI
L. Chilwa
Zomba
Blantyre
Limbe
Shire
Chiromo
Nsanje
ZIMBABWE
MOZAMBIQUE
SCALE
400 miles
600 km

BASIC DATA: MALAWI

Land Area: 118,484 km^2

Population: 8 million
(mid-1989 estimate)

Main Towns:

Blantyre	289	Zombu	16
Lilongwe	103	Mzuzu	16

(Population in '000, 1977)

Climate: Tropical, cooler in highlands

Weather at Lilongwe (altitude 1,000 m):

hottest month, November 17-29°C (average daily minimum and maximum); coldest month, July, 7-23°C; driest months, June and July, 1 mm average rainfall; wettest month, February , 218 mm average rainfall

Languages: Cichewa (national language), English (offical language). Chichewa is increasingly understood throughout the country, but Chitumbuka remains the lingua franca of the Northern Region

Measures: Metric system

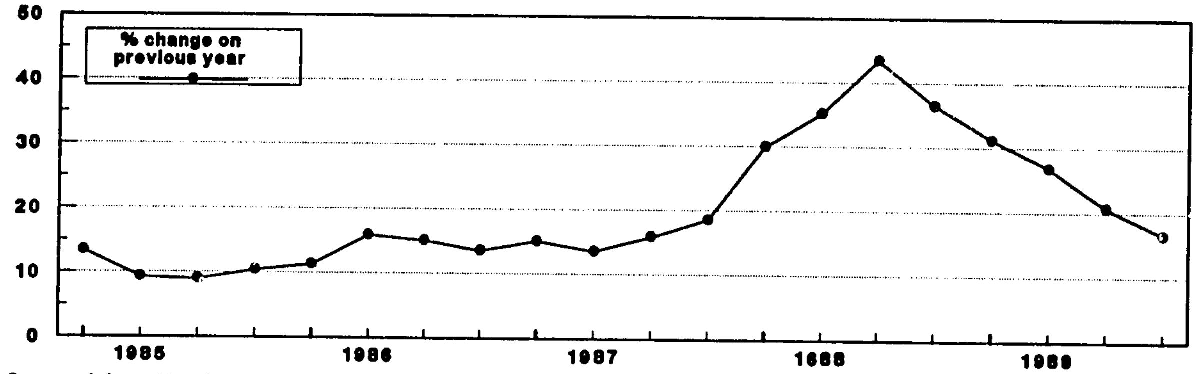
Currency: Malawi kwacha (MK) = 100 tambala.
Average exhange rate for 1989, $1 = MK 2.76

Time: 2 hours ahead of GMT

Public Holidays: January 1, March 3 (Martyrs' Day), Good Friday, Easter Monday, May 14 (Kamuzu Day), July 6 (National Day), October 17 (Mothers' Day), December 25, 26 (Christmas)

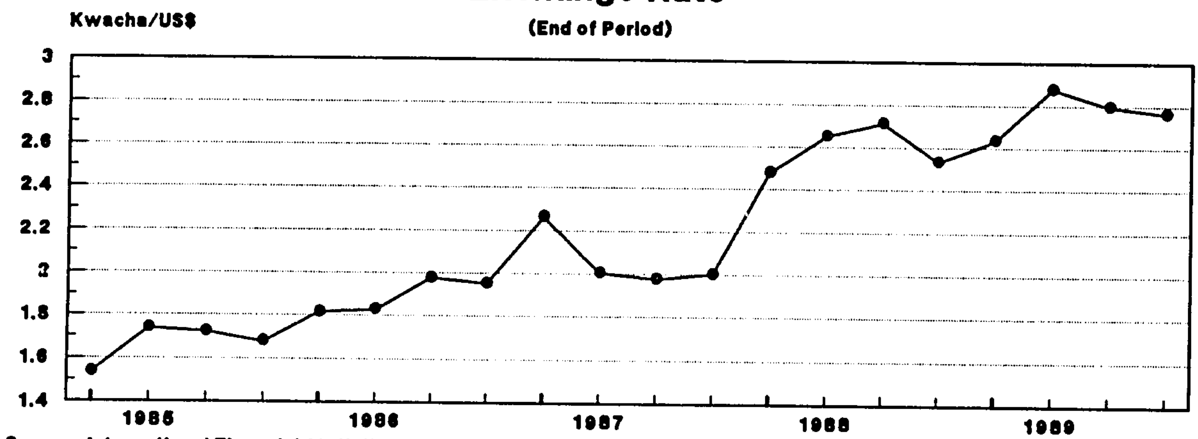
Key Economic Indicators

Consumer Prices



Source: International Financial Statistics

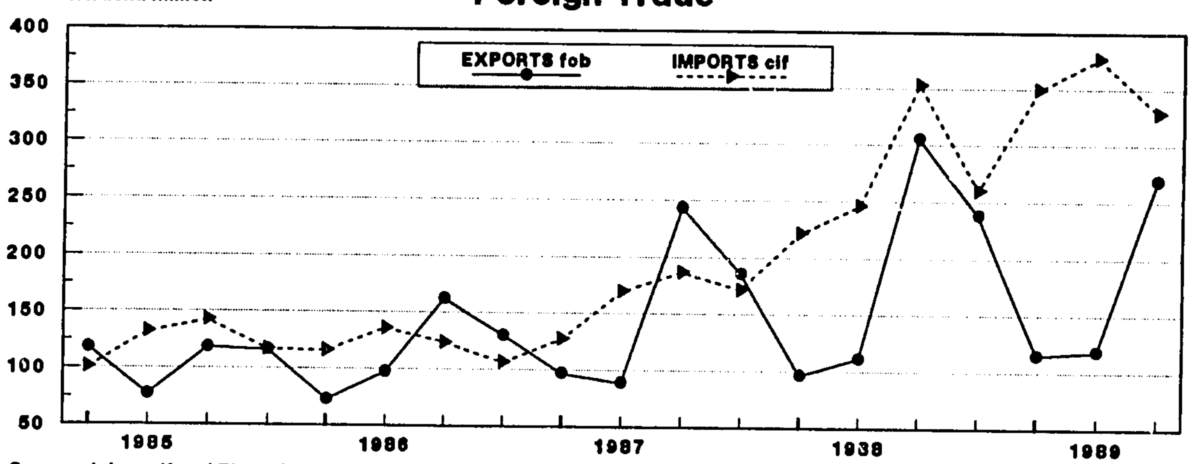
Exchange Rate



Source: International Financial Statistics

Kwacha million

Foreign Trade



Source: International Financial Statistics

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Introduction

Malawi is a small, landlocked economy, heavily dependent on agriculture. Its population of 8.2 million in 1988 is growing at 3.8% a year. Malawi has fertile soils, a favorable climate and good water supplies. Its main exports are tobacco, tea and sugar and its mineral resources include coal, limestone, bauxite, uranium, graphite and phosphate.

In the early 1980s Malawi's economic performance was disappointing with large balance of payments and public sector deficits leading to a sharp rise in debt service. However, in 1983, with support from the World Bank and IMF, Malawi introduced a stabilization program followed by a structural adjustment program. The economy has improved since 1988 and all the performance targets were met. GDP grew 3.1% in real terms in 1988 and is expected to have grown by 1-2% in 1989. Inflation (as measured by the composite index) has been brought down to 15% and is expected to fall further in 1990. While the balance of payments situation is still a matter of concern, improvement is expected as the transport problem begins to be resolved.

Malawi is a one-party dynastic state, governed since independence in 1964 by the Malawi Congress Party led by Dr Kamuzu Banda. Dr Banda, now believed to be in his early 90s, has headed a conservative regime.

The changing political situation in South Africa will benefit Malawi, though more important by far will be the proposed peace talks between the Frelimo government in Mozambique and the Renamo rebels. The restoration of peace in Mozambique, which is widely forecast, will have a major positive impact on the economy by reducing transport costs and congestion.

Malawi trades openly with South Africa and therefore will be unaffected by the eventual removal of economic sanctions. The advent of majority rule in South Africa will not have a substantial impact on the Malawi economy, though South African investment in the region is likely to increase and Malawi will benefit to some extent.

Because of its very small domestic market - $1.3 billion or less than 1% of the Sub-Saharan market of $151 billion in 1988 - Malawi's potential for foreign investment rests primarily on the establishment of an export-platform economy. For many years it has been isolated from main-stream trade except as a supplier of primary agricultural products. It is small and difficult to access by surface transportation but it has a very willing, disciplined and extremely low cost labor force. Re-exports to other neighbouring countries would almost certainly be uncompetitive because of the high costs of importing machinery and other inputs into Malawi and poor transport links to regional markets.

Opportunities must depend largely on production for export with an emphasis on adding value to domestic raw materials. Agro-allied industries and, to a much lesser extent, tourism offer the most attractive investment opportunities. There are also investment openings in the government's privatization strategy.

As a member of the Lome Convention, Malawi has entry to North American and European Community markets on a relatively unrestricted basis. The US has no quota restrictions on textile imports from Malawi. Reduced tariffs are available for goods with specified Malawian content, or added value. Already some businessmen in the country have seized on these advantages and are making up clothing in Malawi from imported cloth and exporting direct to Northern European and North American markets. Preferential access to EC markets does not depend on the nationalityof the owners of the manufacturing or finishing facility, only on its location in a Lome Convention country.

Government policy towards private investment and foreign capital is extremely favorable. At present there is virtually no discrimination between domestic and foreign-owned companies; there is little formal protection of domestic manufacture or regulation except in the agricultural sector to protect food self-sufficiency and to support smallholders who are being encouraged to grow cash crops; price controls have been progressively lifted except for a few essential items, e.g. fuel, fertilizer, maize flour. The government is seeking, with USAID and World Bank help, to privatize its largest parastatal, ADMARC.

Malawi is currently seeking comments on a draft investment code and a system of providing incentives is being actively reviewed. In practice there is a positive attitude towards foreign investors although the same licensing rules, taxation and incentives apply more or less equally to foreign and local companies. The first priority of government policy is to encourage exporters as the country is faced with considerable pressure on its balance of payments. Next comes the need to expand the range of import-substitution goods, produced in Malawi.

The financial environment for a new investor is better than at any time during the last decade. Inflation has fallen to 15% at the end of 1989 from more than 30% in 1988, and monetary policy has been tightened. In view of substantial donor credit facilities available to Malawi it seems probably that the two sources of development funding - the Malawi Development Corporation and the Investment and Development Bank of Malawi - will have access to capital to participate by loans or equity in new ventures over the next two years. Foreign exchange transactions are strictly but fairly regulated by the Exchange Control Department of the Reserve Bank operating through the two commercial banks. The record of the ECD is reasonable and flexible and its commitments are honoured.

Chapter 1

The Economy

1.1 Economic conditions

Malawi is defined as a less developed economy by the international community. Its 8 mn population have among the lowest GNP per capita in the world put at $160 in 1988 by the World Bank (the average for low income countries in Sub-Saharan Africa excluding Nigeria was $240/head while that for all Sub-Saharan countries was $330). Life expectancy is also low at 46 years compared with an African average of 50. But economic performance since independence has been steady in the face of great external difficulties. Malawi has maintained its standard of GNP per capita rather than experiencing decline as did most African countries in the last decade. Latest estimates indeed indicate that there was some growth in real terms in 1989.

Between 1964 and 1979 average annual Gross National Product grew at 6% per year, while the government was able to maintain financial and price stability and to pursue liberal and expansionary economic policies. Whereas other African countries were stressing industrial development at that time, Malawi laid great emphasis on agriculture. The economy began to weaken in the later 1970s followed by a recession from 1979 to 1982, largely due to external factors, particularly the civil war in Mozambique. The costs of re-routing external trade away from the railways running through Mozambique acted as an increasing burden. In 1985-86 there was an influx of refugees from this conflict, a significant decline in Malawi's terms of trade and rising public sector deficits fuelled by debt servicing obligations (see chapter 11).

Early in 1988, with considerable international support, the government undertook a stabilization program followed by further structural adjustment policies (see chapter 11). This has entailed substantial derestriction of imports and efforts at privatizing some public sector and parastatal interests. Within government an important achievement in 1988/89 was a reduction in the overall deficit through improved tax collection and strict budgetary management. Import liberalization has released some 75% of imports of raw materials and spare parts from the need for prior foreign exchange approval. World Bank officials suggest that this has "resulted in improved private sector confidence and increased manufacturing output". Imports grew by 42.5% in 1988 and provisional figures indicate that the current account deficit has almost doubled to US$105 mn. Figures for the first nine months of 1989 reveal a continuing deterioration in the balance of payments situation. GDP growth, on the other hand, was 3.1% in 1988, following an increase of 2.7% in 1987. Provisional estimates indicate that GDP will have grown by 1-2% in 1989.

Table 1.1

Economic Structure (latest available figures)

Macroeconomic indicators	**1986**	**1987**	**1988**	**1989**
GDP at market prices MK mn	2,191	2,756	3,699	-
Real GDP growth %	-0.2	2.7	3.1	-
Consumer price inflation				
Blantyre low income %	14.0	25.3	33.9	11.5[b]
Composite index %	14.8	26.8	31.5	-
Exports fob $mn	248.3	278.4	293.5	182.0[d]
Imports cif $mn	256.8	296.0	421.8	382.2[d]
Current account[c] $mn	-75	-59	-105[f]	-
Reserves excl. gold $mn	24.6	51.8	145.6	120.0[f]
Total external debt $mn	1,156	1,369	1,349	-
Ext'l debt service ratio %	52.9	37.3	45.3	-
Tobacco production mn kg	63.5	72.5	74.8	86.1
Exchange rate (av) MK per $ (March 12 1990 2.6877)	1.861	2.209	2.561	2.762f

Origins of GDP 1988 [fg]

	% of total
Agriculture	36.5
Manufacturing	12.2
Utilities & construction	5.8
Transport & distribution	17.6
Government	15.6
Other	12.3
GDP at factor cost	100.0

Components of GDP 1988 [f]

	% of total
Government consumption	13.5
Private consumption	78.7
Gross fixed capital formation	13.0
Change in stocks	13.1
Net exports of goods & services	-8.3
GDP at market prices	100.0

b: year on year, c:estimate, d: Jan-Sept, e: national sources, f:provisional, g: based on 1978 prices

Source: EIU

Government revenue is derived from taxes on income and business profits which provided about 35% of total domestic revenue in 1988/9;taxes on goods and services are almost as important at 34%; taxes on international trade - 15%, and the balance is accounted for by a variety of licence fees. In 1988/9a further $85 mn was raised as loan finance equivalent to 28% of total revenue. Of this borrowing the bulk was from donor sources as grants or on concessionary terms. Under these circumstances the government was able in the financial year 1988/9to show a small budget surplus, after suffering significant deficits through the rest of the decade. Thus recurrent expenditure is dominated by debt service.

Malawi has maintained an active exchange rate policy devaluing the Kwacha in order to ensure that export industries remain competitive. There is no parallel market for the exchange of currency or imported goods. Thus the distortion present in many African countries caused by unrealistic fixed exchange rates is avoided.

Table 1.2
Average exchange rates
(MK per US$)

1984	1985	1986	1987	1988	1989
1.4134	1.7191	1.8611	2.2087	2.5613	2.7595

Source: IMF

Continued exchange rate depreciation is likely given Malawi's strained balance of payments situation, its high rate of inflation - relative to its main trading partners - and the need to meet conditionalities imposed by the IMF and World Bank which will insist on exchange rate realism.

Table 1.3
Retail price index
1980 = 100

	1985	1986	1987	1988	1989
Composite index	174	200	253	333	382
% change	15	15	27	32	15

Source: Government of Malawi and EIU estimates

The government also seeks to protect its consumers from high prices charged by monopolistic domestic producers by permitting the import of competing goods. This policy is not popular with the entrepreneurs but it does seem to have been effective,in conjunction with other measures introduced in the stabilization program, in bringing the rate of inflation down from over 30% at the end of 1988 to 15% a year later.

Thus in many respects the domestic market operates in an open and transparent manner. Clearly there are distortions such as the high cost of imported goods and inputs which can serve to favor supplies from South Africa over other foreign suppliers and over domestic manufactures or assemblers who do not benefit from economies of scale. But given the government's concern with stabilization and meeting World Bank targets there is unlikely to be any change in direction of the next two or three years.

1.2 Agriculture

Agriculture is the most important sector of the economy, contributing over one-third of Gross Domestic Product and accounting for over 90% of export earnings. At least 85% of the population is supported by the agricultural sector. The main subsistence crop is maize which is grown by most smallholders. At the same time a substantial surplus is produced for sale as a cash crop - in 1988 ADMARC purchased over 120,000 tons. A surplus was also produced in 1989 despite widespread flood.

Tobacco is overwhelmingly important as an export crop contributing some 64% of all agricultural earnings in 1988. Total sales in 1988 amounted to 75 mn kg. Burley and flue-cured tobacco are grown on estate farms, fire and air-cured tobacco are cultivated by some 60,000 smallholders. In 1989 burley production increased by 34%, but average prices fell to MK 3.7/kg from MK 5.24/kg, thus reducing the value of the crop at auction by 5%. As the trend toward low tar cigarettes increases, global demand for burley will continue to rise and Malawi should be able to increase its burley sales. The World Bank has been pressurizing the government to allow an expansion of peasant production of burley as it is viewed as a potentially lucrative cash crop.

Tea is Malawi's second major export and, after Kenya, Malawi is Africa's second largest exporter, accounting for 3-4% of world exports. Export earnings increased by 28.6% in the first nine months of 1989 to MK 81 mn (US$ 29.5mn). Most of the tea is grown around Limbe to the south of Lake Malawi.

Sugar is Malawi's third most important export, after tobacco and tea, and is produced by two companies: the Sugar Corporation of Malawi (Sucoma) and the Dwangwa Sugar Corporation (Dwasco). Lonrho has a 51% stake in Sucoma, ADMARC holding the balance. The government and ADMARC hold 68% of Dwasco, Lonrho has a 28% holding. Both estates are managed by Lonrho. Malawi's production costs are extremely competitive, largely due to very low labor costs and Malawi enjoys preferential access to the US and EC markets. In recent years transport difficulties have led to stockpiles of sugar awaiting export. As transport improves (see Chapter 4), so should the opportunities for the sugar industry. The government is said to have been looking at the possibility of bringing in another international company as a way of boosting production.

Unlike many countries in Africa, Malawi has encouraged and preserved a considerable number of estate farms; in 1985 estate farming occupied about 30% of the land under cultivation. The problems that are being encountered in agriculture are largely in the smallholder/peasant subsistence sector where the World Bank is concentrating a $160 mn program in the current year. The two severe handicaps are:

1. acute pressure of people on land which is reducing yields per acre;
2. increasing shortage of firewood timber due to the heavy demand by the tobacco industry for flue and fire curing, and to the needs of some 0.8 mn refugees.

Despite the difficulties Malawi has a good record of feeding its people. Food security has the highest priority and is supported by a strict strategic reserve policy for maize, the staple diet. For some years Malawi was an important exporter of maize and even in the present circumstances of having an extra 10% of (refugee) mouths to feed, the maize supply is reliably reported to be in surplus. The country is presently self-sufficient in beef, pork, mutton and lamb. Fish from Lake Malawi contributes about 70% animal protein consumption and a small volume is usually exported.

1.3 Manufacturing

Manufacturing industry accounted for some 12% of Gross Domestic Product in 1988 with agricultural processing the most important sector. This includes tea factories, cotton ginneries, tobacco processing, sawmills and plywood, vegetable oil and grain mills, abattoirs and cold storage. There are also major multinationals involved in the manufacturing sector. Lever Brothers (Malawi) produces soaps, detergents, glycerines and animal feed. With the help of funding from the African Development Bank, David Whitehead and Sons (Malawi) Ltd has increased production at its textile plant to 30mn metres of cloth a year and started a MK 20 mn (US$ 7.4 mn) cotton-polyester operation. The Portland Cement Company produces cement at Blantyre and there is a Bata shoe plant.

Table 1.4
Index of industrial production
(1984 = 100)

	1987	1988	% change
Goods for the domestic market:	101	108	6.9
of which -			
consumer goods	109	113	3.3
food,beverages and tobacco	115	128	11.0
clothing,textiles & footwear	90	65	-27.9
others	113	122	7.5
intermediate goods	81	98	21.0
Export goods	88	95	8.7
Total	97	105	7.4

Source: EIU

1.4 Mining

Malawi has mineral deposits which include bauxite, asbestos, graphite and uranium. The state-owned Mining Investment and Development Corporation (MIDCOR) was set up in 1985 to investigate the technical and commercial viability of exploiting known mineral deposits through the use of public funds or, where possible, with local or foreign organizations.

A mining program to define coal resources is still at the exploration and drilling stage. The United Nations Development Program, (UNDP) has completed funding of an airborne geophysical survey. A search for economic mineral deposits in carbonatite areas is being conducted with Japanese aid. The UK's Central Electricity Generating Board is looking for uranium and the International Fertilizer Development Center of Alabama is assisting in research on phosphate rock. But so far total mineral output is small; annual coal production amounts to under 30,000 tons and the Gem Company of Malawi exported 181.5 grammes of rubies and 186.8 grammes of sapphires in 1988.

1.5 Energy

Malawi's Department of Economic Planning and Development estimated that 1988 energy consumption amounted to the equivalent of 2.9 million tons of oil of which 86% was provided by biomass sources (firewood, charcoal etc.).

Malawi's electricity generating capacity has greatly increased due to the development of hydroelectric schemes. Electricity sales in 1988 amounted to 461 mn kWh. The fourth

20 mW unit of the Nkula B power station came on stream in 1986 and the final unit is scheduled for completion in 1991. Total hydroelectric potential is estimated at 1000 mW. The Electricity Supply Commission has planned a new power station at Kapachira Falls on the lower Shire river which is due to be commissioned in 1997.

Malawi's coal industry started in 1985 when open cast mining of the excellent quality Kaziwiziwi deposit began. In 1988, 26140 tons were mined accounting for 40% of domestic coal consumption. However, available reserves are thought to amount to only 150,000 tons and so attention is now moving to the Ngana field with minable deposits of 1.6-1.8mn tons. Exploration has also begun at Lengwe and Mwabvi where larger reserves may exist.

1.6 Tourism

The government is keen to develop the tourist industry as a major foreign exchange earner. The re-opening of the Zambia-Zimbabwe border and the new international airport at Lilongwe mean that Malawi is more accessible than previously. The number of foreign visitors has increased substantially from 45,100 in 1984 to an estimated 100,000 in 1988. Further growth may be restricted by the shortage of hotel beds by Lake Malawi.

1.7 Business Trends and Outlook

The private sector has borne the full weight of increased costs of transportation due to disruption of the links to Mozambique and ports. In the case of exporters' primary products, the very considerable incremental costs have been absorbed by the Malawian exporters. Thus, for the international trader buying tobacco on the auction floors of Malawi, the delivered cost to Europe will be no higher than that of equivalent grades from Zimbabwe. As far as possible, the tobacco processing industry has passed these costs back to the growers, and indeed when growers are selling direct their prices will reflect a discount for transport costs. The situation for tea is similar except that the true costs fall on the labor in the tea gardens in the form of very low wages.

The importers have passed higher transport costs directly on to the consumer, who is only protected in certain key sectors by official price controls, e.g. fuel, fertilizers, maize flour. Over the last few years profits have been squeezed and the propensity to invest has been limited. Capital was in short supply and there was little new investment during most of the last decade. Most of this expenditure has been to improve existing facilities rather than expanding into new business, and has been generally achieved with the use of internally generated funds. One effect of low bank deposit rates and limited industrial investment opportunities was that in 1989, where private money was available, it tended to be invested in building houses and offices.

The resumption of rail services to Nacala should also benefit the economy in 1990 due to significant savings in transport costs as trade is switched back from South African ports to Nacala. However, as long as there is no political settlement in Mozambique, the rail link must be considered fragile. Some shippers, particularly of higher value goods, may continue to use the South African ports for the time being. Lower transport costs should help to moderate inflation which may fall to 10% in 1990. Inflationary pressures may result from increased prices for domestically produced foodstuffs. This could lead to an upward adjustment of the minimum wage rates.

In general the outlook for the economy is favorable. Business optimism is higher than during the last two years and substantial aid is on hand. Changes in the political balance of the Republic of South Africa are expected to reduce tensions in Mozambique which might ease Malawi's burden of refugees, but it is far from certain how the South Africa will steer out of its present policies towards majority rule.

Chapter 2

Trade

Malawi's trade structure is based on the export of primary commodities and the import of manufactures; the make up of this trade is shown below.

Table 2.1

Exports by main commodities value and share
Kwacha mn

	1986		1989 (est)	
	value	% share	value	% share
Tobacco	244	55	478	63
Tea	68	15	102	14
Sugar	40	9	74	10
Groundnuts	16	4	10	1
Coffee	23	5	27	4
Total domestic exports	446	100	758	100
Re-exports	16		12	

Table 2.2

Imports by main end-use
Kwacha mn

	1986		1988 - 1st 6 months	
	value	% share	value	% share
Consumer goods	65	14	45	10
Plant/equipment	66	14	104	22
Transport equip.	71	15	54	12
Building materials	26	5	25	5
Industrial inputs	159	33	150	32
Oils,fuels etc	70	15	62	13
Total imports	478	100	467	100

Source: Government of Malawi and EIU

This pattern of trade reflects the economic main springs of Malawi. It exports basic commodities of which tobacco is by far the most important. In 1989 estimates suggest that this one crop contributed 63% of all export earnings. Efforts to diversify to other primary crops and to manufactured goods have yet to be rewarded. Like many other African countries its other staple crops are suffering from a slow but persistent erosion in world prices. Tea, coffee and cotton, also grown in Malawi, are all in over-supply world wide and markets reflect this situation. Sugar is somewhat stronger but largely because the market is effectively bolstered by quotas; even so the underlying price trend in real terms is downward.

Prospects for new non-agricultural exports from Malawi must depend on finding markets in Europe and North America often favored through gaps in the quota system or preferential access. Nevertheless while there are severe if not crippling constraints on transportation it may well be necessary to deal in relatively small volume but high-value products such as fashion-wear or electronic components.

Trade in a land-locked country is always difficult; there is a premium to be paid on carriage to and from ports which is effectively either a deduction off the exporter's price or a surcharge on imports. This inherent difficulty has become a major set back for Malawi. Until 1982 about 95% of foreign trade was directed through the Mozambican ports of Beira and Nacala but both routes have been largely out of action since then due to the activities of the anti-government forces in Mozambique. The loss of these routes has increased transport costs by $50-75mn a year; total domestic exports in 1989 were put at about $300 mn. In 1988 insurance and freight costs represented 40% of the total landed and delivered cost of imports as compared with a factor of 22% in 1980. The reopening of the Nacala railway should reduce these costs and hence bring about an improvement in the trade deficit in 1990.

Provisional national source data reveals a widening of the merchandise trade deficit over the first nine months of 1989. The gap grew by 80% to MK 552mn. Tobacco earnings fell slightly, despite higher volumes and exports as a whole were marginally lower than during the corresponding nine months of 1988. The 29% increase in imports was the major contributor to the worsening deficit and was largely the result of a progressive liberalisation of import controls, the greater availability of foreign exchange and insurance and freight costs.

As can be seen from Table 2.3 (below) the UK remains Malawi's prime market for its export crops, but South Africa is the leading supplier of goods and services, largely because of the disruption of trade routes through Mozambique. The USA is in the second rank of buyers of Malawian commodities but is a relatively minor direct source of imports, in some cases due to reexport through South Africa of goods originally imported by the South Africa from the USA. Some 70% of Malawian trade is with six countries. The other fifteen members of the PTA account for 10% of imports and a mere 3% of its exports.

Table 2.3

Main trading partners

Direction of trade 1987

% share	Imports from	Exports to
UK	20	23
South Africa	35	11
USA	3	11
Netherlands	1	10
Japan	6	9
W Germany	5	9
PTA countries	10	3

Source: Government of Malawi

Non-tariff barriers

There are no import or export quotas, or other significant non-tariff barriers in operation in Malawi. The necessity to obtain an import licence is, at present, probably the most significant impediment to trade. Under the Structural Adjustment Program the progressive liberalization of the imports of inputs for manufactured goods is likely to continue

Treaty links

Malawi has economic treaty links with its neighbours in Central Africa, with a wider grouping of countries in East Africa and with the European Community.

1. Southern African Development Coordination Conference - SADCC

This consists of nine countries Angola, Botswana, Lesotho, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe as well as Malawi.

It was established in 1980 to set up a program of regional integration. To date its efforts have been directed to transport and telecommunications and have attracted substantial support from donor countries where there is great emphasis on reducing dependence on trade routes through South Africa and rehabilitating existing facilities.

2. Preferential Trade Area for East and Southern Africa - PTA

Sixteen countries have joined the PTA since it began operations in 1984. It aims to liberalize internal trade, to encourage cooperation in industry, agriculture, transport and communications and to create a regional common market through which trade would be free of tariffs by the year 2000. In practice progress towards free trade has been extremely slow largely due to difficulties in defining local ownership of manufacturing companies, as the majority will is to favor those producers with a predominantly national shareholding when offering progressive tariff reductions.

Critics in Malawi of the PTA claim that it has served to reduce trade with Zimbabwe rather than the reverse. Since the PTA has an inter-nation monetary clearing system this has enabled more inter-country trade to be conducted than in the past where hard currency had to be used.

3. Lome Convention

This is a general trade agreement between the EC and 66 former dependencies, including 45 African states. It provides for duty free entry into the European Community for some tropical agricultural commodities produced by Lome Convention countries, preferential access to Europe for some manufactures and a wide program of economic support. As European integration intensifies it is inevitable that the Lome countries will press for preferential entry to European markets for their manufactured and processed goods as the scope for increasing exports of agricultural commodities is severely limited not only in volume terms but also value as prices tend to weaken.

4. GATT

Malawi is a contracting party to GATT but not a member of the Multi Fibre Agreement which has set quotas for entry of textiles into developed countries. Thus exports attract non-discriminatory status and in the case of textiles, for example, are not restricted by quota in Western markets. It is on this principle that Malawi is currently exporting finished garments to the US and Europe.

Chapter 3

Labor

The population of Malawi consists of approximately eight million Malawians plus some 800,000 refugees from the conflict in Mozambique. The rate of population growth is projected as an annual 3.5% to the end of the century. Approximately 1.1 million (13%) Malawians live in urban communities. The work force, calculated on the basis of those falling in to the 15 to 64 age bracket, is a gross total of four million, some of which are in full time education or, indeed working outside the country as is common for Malawians. The work force is projected to rise to 5 mn by 1996. But in 1990 the numbers in formal employment are probably less than 500,000. Most of the labor force not in registered paid employment are involved in smallholder farming, the informal sector or are working in the home. In fact the phenomenon of unemployment and, more commonly still, underemployment threatens. The capacity of the rural sector to accommodate the expansion of population is coming close to its limit; agricultural land is now intensively cultivated.

Table 3.1

Structure of employment 1987

	'000	%
Agriculture, forestry & fishing	179.8	44.1
Mining & quarrying	0.3	0.1
Manufacturing	49.6	12.2
Electricity & water	5.5	1.4
Building & construction	30.7	7.5
Trade, restaurants & hotels	34.4	8.4
Transport, storage, communic's	24.6	6.0
Financial services	12.8	3.1
Community, personal & social services	69.6	17.1
Total	407.4	100.0
of which:		
government	91.0	22.3
private	316.4	77.3

Source: EIU

Wage rates are extremely low. In the towns the minimum wage in February 1990 was Kwacha 2.17/day($0.87); wage levels outside urban boundaries dropped to a minimum of Kwacha 1.74/day($0.70).

There is a tradition of mobility in the work force as a considerable number of young men travel to South Africa to work in the mines and industry generally. Many others are to be found in other Central and East African countries competing largely in the informal urban sectors of the economy. As the government's Statement of Development Policies puts it "Malawi's greatest asset seems to be the people's favorable attitude to work."

All foreign nationals need a work permit

Trade Unions

Under Malawi law trade unions are permitted and indeed encouraged. There are a number of unions but they have no record of engaging in confrontations with management over wages. The negotiations framework provides for arbitration processes, but these operate within a minimum wage system. In practice, labor disputes are often handled not only by the industry union but also by party officials and the Ministry of Labour, as well as management, and are concerned with working conditions, safety and fringe benefits. Labor relations have been excellent for many years.

Chapter 4

Infrastructure

Malawi is a land-locked country dependent on its neighbours for transport routes to the sea. Since independence over a third of the development budget has gone to improving the domestic rail and road networks. But civil war in Mozambique has disrupted external access routes; now almost all imports and exports are transported through South Africa rather than along the much shorter rail links through Mozambique to the Indian Ocean ports of Beira and Nacala. The distances by rail from Blantyre to Beira and Nacala are some 650 kms and 810 kms respectively. This compares with distances from Blantyre to Durban of 2,660kms through Mozambique by road and rail, or of 3,760kms to make the same journey to Durban through Lusaka in Zambia again involving transhipments from road to rail. Blantyre is some 1,800kms by lake, road and rail from Dar es Salaam, the port of Tanzania.

The domestic transport network of lake, air, road and rail links has experienced considerable investment; at present the emphasis is on roads and lake traffic. There is a proposal by Clipper Ventures of Washington to provide a break-bulk transport shipping service on Lake Malawi. This has a local joint venture company actively raising funds in Malawi to begin operations.

Since Malawi Railways is essentially designed to serve the southern part of the country and to link with sea ports its contribution has been severely diminished by the virtual closure of trans-Mozambique lines; the volume of freight carried fell by over half between 1982 and 1988. However, the restoration of the railway to Nacala has meant that one train a week has been scheduled in each direction. Transit risk insurance is available. Although MNR rebels in Mozambique have called off attacks on the line, the situation could change if talks with the Maputo government break down. The line could also run into capacity problems. The key test will be the extent to which agricultural exporters will be willing to switch to the Nacala line over the next few months. It has also been reported that the government has issued a directive to parastatal bodies requiring them to make use of the line.

United Transport Malawi (UTM) has recently bought new buses which are operating on commuter routes in Blantyre. More buses are on order and new routes under consideration. UTM has recently started a coach service to Harare via Lusaka and is considering extending it to Botswana.

There is a good basic network of well-maintained all-weather trunk roads and a program for upgrading the more important of the remaining 10,000kms. Substantial road haulage capacity is available of which 80% is owned by interests in the South Africa, Zimbabwe and Zambia.

Lilongwe airport is now the only international airport in the country. It has a good service connection to Blantyre and daily flights to Europe and to neighbouring countries.There is a national airline - Air Malawi - which operates domestically and within the Central and Southern African area.

Telecommunications are good both internally and internationally.

The main services - water and electricity - are efficient and expanding. Electricity is generated by hydro power and is available for export.

Maintenance facilities for vehicles are reasonably good. Back-up services for computing systems are available. Mechanical and electronic spares can be obtained, often from South Africa.

Expatriate conditions

All prospective investors must obtain permits to enable them to reside in Malawi in order to conduct their business. The appropriate status to seek is that provided by a Temporary Employment Permit valid for a period of two years and renewable. Application must be made to the Immigration Authority and to the Ministry of Labour; a fee of MK250, about $100,is payable on issue and renewal. It is important to note that the right to repatriate funds is dependent upon holding a valid and current Temporary Employment Permit.

Terms of employment in Malawi are usually on a renewable contract for a fixed period. If they are correctly drawn up and are registered with the Commissioner of Taxes and the Reserve Bank exchange control officials, they can confer the important taxation and remittance privileges that make such employment attractive to foreigners.

At times applications for employment permits can take months rather than weeks to process even when requested by companies long-established in the country. In fact there is rarely any real objection to granting applications particularly when they are associated with a new investment venture. In the case of major investments these are aspects to covered in the preliminary negotiations with government. Spouses and children have the right to accompany a permit-holder but do not have the right to work unless they are also possessors of employment permits as individuals.

The highest rate of personal income tax is 50% which all commercial salaries paid to expatriates would automatically attract; the threshold is some $10,000 p.a. Appendix three shows a range of typical tax calculations for expatriates working in Malawi. At a total remuneration of $50,000p.a. would attract income tax of $21,328;at $100,000 the tax liability rises to $46,328. There are certain benefits in kind that are taxed in a generous and advantageous basis, such as provision of furnished housing, services, and automobile and interest-free loan finance.

Rentals of furnished housing of a standard to accommodate a family on a contract posting are reported to be of the order of $25,000p.a.in Lilongwe where there is pressure of demand from an expanding international community. The situation is easier in the Blantyre area, the center of business in the country.

Living conditions for expatriates are exceptionally pleasant. Certain local requirements as to dress, gaming and censorship apply, otherwise there are no restrictions and security is rarely a problem. Sporting facilities and climate are good. Housing is usually in detached residences or townhouses and is always convenient for work. Employment of house servants and gardeners is normal. Schooling facilities up to 16 are good. Medical facilities are adequate. Tap water is potable in the main towns; other public services are at least adequate, often better.

Chapter 5

The Government

Malawi is a republic with a single chamber parliament,and a single political party - the Malawi Congress Party (MCP). The country has been led by His Excellency the Life President, Ngwazi Dr H.Kamuzu Banda since it became independent in 1964. He is also President of the MCP and is Minister of External Affairs, Agriculture and Justice. Thus the President has concentrated decision-making powers in his own hands. Normally Parliament meets three times a year to enact legislation. Up to 1979 no elections to Parliament took place; the MCP nominated members for each constituency who were unopposed. Elections were held in 1979, 1983 and 1987. The party nominated the candidates, who were all members of the MCP. Although no campaigning was allowed some 40 MPs were replaced in the 112 strong Parliament in 1987. As a forum for mobilising political opinion and expounding government policy the annual party convention is more important than Parliament. The rule of Dr Banda has been firm.

The basic approach to economic policies taken by his government has been highly pragmatic and flexible and is generally recognised, particularly by the World Bank and IMF as successful in achieving growth in one of the world's poorest countries.

Malawi's international stance has always been firmly pro-Western and, until the last 5 years, rigidly anti-Communist. It is a member of the Commonwealth and has close ties with Britain. The government has maintained diplomatic relations with Israel and with Taiwan; the effects have been to cut Malawi off from aid from the Arab institutions and from China. It has an open diplomatic and trade relationship with the Republic of South Africa despite attacking apartheid vigorously. Relations with Mozambique are now better than at any time since 1975 when it became independent of Portugal. The problem of the influx of refugees into Malawi has been handled equably by both governments; Mozambican officials have been allowed access to the refugees and Malawi is cooperating in a repatriation program.

There is no designated successor and no machinery for effecting the transfer of power to a new regime. After a period of one party rule lasting more than a quarter of a century, there are some desiring political change. The army is likely to play the decisive role in the choice of the next President.

However, even if the Banda government were to be succeeded by a radical leader, which is very likely after 25 years of conservative rule, there would be little scope for major changes in economic strategy. With its narrow resource-base, its fast-growing population and the additional temporary problems imposed by the refugee influx and transport bottlenecks, Malawi would be forced to maintain economic policies approved by the donors, including the World Bank and IMF. Accordingly, the high probability of political change, does not imply a changed investment environment.

The Impact of External Events

The future political situation in southern Africa depends very largely on progress made in the Republic towards removing apartheid and moving towards some form of representative government. In the short-run, there is every indication that the area will become more settled as the government in South Africa becomes more concerned with internal change rather than external relations. It is believed that this may help to ease tensions in Mozambique to a point where there will be reconciliation between the government and the rebel forces. This would enable Malawi to begin to repatriate its vast numbers of refugees back to Mozambique. It would also enable work to be speeded up on the rehabilitation of the railway link to Nacala, and ensure the security of the line to Biera. Apart from the risk from the rebels, there are security problems on both of these routes and in the two ports, so that a return to full operation could not be foreseen within a twelve-month period. Nevertheless, all these factors would remove severe burdens from the Government of Malawi and boost confidence and investment.

Chapter 6

The State in the Economy

As in most African countries there is a high degree of state intervention in the economy, but this is largely a result of the difficult economic conditions which have prevailed. In essence, however, the private sector is seen as the prime source of growth.Foreign capital and management have been used to create an open, market directed economy.

Table 6.1
Gross Domestic Expenditure 1987

		% of GDE
Consumption		90.6
of which	: private	74.5
	: government	16.1
Investment		11.3
of which	:private	3.3
	: government	8.0
Total		101.9
Net imports		1.9

Source: IMF

The public sector dominates investment, accounting for two-thirds of the total since 1981. The share of private investment fell from 6.4% in 1982 to 3.3% in 1987. The decline in private investment in the 1980s is attributable to the weak financial position of a number of privately-owned businesses and the curtailment of imports.

Table 6.2
Gross fixed investment by type of industry - 1986
Kwacha mn

Public	196
Private	112
Total	308

Source: Rural Enterprises and Agrobusiness Development Institutions Project (READI)

Definition and quantification of the parastatals is not simple in that statistical sources include parastatal employees under a private classification, while estimates of gross fixed capital in industry includes minority holdings by public sector institutions in private enterprises.

Despite the dominance of public investment, by comparison with some of its neighbours Malawi can be seen as a paragon of the private enterprise system. Public investment has been intended mainly to complement private activities in the productive sectors,largely agricultural in basis, by providing essential infrastructure, public utilities and supporting services. In addition there is a range of parastatal companies and organisations designed to serve and exploit agricultural output. In recent years government has attempted to divest itself of some of the less successful of these parastatals.

Although there is no formal development plan, since 1983 the government has operated a rolling 3-year public sector investment program, agreed with the World Bank. Its current working document is the "Statement of Development Policies, 1987-96" which states the government's objectives as the reduction of poverty, ignorance and disease by the achievement of rapid and sustained economic growth; an improvement in income distribution; and a reduction in the instability of welfare for both the individual and the nation.

The largest parastatal organisations are run on commercial lines, the rest are regulatory, promotional and developmental. In 1984 they accounted for about 25% of GDP; thus their performance is crucial to the overall well-being of the economy. In the early 1980s the parastatals were a severe financial drain, being the biggest contributor to the growing budget deficit. The major reasons for this situation were poor management, absence of financial control and forward planning, lack of accountability and excessive political interference. Reform was crucial and supported by the IMF and World Bank.

6.1 The Parastatals

There are 24 non-financial public enterprises of which 10 (Table 6.3) are of particular importance. Total revenue of these major statutory bodies averages 10% of GDP, though very large losses were incurred in the mid-1980s,partly reflecting the deterioration in the financial position of the Agricultural Development and Marketing Corporation (ADMARC). Losses peaked at MK 21 million (US$11 mn) in 1986, of which nearly MK 20 million represented ADMARC's losses. By 1988, the public sector had regained a modest surplus.

Table 6.3
Malawi: Leading Public Enterprises 1987/8

MK 000

	Revenue	Investment	Net Profit or Loss
ADMARC	126.2	2.5	-4.6
Malawi Railways	25.5	7.0	-1.1
Electricity Supply Comm.	39.6	27.0	11.2
Malawi Dev Corp	3.9	4.7	1.7
Malawi Housing Corp	9.6	0.7	-0.8
Air Malawi	28.0	0.2	-1.0
Blantyre Water Board	9.1	3.1	-1.9
Lilongwe Water Board	4.3	11.7	0.3
Malawi Book Service	6.5	0.2	0.8
Wood Industries Corp	4.8	0.7	-1.4
Consolidated	257.5	57.9	3.2.

Source: IMF

ADMARC - the Agricultural Development and Marketing Corporation -is by far the most important with revenues approximating 5% of GDP. It is required to purchase all produce offered to it at the official producer prices. In many cases it is an effective monopoly. It is generally allowed to set domestic prices on commercial criteria, except for maize which is fixed by the government. By the early 1980s, ADMARC's profitability had become to depend almost entirely on its tobacco trading activities.

In 1986, it faced a very serious financial difficulties caused by

a. declines in export revenues from maize and tobacco
b. its dependence on a single crop (tobacco) for its profitability
c. the cross subsidization of other crops (especially maize)
d. its investments unrelated to agricultural marketing.

It was forced to borrow heavily from the government and banks and in 1986, the World Bank was called in to advise on the restructuring of its balance sheet. Since then, a number of non-agricultural investments have been sold off to restore its cash position. The divestment program is designed to enable ADMARC to fulfil its basic marketing function.

To date ADMARC has made some progress in privatizing former assets - see below in discussion of existing foreign investment - but after three years of effort, and internal upgrading, its still holds considerable assets scheduled for divestment. To some extent this is due to the poor financial performance of the companies concerned, but also to the fact that very few Malawians have the capital or the management experience to buy into these companies. Thus the government while attempting to reduce its role in industrial ownership is stuck with a somewhat larger role than it would wish.

In addition to ADMARC and the parastatal utilities, the economy is dominated by four state-owned institutions :

a. Press Corporation
a holding and management company controlling a significant and growing part of the commercial sector. Technically, the Press Corporation is private but it is funded by the government.

b. Import/Export Company of Malawi
largely a trading company but has some interests in industrial ventures.

c. Malawi Development Corporation - MDC
a large holding company with an active function in some of the companies in which it has equity.

d. The Industrial Development Bank
a traditional development finance operation.

All four enterprises are active in many of the same sectors of the economy; they all have investments in industry, often in the same enterprise. As a consequence there is a network of interlinked interests covering a substantial part of the country's industrial and commercial life, including direct participation in the two commercial banks. This has provided stability during times of economic slowdown but also created managerial problems.

6.2 Privatization

The privatization and commercialization strategy has been increasingly applied to state-owned enterprises. Thus, in the mid-1980s the huge Press Corporation, directly owned by President Banda, was restructured. This action insisted upon by the World Bank, transformed the Press Group from the largest drain on the Malawi economy to the most efficient and profitable locally owned enterprise as a result of the new management team and a swap of assets with ADMARC. Press Corporation and MDC now have stakes in

Bata Shoe, Oilcom and the Commercial Bank acquired for the transfer to Admarc of some weak agri-processing operations.

In early 1989 Stagecoach Holdings, the UK's largest independent bus operator, bought 51% of United Transport Malawi (UTM) from BET. UTM is now run as a joint venture with ADMARC. New buses have been acquired, turnover on existing routes has increased dramatically and new routes are planned.

One recent example of the government's commercialization policy is that of the Blantyre Water Board. The board has introduced a number of reforms: there is now a strategic plan with a list of performance indicators for the infrastructure, levels of service, staffing and costs. New salary structures and performance payments were introduced. Restructuring has led to a 25% cut in staff. While the Board made a loss of 0.5 mn Kwacha (US$ 0.2 mn) in 1988/9 it is expected to generate a surplus of 0.8 mn Kwacha in 1989/90.

Other notable examples of the trend towards privatization include:

* more contracting out of building, civil engineering, maintenance and design for public sector projects
* divestment of the Malawi Development Corporation
* the sale of parastatal activities to local or foreign owned business
* joint ventures between parastatals and foreign partners to facilitate expansion programs

Further privatization is anticipated given the strong World Bank commitment to the program and recently there have been reports that the government is considering the sale of 49% of its shares in Air Malawi.

Over the last decade there has only been one case of nationalization, when a replacement investor was not found in the case of foreign disinvestment.

In trade policy the World Bank has supported a successive liberalization of foreign exchange allocations for imports. Some 75% of imports of raw materials and spare parts and a significant share of intermediate goods are no longer subject to prior foreign exchange approval by government. At present there is no indication as to how far the government will go in freeing the balance of imports from controls. Nevertheless under the existing rules most business inputs can be imported without control.
As discussed below, World Bank programs in Malawi have served to support government policies which are deregulatory in character.

The objectives of the sectoral policies propounded by the government are summarized below.

1. Agriculture
   a. ensure food security, ie adequate maize crops for self-sufficiency
   b. improve rural income by increasing small- holder cultivation of food and cash crops
   c. increase primary and processed agricultural exports by expansion and diversification;
   d. conserve natural resources particularly fuelwood.

2. Industry
   a. emphasize the role of the private sector;
   b. maintain a market-determined pricing system;
   c. reduce governmental intervention and bureaucratic procedures;
   d. encourage the development of small-scale enterprises.

3. Transport
   a. encourage increased Malawian participation in road haulage, both domestic and international;
   b. move to liberalize regulation in the trucking industry;
   c. strengthen the management of Malawi Railways;
   d. reduce import duties on trucks.

4. Public enterprises/parastatals;
   a. improve financial control
   b. reduce deficits in subvented parastatals;
   c. ensure adequate financial returns to commercial parastatals;
   d. continue with its program of divestiture of ADMARC's assets and improving its efficiency.

Other important goals are expansion in education and further implementation of the 10-year National Health Program.

Chapter 7

The Regulation of Foreign Investment

Malawi applies the same rules, regulations and incentives to foreign as to domestic investment, although these are under review as part of the process of formulating an investment code with specific incentives for foreign private capital.

In practice there are differential charges for registering foreign-owned concerns - see below - but the most important regulatory function is exercised by the Exchange Control Department of the Reserve Bank of Malawi.

Experiences of recent, and current, negotiations between private foreign investors and government indicate that there is considerable flexibility in offering inducements to attract inward investment. Policy is to place greater emphasis on private sector participation with a general move away from regulation and control of business to promotion and support by government.

The private sector is able to participate in most spheres of industry; however, some sectors are still dominated by the public sector and others have purely local private involvement. These include:

farm-gate purchasing

internal distribution and provision of inputs for small-holders (cotton and tobacco are harvested by a monopolistic parastatal)

broadcasting and telecommunications

water supply

commercial electricity generation, transmission and distribution

scheduled transport services, other than buses

internal haulage on a commercial basis

rural retailing

In its "Statement of Development Policies 1987-1996" the government announced that it "will continue to support a liberal system of private enterprise as the basis for commercial and industrial activity, selectively modified by the state and supplemented by the quasi-public sector. The overall emphasis will be on promotion rather than regulation. Regulation will be minimized and quasi-public involvement limited to areas of specific national significance where needs or opportunities exist and private efforts are inadequate or inappropriate."

7.3 Land ownership

There are no barriers to leasehold of land or premises by foreign private entities except in the case of rural areas. Here foreign investors are generally only permitted to lease customary land for a period of not more than 99 years when they are undertaking an activity of national importance, such as mechanized farming on a large scale. Although customary land represents the bulk of the agricultural area of the country, private estate farming accounts for the greater part of agricultural export crops.

Freehold titles for residential accommodation in the main urban areas are obtainable form the Ministry of Local Government. These are available for foreign nationals as well as locals.

7.4 Competition rules

The official view is that where possible the concentration of a particular commercial or manufacturing activity in a few hands is to be avoided. In practice there appears to be very little deliberate protection of the domestic market. The sole shoe manufacturer complained that imports were being allowed into the country. Clearly in such a small market there is a relatively wide range of monopolistic suppliers but they cannot rely on their monopolies being supported by import controls. This is in line with the government's determination particularly to seek to deter monopolistic abuses.

The statutory monopolies are:

1. the right to buy tobacco and cotton from smallholders vested in the parastatal ADMARC
2. exclusive licences granted to industrial companies for capital-intensive processes.
3. the utilities

There is no specific legislation to forbid monopolies or to regulate the activities of trusts.

There are no restrictions with regard to acquisitions and mergers as such. However, the following activities may require approval:

1. industrial and trading licences and factory registration (see Companies Act, Business Licensing Act and Industrial Development Act in Appendix one),

2. banking and insurance activities,

3. land transfers (see Land Act in Appendix one),

4. exchange control if a foreign investor is in any way involved, particularly if an outflow of foreign exchange on capital account is involved.

7.5 Restrictions on Foreign Ownership

While 100% foreign ownership is allowed, a certain degree of local participation is encouraged. In many cases local participation may benefit the foreign investor, who will need to make important contacts with government officials.

Chapter 8

Foreign Investment

8.1 Existing foreign investment

There is a substantial holding by foreign investors in the Malawi economy, the bulk of which dates from before independence - achieved in 1962. The largest sector is estate agriculture within which tea gardens predominate. Foreign participation in tea production is through multi-national companies with long-standing connections in Central Africa. The estate agriculture business has also attracted foreign investment from development agencies such as the British Commonwealth Development Corporation and Dutch FMO. Tobacco buying and handling has long been in the hands of foreign interests; the first British interest was established by the appositely named Imperial Tobacco Co. in 1921. BAT - British American Tobacco - which manufactures cigarettes for the domestic market still owns 75% of the operation. Cotton processing, ginning and spinning, is under the control of two companies with substantial foreign holding; Cargill of the US has an interest in Cotton Ginners Ltd, while cotton textiles are produced by David Whitehead, in which there is a minority holding by ADMARC, the leading parastatal.

Although Malawi's government passed through a phase of nationalization, this policy was never pursued very rigorously and in the 1980s the trend has been reverse; to break up the large blocks of parastatal holdings. As a result some concerns have returned to private ownership. ADMARC sold its 20% share in Lever Bros (Malawi) back to another subsidiary of Unilever, while ADMARC's 87% of PEW Ltd, a trailer building company, was acquired by Maltraco the Caterpillar agent.

In banking the only vestige of foreign ownership left is 20% of the National Bank held by Standard Chartered. Between 1976 and 1983 Bank of America managed the Commercial Bank of Malawi, but surrendered control when the parent was faced with a series of disasters in the US.

The company with the largest stake in the country is Lonrho whose connections pre-date independence. There are extensive investments by South African companies in a wide range of activities from agriculture to the service sector as Malawi has maintained business ties with South Africa which commands its most reliable route to the ocean.

The US seed company Cargill opened negotiations in 1987 to acquire 55% of National Seed Company of Malawi (NSCM) from ADMARC. Cargill's interest in seed production in Malawi arose from a combination of circumstances; Cargill had just sold its seed interests in the Republic of South Africa and was seeking opportunities for expansion elsewhere in Africa. Not only is the climate in Malawi ideal for seed growing, but Cargill had already acquired a stake in the country through its investment in British Cotton Growers, a company which was part owner, with ADMARC, of Cotton Ginners Ltd. In addition the Commonwealth Development Corporation, already a shareholder, was able to convert some of NSCM's outstanding debt to equity. Malawi provided a more acceptable source for its exports of grass, groundnut and sorghum seed to other African countries and world markets.

Other foreign investors have expressed interest in manufacturing fertilizer in Malawi - a venture that foundered on the rock of continued price control by government. Water transportation facilities on Lake Malawi could halve the current costs incurred by using trucking services or the national railroad network; an American entrepreneur who was interested in this is currently stalled due to lack of adequate local funding.

8.2 Investment opportunities

Opportunities for foreign investors fall into two main categories; those that are country specific such as the proposal to provide water transportation. This will serve a local if not entirely domestic market by using a facility which is only available in Malawi. Conversely the move by Cargill into seed production depends only on a competitive advantage enjoyed by the country (i.e. a suitable climate); the market is a much wider one than simply domestic agriculture. Although surface transportation can be difficult and expensive, seed is exported by air thus overcoming the geographical handicaps of a land-locked country.

The main drawback to the prospects for Malawi-specific investments is the relatively small size of the domestic market both in numbers and purchasing power. Geographical constraints mitigate against serving other markets in the area as the Republic of South Africa and Zimbabwe which might represent the most promising outlets, are both at a much more advanced stage of industrial development than Malawi and are in the role of suppliers rather than customers. Clearly where Malawi has an important resource which commands an international market, such as tobacco or tea, the foreign and domestic investment is already in place.

In the early 1980s,Alan Whiteside, an economic researcher, administered a questionnaire to eight Malawian industrialists, concluding :

(i) That the two main factors stimulating investment in Malawi were to exploit the domestic market and the availability of low-cost labor.

(ii) The general environment - climate etc - was also deemed very positive

(iii) Tax allowances were perceived as necessary to encourage increased investment levels;

(iv) Access to the South African market and assistance from the MDC were described as inconsequential

(v) Government policy was seen as a neutral factor, while the foreign exchange situation and exchange controls were the main negative factors.

There is extensive foreign investment, most dating from before independence, and almost entirely in agriculture or agricultural processing. Limbe Leaf Tobacco Company is American but most foreign ownership is by British-based or South African companies. A US seed company, Cargill, entered Malawi in 1988.

Investment opportunities fall into four main categories:

a) specific to the country either to exploit an indigenous material resource or to serve the domestic market, or

b) footloose operations needing low cost and reliable labor to add value to imported, or local, materials for export to Western markets - minimum wage rates are less than $1 a day.

c) Tourism.

d) Investment in existing operations through the government's privatization program.

8.2.1 Specific investment opportunities

The Associated Chambers of Commerce and Industry of Malawi have identified a number of investment opportunities for which a foreign partner is sought to provide funds,skills and in some cases access to markets. These fall into Malawi-specific cases in most instances and are reproduced in detail in Appendix Two. In summary they are as set out below.

Project:	**solvent extraction of vegetable oils plant**
Promoter:	Ministry of Trade, Industry and Tourism
Proposed partners:	Lever Bros or National Oil Industries (part of the ADMARC)
Total investment:	$1.5 mn

Project:	**waste paper recycling plant**
Promoter:	Ministry of Trade, Industry and Tourism
Interested partner:	Tabwera Investments,part of Frank Industries Ltd (a private local company exporting agricultural produce and general importers)
Total investment:	$1.6 to 3.0 mn

Project: **manufacture of ceramic tableware**
Promoter: Ministry of Trade, Industry and Tourism
Total investment: $0.1 mn

Project: **fertilizer plant to produce up to 100,000 tons of ammonium nitrate per annum**
Interested partner: Royale Chemicals Enterprises Ltd
Total investment: $2.0 mn

Project: **pulp and paper mill**
Promoter/interested partner: Viphya Pulp and Paper Corporation Ltd - VIPCOR, a parastatal company
Total investment: up to $200 mn

Project: **rosin and turpentine production**
Promoters/interested partners: Royale Chemical Enterprises Ltd and VIPCOR
Total investment: $0.6 mn

Other projects in this category of meeting the needs of the domestic market, and thus showing savings in import costs and/or resource substitution, include:

aluminium hollowware
bicycle assembly
industrial charcoal
crown corks
electric water heaters
ethanol derived from woodpulp
fuel briquettes from agricultural and forestry waste
hollow glassware
milk powder
nuts and bolts
plaster board and chipboard
roofing tiles
tires

The other category of investment proposals and opportunities are based on a real or perceived competitive advantage offered by Malawi either in terms of indigenous materials and produce or low labor costs. One is a request for help in seeking trade contacts in the USA for an existing business; two others are businesses seeking partners or equity from potential customers. Those that have been identified are set out briefly below.

Project: **production of starch and glucose from cassava**
Promoter/interested party: Nu Line Food Products Ltd
Needs: trading partner in the USA

Project: **production of suiting materials for the garment trade**
Promoter/interested partner: Bombay Tailors Clothing Industry Ltd through Van Textile Mills Ltd
Total investment: $6.0 mn

Project: **making up of shirts, trousers, shorts beachwear and ladies clothing from imported materials for export to garment wholesalers**
Promoter/interested partner: Tabwera Investments
Total investment: $0.5 mn

Project: **semi-processing of fruit; dehydration of vegetables, production of powdered garlic for export**
Promoter: Ministry of Trade, Industry and Tourism
Total investment: $1.0 mn

Project: **mineral exploration/extraction; deposits of a range of minerals in commercial quantities include vermiculite, strontianite, monazite, uranium, corundum and semi-precious stones**
Promoter: Mining Investment and Development Corporation - MIDCOR,a parastatal company
Total investment: it is estimated that a program to exploit the resources of strontianite, monazite, barite and apatite would cost $1.5 to $2.0 mn of which the bulk would be in foreign exchange.

There are a number of commercial ideas in the business community that have not found backers:

- a process to decaffeinate tea
- developing Malawi's tourist potential through investment in new hotels and recreational facilities
- providing low cost housing - an urgent need
- manufacture or assembly of white goods - refrigerators, freezers and cookers - and cable-making

8.2.2 ADMARC's Divestiture List

Companies for which ADMARC is seeking a private investment partner include:

Admarc Canning Co.Ltd
Coal Storage Co.Ltd
National Oil Industries Ltd
Grain and Milling Co.Ltd

These all have substantial shareholdings on offer.

8.3 Good and Bad Foreign Investments

The government has clear priorities which determine its views of good or bad investments. The ideal situation might be a processing operation to add value to an agricultural commodity and then export the end-product, e.g. making instant coffee from local beans. The major benefit here would be the foreign exchange earnings. On the other hand, the country is also faced with a serious problem of unemployment and under-employment, so that the creation of jobs is also an urgent priority. Manufacture or assembly for sale in the domestic market is attractive in its job creation function, but is viewed with some caution in terms of net foreign exchange savings and the impact on inflation through higher prices. The special factor applying to foreign investments is that since their owners or shareholders expect to repatriate profits, the benefits to the economy might be largely restricted to job creation.

On balance, therefore, a foreign investment proposal that has a high employment content would be more attractive than a capital-intensive operation, except of course in the special case of exploiting minerals which would be exported. However, given Malawi's very low level of private investment and the urgent need for injections of foreign capital and technology, the government is unlikely to spurn any new ventures.

Where questions of transportation are involved, the government is careful to encourage only domestic investment in long-haul road goods haulage, since at the moment Malawi is over-dependent on trucking companies owned in South Africa and Zimbabwe.

8.4 Status of the Proposed Investment Code

No specific investment code with inducements to attract foreign investment exists. The draft shown in Appendix 1 is a compilation of the current conditions which apply to investors in Malawi. There are no inducements designed to attract the foreign investor as opposed to the local entrepreneur shown in this draft. A committee is considering the issues and options that are raised by pursuing a policy seeking to attract inward investment. Currently, a German technical assistance program is providing support to the Ministry of Trade, Industry and Tourism to assist in this area.

The committee has called for comment from all interested bodies. It is reviewing a range of possible inducements, and it is charged with producing a draft which can be presented to Parliament. Until this process is completed, there will be no statutory changes. Intentions are that a draft will be available later in the year, but it is not certain that an Act can be passed through Parliament before the end of 1990. In the meantime, prospective investors are being welcomed, and discussions which have been entered into over the last few months with the government indicate a sympathetic and flexible approach to the needs of foreign entrepreneurs.

It is thought that the code will abolish duties on imports of raw materials and capital goods, allow for the establishment of export processing zones and reduce the current level of profits tax (50%).

8.5 Opportunities for the US Investor

In conclusion it seems clear that Malawi's main attractions to an American investor are

1. its low labor costs
2. a disciplined and well-motivated work force
3. a stable political environment
4. a government sensitive to the needs of the private sector with a record of scrupulously honouring commitments made, anxious to attract more foreign capital and know-how.

The domestic market is small so that the most effective way to exploit the advantages of the country may well be to use it as a workshop in which value is added to imported materials and the end-product is then air-freighted to market in the US and Europe. The most appropriate industry to take advantage of this opportunity is the garment industry. There are already two locally-owned companies in the garment business air-freighting their products to the fashion trade in the Northern hemisphere.

8.6 Domestic market development

The domestic market in Malawi is a small one. Investment opportunities to serve the domestic market do exist but only in specialized services of which the transport sector is the most obvious. Malawi's largest bus company, UTM is a subsidiary of a British company, Stagecoach Holdings, in partnership with the parastatal company ADMARC. A venture to start a bulk shipping operation on Lake Malawi is being promoted by a US company.

8.7 Licensing a business in Malawi

Industrial licences are required by any person manufacturing any product for sale at any location in Malawi, and generally employing a staff of 10 or more (five or more in the clothing industry).

The first step is to register a business name or company with the Registrar of Business Names/Registrar of Companies. The process involves application to the Registrar who sends copies to the Ministry of Trade, Industry and Tourism and to the police for their prior approval. Registration of an overseas company will also require a statement to the Commissioner of Taxes concerning corporate revenue.

Most types of business activity require an annual licence issued by the Ministry of Trade, Industry and Tourism. These licences are specific to product and place of manufacture. The procedures are quite complex. A written application is reviewed by the Ministry and subsequently advertised in the national press. Changes in product line or in ownership also require approval. Exclusive licences may occasionally be granted for 5 years to protect new, probably capital intensive, processes.

Trading licences are required in order to sell goods wholesale or retail, directly or as an agent. A trading licence is also required for commercial travelling activities. The licences are authorised by the relevant District Commissioner and are renewable annually on March 31. Trading licences are not transferable. Licensing fees are nominal.

A Commercial Importers and Exporters licence must be obtained from the Import/Export Desk of the Ministry of Trade, Industry and Tourism. There are restrictions on imports of firearms and explosives; and on exports of firearms, petroleum products, gold,some rare metals and unworked gemstones, hides and skins and certain basic foodstuffs at times of possible shortage.

Special Licences and permits are required for the following activities:

hotels and restaurants
prospecting and mining
timber working and growing or trading in most export crops
professional practices
manufacture of all products subject to excise duty
automotive trade
traditional beer (restricted to female citizens)
building and civil engineering contracting
road transport contracting

aviation and inland shipping
fertilizers, farm feedstocks and associated sterilising plants
livestock business
game and wildlife businesses
film business
petroleum and flammable products
firearms and explosives (strict)
radio and telecommunications (strict)
electricity generation
use of water resources

In addition the law calls for registration of any factory having 5 or more employees with the Factories Inspection Office of the Ministry of Labour. The ministry must also be notified of changes in design, use and ownership.

The **Business Names Act** requires the registration of any business which is carried out other than in the name or names of the owners.

The implications to a new investor of the somewhat complex bureaucratic procedures for obtaining licences and permits from the authorities are the delays caused by such a system. It can take months rather than weeks to reach a position in which the new company is ready to start business. The most helpful policy recommendation is to enter into a partnership with an already established local or international company to shortcut these procedures. The government is examining this problem and considering the idea of a "one stop shop".

Chapter 9

The Financial Environment

Clearly in an economy such as that of Malawi, the financial situation is very dependent on import and export prices and the foreign exchange position. In these circumstances, the role of the donor agencies in providing import support and hard currency credits is critical to underpinning the balance of payments.

At the end of 1989 the rate of inflation was running at 15% in line with the target agreed with the IMF. The bank deposit rate is 11% and the minimum lending rate 18%. The effective rate to a well-secured borrower would be well over 20%. The Reserve Bank is confident that inflation can be contained and indeed brought down below the IMF goal of 12.5% in 1990. Donor support over the two-year period to the end of 1991 should guarantee a stable balance of payments. If export earnings for Malawi's main crops can be maintained the Reserve Bank may be able to avoid a further devaluation of the Kwacha. In an economy so dependent on imports, devaluations have been the prime factor in feeding price/cost inflation.

There are only two commercial banks in the country:

National Bank of Malawi
Commercial Bank of Malawi

Development finance sources that would be appropriate for foreign investors are:

Malawi Development Corporation (MDC)
Investment and Development Bank of Malawi Ltd (Indebank)

Malawi Development Corporation was set up to provide long-term capital funds mainly in the form of equity participation to enable foreign or domestic private investors enter into joint ventures. At present MDC is short of funding but in view of World Bank credits available it should be able to generate capital if a good opportunity occurs.

The Investment and Development Bank of Malawi's function is to provide medium to long-term commercial loans. It can also invest in equity provided that its stake is no greater than 35% and no less than 10%. Indebank's maximum investment in any one venture in 1990 is set at about $1.2mn; its budget for the year is $7.2mn. In practice it has a reputation for dealing flexibly with investors, for example providing funds in a mix of equity and loans.

There is no stock market and there is a very restricted range of financial assets in which to invest. Certainly the deposit rate in commercial banks, at less than the current rate of inflation, and hardly be an attractive prospect. The size of the potential market, however, is too small to justify more extensive financial services. The policies of the two commercial banks are far from innovative reflecting their traditional preoccupation with financing agricultural export crops. It is understood that the Reserve Bank would like to reduce the wide gap between the borrowing and lending rates of the commercial banks but with only two in the country it may be difficult to impose policies in the absence of competition. Thus it seems probable that a potential private investor will continue to be obliged to turn to the two development agencies for local financial support.

Table 9.1
Money supply

	1984	1985	1986	1987	1988
Resources of monetary system					
Money (M1)	154	167	221	298	436
Quasi-money	234	218	268	370	377
Restricted deposits	10	20	15	10	7
Other items (net)	63	39	-46	-90	-92
Total	461	443	457	589	727
Counterparts of resources					
Foreign assets (net)	-145	-242	-378	-258	14
Domestic credit	606	685	835	847	713
of which:					
claims on government	295	362	486	510	343
claims on official entities	83	110	113	132	107
claims on private sector	229	213	236	205	262
Total	461	443	457	589	727

Source: IMF

Chapter 10

Foreign Exchange Control

The Reserve Bank is responsible for administering the regulations under the delegated authority of the Ministry of Finance. Despite various severe difficulties over the past five years the government has always honoured its commitments to permit transfers or to make payments in foreign exchange. At times this policy has been adhered to at some cost to the domestic economy. On the other hand it has kept the country in excellent standing with the international agencies and donors.

The Exchange Control Department (ECD) of the Reserve Bank has authorized the two commercial banks to act as foreign exchange dealers. All communications must be directed to the commercial banks. All foreign exchange transactions and contractual arrangements depending on foreign exchange are subject to foreign exchange control regulations whether conducted by private parties or by government. The principle is to ensure that all undertakings to remit funds or pay invoices in foreign exchange can be met by the Reserve Bank.

Foreign investors must register their foreign exchange inputs with the ECD to provide proof that the investment funds originated abroad, in order to establish the right to remit dividends, profits or disinvestment funds.

Imports are controlled under two allocation schemes: liberalized and non-liberalized.

1. Applications to import goods within the liberalized allocation can be authorized by the banks acting as authorised dealers. At present the liberalized scheme covers raw materials, industrial spares and parts, and spares for commercial vehicles.

2. Applications for non-liberalized imports must be referred by the banks to the ECD. It is the government's expressed intention to extend the list of liberalized items but it is extremely unlikely that it will be much enlarged.

Exports are also subject to control but usually only by the Customs and Excise Department. When, however, exports include imported content the approval of the ECD is required. In all transactions export receipts must be channelled through the Malawian commercial banks.

All agreements that entail making payments out of Malawi are subject to the prior approval of the ECD. These include:

licence rights over specific processes
use of formulas, patented or un-patented
transfer of technology
fees for services and skills
sales commissions.

Thus virtually any agreement entered into, which involves a foreign company or process or skill, will require discussion and review with ECD. In practice the record suggests that the ECD is reasonable and flexible in its reaction.

Loans negotiated by resident and non-resident controlled companies must be approved in advance by ECD. Subsequent remittances of interest or capital are subject to ECD approval as and when they fall due. These can be repaid at the original foreign exchange value, whether or not the Kwacha has been devalued in the interim.

Dividends and profits require prior review by the ECD of audited accounts, evidence of payment of taxes, corporate resolutions and listing of shareholders by residence. In the case of an application to remit disinvestment proceeds there is a requirement for an independent valuation of assets. All these payments will be calculated in local currency and are not protected from any effects of changes in exchange rates.

Assuming the copyright agreement or underlying technology has already been registered, an application to remit royalties will be approved. The same is true for service fees although the level of fees may have to be justified. In both cases, delays may occur.

Permission to remit earnings by expatriate employees is also granted by the ECD. Employees in possession of Temporary Employment Permits are entitled to send up to two-thirds of their net earning on a monthly but not cumulative basis. They can also remit the same proportion of bonuses, net of tax, and 100% of leave grants and end of service gratuities. It must be stressed that these permissions are given only if stipulated in the expatriate's contract of employment.

Guarantees against inconvertibility

There are no guarantees against inconvertibility of retained earnings or capital. While eligibility for repatriation can be confirmed, the appropriate exchange rate (at the time of investment/disinvestment) cannot be guaranteed.

Chapter 11

Debt and the Structural Adjustment Program

11.1 External debt

Between 1970 and 1987 external public debt increased from $122 mn to $1,155 mn. As a share of GNP this debt rose from 43% to 98%. Debt servicing in 1970 amounted to $4 mn or 8% of the value of Malawi's exports in that year; by 1987 these interest payments had risen to $26 mn or 23% of export earnings from goods and services. Repayments of principal amounted to a further $45 mn in 1987, down from $75 mn repaid in the previous year.

By 1981 debt servicing cost the country $89 mn, equivalent to 27% of export sales. Recognising that this level would be unsustainable a rescheduling was negotiated to result in a more modest ratio of repayment and interest at 21% to 23% of exports. Nevertheless in 1986 the total of capital repaid and interest was $111 mn or 41% of income from exports. The World Bank has estimated that debt service would be approximately $102mn in 1988. However, as a result of further negotiations with donors, the pressure has eased towards levelling off debt servicing payments at about $60 mn a year from 1993.

Malawi has been in receipt of very substantial aid from a wide range of donor agencies and countries. In 1987 Japan became the largest benefactor with disbursements of $51 mn of development aid. Britain provided assistance to a total of $41 mn and US official aid was $18 mn. Although in 1987 some two-thirds of the $337 mn of development assistance to Malawi was in the form of outright grants, the debt burden is growing and emphasis in the last year has been on securing rescheduling agreements.

In October 1989, the UK announced a package of £15 mn ($25 mn) of balance of payments support, of which £5 mn ($8 mn) was scheduled to be disbursed by the end of the year. In November 1989, the USA stated that all previous economic assistance loans, totalling MK 110 mn ($40 mn) would be turned into grants

Table 11.1
Public external debt[a]
($mn)

	1984	1985	1986	1987
Total, incl. undisbursed	939	1160	1315	1588
Disbursed only	730	808	928	1155
of which				
official creditors	603	711	864	1106
multilateral	437	517	648	813
bilateral	166	194	216	293
private creditors	127	96	63	49
suppliers	8	9	8	8
financial markets	119	88	56	41
Debt service	72	82	111	71
of which				
principal	41	52	75	45
interest	31	30	36	26
Debt service ratio %[b]	20.8	29.2	40.5	23.3
Disbursed debt/GNP %	63.4	71.9	78.8	92.7

a:long term debt (maturity over one year) including publicly guaranteed private debt,
b:debt service as percentage of exports of goods and services

Source: World Bank/EIU

11.2 The Structural Adjustment Program

It is within the context of increasing international indebtedness that the IBRD's policies are necessary and where success may be measured. When the economy ran into recession in the first years of the 1980's the government drew up a strategy to overcome difficulties defined as:

slow growth of agricultural export crops
narrow range of estate agricultural exports
poor management of public sector resources
increasing population
rising energy costs
inflexibility of wage and price controls.

The need for foreign exchange to tide the economy over the sharp rise in debt service (see above), to allow scope for undertaking a restructuring program led the government into negotiations with the IMF, the World Bank and other donors. Malawi's relations with the IMF and Bank have always been good to the extent that the country was seen as a conscientious debtor which had preserved its credit-worthiness in very difficult circumstances, and a package of structural adjustment and financial measures was agreed.

Until the impact of the civil war in Mozambique began to be felt the recovery program was well on target. As a result of this set-back the World Bank disbursed two Structural Adjustment Loans which were made conditional on policy changes by government. In 1983 the IMF made a three year facility of over $100 mn available. A third Structural Adjustment Loan was agreed in 1985 involving not only the World Bank but also the US, and other donors; this package totalled some $114 mn. A year later a supplementary credit of $40 mn was added to the third loan. In late 1986 the government failed to meet all the performance criteria set by the IMF which withdrew its support to Malawi.

At the end of the term of the third Structural Adjustment loan in 1987 the World Bank decided to change the mechanism of its balance of payment support for Malawi to a sectoral loan system with the objective of bringing the economy closer to meeting the performance criteria desired by the IMF. In February 1988 the government undertook a stabilization program which again attracted the support of a 15-month standby arrangement from the IMF. In April 1988 the government formulated a three-year structural adjustment program with financial backing from an Enhanced Structural Adjustment Facility (ESAF) of some $72 mn and the IBRD's Industrial and Trade Policy Adjustment Credit.

These ongoing programs have the following objectives, as defined by the World Bank.

"The major objectives are to achieve and sustain a high rate of economic growth in the context of a viable medium-term balance of payments and price stability. The 1988/9 program aimed at raising the 1988 real growth rate to 1.5% and reducing inflation to 20% while building up external reserves and initiating or extending critical structural policy reforms."

In fact substantial progress was made in 1988/9 and all major performance targets were met. As discussed above tighter tax procedures and budgeting resulted in cutting the government's deficit to 6.6% of Gross Domestic Product, an improvement on the stated aim of achieving a deficit of 8.1% of GDP. In the parastatals there was some progress in privatizing some resources and ADMARC was able to improve performance to the extent of keeping within bank overdraft limits and rehabilitating some of its assets. Trade liberalization in respect of allocations of foreign exchange in 1988 has reached a level at which about 75% of imports of raw materials and spare parts and a significant proportion of intermediate goods are no longer subject to prior approval of foreign exchange expenditure. Bank interest rates have been completely liberalized. Deposit rates remain much lower that the rate of inflation, but effective lending rates are now, in early 1990, ahead of inflation.

As a result of these policies, and with some good luck in higher export prices and better weather, the balance of payments situation in 1988 was stronger than had been expected. All in all, these factors enabled Malawi to record growth in real Gross Domestic Product of 3.1% in 1988 as compared to a target projected as 1.5%. On the down side inflation in 1988 averaged 30% as opposed to the target of 20% but the minimum rural wage was raised by 126%, the first increase since 1986. Inflation fell significantly in 1989 and industrial production showed a 12.4% increase over the year to May 1989. Increased imports were a major factor in the deterioration of the balance of payments in 1989.

11.3 USAID and other donor programs

As a recognised least developed country Malawi has received aid on very generous terms from a wide range of Western bilateral and multi-lateral donors. The World Bank has become the overall coordinator of aid programs, but there is a further delegation of responsibilities: USAID and FAO coordinate donor activities in agriculture, the EEC looks after support for industry and the British concern is to harmonize projects in transport and infrastructure, for example. The Bank has sponsored meetings of a consultative group of donors, the most recent of which held in Paris in 1988 drew pledges of $555 mn worth of aid over two years. The assistance provided in the four previous years is set out in the table below.

Table 11.2
Gross value of development aid disbursements
$ mn

	1984	1985	1986	1987
USA	9.0	7.0	12.0	18.0
Japan	6.5	4.9	16.1	51.7
UK	17.3	17.9	22.0	40.8
West Germany	16.6	13.3	30.0	29.6
Total bilateral (including others)	62.8	64.6	98.4	205.7
IDA/World Bank	76.0	32.7	78.0	43.9
European Comm'ty	13.3	10.5	15.4	27.2
Total multilateral (including others)	117.8	71.2	128.3	131.7
Total	180.6	135.8	226.7	337.4

Source:EIU

USAID's program in Malawi is the fourth largest bilateral disbursement. There are two projects in areas of commercial activities.

1. Ongoing assistance to the government to privatize the companies in which the parastatal ADMARC holds or has held a dominant stake. This program is concerned with restructuring and improving management and performance of these companies as well as advising on evaluation of the assets and dealing with potential and actual investors.

2. The other is the Rural Enterprises and Agrobusiness Development Institutions Project (READI) which has carried out detailed work over five years on how to promote small and medium-scale businesses owned and operated by Malawians. Within the project team is a detailed and comprehensive understanding of how to set up a commercial business in the country.

USAID is active in agricultural extension and research; rural piped water supply; a $15 mn grant to provide services to reduce the high incidence of infant mortality was announced in 1989;assistance to Malawi Railways; supply of tanker/trailers;the Northern Corridor program to facilitate greater use of the route to the port of Dar es Salaam; food aid and balance of payment support.

Chapter 12

Price controls

Price control was an important weapon of economic management in the early 1980's used in conjunction with wage controls to limit inflation and to assist exporters who are also faced with very heavy transport costs particularly in relation to the value of agricultural commodities. Since then the government has, partly under the influence of the structural adjustment policies, progressively reduced the items that are subject to price control.

When the government operated a tighter and much wider price control policy it was coordinated with an elaborate system of wage controls and subsidies. The objectives were various and included:

employment creation by encouraging labor intensive activities
the prevention of exploitation by a monopoly supplier
the minimization of the cost of living
the pursuit of social goals such as housing provision

Overall these aims could be seen as an attempt to preserve Malawi's competitiveness in export markets, maintain levels of employment and limit domestic inflation to manageable levels. They were not always successful.

During the past decade of structural adjustment, the system of controls and subsidies was seen as a barrier to change and many components have been dismantled. A minimum wage rate is still set - at very low levels - to encourage employment, particularly in estate agriculture and other labor-intensive activities. Price controls on agricultural produce, together with monopoly purchasing through ADMARC, were largely removed to stimulate production of cash crops. In fact this is the main area still subject to restraint on input and output prices. Hence, the government is still obliged to subsidise fertilizer in order to give the small farmer access to sufficient fertilizer, at an affordable price, to meet his planting needs. Maize flour prices are also regulated to ensure that marketed surpluses equal domestic demand, plus the accumulation of a strategic reserve. Fuel, motor vehicle spares and hoes are retained on the list to prevent exploitation by monopoly suppliers. They can be seen as beneficial to a new investor as having a certain stabilizing impact on wage, power and transport costs. A disbenefit is that some vehicle spares have to be ordered from overseas as dealers do not wish to carry large stocks.

Price controls are imposed by government on:

fuel	maize flour	sugar
hoes	motor vehicle spares	fertilizer

The government has no expressed interest in attempting to control export prices.

Chapter 13

Patents, Trademarks and Intellectual Property Protection

Protection of industrial and commercial patents is provided specifically in the law, and also accommodated under tax rules which permit payments for royalties or technical know-how to be allowed as operating expenses, and in the case of non-resident companies, royalties and service fees can be remitted. Legislation on intellectual property post-dates independence; a law was passed in Malawi in 1988 specifically protecting intellectual property to prevent the pirating of music and video tapes.

13.1 Patents

Patents, which must be registered by a local agent in Malawi, remain valid for sixteen years, subject to renewal fees. There is a public register of patents and patent licences. Broadly, the protection afforded by law in Malawi is the same as that available under British law.

13.2 Copyright

Copyright protection applies to all literary, artistic and musical works for fifty years after the author's death. A shorter period of protection applies to film and sound recordings as well as to computer software, video and audio-tapes. Copyright is extended to work originating in all contracting countries of the Universal Copyright Convention.

13.3 Trademarks

Trademarks may be registered through special agents in Malawi following advertisement and a period for objections. This provides subsequent protection but does not invalidate marks already in use, whether they are registered or not.

13.4 Industrial designs

Registration procedure is similar to that for trademarks but there is no advertising requirement and local agents do not have to be used.

Chapter 14

Taxation and incentives

The Ministry of Finance has set up a Task Force to make proposals and recommendations that could be formulated in an investment code to attract foreign investors. Certain issues have been raised with regard to the tax regime; these include:

1. a criticism of the present corporate tax rate of 50% as being too high
2. a suggestion that the surtax on imported raw materials, machinery and equipment be abolished
3. an upwards revision of the tax allowance on export sales of 4%
4. the current income tax allowances

Central government taxation is administered by:
1. Department of Taxes - responsible for all corporate and personal taxation.
2. Department of Customs and Excise - responsible for all import duties, excise duties and surtax.
3. Commissioner of Stamp Duties and Estate Duty Commissioners.

The following description of the tax regime and incentives as they apply to foreign private investors can only be taken as an indication of current practice and principles; it is expected that eventual revisions will be markedly more generous and will tend to bring Malawi closer to the practices of neighbouring countries.

Locally incorporated companies are taxed at a rate of 50% on income generated in Malawi. Companies that are not incorporated in Malawi are taxed at a slightly higher rate of 55%. Investors do not find this differential significant enough to influence their ownership decisions. There is also a tax based on property values which is levied in the main urban areas

14.1 Taxable income

Taxes are levied on disposable income. This would include net business and rental income interest, royalties, emoluments and pensions.

14.2 Tax incentives to investors

Current incentives apply equally to domestic and foreign-based companies. In respect of corporate taxation these consist of:

1. an investment allowance of 40% on capital expenditure on all new industrial

buildings and equipment other than road transport. This is granted in the year when the assets are brought into use.

2. a similar capital allowance on second hand plant and equipment. The rates are 10% for industrial buildings and 20% for equipment.

3. depreciation allowances on all assets ranging from 33.3% on some mobile equipment to 5% on building structures.

4. capital gains are not taxable.

5. expenditures incurred by a manufacturing firm in the 18 months prior to starting production are allowable.

6. all expenditure on agricultural land is allowable.

7. dividends that are not remitted are tax exempt.

8. costs incurred by a mineral exploration company can be transferred as losses to a mining operation.

9. tax losses can be carried forward without time limitation.

At present Malawi does not use the tax holiday system but relies on accelerated allowances.

If a company is engaged in exporting, and registered as such, it is entitled to an allowance of 4% on the taxable income derived from export sales.

14.3 Import duties and surtax

Apart from income tax, companies must pay import duties. These are largely set at less than 10% on raw materials and capital goods, but are charged on the full landed cost which is considerably inflated by the very high transport costs borne on goods shipped to Malawi. On top of this a surtax is levied. All businesses in Malawi with a turnover of MK10,000 must register and apply surtax. This applies to imports and local manufacture of goods.

Surtax is charged on basic commodities, industrial raw materials and spares which attract an import duty of no less than 10% at a rate of 10%, whether imported or of local origin. There is no surtax on exports.

14.4 Export incentives

The following export incentives are subject to the approval and supervision of the Controller of Customs:

1. full duty drawback on goods used as inputs to the manufacture of products that are subsequently exported.

2. zero rating for surtax is applied to exports.

3. allow full duty drawback on machinery and equipment used in the processing or manufacture of export products.

4. provision has been made for a bonded warehouse scheme which would enable investors to undertake added value operation using imported materials or components for making up, or assembly, and then export to overseas markets. This would be duty free in so far as materials are concerned as long as none of the end-products are sold within Malawi.

This package of incentives to exporters applies equally to locally owned and foreign companies operating in Malawi. The committee which is currently reviewing all investment incentives has been asked to increase the tax allowance above the present 4% entitlement.

There are also general incentives relating to customs duties that apply to all investments:

1. the Minister of Finance has the power to waive or reduce the duty payable on imports of capital equipment for projects that he designates as of national importance.

2. deferment of duty for up to two years on imported machinery and equipment may be granted after formal submission to the Controller of Customs.

3. rebates of duty are granted in respect of imports of raw materials for some industrial uses.

14.5 Schedule for paying corporate taxes

Commercial enterprises must file quarterly returns to the District Commissioner of Taxes, and will be expected to make provisional on-account payments of tax due. At the end of the financial year, a definitive and final return has to be filed, supported by audited accounts. This must be accompanied by a remittance or claim for any repayment due. As indicated above, there are exemptions from quarterly tax payments in the first year of trading, and in respect of any year following a year which resulted in a tax loss. Amounts paid at the end of each quarter need be no greater than 25% of the previous year's final liability.

In practice, as long as remittances are made by due date, the authorities are ready to permit delays on filing final returns.

14.6 Personal Taxation

The rates for personal income tax are discussed below. Liability for income tax is dependent on a physical presence in the country for a total of at least 183 days in the year of assessment. The official financial year ends on 31 March. All income arising from a source within Malawi, and attributable to work in Malawi, will attract tax. Excluded is income that is clearly earned elsewhere, e.g. dividends form shares invested outside Malawi. Capital gains are not taxable, but such items as interest from a Malawian source or local rent would attract tax. The tax arrangements should be clearly defined at the time when an expatriate applies for temporary residence.

The highest rate of personal income tax is 50% which all commercial salaries paid to expatriates would automatically attract; the threshold is some $10,000p.a. The present levels of income tax and corporation tax are reasonably low in the African context, but higher than rates that might apply to a foreign investor in countries where tax inducements are available. This is one of the issues which the committee examining possible incentives to investors is reviewing.

14.7 Tax Treaties and Conventions

There is no double taxation treaty in effect with the US. In practical terms, this may have little effect on general business practices, or individual assessments. There is interest in Malawi in opening negotiations with the US government on this issue.

Appendices

Appendix One

DRAFT INVESTMENT CODE*

1. INTRODUCTION

1.1 The Government of the Republic of Malawi undertakes to promote investment in industry in order to consolidate the growth and development so far achieved. The major policy focus is to liberalise and rationalise most economic activities in order to achieve a self sustained growth impetus. The country's rich resource endowment and well developed infrastructure provide a lot of potential for further investment. Accordingly the Government welcomes and encourages both local and foreign investment in Malawi.

1.2 This Investment Code provides the investor with relevant information on the investment climate in Malawi. The Government is confident that this investment code will go a long way towards stimulating investment in Malawi.

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*Note: this document constitutes a compendium of existing practices which apply to private investors in Malawi. In particular cases exemptions are granted.

Overall, the government is considering a much improved set of rules and incentives aimed at the foreign investor.

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2. MALAWI ECONOMIC BACKGROUND

2.1 Physical and Social Geography

2.1.1 Malawi lies in the eastern part of south-central Africa, bordered by Tanzania to the North and North-East, Zambia to the West, and Mozambique to the South, South-West and the South-East. The country is land-locked, covering an area of 118,484 square kilometres, (including inland water), characterised by a long shape, 840 kilometres from north to south, and varying from 80 to 160 km in width. About 94,081 sq. km is land, half of which is considered ideal for cultivation. The population of Malawi is, according to the 1987 census, estimated to be 7.9 million, and growing at a relatively high rate of 3.2 percent. Approximately 85 percent of the population lives in the rural areas and is mostly engaged in subsistence agricultural production activities.

2.1.2 The climate conditions of Malawi vary a lot, but basically there are three seasons. The cool season runs from May to August with temperatures ranging from 15.5 to 18.0 degrees Celsius in the plateau areas and 20.0 to 24.5 degrees Celsius in the rift valley areas. There is little rain in this season, most of it falling in the high south-east facing slopes. From September to mid-November, the country experiences a short hot season, with temperatures ranging from 22 to 25, and 27 to 30 degrees Celsius in the plateau areas and the rift valley, respectively. The rainy season commences from mid-November and ending in April a period in which 90 percent of total rainfall is received. Total annual rainfall averages 760 to 1,015 mm, but some areas in the plateau record over 1,525 mm per annum.

2.2 Structure of the Economy

2.2.1 The Malawi economy is characterised by a large agricultural sector, taking up about 36 percent of GDP, which is split into 28 percent small scale and the rest large scale production. The other major sectors are the manufacturing, distribution and the public sector. The share of the public sector is bound to decrease over time as the government is currently pursuing privatisation and restraint in its expenditure programmes.

2.2.2 International trade plays an important role in the economy. The economy relies heavily on three agricultural crops; Tobacco, Tea, and Sugar, as its main exports, earning as much as 84 percent of total export proceeds. On the other hand, there is a significant dependence on imported raw materials and machinery for the economy's production processes especially in manufacturing and construction sectors.

2.2.3 The economy is well endowed with a middle level to unskilled hard-working and disciplined labour force. The wage policy is generally that of restraint with the objective of discouraging rural migration to the urban centres.

2.3 Performance of The Economy: 1980-1989

2.3.1 The performance of the Malawi economy during the 1980s has produced mixed results. The outset of this decade saw a poor performance of the economy, GDP at constant 1978 prices fell by 0.2 percent during the 1979-81 period. This was in contrast to the healthy growth the economy enjoyed during the 1973-1979 period of an average 6.1 percent per annum. This poor performance was a product of several factors particularly the deteriorating terms of trade following the energy crisis in 1979, and the drought in 1980. The balance of payments situation was also worsened by these factors.

2.3.2 1982 saw a partial recovery of the economy, with GDP growing by 2.9 percent and accelerating to 4.9 percent in 1983, a year in which all sectors recorded positive growth rates, with the agricultural and manufacturing sectors contributing significantly despite the disruption of traditional transport routes to the sea. This overall upward trend continued up to 1985. In 1986 and 1987 GDP increased in real terms by only 1.0 percent and 1.3 percent respectively. This was a result of poor performance in both the agriculture and manufacturing sectors. The period 1988-89 has experienced renewed significant growth, averaging 4 percent.

2.3.3 Important factors that have influenced the economic trend from 1980 are the twin structural adjustment programmes being implemented by the Government with the support of the International Monetary Fund, the World Bank and other financiers. Through these programmes, the economy is in the process of being liberalised and rationalised almost in all sectors. Fiscal discipline is actively pursued in the public sector with the ultimate aim of giving the private sector more resources for its productive activities.

2.4 Medium Term Outlook

Malawi is committed to pursuing the adjustment efforts it started in the early 1980s until the economy is liberalised and rationalised to an acceptable level. Thus the growth impetus experienced in the last two years is expected to continue barring any unforeseen events. Optimism is also based on the possibility of opening up Malawi's traditional transport routes to the sea and Dar es Salaam through the completion of the Northern Corridor project. Thus in the next five years beginning 1990 GDP is projected to grow at an average of 4.3 percent.

3. MALAWI GOVERNMENT OBJECTIVES AND POLICIES

3.1 Objectives

3.1.1 The Government's economic and social objectives as well as general policy are set out in the Statement of Development Policies 1987-1996 (DEVPOL). This document provides the basis for Government's development strategy during this period. The three major economic and social objectives are:

(i) reduction of poverty, ignorance and disease, through sustained economic growth;

(ii) improvement in income distribution, and

(iii) stabilisation in the growth of the economy.

3.1.2 In order to achieve the above objectives, the Government has identified a series of policy reforms and new investments designed to reduce structural constraints in the key productive sectors. The agricultural sector will continue to take the lead and economic growth will come from the processing of natural resources, the development of export manufacturing, the expansion in the number of small-scale enterprises, and further exploitation of import substitution opportunities. Increased emphasis is placed on the private sector, away from regulation and "general movement, in the public sector, away from regulation and control of enterprise to promotion and support". Government is also to provide improved infrastructure to support the private sector.

3.1.3 Another area of focus is institutional strengthening with an emphasis on research and development through the provision of skilled manpower and the minimisation of financial constraints. In this connection, Government is to strengthen the production and provision of appropriate types of skilled manpower and allow the employment of expatriates where necessary. Private industries are, however, encouraged to train Malawians. Finally, fiscal and monetary policies are set so as to ensure that the private sector has access to the volume of resources it needs on reasonable terms.

3.2 Priority Sectors

3.2.1 The development of the agricultural sector, which provides the livelihood of the majority of the population and the bulk of the export earnings will still remain of major importance to the Government. The primary objective is to increase production and diversification, development of livestock, forestry industries and the promotion of agro-industry while ensuring food security and avoiding maldistribution of agricultural incomes and deterioration of natural resources.

3.2.2 Notwithstanding this, investment opportunities exist in all productive sectors in Malawi. Of particular interest, however, is investment in manufacturing. To facilitate investment in manufacturing, Government has promulgated industrial development policy whose main components are as follows:

(i) the encouragement and promotion of private investment which can be either local or foreign;

(ii) the growth of an export oriented industrial base as opportunities for import substitution diminish;

(iii) the development of an indigenous, Malawi entrepreneurial class;

(iv) an increase in industrial efficiency; and

(v) a more balanced regional distribution of industrial activity.

3.2.3 The above policy framework is flexible. In cognisance of the fact that sufficient returns on capital must be generated, incentives are offered in a number of areas thereby removing many of the frustrating problems that industries experience in most developing countries.

3.2.4 A detailed specification of priority sectors is not set out in this document. However, investment opportunities exist in all sectors of the economy.

3.3 Macroeconomic and Structural Policies

3.3.1 In pursuit of the objectives outlined above, Government is committed to implementing policies that will ensure a balanced macroeconomic environment on both the domestic and external fronts. A macroeconomic stabilisation programme designed to restore domestic and external balance has been developed. The main elements of this programme include rational and sustainable fiscal, monetary and exchange rate policies. In the external sector, the focal point is a major liberalisation of the trade regime, whereby the administered allocation of foreign exchange is being phased out and being replaced by a market determined system. Parallel to this, the Government has also liberalised import licensing by expanding the open general licence system.

3.3.2 On the financial side, Government is to concentrate on increasing the lending resources available to the private sector, encouraging more competition in the provision of banking and other financial services and promoting specific financial instruments to address certain priority requirements.

4. INVESTMENT INCENTIVES IN MALAWI

To encourage investment in all major sectors of the economy, Malawi offers a number of incentives which are applied equally to local and foreign investors. The major incentives are offered under the following Acts:-

(i) The Taxation Act (Cap. 41:01)
(ii) The Customs and Excise Act (Cap. 42:01)
(iii) The Export Incentives Act (Act #6 of 1988)

4.1 Incentives under the Taxation Act (CAP 41:01)

(i) An investment allowance of 40% on capital expenditure. This allowance is granted in the year in which the assets are brought into use and it is applicable to new and unused industrial buildings and machinery and excludes any fixtures and fittings and vehicles that are capable of being used on roads.

(ii) An initial allowance is applicable to second hand machinery, new vehicles and fixtures and fittings. This allowance is claimable during the year in which the expenditures are incurred and the assets are brought into use. The allowances are 10% on industrial buildings and 20% on plant and machinery and fixtures and fittings.

(iii) Annual allowances are granted for all assets on which investment and initial allowances are claimable. These are calculated on a reducing balance and the rates range from 5% on industrial buildings to 33.33% on some trucks, tractors and mobile farm equipment. These are assessed by the Commissioner of Taxes (Annex 2 contains details of depreciation rates for various capital items).

(iv) Capital gains are not taxable. However, profits resulting from sharedealing are liable to taxation.

(v) Dividends that are not remitted are exempt from tax.

(vi) Expenditure incurred by a manufacturing firm during a period of 18 months before the commencement of operations or production are deductible for tax purposes.

(vii) All expenditure on the development of agricultural land are deductible for tax purposes.

(viii) Costs incurred in mineral exploration (including assets and acquisition of rights) which provide a basis for tax losses can be transferred to an exploration company as deductible expenditure in the actual mining operation.

(ix) Losses incurred in any year can be carried forward to be set off against the profits earned in the succeeding years.

(x) Depreciation allowances are offered for lease premiums.

(xi) Tax treaties have been signed with the following countries:

Norway
Denmark
France
Netherlands
Kenya
South Africa
Sweden
United Kingdom
Switzerland
United States of America

(A detailed presentation of the tax structure is contained in Annex 1)

4.2 Incentives under the Customs and Excise Act (Cap 42:01)

(i) All goods on which duty is paid, are eligible for duty drawback in full provided they are used as materials in the manufacture of products which are subsequently exported.

(ii) Under the surtax credit, manufacturers registered for surtax can deduct their input tax (surtax paid on purchases) from their output tax (surtax charged on their products). Such claims may only be made by registered manufacturers through monthly returns submitted to the Controller of Customs and Excise. If in any month the input surtax exceeds the output surtax, the excess surtax can be carried forward to the next tax period. Refunds are made in exceptional cases and this is subject to the Controller's approval.

(iii) Exports are zero rated for surtax purposes.

(iv) Provision is made for a complete waiver or reduction of duty on imports of machinery and equipment and other capital goods for projects which the Minister of Finance designates to be of national importance.

(v) Provision is made for deferment of duty payable on machinery and equipment. This deferment which is granted after submission of a formal application to the Controller, can be extended for a period of two years and can take the form of payment of duty by instalments.

(vi) Provision is made for a bonded warehouse scheme and this is subject to licensing and supervision by the Controller. Manufacturing can be carried out under this scheme.

(vii) Industrial rebates are granted in respect of imported raw materials at varied rates.

(viii) In general raw materials and intermediate goods attract low rates of duty.

4.3 Incentives under the Export Incentives Act (Act #6 of 1988)

(i) Registered exporters are entitled to an income tax allowance of 4 percent on their taxable income derived from their export sales in every financial year.

(ii) A registered exporter is entitled to a drawback of duty paid on raw materials, including machinery and equipment used in the manufacture, processing, or production of his exports. The Controller is empowered to effect an immediate drawback upon proof to his satisfaction that the manufacturer has exported the products in question.

(iii) The Malawi Export Promotion Council provides technical assistance to registered exporters in the production, packaging and marketing of export products.

4.4 Other Facilities

4.4.1 Industrial estates

One of the major components in any programme to attract investment is the development of adequate infrastructure to facilitate the setting up of new industries, in addition to offering a package of incentives and other attractive conditions for investment. Malawi has taken some steps to develop industrial estates that have the basic infrastructure such as roads, rail, water, electricity and telecommunications facilities. The major ones are the Blantyre Industrial Area and the Chirimba Industrial Area in Blantyre, the Liwonde Industrial Area and the Lilongwe Industrial Area. The current rates in these areas are as follows:-

1. Lilongwe Industrial Area

   (a) Rail served areas

   - Development charge - K55,000 per hectare per annum
   - Ground rent - K1,250 per hectare per annum

   (b) Road served areas

   - Development charge - K45,000 per hectare per annum
   - Ground rent - K750 per hectare per annum

2. Liwonde Industrial Area

   - Development charge - K2,600 per hectare per annum

Ground rent - K50 per hectare per annum

3. Blantyre Industrial Area

- Combined Development charges and Ground rents are in the range K4,000 - K10,000 per hectare per annum in the light and heavy industrial area of Blantyre and Limbe.

4. Chirimba Industrial Area

(a) Non-rail served plots

- Development charge K4,500 per hectare per annum
- Ground rental - K1,300 per hectare per annum

(b) Rail served plots

- Development charge K5,000 per hectare per annum
- Ground rental - K1,500 per hectare per annum

4.4.2 Electricity

The major source of electrical energy is from hydro resources. The Shire River in the Southern region has a potential of over 450 MW. Other areas in the Central and Northern regions also have a potential for hyrdro-electric power.

4.4.3 Water

Water supply is sufficient to meet the requirements for industrial use.

4.4.4 Telecommunication Links

Malawi has a well developed telecommunication network to meet the requirements of industries. These are in the form of telephones, telex, telefax, and telegraph circuits. There is an ongoing programme to further improve international links.

4.4.5 Transportation

Malawi has well developed transport modes, such as roads, rail, air and water links. The reopening of the traditional routes to the ports of Beira and Nacala in Mozambique and the completion of the Northern corridor will greatly improve the flow of imports and exports.

5. EXCHANGE CONTROL PROVISIONS AND PROCEDURES

5.1 The Regulations

The Malawi Exchange Control Regulations are administered by the Reserve Bank of Malawi under the powers delegated to it by the Minister of Finance. These Regulations are based on a liberal payments system and are administered through the Exchange Control Department under the Exchange Control Act (Cap.45:01)

5.2 General

All applications for foreign exchange are referred to the Exchange Control Department through commercial banks who are authorised dealers. The authorised dealers may approve certain applications without prior reference to the Exchange Control Department. The authorised dealers do, from time to time, provide their customers with appropriate information on foreign exchange issues.

5.3 Registration of Investment

All investments emanating from external sources must be registered with the Exchange Control Department.

5.4 Imports and Payment for Imports

5.4.1 To facilitate speedy foreign exchange allocation for imports, the Exchange Control Department administers two allocation schemes; liberalised and non-liberalised. Under the liberalised scheme, applications to import raw materials, industrial spare parts and commercial vehicle spare parts are approved on the spot by the authorised dealers upon their being satisfied that the applications are in order. Applications to import non-liberalised goods are approved by the Exchange Control Department whereby the importer is given a monthly block allocation for the importation of goods of his own choice but compatible with his line of business. Under either scheme the authority granted is only valid for three months within which the importer must place and confirm his order with the supplier.

5.4.2 Generally, payment for imports must be made after goods have arrived in Malawi i.e. on Open Account (Draft Payment) or Documentary Bills of Exchange (Documents against Acceptance) basis. However, the following methods of payment are considered by the Exchange Control Department on application:-

(i) Letters of Credit (L/Cs)
(ii) Confirming Houses

Imports may be paid for in Malawi currency to an appropriate local non-resident account or in any convertible currency. Except with the permission of the Exchange Control Department, prepayment for imports is prohibited.

5.5 Remittances Abroad

5.5.1 Upon proof that the original investment emanated from external sources, bona fida dividends, profits and disinvestment proceeds are freely remittable with the approval of the Exchange Control Department. Applications to remit dividends and profits must be accompanied by relevant audited sets of accounts, evidence of payment of taxes, certified copy of resolution of directors, full list of shareholders/ partners and their residential particulars. In the case of disinvestment proceeds, applications to remit must be supported by a certificate of valuation from an independent qualified valuer in addition to a relevant audited set of accounts, sale or transfer agreement and certified copy of resolution of directors. The Exchange Control Department reserves the right to call for any information that it may consider to be appropriate in any particular case.

5.5.2 Expatriate employees in possession of appropriate Temporary Employment Permits (TEP) are permitted subject to the approval of the Exchange Control Department to remit up to two thirds of their net current earnings to their countries of residence on a monthly but non cumulative basis. Such employees are also permitted to remit their gratuities at the end of their contracts of employment with the approval of the Exchange Control Department. Where employment contracts so stipulate, expatriate employees are also with the approval of the Exchange Control Department, remit two thirds and a hundred percent of their after tax bonuses and leave grants respectively.

5.5.3 Upon emigration, persons over 50 years of age are allowed exchange equivalent up to K15,000 on departure whether single or married. Married persons under the age of 50 years are allowed K6,000 on departure together with K500 for each child up to a maximum of K8,000 in total for a family. Unmarried persons under the age of 50 years are allowed K3,000 on departure. The balance of the emigrant's funds are blocked, but on the anniversary of the departure date from Malawi a sum equal to the original Emigration allowance is permitted for transfer to the new country of residence, up to a maximum of K8,000. Credits and debits to blocked accounts must be referred to the Exchange Control Department.

5.6 Exports and Receipt of Export Proceeds

5.6.1 The Controller of Customs and Excise does not clear the export of any movable property of a value exceeding in aggregate K100 unless he is satisfied that:-

(i) payment in respect of the property has been made to a person resident in Malawi or is to be so made within five working days after payment for the exports is made; and

(ii) the amount of the payment that has been made or is to be made is such as to represent a return for the property that, in all the circumstances, is satisfactory in the interests of Malawi.

In view of the foregoing a Form CD1 must be completed in respect of any such exports. Export proceeds must be received in Malawi through normal banking channels.

5.6.2 Exports for repairs and services abroad are permitted with the approval of the Exchange Control Department. Export of goods formerly imported into Malawi requires the approval of the Exchange Control Department.

5.7 Technology Transfer

5.7.1 Both resident and non-resident controlled companies require the prior approval of the Exchange Control Department to enter into any agreements involving foreign partners. This is to ensure that:-

(i) such agreements do not impose unfair and unjustifiable restrictions or handicaps on local parties;

(ii) such agreements will not be prejudicial to national interest; and

(iii) the payment of fees (if applicable) will be in accordance with the terms and conditions of the agreements which require the approvals of the Exchange Control Department.

5.7.2 Technology transfer agreements cover licence rights over specific processes, formula or manufacturing technology, patented or unpatented; other knowledge and expertise necessary for the setting up of plants; and provision of various technical assistance and supporting services. Under these arrangements, specific agreements entered into could be in the form of:-

(i) Joint Venture Agreements: Agreements to set up joint venture companies between two or more people involving locals and foreigners;

(ii) Technical Assistance Agreements: Agreements between two or more parties where one party will provide the technical assistance and know-how for the manufacture of certain products for certain amounts of fees or royalties;

(iii) Know-how Agreements: Basically the same as in (ii) above;

(iv) Licence Agreements: Agreements between licencees and licensors where the other grant licences or rights to the licensees to use their patents, trademarks and other industrial or intellectual properties for the manufacture of certain products for certain amounts of fees or royalties;

(v) Patents and Trademarks Agreements: Agreements where some parties give rights to others to use their trademarks for the manufacture of certain products for certain amounts of fees;

(vi) Sales Commission Agreements: Agreements under which some parties will provide marketing assistance services to others for certain amounts of sales commission fees;

(vii) Turnkey Contracts: Contracts between parties where contracts are awarded to some parties to perform all stages from initial to final stages inclusive of consultancy, managerial, technical services and others until contractual projects are ready for immediate commercial production or otherwise; or

(viii) Management Agreements: Agreements where some parties provide management services for a fee.

All agreements that entail remittances of funds from Malawi must be referred to the Exchange Control Department in a draft form for prior approvals. Changes to such agreements must be referred to the Exchange Control Department. Any remittances arising from such agreements are allowed with the approval of the Exchange Control Department.

5.8 Local Borrowing

5.8.1 Upon application, the Exchange Control Department permits authorised dealers to provide foreign controlled companies with overdraft facilities for working capital purposes only. Such facilities are extended in the following manner;

(i) Agriculture Sector up to 500% of equity;
(ii) Finance Sector up to 300% of equity;
(iii) Import substitution Sector up to 66.67% of equity; and
(iv) Services and other sectors up to 40% of equity. For these purposes equity includes issued share capital, share premium reserves and general reserves arising from retained profits.

These facilities are extended for a period of up to one year subject to renewal on a yearly basis. Foreign controlled companies may also borrow from any local sources on a long-term basis with the approval of the Exchange Control Department provided that in any one year its total obligations do not exceed its entitlement as indicated in the sectors above.

5.8.2 Resident controlled companies may borrow from any local sources free of any Exchange Control restrictions.

5.9 External Borrowing

Both resident and non-resident controlled companies may borrow from external sources with the approval of the Exchange Control Department. Draft agreements must be referred to the Exchange Control Department for prior approval. Such agreements must clearly reflect the terms and conditions of the loan. Subsequent remittances are permitted with the approval of the Exchange Control Department as and when they fall due. Any changes to a loan agreement require the approval of the Exchange Control Department.

6. LEGAL PROVISIONS

6.1 Constitutional and Legal Protection of Investment

The Constitution of the Republic of Malawi prohibits the deprivation of a person's property without payment of fair compensation, and only where the public interest so requires. In addition, the Government maintains a Legal system that protects investment in Malawi, whether local or foreign.

6.2 Treaty Protection of Foreign Investment

The Government is committed to maintaining the legal protection of private property. As far as foreign investment is concerned, the Government has accorded it further protection by entering into appropriate bilateral and multilateral investment protection or guarantee treaties. In this respect, the Government has signed and ratified the Convention Establishing the Multilateral Investment Guarantee Agency. Furthermore, the Government is willing to negotiate mutually satisfactory terms to be embodied in bilateral investment treaties with any other Government whose nationals are likely to invest in Malawi.

6.3 Settlement of Investment Disputes

The Government is aware of the importance attached by foreign investors to the procedures to be followed in the resolution of investment disputes that may arise between any investor and a host Government. To this end, the Malawi Government is a signatory to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States dated 18th March, 1965. An Award made in accordance with this Convention has binding effect under the provisions of the Investment Disputes (Enforcement of Awards) Act (Cap.40:01). In addition to arbitration under the Convention, the Government will agree alternatively to submit disputes for settlement under the procedures of the United Nations Commission on International Trade Law (UNCITRAL) or the International Chamber of Commerce.

Investors, both local and foreign, may specifically agree that any disputes arising out of their investment be referred to arbitration in accordance with the provisions of the Arbitration Act (Cap 6:04).

6.4 Incorporation of Companies

The incorporation of a company is governed by the provisions of the Companies Act (Cap.46:03).

A person wanting to incorporate a company must apply for permission to do so from the Registrar of Companies at P.O. Box 100, Blantyre.

6.5 General Approvals

6.5.1 Business Licence: Most types of businesses require an annual licence from the Ministry of Trade Industry and Tourism under the Business Licensing Act (Cap.46:01). Under this Act, "business" include trade, industry and occupation.

6.5.2. Business Name: The Business Names Registration Act (Cap.46:01) requires that a person intending to trade under a business name must register the business name with the Registrar of Business Names, who also is the Registrar of Companies. The Minister of Trade, Industry and Tourism has to give his consent before a business name can be registered.

6.5.3 Industrial Licence: The Industrial Development Act (Cap.51:01) requires that a person manufacturing for sale any product at any place in Malawi must be in possession of a licence to manufacture that product at that place. The industrial licence is issued by the Minister of Trade, Industry and Tourism.

7. LAND TENURE

Land in Malawi is divided into three categories by the Land Act (Cap.57:01). These categories are; customary land, private land, and public land.

7.1 Customary Land

Customary land forms the bulk of the land in Malawi. This type of land is held, occupied or used under customary law and the chiefs are delegated the function of allocating this land. A lease of not more than 99 years can be granted out of customary land. Foreign investors are generally not allowed to invest in rural areas where the bulk of the land is customary unless such investment is of national importance such as farming on a large mechanised scale.

7.2 Private Land

This is land owned, held or occupied under a freehold title, or a leasehold title, or a certificate of claim, or which is registered as private land under the Registered Land Act (Cap. 58:01). The Minister responsible for land matters accords private land the freehold title only in very exceptional circumstances. A foreign investor is rarely given the freehold title although that is subject to what the Minister deems necessary.

7.3 Public Land

This is land which is owned, occupied, and used by the Government. Most of this land is in urban areas and trading centres throughout the country. An investor can acquire public land by way of a lease from Government.

7.4 Procedure For Land Leases

All publications for land leases are processed by the Department of Lands and Valuation in the Office of the President and Cabinet, Tikwere House, City Centre, Private Bag 311, Lilongwe 3.

(i) Leasing Customary Land for Agricultural Purposes

An applicant who wants to lease customary land for agricultural purposes must obtain the consent of the relevant chief, District Commissioner, and the Agricultural Development Division before his application is submitted to the Department of Lands and Valuation for processing.

(ii) Leasing for residential, trading or industrial purposes

Where a lease for residential, trading, or industrial purposes is required, the applicant must first of all be allocated a plot by the authorities responsible for allocating plots in that area. The application, accompanied with the sketch plan of the plot is then submitted to the relevant District Commissioner or the Estates Management section of the Department of Lands and Valuation at Gemini House, City Centre, Lilongwe, or the Regional Valuation and Estate Management office, P.O. Box 568, Blantyre, depending on who is managing the property. In case of an application for a lease for industrial or trading purposes, the Department of Lands and Valuation consults the Ministry of Trade, Industry and Tourism before issuing a lease.

8. LABOUR POLICY AND LABOUR LAWS

Malawi's labour legislation sets down minimum wages and conditions of employment as a basic guideline to employers. It covers a wide range of conditions of employment such as, hours of work, overtime, annual leave and settlement of labour disputes. There is little Government intervention in the operation of business in the private sector, so long as the minimum legal requirements of wages and conditions of employment are observed. The following Acts compose the labour laws of Malawi:-

8.1 The Trade Union Act (Cap 54:01)

Organized labour by way of trade union movements is still in its embryonic stage in this country. Trade Unions are required under this Act to be registered.

8.2 Trade Disputes (Arbitration and Settlement) Act (Cap. 54:02)

The main framework for the settlement of industrial disputes is laid down in the above Act. The Act prohibits lock-outs and strikes during the process of conciliation orof arbitration, where required. The majority of trade disputes have been settled after mediation by Labour officers.

8.3 Regulation of Minimum Wages and Conditions of Employment Act (Cap 55:01)

This Act regulates minimum wages and employment conditions of employees. Minimum wages are subject to review on regular basis.

The current statutory minimum wages are:-

(i) In cities of Blantyre, Lilongwe and Mzuzu K2.17 per day
(ii) In the municipality of Zomba and gazetted townships.........1.95 per day
(iii) In all other areas..........K1.74 per day

8.4 Employment Act (Cap 55:02)

This act contains provisions relating to the employment and recruiting of workers in Malawi. Is also regulates conditions of work and establishes trade test.

8.5 Workmen's Compensation Act (Cap 55:03)

This Act prescribes the amount of compensation payable to workmen or their dependents for injuries or death suffered in the course of their employment.

8.6 Employment of Women, Young Persons and Children Act (Cap. 55:04)

This Act regulates the employment of women, young persons and children. In the Act, "child" means a person under the age of twelve years, "woman" means all persons of the female sex without distinction of age and "young person" means a person who has ceased to be a child and who is under the age of sixteen years.

8.7 Apprenticeship Act (Cap.55:06)

This Act provides for the apprenticeship of workmen. An "apprentice" is defined as a person employed under a contract of apprenticeship. The Act establishments an Apprenticeship Board whose functions are:-

(i) to estimate the number of apprentices required to be trained so as to ensure that sufficient skilled workmen are available to satisfy the requirements of industry;

(ii) to recommend to the appropriate authorities and organisations after consultation with any interested representatives or employers and skilled workmen in the industry concerned the taking of such other steps in relation to the apprenticeship of workmen.

8.8 The Factories Act (Cap. 55:07)

The Act provides guidelines on the general safety, health and welfare of employees in factories registered under the above Act.

8.9 Industrial Training Act (Cap 55:08)

This Act provides for the establishment of the Industrial Training Fund. There is paid into the Fund-

(i) moneys by the Government as its contribution thereto; and
(ii) moneys received from levies imposed on all employers of skilled workmen in prescribed trades and self-employed persons in such trades.

The Fund is applied towards defraying various costs and expenses relating to apprenticeships and supplementary training of both apprentices and skilled workmen. Money from the Fund is also used in the administration of the Apprenticeship Act (Cap 55:06) and this Act.

8.10 Labour Availability

Malawi has a pool of skilled labour, however gaps exist in certain specialised areas. This shortfall is mostly met through internal and external training. However, Government encourages industries to train their employees. On the other hand there is an abundant supply of semi skilled and unskilled labour.

9. IMMIGRATION LAWS AND REGULATIONS

9.1 Immigration Act (Cap. 15:03)

All prospective investors to Malawi are required under this Act to apply for an immigration permit to enable them to carry out their intended businesses. Immigration permits at present are:

(i) business residence permit available for a period of five years subject to subsequent renewals on a fee of K500.00 upon both issue and renewal;

(ii) temporary employment permit for the period of two years and is renewable at a cost K250.00 on issue and renewal; and

(iii) permanent resident permit whose validity period is indefinite and carries a fee of K75.00 but whose conditions slightly differ from the above permits.

9.2 Malawi Citizenship Act (Cap 15:01)

The acquisition of Malawi citizenship status either by registration or naturalisation or any other means is governed under this Act. The Act requires that eligible persons reside in this country for a period of not less than five years if from a Commonwealth country, and seven years if from a non-Commonwealth or alien country.

Appendix Two

Project descriptions

1. **SOLVENT EXTRACTION OF VEGETABLE OILS**

Government agency:	Ministry of Trade and Industry with National Oil Industries (MW) Ltd and Lever Brothers (MW) Ltd
Estimated total investment:	K4.0 mn ($1.6 mn)
Foreign inputs:	$0.4 mn

DEVELOPMENT OBJECTIVES

The development objective of establishing a solvent oil extraction plant is to enable the country to recover oil from cotton seed and groundnut cake waste produced by local edible oil processing industries. The seed cake waste still contain 6-16% of residual oil. Increased production of vegetable oils through the solvent oil extraction method will support one of the Government's national objectives of reaching self-sufficiency.

IMMEDIATE OBJECTIVE

The immediate objective of the project is to recover the residual oil from the cottonseed cake and groundnut cake waste so as to make available more edible oil to the domestic market whose total demand is partly met by imports.

BACKGROUND AND JUSTIFICATION

The quantity of edible oil produced in Malawi is not adequate to meet the country's edible oil requirements. Some edible oil is imported to satisfy the demand. Yet there is some 18,000 tonnes of cottonseed and groundnut cake waste which is just thrown away, and if processed would turn out 2,130 tonnes of crude vegetable oil. The residues arising from this process would provide animal feed as well as agricultural manure.

OUTPUTS

- 2,130 tonnes of vegetable oil will be produced.
- Imports of vegetable oil will be reduced accordingly, resulting in savings in foreign exchange.
- 18-20 jobs will be created initially with possibilities of incremental employment opportunities.

GOVERNMENT INPUTS

The Government will make the following contribution:-

- Factory site of 1200m^2, factory building estimated to cost K120,000, contribution to working capital, salaries and wages for semi-skilled and unskilled staff.

FOREIGN INPUTS

The Government requires funds to finance the following:

- Plant Manager and Maintenance Manager.

- Machinery and equipment consisting: cake preparation machine, solvent extraction machine, meal storage, meal weighing/bagging, crude oil storage, cooling tower transformer house, interconnections, workshop, laboratory and spare parts. This is estimated to be $1.2 mn.

INSTITUTIONAL FRAMEWORK

The Government has two local organisations identified to participate in the implementation of this project. They are the National oil Industries (Malawi) Limited and Lever Brothers (Malawi) Limited. Both of these organisations are in the edible oil processing industry.

2. WASTE PAPER RECYCLING PLANT

The demand for paper products is about 15,000 tons per annum and it is all imported. Taking into consideration the availability of local raw materials viz waste paper and straw, it is proposed to establish a 10 ton/day Recycling Paper Plant. Based on requirements and also what can be made from the available raw materials, the following products could be produced.

I. Kraft liner paper
II. Kraft fluting paper
III. Colour manica boards
IV. Cover paper and boards
V. Duplex boards
VI. Wrapping paper
VII. Grey board
VIII. Straw board

In due course, after gaining experience in the production technology, paper for students exercise books could also be made. This will be of a second grade white writing paper.

The product mix requires plant for the manufacture of products by recycling waste paper and use of straw. Straw requires cooking before being taken up for processing in "stock preparation". There is a demand for straw board. The daily proposed production of straw and straw mixed board is three tons. The production of other products would be 7 tons. Hence this requires two machines (i) Board making machine (ii) Paper making machine.

The installation of two machines has distinct advantages:
(i) they can produce a product mix of about 8 items and simultaneously produce two varieties of products.

(ii) there is no need to clean and wash the machine after producing one variety. In a single machine, after producing board, it has to be stopped, washed, cleaned and second product.

(iii) The refined virgin straw pulp from the board machine could be sent to the paper making machine to augment the pulping capacity and supplement the waste paper raw materials requirement of the paper plant. The Wet End Board making machine, in the absence of automatic drying processes, has considerably reduced the investment costs. To dry higher grammages of board from 300 gsm to 600 gsm, more drying cylinders, say 10 or 12 would be required with adequate boiler capacity for generating steam. This would involve additional cost of about K320,000. There would be considerable unutilized capacity as well. This will also be disproportionate to the cost of the board plant of K300,000.

The cost of steam for drying of board, in the product cost, would be very high. Assuming the cost of board to be K15 per kg. steam cost would be K65, which otherwise could be saved from the product cost. Extra labour would be employed in loft drying, air drying or sun drying. This will reduce the cost of the product.

A plant of intermediate technology, versatile in operations, to produce a mix from 60 gsm to 300 gsm, with two sheets of pulp to make duplex board with two mould rats and one M.G. Drum steam dryer is recommended. This is a tried technology. An area of 20,000 sq.ft built area is required. About 15 acres of land would be needed, especially in view of the needs for effluent treatment.

PROJECT COST AND SOURCE OF FUNDS	Kwacha '000
Land	40
Building	700
Plant	1,850
Project design, civil works, engineering Expenses **	550
Miscellaneous fixed assets including a five ton lorry	200
Pre operative expenses	50
Contingencies	40
Total A	3,430
Margin Money B	500
Total of A & B	3,930

**	Well and water supply	50
	Civil works	150
	Effluent Treatment	150
	Pipelines and wiring	150
	Installation and commissioning incl. miscellaneous expenses.	50
		550

FINANCING SOURCES

Suppliers Credit	A	1,295
Term Loan	B	1,600
Working capital Bank Facility	C	500
Equity	D	1,000

Interest rates on manufactured credit are expected to be 10% per annum, interest on term loans 12% and working capital loan 19%.

3. MANUFACTURE OF CERAMIC TABLEWARE, PLATES, CUPS, SAUCERS, MUGS AND BOWLS.

PLANT CAPACITY AND PRODUCTION PROGRAMME:

The required annual production is estimated at 300 tonnes per annum, taking an average weight per piece of 360g. This comes to 833,333 pieces.

The proposed quantities by group will be

150 tonnes - plates
75 tonnes - cups and saucers
75 tonnes - mugs and bowls.

MARKET ANALYSIS AND POTENTIAL

The market for ceramic tableware in Malawi is assumed to be very large. Combined sales of enamel tableware and plastic in Malawi are in the range of 2 mn pieces per annum. Therefore, given competitive prices and good quality for ceramic tableware, the market for ceramic tableware should be just under 1mn pieces.

PROCESS DESCRIPTION

Linthipe clay, feldspar, scilica etc are fully washed to remove impurities. The materials are then crushed to the required size, weighed and batched to the predetermined ratio for fine grinding by a ball mill. The mugs, bowls, plates, cups and saucers are made by jigger-jolley system and fired. The items are then sorted and packed.

FINANCIAL ASPECTS

			K '000
(a)	Fixed Capital		
	(i) Land and Buildings		
	- land	5000 sq metres	15
	- built area	50 sq metres	10
	- workshed	200 sq metres	40

			65

			K '000
2.	Working capital (per month)		
	(i) Personnel		
	1 Technical Manager		1,000
	2 Supervisors		800
	1 Accountant/Clerk		300
	1 Electrician/fitter		325
	10 Skilled workers		2,750
	20 Unskilled workers		3,000
	3 Watchmen		210

			8,385
		15% Social charges	1,260

			9,645

(ii) Raw Materials/Month

	Tons	Rate/ton	Value
Linthipe Clay	20	K 15/ton	300
Feldspar (imported)	10	K600/ton	6,000
Silice	10	K 15/ton	150
Gypsum	2	K 15/ton	30
Steam coal	100	K 60/ton	6,000
Marble chips	0.5	K700/ton	350
Glazing materials (.1kg per piece)	7	K1600/ton	11,200
Packing materials			400

Total Raw Materials (per month)			24,430

(iii) Utilities (per month)

Power	800
Water	300

(iv) Other contingent Expenses (per month)

Stationery, Insurance, Misc.	560
Total Recurrent costs per month	35735
Total Working Capital (3 months)	107205

(c) TOTAL CAPITAL INVESTMENT

Fixed Capital	144
Working Capital	107
	251

(d) COST OF PRODUCTION (PER YEAR) 429

(e) TURNOVER (PER YEAR) 625

4. POTASSIC FERTILIZERS USING MINERALS AVAILABLE IN MALAWI

SPONSOR: Royale Chemicals (Fertilizers) Enterprises

OBJECTIVES

1. Promotion of an industry using local raw materials to increase production in agriculture and manufacturing industry and create job opportunities in Malawi and SADCC region.

2. To promote fertilizer manufacturing using locally available nepheline, syenite, apatite, feldspar, limestone, pyrites and gypsum to reduce imports of finished phosphatic and potassic fertilizers.

3. Process residues as by-products for production of pesticides, paints and detergents Industries.

4. With cooperation of the government commence small-scale mining of industrial minerals.

5. Import acids and other chemicals for processing the local minerals into useful agro-chemicals.

PRODUCTS

1. Potassium chloride
2. Potassium sulphate
3. Potassium mitrate
4. Single super phosphate
5. Triple super phosphate
6. Sodium sulphate and phosphate
7. Sodium and calcium nitrate

PRODUCTION PROCESS

Chemical acidulation and physical filteration and thermal decomposition.

CAPACITY

100 MT per day at 250 days a year
25,000 MT per annum first year to 100,000 MT per annum fifth year.

SOURCES OF SUPPLY

(a) Equipment Europe and other developed countries of the world.

(b) Raw materials Malawi, Zambia, Zimbabwe, Botswana, Europe, South Africa and Asia.

(c) Energy fuel Mozambique, Zambia, Zimbabwe and Malawi.

(d) Investment local K1 mn balance other sources willing to participate up to K1 mn equity and K3 mn loans.

MARKETING ARRANGEMENTS
Through present and future private parastatal and government enterprises.

PRODUCTION
Feasible and profitable.

The market for the products is already there, the price cost of production will be competitive. The project is feasible and will employ at least 200 people.

MARKET
Malawi imports over 10,000 tonnes p.a. Total imports by SADCC countries are 55,000 tons p.a.

5. PULP AND PAPER MILL

Sponsor	:	Viphya Pulp and Paper Corporation Limited (VIPCOR)
Objectives of the Project	:	Production of 90,000 to 290,000 tonnes of Pulp per year for export and up to 50,000 tonnes of Paper for local and regional consumption.
Products Proposed	:	Fluting and Liner Board, Market Pulp, Tissue, Fluff Products, Newsprint, Writing and Printing Paper.
Production Process and Capacity	:	Chemi-Thermo Mechanical Process and Bleached Chemi-Thermo Mechanical Process - up to 290,000 tonnes per year capacity.
Equipment requirements	:	To be determined when project is firmed-up.
Raw materials	:	Wood from the Viphya Plantation.
Chemicals	:	Imported from the Republic of South Africa.
Investment and Funding:		Loan funds and Equity from potential partners and International finance houses.
Marketing	:	Regional PTA and Domestic Market for Paper.
	:	International and Regional Market for Pulp, and current statistics provide a buoyant pulp market on the International Scene.
Project Costs and Profitability	:	Project estimated to cost MK500 m is estimated to turnover about K150-K200 m per annum.

6. ROSIN AND TURPENTINE PRODUCTION

Sponsor	:	Royale Chemical Enterprises Limited and Viphya Pulp and Paper Corporation. VIPCOR
Objectives	:	To provide raw materials to chemical industry from locally available forestry resources.
Products	:	Rosin, size for paper and tallow substitute, natural turpentine, terpenes for perfumes.

Production Process	:	Collection, Steam distillation suffused for the market; trees available.
Investment	:	MK500,000 Working Capital 100,000
Market	:	Available locally. Declared feasible by various studies including ITC funded 1983 study and study in 1985. RSA imports 1,300 tonnes for rosin at a price over R1,000/tonne for size, printers ink, tyre manufacture and varnishes, soap, adhesives with an annual increase of 5% p.a. Turpentine imports averages 300,000 litres @ R1 per litre. Total K7,300,000.00. Therefore, any importation from South Africa is indirectly from USA, Portugal and China. Zambia 220 tonnes, Tanzania 1,000 tonnes. Angola, Botswana, Mozambique and Zaire also import this product.
Local demand	:	Lever Brothers have expressed their desire to buy 300 tonnes per annum provided the quality is right with another 300 tonnes being taken up by other customers. 150 tonnes Gum Rosin Turpentine by paint industry. Employment of 200 people.

7. PRODUCTION OF STARCH AND GLUCOSE FROM CASSAVA

1. PROJECT SUMMARY

Local production of cassava starch for use in textiles, laundry and foods will help considerably in meeting growing demand due to population growth.

It is assumed that adequate quantities of fresh cassava could be made available for starch production to initially meet at least 50% of estimated demand of 700 metric tonnes per annum although it is recognised that cassava is an important component of diet in some areas of Malawi.

It is proposed that a factory at an estimated total capital outlay of MK748,200 (with a 69 per cent Foreign Exchange component for imports of machinery) and producing about 5 tonnes of starch per day be implemented initially to permit learning production procedures, attaining optimum efficiency and gaining users' acceptance of the locally produced cassava before additional factories are started. Appropriate technology has been identified and the factory should reach full effective capacity utilization in the fifth year of the project's implementation.

The factory is proposed to be located at Liwonde which is one of the areas in which cassava is considered as more of a cash crop than a staple food. The high rate of return of 31,6 percent supports the recommendation of an immediate start. If demand is strong, subsequent factories should be located at other cassava producing areas such as Salima, Nkhotakota, Nkhata Bay and Karonga in order to maintain low transport cost of raw material. On all factory sites, methods of effluent disposal should be given high consideration.

2. MAJOR PROJECT ASSUMPTIONS

The following are the major assumptions on which the preparation of the project profile has been based

(a)	Installed Plant Capacity	:	1390 tonnes/annum
(b)	Plant production Output (at 90% efficiency)	:	1250 tonnes/annum
(c)	Plant operating day per annum (1 shift)	:	250 days
(d)	Price for raw materials (fresh peeled cassava)	:	K40 per tonne
(e)	Conversion Ration of Fresh	:	6t/fresh cassava to 1t starch
(f)	Selling price of Cassava Starch	:	K1050 per tonne
(g)	Local transport cost	:	K10 per tonne
(h)	Marketing and Packaging	:	K220 per tonne
(i)	Water	:	K30 per tonne
(j)	Project Location	:	Liwonde
(k)	Site Area	:	0.5-2.0 hectares
(l)	Factory Area	:	400 Square metres
(m)	Electricity	:	45 KWH per tonne
(n)	Water	:	45 cu,m./tonne
(o)	Manpower Requirements		
	(i) Administrative	:	3
	(ii) Skilled Workers	:	3
	(iii) Unskilled Workers	:	25

3. PROJECT COST ESTIMATES (IN MALAWI KWACHA)

CAPITAL COSTS K'000	LOCAL COSTS K,000	FOREIGN EXCHANGE COSTS K,000	TOTAL COSTS K,000
Land, Building and Erection	107		107
Machinery	-	500	500
Import duties an taxes	141	—	141
Total Fixed Costs	248	500	748
Working Capital	108	—	103
Total Capital Costs	356	500	856

	FIXED	VARIABLE	TOTAL
Total Operating Costs	375	635	1,060

Total Output	1,250 ton p.a.
Production Cost per ton	K848

4. STATUS

The Ministry of Trade, Industry and Tourism, has a 1986 detailed feasibility study carried out by Louis Berger International, Inc.

8. **MAKING UP LENGTHS OF SUITING MATERIALS**

COMPANY: Van Textile Mills Ltd

PRODUCT: to weave cloth or wool, cotton or artificial fibres for the domestic market and for export.

PLANT: Weaving capacity would be 4mn metres/year. This would require winding machines; folding machines; stretching machine; screen printing facility; dyeing vats and weaving machines.

INVESTMENT: K15 mn ($6mn)

MARKET: 2.5 mn metres/year

PROFITABILITY: the margin is envisaged as 20 per cent on the costs of production.

ADVANTAGES: this would make use of Malawi labour at very competitive rates to produce a range of materials of high quality to command good prices in export markets.

9. **SEMI-PROCESSED FRUITS**

Semi-processed fruits are those that have been freshly picked, but not intended for the fresh fruit market. Instead, they are processed to a stage where they can be preserved for a prolonged period of time until needed for further processing into jams, jellies or other products.

The objective of establishing a plant to produce semi-processed fruits is to process surplus fruits not taken up by the fresh fruit market and stimulate additional production by providing markets for outputs. Semi-processed fruits would be exported to earn foreign exchange and create employment and the development of the agricultural sector.

Some semi-processed fruits could also be sold on the domestic market although this market is felt to be small. This domestic demand coupled with good export demand could allow ADMARC Canning Factory in Mulanje to increase its capacity utilization beyond the fresh fruit season.

It is proposed to establish a plant with an installed production capacity of 500 tonnes per annum. Actual production is expected to be 450 tonnes annually with the factory working at 90% efficiency. Appropriate technology for operating the factory has been identified.

To meet the proposed production capacity, some 500 tonnes of fresh fruits will be required as raw material for processing. The conversion ratio of fresh fruits to semi-processed fruits is 1.1 tonnes to 1.0 tonne.

The capital cost of establishing a semi-processed fruit operation is estimated at K1.2 million with a foreign exchange component of K0.5 mn (US$250,000) which is 42% of the capital cost. The annual operating costs are estimated at K735,200. The project is expected to generate K990,000 value of sales at full development assuming that all of the 50 tonnes will be exported to Europe at a price of US$1,100 per tonne. At this price, the product will be highly competitive internationally.

Overall, the project will yield a financial internal rate of return of 16.3% after tax. It will be very sensitive to increases in transport and capital costs and decreases in processing yield, selling price and factory efficiency.

2. MAJOR PROJECT ASSUMPTIONS

The formulation of the project profile has been based on the following assumptions:

(a)	Installed plant production capacity/annum	:	500 tonnes
(b)	Production output at 90% efficiency	:	450 tonnes
(c)	Plant operating days per annum (1 shift)	:	125 tonnes
(d)	Price for raw materials	:	K60/tonne
(e)	Conversion ratio of raw materials	:	1.1. to 1
(f)	Selling price of final product (export)	:	US$1100/tonne
(g)	Marketing and packaging costs	:	K250/tonne
(h)	Land and ocean freight cost	:	US$1181/tonne
(i)	Project location	:	Mulanje
(j)	Factory area required	:	$3032m_2$
(k)	Electricity	:	50KW
(l)	Water	:	5000 litres/day
(m)	Manpower Requirements		
	(i) Administrative Staff	:	5
	(ii) Skilled Workers	:	6
	(iii) Unskilled Workers	:	20

3. PROJECT COST ESTIMATES (K'000)

(i) CAPITAL COSTS

Local Cost	1,075
Foreign Exchange Cost	500
Total Capital Costs	1,575

Foreign Currency for Imports US$250,000

(ii) OPERATING COSTS

Fixed Costs	127
Variable Costs	657
Total Operating Costs	784

Total Production (Tonnes)	450
Production Cost per Tonne	1,085

4. STATUS

Detailed feasibility study of 1986 available at the Ministry of Trade, Industry and Tourism.

Appendix Three

Taxation in Malawi

1. The corporate tax rate for all locally incorporated entities is 50%. This liability to income tax is restricted to income arising or that is deemed to have arisen in Malawi. The corporate tax for other categories of entities is as follows:

	Tax Rate
-Registered branches of entities not incorporated in Malawi	55%
-Unregistered branches of entities not incorporated in Malawi	50%
-Remittances to entities not operating through a permanent establishment in Malawi	15%
-Special Rate for discretionary trust	25%
-Cooperatives, missions, clubs etc, on 6.25% of turnover from specified activities	50%
-Life Assurance funds	30%
-Pension and annuity funds	0%

2. Expenditure and losses (not of capital nature) wholly and exclusively incurred by a business entity for the purposes of his trade or in the production of income can be claimed.

3. Additional deductions include the following:

   -expenditure on repairs,
   -capital allowances and lease premiums
   -bad and doubtful debts
   -payments to approved pension and provident funds
   -expenditure (not of capital nature) on research,
   -donations to specific charities
   -annuity or pension payments to former employees and their dependents.

4. Foreign nationals working in Malawi are taxed on their total renumeration and other emoluments which include overseas and hardship allowances, bonuses and vacational passage. Standard allowances are taken into account and tax rates are as follows:

Figures in US dollars

Total Remuneration	Income Tax
20000	6328
25000	8821
30000	11328
35000	13828
40000	16328
45000	18828
50000	21828
60000	26328
70000	31328
80000	36328
90000	41328
100000	46328
120000	56328

5. Estate duties that are levied on gross estate less funeral expenses and debts due at death are as follows:

Taxable Estate Over	Not over	Tax Rate
-	30000	0
30000	40000	4
40000	80000	5
80000	140000	6
140000	200000	7
200000	400000	8
400000	600000	9
600000		10

6. Withholding Taxes on remittances to non residents are as follows:

Recipients	Earnings	Dividends	Interest	Royalties
Non Treaty	15%	15%	15%	15%
Treaty Country				
Denmark	0	15	0	0
France	0	15	0	0
Kenya	0	15	0	0
Netherlands	0	15	0	0
Norway	0	15	0	0
South Africa	0	15	0	15
Switzerland	0	15	0	0
United Kingdom	0	0	0	0

Appendix Four

Tax Depreciation Rates

		Investment	Initial	Annual
1.	Agricultural Plantation development, irrigation and soil conservation work	0	0	100
2.	Buildings- Industrial	40	10	5
	Farm Improvements	40	10	5
	Other	0	0	0
3.	Exploration costs and specialised extraction industry assets	0	0	0
4.	Machinery and Equipment			
	-Heavy Machinery & Installations	40	20	15
	-Light Machinery	40	20	10
	-Furniture	0	20	10
5.	Vehicles			
	-Ships, aircraft, railway stock	40	20	10
	-Trucks, tractors, mobile farm equipment	0	20	33
	-Light commercial vehicles	0	20	25
	-Motor cars	0	20	20
6.	Computers (straightline basis)	0	20	25
7.	Lease premiums and intellectual property (straightline basis)	0	0	4
8.	Goodwill and other intangibles	0	0	0

Appendix Five

US AID Projects

Title		Date started	Amount $'000
1.	AIDSCOM	1988	100
2.	Family health intiatives	1988	660
3.	AIDSCOM	1988	200
4.	AIDSTECH	1988	100
5.	Training for leadership and skills	1990	100
6.	HIV/AIDS prevention in Africa	1988	100
7.	Human resource developmen	1988	50
8.	Polytechnic engineering	1980	8,300
9.	Rural water	1980	6,000
10.	Health institutions development	1984	15,000
11.	Rural enterprises and agribusiness devel't	1984	9,000
12.	Agricultural research	1985	15,000
13.	Commercial transportation	1984	5,000
14.	Rural development linkage	1983	1,400
15.	Fertiliser subsidy removal	1985	15,000
16.	Parastatal divestiture	1986	15,500
17.	Human resource/institution development	1987	18,000
18.	Health intervention promotion	1989	15,000
19.	Health, agriculture and rural enterprises' services	1990	10,000
20.	Enterprise development	1988	36,600
21.	Program development and suppport	1988	1,400
22.	Agricultural sector policy program	1988	36,000
23.	Small enterprise transformation	1991	6,000

Appendix Six

ACRONYMS

BLS	Botswana, Lesotho, Swaziland
CAP	Common Agricultural Policy (of the EC)
EC	European Community
EPZ	Export Processing Zone
GATT	General Agreement on Tariffs and Trade
OSS	One Stop Shop
PTA	Preferential Trading Area
SDR	Special Drawing Rights (IMF)
SIC	State Investment Corporation
UAPTA	Unit of account of PTA