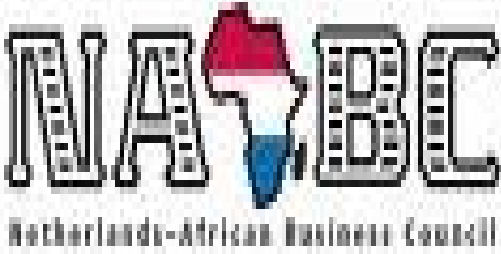


# Malawi Business Mission Fact Sheets 2010-2011



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## Opportunities in Malawi:

- **Agriculture** represents 34.7% of the GDP and represents about 80% of all exports. This gives an opportunity for investors to consider this the sector for investments.
- The Malawi government has planned to develop the tourism industry as an alternative source of foreign exchange for the country. This incentive opens door for investment opportunities in the **tourism industry**.
- **Manufacturing** accounts for about 12 % of Malawi's GDP. Since most of the traditional agricultural crops such as tobacco and tea are exported in a semi- processed state. There are huge opportunities for investors to convert most of these agricultural products into high value finished products.

Generally the following can also be interesting opportunities for investment consideration; inappropriate and outdated agricultural technologies, the failure of food production to keep pace with increases in the human population.

## General Introduction:

Established in 1891, the British protectorate of Nyasaland became the independent nation of Malawi in 1964. After three decades of one-party rule under President Hastings Kamuzu BANDA the country held multiparty elections in 1994, under a provisional constitution that came into full effect the following year. Current President Bingu wa MUTHARIKA, elected in May 2004 after a failed attempt by the previous president to amend the constitution to permit another term, struggled to assert his authority against his predecessor and subsequently started his own party, the Democratic Progressive Party (DPP) in 2005. As president, MUTHARIKA has overseen substantial economic improvement but because of political deadlock in the legislature, his minority party has been unable to pass significant legislation, and anti-corruption measures have stalled. Population growth, increasing pressure on agricultural lands, corruption, and the spread of HIV/AIDS has posed major problems for Malawi.

## Country Facts

Area	total: 118,484 sq km land: 94,080 sq km water: 24,404 sq km
Coastline	0 km (landlocked)
Terrain	narrow elongated plateau with rolling plains, rounded hills, some mountains
Land use	arable land: 20.68% permanent crops: 1.18% other: 78.14% (2005)
Irrigated land	560 sq km (2003)
population	14,268,711
Population growth rate	2.388% (2009 est.)

## Economic Facts

- GDP (2008 est.): \$11.81 billion
- GDP per capita (2008): \$800
- Annual growth rate (2008 est.): 8.6%
- Population (2008 est.): 14,268,711
- Agriculture products: tobacco, sugarcane, cotton, tea, corn, potatoes, cassava (tapioca), sorghum, pulses, groundnuts, Macadamia nuts; cattle, goats
- Industries: tobacco, tea, sugar, sawmill products, cement, consumer goods
- Natural resources (2004 est.):
- Trade: Exports commodities: tobacco 53%, tea, sugar, cotton, coffee, peanuts, wood products, apparel; Imports commodities: food, petroleum products, semi-manufactures, consumer goods, transportation equipment.

## Economic facts table

Subject	Units	2004	2005	2006	2007	2008	2009	2010	2014
GDP, constant prices	Annual percent change	5.4	3.3	6.7	8.6	9.7	5.9	4.6	3.3
GDP, current prices <sup>1</sup>	Billion, U.S. Dollars	2.625	2.742	3.145	3.586	4.268	4.786	5.178	-
GDP, per capita current prices <sup>2</sup>	U.S. Dollars	208.188	213.155	239.69	267.893	312.54	343.583	364.332	-
Inflation Rate, consumer price	Annual percent change	11.4	15.5	13.9	7.9	8.7	8.6	8.2	13.0
Current Account Balance <sup>3</sup>	Billion, U.S. Dollars	(\$0.058)	(\$0.0555)	(\$0.218)	(\$0.186)	(\$0.318)	(\$0.241)	-	-
Current Account Balance	Percent of GDP	-7.3	-11.7	-7.2	-1.6	-7.8	-4.1	-5.5	-3.2

<sup>1</sup> [http://www.economywatch.com/economic-statistics/malawi/GDP\\_Current\\_Prices\\_US\\_Dollars/](http://www.economywatch.com/economic-statistics/malawi/GDP_Current_Prices_US_Dollars/)

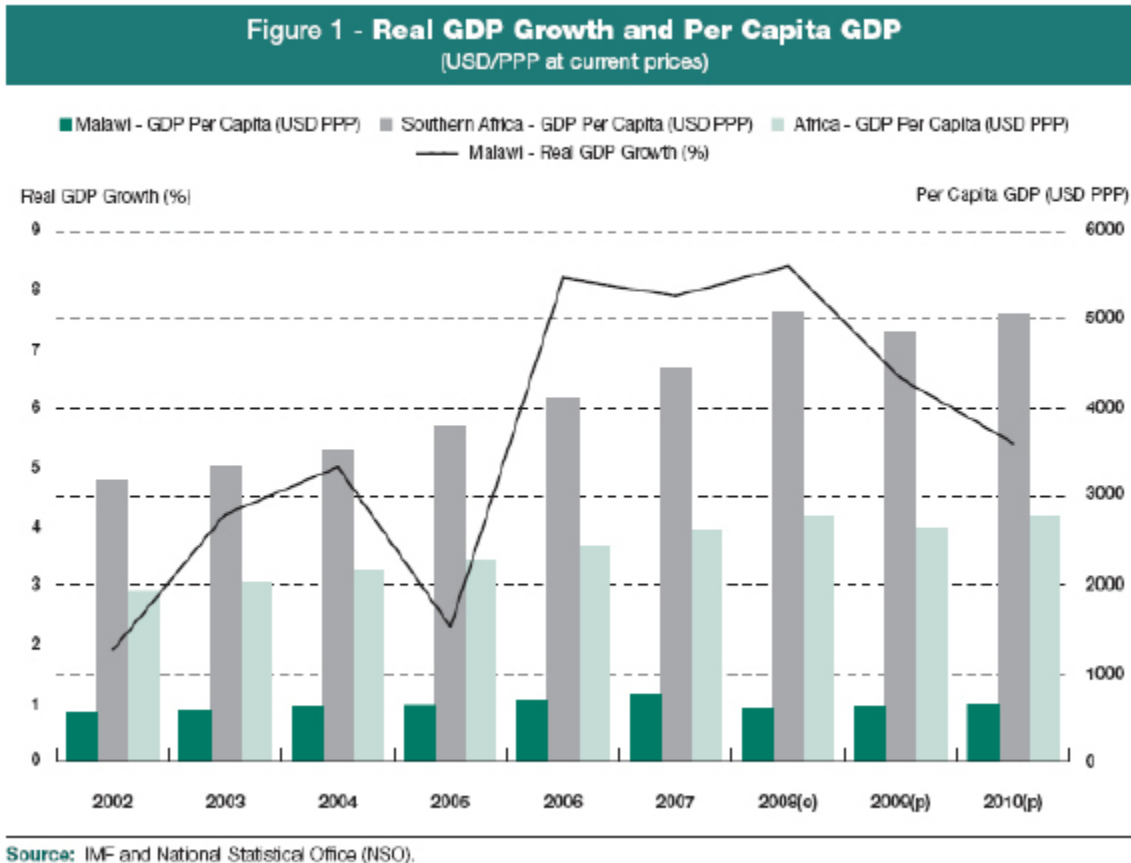
<sup>2</sup> [http://www.economywatch.com/economic-statistics/malawi/GDP\\_Per\\_Capita\\_Current\\_Prices\\_US\\_Dollars/](http://www.economywatch.com/economic-statistics/malawi/GDP_Per_Capita_Current_Prices_US_Dollars/)

<sup>3</sup> [http://www.indexmundi.com/malawi/current\\_account\\_balance.html](http://www.indexmundi.com/malawi/current_account_balance.html)

## **Economic Situation**

Landlocked Malawi ranks among the world's most densely populated and least developed countries. The economy is predominately agricultural with about 85% of the population living in rural areas. Agriculture accounts for more than one-third of GDP and 90% of export revenues. The performance of the tobacco sector is key to short-term growth as tobacco accounts for more than half of exports. The economy depends on substantial inflows of economic assistance from the IMF, the World Bank, and individual donor nations. In December 2007, the US granted Malawi eligibility status to receive financial support within the Millennium Challenge Corporation (MCC) initiative. Malawi will now begin a consultative process to develop a five-year program before funding can begin. In 2006, Malawi was approved for relief under the Heavily Indebted Poor Countries (HIPC) program. The government faces many challenges including developing a market economy, improving educational facilities, facing up to environmental problems, dealing with the rapidly growing problem of HIV/AIDS, and satisfying foreign donors that fiscal discipline is being tightened. In 2005, President MUTHARIKA championed an anticorruption campaign. Since 2005 President MUTHARIKA'S government has exhibited improved financial discipline under the guidance of Finance Minister Goodall GONDWE and signed a three year Poverty Reduction and Growth Facility worth \$56 million with the IMF. Improved relations with the IMF lead other international donors to resume aid as well.

## GDP Growth, annual percentage change (IMF)



## Foreign Aid

Overall, the main donors in Malawi are DFID, EC, World Bank, African Development Bank, Norway, and USAID. These account for over 90 percent of Malawi's development assistance. Other donors include the traditional UN institutions (notably UNDP, UNICEF, WHO, and WFP), JICA, and GTZ. To date, there is pooled funding for sector wide approaches (SWAs) in health and HIV/AIDS. Efforts are also underway to develop SWAs in Education, Agriculture, and Water. General budget support is also provided in a harmonized way through the Common Approach to Budget Support (CABS) group. The CABS currently consists of DFID, EC, Norway, and the African Development Bank. The World Bank, IMF, UNDP, and Germany are observer members. Preparations are underway for the World Bank to become a full member of the CABS. The African Development Bank has been supporting Malawi's development efforts which started in 1969. Since then, commitments worth US \$ 838.8 million, net of cancellations, have been made to finance 73 development projects, 11 studies and 2 lines of credit. As of December 2007, the Bank's active commitment amounted to US \$ 203 million.

Generally, **Important bilateral donors**; include US, Canada, Germany, Iceland, Ireland, Japan, the Netherlands, Norway, Sweden, and the United Kingdom.

**Multilateral donors** include the World Bank, the IMF, the European Union, the African Development Bank, and the United Nations organizations.

## **Foreign Investment**

Malawi realizes the important role Foreign Direct Investment (FDI) plays in the economic growth and development of any country. In its poverty reduction and growth strategy, the country highlighted the need for creating an enabling environment for attracting FDI in an effort to stimulate private sector driven growth and poverty reduction. The Ministry of Trade and Private Sector Development in collaboration with other line Ministries and such institutions like the Malawi Investment Promotion Agency (MIPA), the Malawi Export Promotion Council (MEPC); the Malawi Revenue Authority (MRA) has worked tirelessly to ensure that an environment is set for the effective operation of the private sector through the provision of proper infrastructure, tax incentives and market access.

Even more important are the facts that Malawi has a stable political environment; a friendly, kind and well trained hard working English speaking people; and a liberalized economy where companies operate and access opportunities without government interference. The government's efforts aim to facilitate, rather than to regulate private investment.

## **Trade**

Trade in Malawi is liberalized with import and export license only required for very few products that have a bearing on security, health, food self-sufficiency, and the preservation of infant industries.

Malawi is a member of COMESA (Common Market For Eastern and Southern Africa); SADC (Southern African Development Community) ACP/SU Cotonou Agreement and the World Trade Organization (WTO), as well as a beneficiary of the African Growth Opportunities Act (AGOA) and Everything But Arms (EBA) Agreement. Bilateral Agreements exist with South Africa, Zimbabwe, and Botswana. Further agreements are currently under consideration with Zambia, Tanzania and Mozambique. These, alongside other initiatives such as the Growth Triangle and Spatial Development Initiative, offer considerable opportunities for increasing trade and investment in the region and stimulating growth.

**Exports (\$830 million) (2008 est.)** – partners: South Africa (10.8%), Egypt (9.8%), Zimbabwe (8.7%), US (7.4%), Netherlands (7%), Russia (5.8%), Germany (5.7%).

**Imports (\$1.587 billion) (2008 est.):** – partners South Africa 35.7%, India 8.1%, China 7.2%, Tanzania 5.8%, US 4.5%.

## Top expert products:

Top Products Exported by Malawi		Market Value: 1,561 (millions)		
Product	Trade Value	Share	Growth	
	(thousands)	(%)	(% 5yr)	
2401 - Tobacco	321,308	20.58	15.06	
1701 - Cane Sugar	47,090	3.02	24.68	
0902 - Tea	39,719	2.54	9.75	
5201 - Cotton	16,190	1.04	295.26	
6203 - Non-Knit Mens & Boys Suits	12,887	0.83	18.69	
6110 - Knitted Sweaters	7,969	0.51	217.73	
0802 - Nuts	7,889	0.51	69.85	
1005 - Corn	6,569	0.42	1,476.94	
6109 - Knitted T-Shirts	5,163	0.33	77.64	
4001 - Natural Rubber	4,902	0.31	162.53	
6105 - Knitted Mens & Boys Shirts	4,250	0.27	41.58	
0901 - Coffee	3,867	0.25	14.82	
4412 - Plywood	3,195	0.20	264.90	
6205 - Non-Knit Mens & Boys Shirts	3,102	0.20	(44.47)	
0713 - Leguminous Vegetables	2,557	0.16	(23.12)	
6114 - Knitted Garments	2,370	0.15	11,160.02	
0904 - Pepper	2,124	0.14	111.84	
1202 - Peanuts	2,119	0.14	271.49	
6106 - Knitted Womens & Girls Blouses & Shirts	1,531	0.10	30.38	
6204 - Non-Knit Womens & Girls Suits	1,404	0.09	(66.06)	
2701 - Coal	1,152	0.07	52.86	
6305 - Sacks & Bags of Textile Material	1,118	0.07	175.10	
2207 - Ethyl Alcohol > 80%	1,067	0.07	28,765.69	
8716 - Trailers	1,024	0.07	7,109.60	
8429 - Heavy Construction Equipment	944	0.06	208.29	

## Top import products:

Top Products Imported by Malawi		Market Value: 1,744 (millions)	
Product	Trade Value	Share	Growth
	(thousands)	(%)	(% 5yr)
2401 - Tobacco	38,808	2.23	298.82
8704 - Trucks	22,597	1.30	2.89
8429 - Heavy Construction Equipment	17,663	1.01	1,025.65
8703 - Passenger Vehicles	17,494	1.00	30.73
4907 - Checks & Stamps	16,948	0.97	119.50
3004 - Medicines in Doses	15,429	0.88	103.56
1001 - Wheat	14,242	0.82	245.85
8517 - Telephone, Fax & Switching Apparatus	12,788	0.73	180.77
1005 - Corn	11,799	0.68	(60.60)
3002 - Human Blood	11,574	0.66	69.59
8802 - Aircraft	9,400	0.54	10,788.58
8525 - Cel Phones, Video Recorders & Radio Transceivers	8,791	0.50	73.93
3902 - Polymers of Propylene & Other Olefins	8,650	0.50	325.86
2710 - Non Crude Oil	8,423	0.48	(2.20)
8524 - Records & Tapes	8,309	0.48	723.21
3105 - Misc Mineral & Chemical Fertilizers	8,017	0.46	(20.09)
3401 - Soap	7,918	0.45	(45.16)
4901 - Books	7,670	0.44	108.78
8471 - Computers, Printers & Storage Units	7,162	0.41	67.83
6309 - Worn Clothing	6,856	0.39	63.46
4011 - New Pneumatic Tires	6,810	0.39	(8.90)
3808 - Insecticides	6,644	0.38	23.12
8473 - Computer & Office Machines Parts	5,486	0.31	(29.07)

## **Interesting and emerging sectors:**

### **Agriculture:**

Agriculture represents 34.7% of the GDP and represents about 80% of all exports. Nearly 90% of the population engages in subsistence farming. Smallholder farmers produce a variety of crops, including maize (corn), beans, rice, cassava, tobacco, and groundnuts (peanuts). The agricultural sector contributes about 63.7% of total income for the rural population, 65% of manufacturing sector's raw materials, and approximately 87% of total employment. Financial wealth is generally concentrated in the hands of a small elite. Malawi's manufacturing industries are situated around the city of Blantyre.

### **Opportunities in the agricultural sector**

#### **Investments in Cotton Production:**

In recent years, the Malawi Government incorporated the cotton sector as a key element in its poverty reduction and growth strategy. Emphasis is on building vibrant integrated cotton and textile industry, which besides aiming at accelerated industrial growth, focuses on building a strong raw material base for the country's production.

Investment opportunities exist in commercial cultivation of cotton through initiatives like contract farming, village adoption, cooperatives and associations etc. These steps are there to improve the production and quality of cotton with the objective of providing raw materials to the textile industry for its preferential markets under AGOA, and the EU among others.

#### **Fruit Processing and Canning Plant**

Malawi currently has no processing plant using local fresh fruit. Malawi has a favorable climate for the production of a wide range of fruits that include pineapples, tangerines and mangoes. About 50% of these crops are left to drop and waste. Prices are attractive compared to national products in Malawi and some can be exported to other countries. The products can also be exported to the regional markets.

**Main opportunity points:** An investment opportunity exists to set up a fruit juice processing plant in the southern region of Malawi. The estimated project cost is US\$ 5.0 million and the expected return on investment is 33%. Or other kind of investments can be considered related to processing these fruits.

#### **Arabia Coffee Production and Processing**

Arabica coffee is the fourth most important export crop in Malawi. Exports are made to European markets, Asia markets and American markets. Coffee offers more profits than most other crops.

Coffee production favors the highland areas of Misuku Hills, Phoka hills, Viphya north, Nkhata bay highlands and Southeast Mzimba. In order to boost production, the government has

privatized the Small holder Coffee Trust, which empowers smallholder farmers to control coffee production.

**Main opportunity points:** Opportunities for investment exist in form of joint ventures in production and processing of coffee into marketable products.

### **Soya Bean Processing**

Soya bean is a very important and versatile grain legume and it can be put to many uses namely soya milk and meat, poultry feeds among others as it has high protein content. Demand for soya beans is high both domestically and internationally. Production for the past ten years has averaged 29,496 metric tons. However, the government is encouraging increased growth, production and utilization of soya beans.

**Main opportunity points:** As such, investment opportunities exist in the processing of Soya beans into soya milk, soya oil and other secondary products.

## **Manufacturing**

Manufacturing accounts for about 12 percent of Malawi's GDP. Since most of the traditional agricultural crops such as tobacco and tea are exported in a semi- processed state. There are huge opportunities for investors to convert most of these agricultural products into high value finished products.

### **Opportunities in this sector:**

#### **Manufacture of Textiles Accessories:**

There is considerable scope for investment in the manufacture of accessories such as zippers, buttons, and fastening which are currently imported. Some of Malawi's export markets allow firms to import duty or quota free if a certain percentage of local content in the finished product is reached. Most Malawian garments manufacturers have problems satisfying this requirement.

#### **Garment Manufacturing:**

The Malawi garment industry is very young with about 8 garment companies operating under the export processing zones status. More companies are required to fully utilize the country's resources and to more fully capitalize on new trade opportunities arising from the African Growth Opportunity Act (AGOA) initiative offered to Malawi by the United States Government.

#### **Rubber Products Manufacturing**

An investment opportunity exists to manufacture rubber-based products in Malawi. Malawi has rubber trees for the production of latex rubber at the rate of 1,300 tons per annum. Currently a company intends to increase its production to 4,000 tons and is looking for a technical partner. 10% of the total tonnage is used locally for tyre re-treading, paint and mattress manufacturing.

The rest is exported to Europe and North America. There is therefore an opportunity to invest in rubber downstream industries for products like shoes, bags, mats and motor vehicle products for local consumption as well as for the regional markets. The regional market comprises: Zimbabwe, Zambia, Mozambique, Tanzania, South Africa, Namibia, Botswana and Angola. There are also opportunities to export to the DR Congo, Kenya and Uganda. Factory space and labour at competitive rates are available.

## **Tourism**

Malawi is a stable and peaceful democratic country that meets all the prerequisites for a thriving tourist industry. The healthy climate, especially in the dry season, is ideal for holidaymaking. There are many resort and leisure areas, clubs and lodges along the length of Lake Malawi. The Malawi government has planned to develop the tourism industry as an alternative source of foreign exchange for the country.

### **Opportunities in this sector:**

The Malawi Development Corporation (MDC) intends to construct and operate a game lodge within the Liwonde National Park, this can be investment opportunity for investors.

Hotels can be built along the beautiful Lake Malawi as it is a popular tourist destination. Its sandy beaches and unique species of fish offer tourists and other visitors exciting holidays.

**Main points of opportunity:** Luxury hotel, Resort hotel, Executive hotels, fishing and Diving Hotel

## **Minerals and Gemstones in Malawi**

Among semi-precious stones found in Malawi are Aquamarine, Amethyst, and Tourmaline while precious varieties include rubies and sapphires. Minerals include Uranium, strontianite, Phosphate, Iron Sulphides, Gypsum, Coal, Limestone, Basnaesite, Pyrochlore, Bauxite, Titanium sands, Kyanite, Graphite, Corundum among others. These are found in substantial quantities in most parts of Malawi.

**Main points of opportunity:** An opportunity exists to invest in mining and processing of these minerals. Other attractive opportunities also exist in a gems and jewelry plant with the proposed objective of buying, processing and selling locally found gemstones on international markets, as well as manufacturing jewelry items.

Some study reports recommended installation of multipurpose equipment in areas of high concentration of the minerals involved in polishing, and cutting of the stones for access by small-scale miners. This could boost production of gemstones.

## **Investment Incentives**

### General Incentives

- Additional 15 percent allowance for investments in designated areas of the country
- Allowance up to 20 percent for used buildings and machinery
- 50 percent allowance for qualifying training costs
- Allowance for manufacturing companies to deduct all operating expenses incurred up to 24 months prior to the start of operations
- Zero duty on raw materials used in manufacturing
- Indefinite loss carry forward enabling companies to take advantage of allowance
- Agreement for the reduction of withholding taxes on remittance and payments
- Low wage rates and a stable social and political environment
- 40% investment allowance on qualifying expenditure for new buildings and machinery
- 100 percent duty-free importation of equipment and raw materials for those exclusively engaged in horticultural production for export

## **Strengths and weaknesses of Malawi:**

### **Strengths:**

- Stable political environment
- Friendly and kind people
- A liberalized economy
- Preferential access to world markets under COMESA, SADC, LOME IV, AGOA
- Hard working, trainable, reliable and English speaking labour force
- Competitive investment incentives for those manufacturing for export
- Modern telecommunications
- Daily connections to regional and international flights
- Industrial estates and export processing zones

## Appendix:

### Doing Business in general:

**Corruption Perceptions Index** 2.7 out of 180  
Index units, 10=least corrupt, 0= most corrupt.

**Ease of Doing Business Rankings:** 134 out of 181

**Index of Economic Freedom** 120 out of 155

### Country Rating-Rating: D

**A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behavior. Corporate default probability is very high.**

#### Risk Assessment

Good weather and higher fertilizer price subsidies fuelled a moderate recovery in 2007. That trend should continue in 2008 with the development of uranium extraction, which has attracted the lion's share of foreign investment. The growth will still not suffice to significantly reduce poverty. Ranked 166th of 177 countries based on its human development index Malawi is among the world's poorest countries. The economy, largely underpinned by an agricultural sector, which employs 90 per cent of the population, is vulnerable to external shocks.

Despite prudent macroeconomic policy, which resulted in September 2006 in cancellation of public foreign debt under the HIPC and MDRI programmes, the fiscal situation is still shaky. The government has been struggling to limit public spending and maintain economic policy within the limits of the programme concluded with the IMF in June 2005. The current account moreover will doubtless remain deeply in deficit since rising export revenues supported by the development of tourism and the recovery of agriculture are not proving sufficient to offset increasing capital goods imports and a growing oil bill. In this context financing needs remain largely covered by international aid.

Implementation of reforms undertaken with international community backing has come up against stiff resistance from parliament with the priority given by President Mutharika to combating corruption even causing a split in the majority party. In these conditions the risk of a move to impeach the president has been high, and the outcome of the next elections, which could be moved up to 2009, remains uncertain.

## **Political situation:**

Malawi is a democratic, multi-party government, currently under the leadership of President Bingu wa Mutharika the current President Bingu wa Mutharika was elected in May 2004, after President Muluzi failed to amend the constitution to enable him to stand for a third term in office. The President is head of government and state and presides over a 46-member cabinet. The legislature is unicameral, with the 193 members elected for five-year terms. Various political parties comprise both the ruling coalition government and the opposition. Parliament has not met since summer 2004 and it is not clear when it will reconvene.

Malawi state of 'peacefulness' has ranked the second in the African continent, according to a report released by the Institute for Economics and Peace, a research centre that looks at the relationship between economics and peace. The Global Peace Index (GPI) report released shows that out of the 144 countries surveyed, Malawi ranked 47th overall globally and came second after Botswana in the league of Africa countries.

## **Useful contact address:**

### **Malawi Trade Contacts**

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