SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.

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On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON

PACKAGING INDUSTRIES MALAWI (PIM) LTD.

MARCH 2012

FIRM OVERVIEW

Name	Packaging Industries Malawi (PIM) Ltd.
Nationality	Malawian company but part of the Nampak Group (based in South Africa)
Sector	Paper Packaging
SADC countries where doing business	Malawi and South Africa

BACKGROUND

Packaging Industries Malawi (PIM) Limited is now Malawi's largest paper packaging company having been established in the country for some 40 years and listed as a public company since 1998. Having invested in a diverse range of paper packaging technologies PIM is now the leading supplier to a number of multinationals

BARRIERS ENCOUNTERED

Shortage of foreign exchange: The most important barrier to normal business for PIM at the moment is the shortage of foreign exchange because of their heavy dependence on imported inputs for their manufacturing. PIM source their materials from the US, Canada, Europe and South Africa and manufacture packaging for companies operating in Malawi. Due to the shortage, the Reserve Bank of Malawi must now approve forex requests from the private sector to commercial banks for imports of goods worth in excess of US$ 50,000.

Cost of transport: The cost of importing the inputs required for the manufacturing of PIM is significantly increased because Malawi is a landlocked country and most of the inputs come from outside of Africa and hence have to be shipped to the nearest ports in either South Africa or Mozambique before travelling over land to Malawi. Most of the overland transport is carried out by trucks - but this kind of transport has become more expensive and complex during the recent fuel crisis. Additionally PIM sometimes has difficulty finding return loads for the trucks doing the South Africa routes. Currently, PIM does not use the existing rail network for transport because the lines are in need of rehabilitation and the transit times are too long.

Supply of electricity and water: The company is a significant user of both electricity and water because the manufacturing of the paper-based packaging it produces uses large volumes of water. However the supply of both of these utilities to the factory is irregular.

Access to skills: Access to skills is one of the main barriers to competitiveness for PIM because the company has difficulty finding the technical skills necessary to build and expand their business. Historically there was a sufficient supply of these skilled artisans in the country but now because of the severe shortage of investment in this area there is a lack of technical training and education in schools.

Tax and customs procedures: The operations of the Malawi Revenue Authority (MRA) are not very efficient and there needs to be some form of capacity building to ensure that all of the staff are at the right level of competency. They also require broader understanding of the economic development aspects of revenue collection. The problem with the current tax system is that it is only the relatively narrow sector of formalised tax-compliant companies in Malawi who are focused on for revenue collection and often penalised.

PIM benefits from the rebate system in which all of their raw material inputs can be supplied with no excise taxes or duties. However the changes to the tax regime in the 2011/2012 Zero Deficit Budget have affected the company negatively. Most notably, the turnover tax which is estimated to cost the business an extra MK 27million per year.

An additional cost has been added in the customs procedure recently because companies must now use a designated clearing and forwarding agent at the border which is costing PIM $100 per truckload - significantly more than when they had the freedom to choose their own agent. The justification for this has not been explicitly given but it is suspected that the measure was introduced to ensure transparency in the new customs control procedures.

International standards and certifications: PIM would not consider using the Malawi Bureau of Standards (MBS) for their quality certifications and assessments because there is a general lack of testing facilities, initiative and skills at the MBS which makes it difficult for firms to utilise their services when targeting international markets. MBS is not meeting its mandate in its role as a trade facilitating organisation. They are yet to be certified as an internationally accredited body and budgetary allocations to the organisation by government do not seem adequate to rectify the situation.

Fair competition in the market: There is no fair competition in the market. Supply tenders are often affected by corrupt practices and the final decision has often been pre-determined. The company also faces strong competition from abroad where the competitor products from Asia enjoy heavy subsidies.

IMPACT OF BARRIERS

Shortage of foreign exchange: These acute shortages of foreign exchange have impacted on PIM's international credit worthiness. PIM has a strong cash flow in Malawi Kwacha but is unable to buy the forex it requires to service their international debtors. This has decreased their stock levels, decreased their levels of production, increased the volumes of working capital required to run the factory and subsequently impacted on their profitability. The process of having to get the Reserve Bank of Malawi to approve large forex requests is costly and time consuming for businesses like PIM who are reliant on large scale imports.

Cost of transport: Transport for importing the required inputs for PIM manufacturing makes up between 25 and 40 percent of the overall cost to the company. If the transport was less costly then PIM would be more price competitive.

Supply of electricity and water: The irregular supply of water and energy means that PIM has had to invest in infrastructure for holding large reserves of water, and a generator. Apart from the start up costs involved with running a generator (including getting a license), there is the added cost of diesel which costs them around MK 700,000 per month to run. To put this in context their usual energy bill from ESCOM is around MK 400,000 per month.

Access to skills: The lack of skilled technicians in Malawi makes it difficult to fill the gaps that arise in the workforce.

Tax and customs procedures: The heavy tax burden which PIM faces is a severe drain on company resources which hinders both new investment by the company, and the facilitation of exports through the provision of their services to other potential exporting companies.

International standards and certifications: Instead of using the MBS, PIM uses resources and knowledge supplied by Nampak in South Africa. It would be much more cost effective for the company if the MBS was capable of doing the job instead.

No fair competition in the market: Malawian products are not price competitive on the domestic market.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

PIMs Managing Director was on the steering committee for the Millennium Challenge Fund and is confident that a project of its kind would significantly improve electricity supply reliability but the project has come up against some funding and political barriers. Given these constraints the MD is unsure if any improvements in supply of electricity can be sustained.

PIM in conjunction with TEVETA (Technical, Entrepreneurial and Vocational, Education and Training Authority) and other companies, such as Illovo, have started to fund a Malawi Industrial Training Association (MITA) to address the lack of a skills base in Malawi. This TEVETA supported training has taken the place of any internal training that PIM might consider funding. They do not generally find that these skilled artisans leave the country once they have trained, unlike the situation with academics.

The other barriers need to be addressed by investment from the Government which PIM can encourage through lobbying and private sector forums with Government and policy makers.

The firm has not raised the issue with a SADC government or regional body.

The outcome from the training program has been more skilled workers who are trained in the technical skills required by industry.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. The current fixed exchange rate is not very reflective of the market rate. This is demonstrated in both the premiums charged by the banking sector and the parallel rate. The IMF and MCCCI have advised that if Malawi is to be a strong vibrant export lead economy then Malawi must allow a market related exchange rate to prevail. This is unlikely with the current political environment.

2. To promote private sector development and an export-led economy, the Government needs to invest in making transport more affordable (for instance by rehabilitating the railway line), ensuring that the supply of electricity and water is efficient and reliable, and, ensuring that the school and higher education curriculum teaches students skills which are transferable to industrial work.

3. The Government should make it easier for companies to formalise so that they can widen the tax base. They should also reduce the burden of taxes on export facilitating companies. A general improvement in export tax incentives, the customs regulation and streamlining of export documentation would be very helpful for further stimulating domestic business. Capacity building of the MRA will ensure more efficient revenue collection.

4. MBS needs to receive adequate funding and assistance to reach a level where the services it provides can be recognised internationally.

5. Fair competition in the market place should be encouraged by Government.

6. The Malawi Export Promotion Agency is underfunded and should be getting more support in this time of crisis.