FDI Data Collection in Malawi

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1 Introduction
1.1 Malawi is a small landlocked country in sub-Saharan Africa. The country shares boundaries with Zambia (Northwest), Tanzania (North and Northeast) and Mozambique (East, South and Southeast). She has an area of 118,484 square kilometers of which 94,276 square kilometers are land. The population is estimated for mid – 2005 at 12.3 million.

1.2 The economy is predominantly agricultural with 85 percent of the people living in rural areas. Agriculture accounts for about 60 percent of export earnings with the sector being dominated by tobacco, tea and sugar.

2 History of FDI Data Collection in Malawi

2.1 Two FDI surveys have so far been completed. The third one is currently in progress. The surveys are done jointly by a team comprising officials from National Statistical Office (NSO), Reserve Bank of Malawi (RBM), Malawi Export Promotion Agency, Ministry of Finance, Ministry of Economic Planning and Development and Ministry of Commerce.

2.2 The first survey covered the years 1999 and 2000. This survey intended to use two approaches: firstly using a structured questionnaire to capture private capital stocks and secondly using RBM Exchange Control Forms (E-Forms) to capture capital flows. The use of the E-Forms proved unsuccessful. Subsequent surveys have therefore been designed to cover both stocks and flows.

2.3 The second one covered the years 2000 and 2001. The current survey is covering the period 2001 to 2004.

2.4 Hence there is now a coherent database spanning the period 2000 to 2003.

3 Issues of Data Quality

3.1 The quality of data collected is relatively good although the following issues need to be considered during data analysis and interpretation.

3.2 Market value estimates of equity: The survey places emphasis on market value estimation of equity. This is in tandem with recommendations stipulated in the 5th edition of the IMF Balance of Payments Manual.
3.3 **Market value versus Book value Estimates**: The estimates are relatively good when looking at market value to book value ratios of equity. For the first two surveys the ratios have hovered between 1.8 and 2.0. These estimates compare favorably with trends in the national accounts.

3.4 **Data Coverage**: The survey covers all components spanning FDI. That is equity capital, reinvested earnings and inter-company borrowing/lending. Equity capital not only embodies issued share capital that remains relatively stable over long periods of time but also revaluation reserves and retained earnings.

3.5 **Inter-company borrowing versus equity**: Those compiling the data ensure that companies that have reported on inter-company borrowing also provide information on equity investment.

3.6 **Verification with reported data**: The questionnaire has built-in checks that enable comparison with financial statements to determine consistency. Financial statements may also include information that was not provided in the questionnaire.

3.7 **Integrity dimension**: It is important that the legal framework for the collection, processing and dissemination of the data, including the provision for confidentiality, is made public. In Malawi the Statistics, RBM and MIPA Acts are quoted in the questionnaire and the aspect of confidentiality is also explained to the respondents during sensitization workshops.

3.8 **Access Dimension**: Survey results are disseminated to the public through workshops and reports and no organization has prior access to the information.

4 **Problems in Measurement of FDI**

4.1 **Enterprise Coverage**: The survey does not cover all enterprises since the register of establishments is not updated regularly. Hence the magnitude of enterprises missing is not known.

4.2 **Up-rating**: The preceding problem of enterprise under-coverage and lack of an updated frame makes it difficult to compute up-rating factors to blow up the sample results to the population estimates.

4.3 **Submission of financial statements**: Although we have experienced an unprecedented increase in the provision of financial statements by enterprises over the 2000 to 2002 period not all enterprises provide the statements. However the positive response is a sign that the
business community is getting acquainted with the exercise and also that we are gradually succeeding in building trust with them.

4.4 **Book value estimation:** Very often companies report only share capital for book value, excluding reserves and retained earnings. It becomes difficult to ascertain this except when financial statements are given than can be used for verification.

4.5 **Financial year versus calendar year reporting:** Some enterprises use their financial year as opposed to the calendar year in their reports. Without sufficient information we find it difficult to adjust the former to the latter.

4.6 **Market value estimation:** Since few enterprises are listed on the stock market most of them use other methods to estimate the market value of equity instead of using the stock market prices. It interesting to note that out of 130 enterprises that reported market values of equity for direct investment

- 45% used net asset value
- 37% equated market value to book value and
- The rest used other methods for instance recent transaction price, stock market prices and valuation by analogy.

4.7 **Comparison between consecutive surveys:** Some enterprises report inconsistent data for intersecting years between consecutive surveys. Where information for both years is available the information for the most recent year is preferred.

5 **Improvements to Measurement of FDI**

5.1 **Financial Statements:** It is important to continue sensitizing the business community on the importance of providing financial statements for data checking and verification despite the fact that there has been an improvement over the years.

5.2 **Book value estimation:** A provision should be made in the questionnaire not only for book value estimates but also for a breakdown comprising share capital, reserves and retained earnings to guarantee inclusion of all items when reporting.

5.3 **Financial year versus calendar year reporting:** The improvement in timeliness should enable enterprises to convert non-calendar year data to calendar year data by using monthly data. In the previous
surveys this was not possible due to problems in timeliness which made it difficult to provide comprehensive details.

5.4 **Counterpart data:** There is need to improve on comparisons of stocks and flows with counterparts.

5.5 **Timeliness:** There is need to improve on timeliness: The first survey results had a time lag of 16 months. This worsened for the second survey to 30 months. However efforts are being made to reduce the time lags in line with GDDS requirements.

5.6 **Up-rating:** The current surveys have been designed as baseline surveys and therefore attempt to cover all enterprises. However in order to improve on efficiency future surveys will be done on a sample basis making it possible to use proper up-rating procedures.
Reference:
