

EVALUATION OF THE PILOT PHASE
OF THE
DEVELOPMENT OF THE MALAWIAN TRADERS TRUST
(DEMATT)

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by

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SUMMARY

This report contains the findings of a field evaluation of a trader assistance program in Malawi called the Development of the Malawian Traders Trust (DEMATT). DEMATT has completed a pilot phase program of training and providing rural advisors for small businessmen to assist them in developing sound management techniques. DEMATT had proposed to continue its operation into a second phase which precipitated the Government of Malawi and USAID/Malawi (the proposed funding agency) to request an evaluation of the pilot phase.

The evaluation team spent four weeks in the field and conducted over one hundred interviews with DEMATT advisors, rural traders, local officials, and public and private officers of institutions familiar with or associated with DEMATT. Material supplied by these interviews are the basis for this report. The report is organized around seven general questions that guided the team's research. The questions are concerned with the proper focus of DEMATT, the administration of DEMATT, the problems with the program at the local level, alternatives to DEMATT, and recommendations for the proposed second phase.

DEMATT was found to have developed a sound rural extension service in Malawi with a highly motivated field staff. Their effectiveness with client traders and producers has shown immediate short-term results. Businessmen have learned how to keep proper accounts and are acquiring the skills necessary to operate an enterprise. The program has satisfactorily reached most of the goals it proposed in the pilot phase and has received strong support from the Government of Malawi (GOM). The focus of DEMATT fits well into the plans of the GOM for accelerated rural development and ties

in very closely with the focus of the Agency for International Development on assisting small-scale enterprise.

The team recommends that USAID enter into a funding agreement with the Government of Malawi for the support of the five-year second phase of DEMATT. The Traders Trust program is now registered as a statutory body and is no longer operated as a private voluntary organization (PVO).¹ The administration of the program has been localized with the exception of one position and the program has developed strong linkages between administrative staff and the field. The team recommends that localization be completed during the second phase and that the field staff be the continuing focus of the program. Additional recommendations provide that some of the efforts of DEMATT be closely coordinated with other institutions (Import-Export and SEDOM) to increase the efficiency of the program and to avoid duplication of services. The pilot phase has effectively reached about 1 percent of the total traders in Malawi and has barely scratched the surface of local producer enterprises. Strong financial encouragement should be forthcoming to allow the expansion of this program, without losing the personal attention it delivers to the rural areas. This one-to-one contact is essential to the success of DEMATT and is the element that has made it a superior operation to similar efforts attempted by other institutions.

¹The PVO, Partnership for Productivity initiated the pilot phase of DEMATT and is currently supplying the general manager of the program.

INTRODUCTION

This report presents findings of a field evaluation of the pilot phase of a project to assist small businessmen in rural trade centers in Malawi. The study was requested by the Government of Malawi (GOM) - Ministry of Trade and Industry (Appendix A) and commissioned by the United States Agency for International Development Office in Lilongwe (USAID/Malawi). Partnership for Productivity (PFP), an American private voluntary organization (PVO) which had established the two-year pilot phase of the Development of the Malawian Traders Trust (DEMATT), submitted a proposal to USAID/Malawi to assist in funding the five-year second phase. This field evaluation has been charged with two principle objectives:

1. to document evidence of the developmental impact of the pilot phase of DEMATT and assess the benefits and shortcomings of the two-year program; and,
2. to provide inputs based on the pilot phase evaluation that will assist in the design and implementation of the proposed second phase.

The team completed the objectives by conducting a four-week field evaluation that examined the success of DEMATT in working towards Malawian development objectives and in reaching goals the program had set for itself during the pilot phase. The evaluation studied DEMATT in light of two relevant national development objectives:

1. to revitalize and encourage rural growth and trade by developing a healthy private commercial sector in rural trading centers; and,

2. to assist and train the Malawian traders who replaced the Asian shopkeepers in a localization program which was completed in 1978.

The evaluation also considered DEMATT's own goals for the pilot phase. In general these goals have been to:

1. develop a training model which meets the prevailing needs of rural indigenous trader's in Malawi;

2. provide graduates from the training program who will operate as rural extension business advisors and assist client traders who participate in the program; and

3. develop a systematic approach with clients that will provide them with a method to make rational business decisions and create realistic goals for themselves that will ultimately benefit the consumer.

Field Questions

To evaluate DEMATT's success in terms of these national and program objectives, the team developed a series of questions to guide their research and the writing of this report. These questions, which form the basis of organization of this report, are:

1. Is DEMATT addressing the problems of the small businessmen in rural areas of Malawi?

As this was a key linkage between DEMATT and the Malawi objectives for rural development, the team paid particular attention to this point in each of the interviews. A strong effort

was made to discover the basic problems of rural traders and analyze DEMATT's efforts to alleviate them.

2. Is the Trader Trust program providing sufficiently prepared staff to serve in the rural areas?

The principle objective of the pilot phase was to educate people in business skills and diffuse these techniques to the rural traders. This required an examination of the recruitment, training, and deployment of the DEMATT staff.

3. Has DEMATT developed a systematic approach towards its clients?

Another Trader Trust pilot phase objective that was reviewed in terms of linkages and networking established between clients, field personnel, and an administrative hierarchy.

4. What has been the impact of DEMATT advisors in rural trade centers?

The heart of the DEMATT program is dependent on the effectiveness of its advisors in the rural trade areas and the skill they display at encouraging rural traders to allow them to participate in their business affairs. The evaluation focused on this at all field sites by interviewing both clients of the business advisory service (BAS) and non-clients in the communities in which the advisors operated. Trade centers without business advisors were analyzed for comparison.

5. What are the micro and macro economic considerations that limit the potential of the DEMATT program?

DEMATT does not operate in a vacuum in the rural areas of Malawi and the success of a business management program may not indicate the success of the rural trader. The team assessed the local economic situation (competition across product lines, community income, business stability, etc.) which affect the program as

well as the national economic policies which have an immediate effect on the small rural trader.

6. What are the major governmental and non-governmental alternatives for assisting small businessmen in rural areas and how do they compare to DEMATT?

If other training programs existed prior to and during the pilot phase, their effectiveness in terms of results should be reviewed by the evaluation team. The evaluation uncovered a number of programs whose purposes and activities seemed to overlap significantly with those of Traders Trust (including several that are proposed but not yet in operation). The team considered the relative merits of these alternatives in light of the operation of DEMATT.

7. What recommendations should be made for the second phase of DEMATT?

The evaluation of the pilot phase was made in context with the proposal submitted for funding the second phase. This final analysis critically examined the overall present performance of the pilot phase and incorporated the field research into a discussion of the strengths and weaknesses of the current proposals.

These questions have taken into consideration both the objectives of the Malawi Government and those of the DEMATT organization. They formed the basis for the field interviews and provided general guidelines under which the evaluation team operated.

DEVELOPMENT OF THE MALAWIAN
TRADERS TRUST

The pilot phase of the Malawian Traders Trust was initiated by Partnership for Productivity, a PVO headquartered in Washington, D.C. PFP established the program in cooperation with the Import-Export Company of Malawi¹ and the Ministries of Finance and of Trade and Industry of the Government of Malawi. DEMATT was registered in December of 1979 and by March of 1980 the first field staff for training had been identified. A general manager and training officer were provided by PFP and funding was provided from a consortium of PVO's called PACT (for Private Agencies Collaborating Together),² from the Government of Malawi (GOM) and from the private business sector in Malawi.³ The private sector was unable to respond with the amount of financial support that was anticipated they were capable of supplying. The GOM provided additional funding to overcome this deficiency and at the present time is the sole source of funding for the Traders Trust program.

¹ Import-Export Company is owned by two parastatals of the Malawi Development Corporation (MDC) and Press Holdings Limited.

² PACT was incorporated in 1971 as a non-profit consortium of private agencies engaged in development programs. Much of the funding for PACT and their distributive financial assistance is provided by AID.

³ Funding for the DEMATT program from December, 1979 until June 1982 can be separated as follows:

	<u>PACT</u>	<u>GOM</u>	<u>Private Sector</u>
1979-80	\$47,552	0	\$59,946) Expected
1980-81	\$97,548	\$26,881	\$17,756) to contri-
1981-82	\$50,130	\$90,660	\$12,419) bute
1982-83	Extended to	\$107,527	0) \$312,500
	<u>March, 1982</u>		
	\$195,230	<u>\$225,068</u>	<u>\$90,121</u>

The training model selected for the Malawian Traders Trust was a modification of the PFP small-scale enterprise training program in Kenya. Besides basic business knowledge and accounting, the expanded program contained courses in community development, local tax, licensing and trade regulations, large-scale manufacturing and distribution systems, small-scale production operations, local banking and credit practices, and public speaking. The training program is based on the interaction between the business advisor and his clients. The business advisor assists business people in identifying their problems and devising a strategy to attain their stated objectives.

Two training courses had been completed and as of June, 1982 there were 13 business advisors in the rural trading centers of Malawi. Three area supervisors were located in places accessible to several advisors, and two regional managers were in Blantyre and Lilongwe, respectively. A deputy general manager had been added to the main office in Blantyre and was working directly with the general manager in administration of the program. All DEMATT staff, with the exception of the general manager, are Malawians. The PFP general manager was expected to terminate at the end of June 1982 upon completion of the pilot phase. He has been extended until October in order to train the deputy general manager to replace him. A ten member advisory board of trustees was established in April of 1979 with nominations solicited by the Minister of Trade and Industry and approved by His Excellency, the Life President. DEMATT was made a statutory body in the spring of 1982 and the organization of the program became the direct responsibility of the Office of the President and Cabinet (OPC). At the present

time, the general manager, deputy general manager and the members of the board of trustees are all selected by the Life President, and all funding, except that of the general manager's salary, has been assumed by the Malawian Government. In effect the organization has become more of a public than private operation.

A second board of trustees was appointed in April, 1982 with each member approved for a two-year term. The trustee boards have provided direct contact between DEMATT and representatives of the Ministry of Finance, Ministry of Trade and Industry, African Businessmen's Association (ABA), Import-Export Company, Chamber of Commerce, INDEBANK, and a number of Malawian businessmen.

The business advisors were located in thirteen trade centers throughout Malawi: three in the Northern Region, four in the Central Region, and six in the Southern Region. Each of the advisors established a portfolio of clients both within the trade center and within a ten-kilometer radius of the center. Some advisors also established clients in nearby satellite trade centers. There were six such satellite areas. The first class of ten advisors completed training and were assigned to the field in May, 1980 with two of the graduates designated area supervisors. A second class of eight field advisors joined them by March, 1981, bringing the total to four supervisors¹ and fourteen advisors. Due to unforeseen difficulties in the North, one supervisor was discharged from the program and one voluntarily dropped out, creating some caseload

¹Two advisors from the first class were promoted to area supervisors.

strain on the remaining advisors in the least accessible area of the country.

The advisors established a local operating base in the centers from which they worked. Each had between 15 and 30 clients with a reported total of 272 active and semi-active entrepreneurs participating in the program. The small-scale businessmen ranged from rural traders (shopkeepers) and marketeers, to craftsmen and small-scale producers, who currently make up 18 percent of the Traders Trust clients. The number of clients and scale of enterprise was not limited by the DEMATT charter; the program was available to all traders in the rural areas who request assistance from the DEMATT business advisors.

FIELD METHODOLOGY

The team selected to conduct the evaluation was headed by Dr. Jerry Williams of the University of New Mexico (on IPA assignment to AID/Washington) who was accompanied by Dr. Margaret Sarles of American University (also on IPA contract with AID/Washington) and by Lovewell Mkandawire of the Polytechnic - University of Malawi. Although the roles of each team member were not absolute, during the data collecting each identified with a particular process. It was agreed in the first week of the evaluation that it would be impossible (and illogical) to review the Traders Trust program in a vacuum. The success or failure of a grass roots project such as DEMATT hinges very closely to the network of which it is affiliated and to the competing or complimentary systems that exist along side it within the country. It was also anticipated that the team would be able to relate the changing conditions of the trader to the economic changes of the particular trade center of which he is attached. Improved management techniques may not breed success if the economic importance of the trade center has diminished.

The evaluation concentrated on several aspects of the Malawian Traders Trust program. The team was concerned about gaining a full understanding of the management and financial characteristics of the pilot phase, including a review of the institutional network established within Malawi. The selection, training, and placement of advisors, supervisors, and managers was researched for administrative strengths and weaknesses. At the field sites sampled, much

of the team effort was placed on gaining insights into the impact of the business advisor on the rural trading center and on business clients. To establish a control group from which to measure the changes displayed by clients, a sizable number of non-clients were also interviewed.

General resource information was collected during the first week the team was in-country through interviews with people knowledgeable of the Malawian Traders Trust program and/or familiar with the general commercial picture of Malawi during the past decade. The nearly two dozen interviews (Appendix B) with government officials, private and parastatal business managers, and personnel involved with training programs provided an extensive amount of input about the general conditions of trade that existed in Malawi. The team also reviewed large collections of information and reports contained in USAID files in Lilongwe and from Traders Trust files in Blantyre. Much of this material accompanied the team on its two-week analysis of rural field sites. Many of the reports contained indicators of progress of field advisors, which could be cross-checked with our data collected at the site. The first week of work was important in establishing the priorities of the field evaluation and raising most of the questions that would direct our data collecting procedures (questionnaires).

During a two-week period the team conducted interviews at sixteen rural trade centers. Thirteen contained active clients of Trader Trust advisors and three did not. The map and accompanying table (number coded with the map) indicate the location of sites

TABLE A
INTERVIEWS AT TRADE CENTERS

Trade Center	TT Reps	Govt. Official	Chipiku	Private Whole-sales	TT Clients	Non-Clients	Total Interviews	ABA
1. Chinteche			1					
2. Nkhota Bay		1	1			5	6	3
3. Mzuzu	1		1		1	3	6	2
4. Ekwendeni							2	
5. Karonga	1	1	1	1	3	2	5	2
6. Rumphu			1			5	8	2
7. Mzimba	2	1	1	1	3		4	2
8. Embangweni	1		1		1	5	10	2
9. Kasungu	1		1	1	3	1	7	3
10. Mponela					1	1	5	1
11. Kasiya	1					5	5	3
12. Lilongwe	3				3	2	6	1
13. Mitundu	1		1		2		3	
14. Mulanje	1		1	1		1	5	2
15. Luchenza	1		1			5	9	3
16. Tuchila					4	4	10	3
17. Blantyre	2					3	3	1
18. Balaka								
19. Mangochi	1		1	1		1		1
						1	3	
	16	3	12	5	22	43	97	31

and amount of interviews conducted at each. The field work began in the north and required eight days of intensive and exhausting interviewing. It was determined from the responses generated during this phase that the southern portion of the country could adequately be covered in a less comprehensive way.

At each site the field evaluation proceeded in three distinct directions. Dr. Williams interviewed Government officials and influential local leaders about the economic changes that had occurred in the area during the past decade. He also investigated the supply linkages to the outside through interviews with Chipiku supervisors and private wholesalers. Dr. Sarles interviewed the personnel of Traders Trust about their training and extension services. She also interviewed client and non-client traders and producers. Mr. Mkandawire focused on interviewing traders from a questionnaire (Appendix C) that was devised during the first week in-country. The enterprises sampled at each rural site were often selected on the basis of information provided by the trader advisor and the Chipiku (wholesale chain of Import-Export Co.) supervisor. Otherwise they were selected on a purely random basis. Although a large number of advisor clients are found outside the main trading location (usually within a 10 kilometer range), it was determined that our time frame would not allow us to include these dispersed locations into our sampling.

The information collected from approximately one hundred interviews in rural locations, in addition to two dozen interviews with people in the urban areas, will provide the basis for the

following responses to a number of research questions concerning the Traders Trust program. This data will also support a number of conclusions and recommendations proposed by the team at the end of this report.

FIELD QUESTIONS CONCERNING THE TRADERS TRUST PROGRAM

QUESTION 1: Is DEMATT addressing the problems of the small businessman in rural areas of Malawi?

The evaluation team made a conscientious effort to discover what major difficulties faced the rural businessmen. Boma officials, wholesalers, business advisors, and shopkeepers were polled to establish a rank-order of business problems as viewed by those operating in rural trading areas of the country. Seventy-three of the one hundred people interviewed provided responses with over one-third of the sample coming from DEMATT clients. The three leading concerns of the rural businessmen are stock supply, transportation requirements, and capital or credit to increase the quantity and range of stock (refer to Table B). The supply of stock was an overriding problem throughout the country and was associated with a number of shortages in high demand goods (sugar, soaps, cooking oil) that frequently occur in the rural areas. Supply problems were also connected to transportation delays that occur due to poor rural road conditions and the lengthy time gaps between ordering and receipt of stock. This problem may also be related to the "lack of wholesale choice" as often the two problems would be given by the same respondent.

The Trader advisor attempted to alleviate some of this difficulty by advising on better management of stock flow and ordering high turnover goods prior to the complete sale of quantity on hand. This did benefit a few clients, but since the major difficulty was outside of the clients control, the BAS was unable to effectively address this problem.

TABLE B
RANK-ORDER OF PROBLEMS OF RURAL TRADERS
(73 Responses)^a

Rank	Problem	Responses	Percentage
1	Supply of necessary stock	40	54.8
2	Transportation of goods to the shop	31	42.5
3	Lack Capital to increase stock (22 responses)		(30.1)
	Lack Credit from local wholesaler (12 responses)	34	46.6
4	Lack of wholesale choice (15 responses)		
	Control Stock into area (5 responses)	20	27.4
5	Relatives as excessive drain on profits	15	20.5
6	Bookkeeping and records (12 responses)		(16.4)
	Illiteracy (5 responses)	17	23.3
7	Price control and price inflation	11	15.1
8	Credit repayment from customers	10	13.7
9	Lack of Government assistance (7 responses)		(9.6)
	Licensing and Guaranteed loans (5 responses)	12	16.4
10	Shortage of customers	4	5.5

^a Responses were provided to standard questions in SECTION B of the questionnaire:

- B-1. What are the problems of a rural businessman?
- B-2. is supply a problem?
- B-3. is transport a problem?
- B-4. do you have problems with credit?
- etc.

The transportation problem most frequently mentioned was cost of moving goods from the wholesaler to the retail distributor.¹ The situation was constantly mentioned by wholesalers and trader advisors as they frequently worked with shopkeepers not located in trade centers. Most of the rural shops are dispersed throughout each district and stock must be carried by any means available. The most common method used was bicycle which severely limited the quantity. To hire a vehicle or pay bus fare (charged extra for stock) would often absorb more than the profit margins on the stock carried. Several businessmen in the trading centers also cited transportation as a problem with some referring to the rural businessmen in general. Most often the trade center shop-owners made reference to the periods when they were forced to travel to Mzuzu, Blantyre, or Lilongwe to purchase items that Chipiku was unable to deliver to its outlying depots on time. The trader advisor was only able to address this problem by creating an awareness by the shopkeeper of how much could be absorbed by transportation before he began operating at a loss. The evaluation team did not interview clients outside of the trade centers to determine if DEMATT was helping them set a limit on transportation costs. Several business advisors related that they had been unable to effectively involve themselves in the problems of transporting stocks.

The third major problem, obtaining capital or credit in order to increase his stock, was normally given in reference to the tight credit policy established in 1979 by Chipuka Wholesale (Import-

¹Particularly in the Northern Region where the centers are more widely dispersed and bus services are unavailable on many of the roads.

Export Co.) in response to a number of repayment defaults due to bankruptcies Chipiku offered only a minimum credit line (below K500) to most of its good risk rural customers. Since all credit decisions were made at central headquarters in Blantyre, it was extremely difficult for local depot supervisors to raise the credit line. Credit was much easier to obtain from private rural wholesalers and from the Asians in the urban areas.² The Malawian wholesaler is not a nationwide alternative to Chipiku as there are very few who can effectively compete with the financial and infrastructural resources of the Import-Export parastatal. Several Malawian wholesalers (Nkhata Bay, Rumphu, Mponela, etc.) have gone out of business and a number are only able to continue because of specialized activities such as nuclear distributorships for a particular product line (primarily Lever Brothers). The Asians still offered liberal credit terms to establish customers and they have been able to attract a sizeable rural clientele as a result of the diversity of goods they import. The Asian wholesaler was no longer accessible to the rural trader (creating high transport costs) and the recent restrictions on imports (balance of payment difficulties) have limited the ability of the Indian to obtain goods not available locally. The tight money situation has already begun to tighten the credit system of the Asians.

DEMATT has attempted to address this problem in an indirect manner. Traders Trust was not established for the purpose of providing credit to its clients,³ but it was established for the

²More information about wholesale changes in Malawi is provided in APPENDIX D.

³This was the assumption made by many members of the ABA and a number of the early clients. They became disgruntled later when it was discovered that DEMATT was an advisor voice only. Many withdrew from the program.

purpose of assisting clients in becoming worthy of receiving credit through maintenance of accounts and by becoming aware of the economics of the operation of their business. An accurate accounting system and evidence of a cash savings were mandatory for receipt of credit with Chipiku or for a loan from a local bank. All clients were learning to manage proper accounts and several had begun to establish bank accounts. When they reached an adequate level of stock⁴ and sufficient savings, the Traders Trust advisor would work with them on an application for a loan or credit.⁵ Banks in Malawi were considering applications for loans from small-scale enterprises, but excluding the farmer and the trader. No Traders Trust client was successful in receiving credit as a result of the efforts of Traders Trust. Several cases are pending (primarily producers who qualify for Indebank loans) but the difficulty appears to be above the level of Trader advisors and his clients and is an area in which DEMATT will need to improve in order to establish continuing credibility with its rural clients.

Many of the minor enterprise problems expressed by rural traders have been addressed by the Trader advisors. The problem of books and records (#6) was directly related to the major objective of the DEMATT program. Only one of the clients responded that this was still a difficulty (had been with the advisor three months) so

⁴Assessments of the worthiness of a shop for tax purpose, loan, or credit was based entirely on the value of stock. The building was not included as an asset.

⁵Few traders could distinguish between a loan or credit. Both were associated with increasing their stock--regardless that repayment of the loan included interest charges.

that the problem was mainly that of non-clients. Illiteracy associated with recordkeeping has not been addressed by the Trader advisors, nor was there any indication that DEMATT had devised any particular method of assisting the large number of illiterate traders. Individual advisors developed ways of working through literate members of the immediate family to assist the businessman.

Excessive drains on profits by relatives (#5) and overextension of credit to customers (#10) were brought to the attention of clients by DEMATT advisors through coaching them on sound management techniques. This appeared to have little impact on clients as far as extended family obligations were concerned (both clients and non-clients responded proportionately) but there was a noticeable decline in client concern about credit repayments from customers. Clients tended to become more cautious about credit facilitation.

Price Control (#7) and Governmental initiatives (#9) did not surface as major problems perceived by the rural trader. This was contradictory to the interviews provided by commercial leaders in the country and from several of the discussions with Chipiku supervisors. Price Controls in Malawi are effectively established by the manufacturer who designates each succeeding level of control (manufacturing, wholesale, retail). The manufacturing and wholesale groups can effectively lobby for the margins they need with the Ministry of Trade and Industry. Although the ABA is a nationwide organization which is supposed to represent the small trader, there is no evidence that they have been effective in protecting a suitable margin of profit. Most locally produced goods carry retail margins of between 5 percent and 15 percent.

on low-value items.⁶ This requires a supermarket turnover in order to make the effort of supplying worthwhile. Most rural traders do not have the means to carry this volume of stock.

In general the DEMATT program focused on one particular problem of rural businessmen: sound management techniques. It did not address itself to the two major concerns expressed by rural traders and has been ineffective to date in obtaining credit for clients. The basis of sound management interplays with all of these problems. In this light it must be reported that DEMATT has not addressed effectively the major problems of rural traders---as seen by those involved in rural trade.

⁶The margin on similar items in small shops in the United States (including 7-Elevens) would be from 25 percent to 40 percent.

QUESTION 2: Is the Traders Trust program providing sufficiently prepared staff to serve in the rural areas?

The recruitment, training, and deployment procedures instituted by DEMATT developed a field staff with very special qualifications to aid small businessmen in rural areas.

Recruitment. The field staff, including business advisors, area supervisors and regional managers, were recruited strictly on the basis of merit, following a rigorous and highly competitive process. This process was described in the quarterly reports and in interviews with the general manager. To recruit the first training group of ten, including eight business advisors and two area supervisors, the General Manager advertised through the newspaper and received over 300 written applications for the positions. On the basis of the written responses, a short list of candidates was drawn up to be interviewed and tested, about 2 1/2 times the number of candidates finally accepted. The test emphasized thinking and analytic skills, basic mathematics and word problems, and map analysis. The interviews conducted by the Board sitting as a panel, were designed to reveal the candidates' communication skills and persuasiveness, and provided necessary information on the candidate's professional and academic backgrounds. The Board looked for candidates with accounting and business experience who were "articulate, sharp, and independent" and who seemed to show some understanding of the small businessman. Candidates had to be eager to live in rural areas and be willing to undertake basic community development work. On the basis of the tests and interviews, the final group of trainees was selected. This same procedure was followed in selecting candidates for the second training group.

The result of this recruitment process was that even prior to training, the business advisors and area supervisors were competent in

many of the basic skills needed for the job, although some were stronger in accounting skills, some in marketing, others in community development and advisory work.

Through interviews with the business advisors it became clear that DEMATT was not successful in recruiting former business owners as DEMATT advisors. However, the business advisors' academic and professional qualifications were nonetheless impressive. All had at least some accounting training, and three to ten years experience in business. Nearly all had worked as accountants, while a few had been business managers, buyers, or in other business areas. With about 30 applicants for every job, DEMATT was clearly able to recruit a professionally well qualified staff.

In interviews with the evaluation team, every business advisor volunteered that his eagerness to work in a rural area of Malawi was a major reason why he was interested in working for Traders Trust. It has been a commendable achievement of the program to find well trained, urban-educated Malawians willing to work in what amounts to rural community development work. This motivation is particularly important in light of the national objective to revitalize rural areas. DEMATT is sending a corps of young, highly motivated men with business and accounting skills out into the rural areas, and they intend to remain there. It is notable that not one has voluntarily left the program, though all have been in the field for at least 19 months.

Training. DEMATT undertook two training programs for business advisors and area supervisors during the pilot phase of the program, both in 1980, plus one one-week in-service training course in 1981. The initial training period of six weeks included four weeks in

Blantyre using the Press training facilities and two weeks in the field examining firsthand the problems of advising rural traders. The course content and methodology were based on PFP's accumulated experience with similar training programs in Kenya and Botswana. Trainees were introduced to the problems of rural traders in Malawi; their cultural, social, and economic environment; basic business controls; financial accounting and business analysis; problems of marketing and salesmanship; how to work with clients in the community, and special problems of manufacturers and producers. The week-long in-service training program in 1981 concentrated primarily on methods of product costing. In addition, area supervisors were given special training on management and supervision of the business advisors.

The course was considerably more than a pre-packaged module imported from other parts of Africa. Although the DEMATT staff was actively involved in the training, Malawian businessmen, university accounting and business management specialists and government officials whose policies affected small traders gave frequent presentations. The training staff rejected Malcolm Harper's Consultancy for Small Business as a textbook. This book is widely used in similar courses elsewhere in Africa, but is not geared for the specific problems of scale, price control, competition, import restrictions, transportation and supply faced by Malawian businessmen. The training staff relied instead on handouts of cases for students to work through, small group exercises, short reading assignments written or provided by the staff and lecturers.

One objective of the training staff was to organize the massive amount of lecture material, handouts, etc. and compile it into book

form for student use. Unfortunately this has not been done, although the training course has been given twice and the staff has had well over a year to systematize the course material. The result is notebooks overflowing with outlines, notes, lectures and comments, very difficult for anyone to make sense of who did not organize it in the first place. One of the initial trainers had already returned to the United States, so that the burden of course organization completely fell to the general manager. Until the training material is compiled into some easily usable form, DEMATT training will either be dependent on the current general manager or will have to begin anew to develop a course applicable to Malawian business advisors in rural areas.

Is DEMATT providing a training program useful to the business advisors and applicable to the specific conditions under which they work? Ultimately this can only be answered with reference to the impact of the program on DEMATT clients and trading centers, of course (Question 4). However, as a first step, the evaluation team interviewed the business advisors, area supervisors, and general manager on their own reactions to the training and compared the course content to the day-to-day assistance given by the business advisors to their clients.

A. In interviews, business advisors were asked what they would like to see in a new training program, what part of the course content was most and least useful, what should have been covered that was not, or covered in more depth, how much they used their training in advising clients, and other questions. This evaluation was nearly two years after most had completed training, of course, and the sparse comments on course details reflected this. Nonetheless,

the responses by business advisors were uniformly supportive of the training program they received; they found it highly relevant, well taught, and comprehensive. A few wanted more emphasis on business analysis. Their responses were certainly a tribute to the training program. The 1981 in-service training program reflected the general manager's perceptions of the problems the business advisors were having reaching clients and his own beliefs about where the business advisors should be headed (with more emphasis on small scale producers' problems); it did not seem an effort to compensate for basic failures in the earlier training program.

The general manager's own evaluation was that more emphasis should be placed in training on how the business advisor could motivate clients. The evaluation team pursued this and found that while in most cases the business advisors responded to the expressed needs of their clients on business methods and financial analysis, in some areas their understanding of the problems of rural traders seemed weak. First, their understanding of why clients dropped out of the program seemed hazy.¹ There have been a number of dropouts.²

¹The information in this section was compiled from reports turned in to the general manager from the business advisors.

²It was difficult to get an accurate reading on the number of ex-clients, however, because some advisors included only those who had been clients for at least three months (as DEMATT officially did) while other included those who had been clients only briefly. The general manager estimated the dropouts at 35; individual advisors generally had between three and ten dropouts listed (which might double the 35 figure). Business advisors classified their clients as active, inactive, suspended or dropped. (For official counting purposes only clients in the first two categories were counted. Inactive clients were clients seen weekly by the advisors who did not seem to be pursuing actively their "business objectives.")

The two most frequently given responses were clients' "lack of interest" and clients' finally understanding DEMATT could give no loans or credit. (Eight and seven out of eleven advisors gave those responses, respectively.) Other responses were clients' "lack of understanding" or their refusal to work towards the business objectives they had set for themselves. These responses are symptoms of problems, not the problems themselves.

Secondly, while business advisors seemed able to find and work well with committed, interested clients, they did not appear to have as sound an understanding of the technical difficulties facing clients. The responses were approximately the same as for the previous question. The first was that "clients couldn't understand," often due to their lack of schooling. The second was that clients simply did not stick to their own schedules for attaining their business objectives - they left for the farm, or were stubborn, or changed their objectives, or did not want to change. Except for the specificity of lack of schooling, these responses again described the symptoms of a problem rather than the reasons behind the behavior.

Finally, and most important, there was some variation between the business advisors' perceptions of traders' problems and the problems expressed by the traders themselves. (See Section 1) Some of these differences could easily be explained by the professionalism of the advisors; rather than just assuming a client needed credit, he examined poor stock buying procedures, for example, to determine the root cause of the problem. In other cases, however, the business advisor's training in business methods seemed to ill-equip him to

understand the overall problems of his clients (Table 3). The central problems of stock, credit, and transport were not seen as important to the majority of advisors as they were to their clients. They tended, on the other hand, to see problems of poor planning that were not apparent to the clients. More focus during training on these specific issues might give the business advisor a better understanding of the whole business environment of his clients.

TABLE 3
PERCEPTIONS OF PROBLEMS OF RURAL TRADERS

Problem	Traders' Views (%)	Business Advisors' View (%)
Lack of Stock	54.8 (40)	36 (4)
Lack of Credit	46.6 (34)	36 (4)
Lack of Transport	42.5 (31)	27 (3)
Bookkeeping and Records	16.4 (12)	67 (7)

B. The training program had been responsive to the evolution of the Traders Trust program, although the time is short to gauge whether this responsiveness has been institutionalized. As one example, partly as a response to clients' expressed need for credit, the program began to emphasize improving the clients' business practices to make them creditworthy. Area supervisors and the managers worked closely with the advisors to train them individually to prepare clients' records for this purpose. As another example, over the last year DEMATT has put more program emphasis on rural small-scale producers. The inservice training course on product costing helped develop some expertise among the business advisors in advising small producers. The advisors who were actively working

with producers expressed some uncertainty to us about how far their expertise would carry them, and were uniformly interested in further training. The advisors concentrating on retailers, however, did not express this concern. As the program continues to evolve, once or twice a year in-service training programs should definitely be included to continue developing the expertise of the business advisors.

C. The training course meshed well with the activities undertaken by the business advisors once they were in the field. BAs were asked to rank order their tasks in terms of time spent each day. They spent most of their time training clients to use basic business records (cash book, debtors and creditors books, purchases book, etc.), and in explaining business analysis. These were areas in which they felt well prepared through the training program and, for some, by their previous accounting expertise. It should be emphasized that a high skills level in accounting and managerial practices was not needed by the advisors. The advice they gave was relatively basic. Indeed, if they had been highly trained they might have found it difficult to relate to the small businessmen's problems. It was the combination of an adequate level of skills, with a community development orientation, and the patience to wait a year or two before becoming truly effective in the community, that made them effective business advisors.

In sum, the training program has helped develop a cadre of business advisors well trained for their jobs. The field staff was enthusiastic about the course and felt it was highly applicable to their needs in the field. They spoke very highly of the training staff and their approach to how to work in a rural trade community.

The major weaknesses in the training effort during the pilot phase were (1) the failure to produce the training materials and textbook essential to any future training efforts and (2) not enough emphasis on how to approach the biggest problems of credit, transport, and supply faced by rural traders.

Deployment. Although deployment is not usually considered part of the preparation of field personnel, the DEMATT program used the entry of the advisor into his new community both as a training exercise and as a vehicle for easing his acceptance into the business community. A large meeting was scheduled on each advisor's arrival at his trading center, with local government officials, business leaders and potential clients, and DEMATT officials present. The business advisor introduced himself at the meeting and explained what he would be doing in the community; DEMATT and government officials explained the program more fully and its importance to the trading center. For some of the advisors, this was their first public speaking before an unknown audience, good experience for those who would be later making similar presentations in introductory seminars in surrounding areas. Even more important, this meeting eased the transition from trainee to advisor. Businessmen interested in learning more about the program were invited to sign up on the spot for a visit by the new advisor.

Summary. The recruitment, training and deployment of business advisors appeared to have met the pilot phase objective of developing advisors to provide assistance to small businesses in rural trading centers.

With the exception of one business advisor in Lilongwe, all are deployed in rural areas. Their willingness to live in rural area was a factor in the selection process; the two-week field exercise gave them a taste of what their professional lives would entail in

a rural setting. The result has been a program clearly based in rural areas. This objective was therefore attained. Though the training and recruitment procedure, as well as follow-up in-service training, the program developed a cadre of well-trained young men able to give advise on business management practices to their clients.

QUESTION 3: Has DEMATT developed a systematic approach toward its clients?

An objective of the pilot phase was to establish a well managed administrative system compatible with the organization's goal of assisting rural traders. The evaluation examined administrative procedures and linkages, first between the business advisor and the area supervisors, regional managers, and general manager and, second, between the business advisor and his clients. An effort was made to determine how institutionalized the procedure and patterns of interaction had become.

A. Linkages and Procedures within the Program. The most important characteristic of the administration of DEMATT was that it was squarely focused on strengthening the business advisor-client relationship.

DEMATT was a strong, centrally-run organization. The general manager kept close tabs on how a number of clients were progressing and he acted as area supervisor to the business advisor in Mangochi. Every application from a client through the credit worthiness scheme was personally reviewed by him. As a result, top management had an extremely good finger on the pulse of field activity.

There were two regional managers, in Plantyre and Lilongwe, and three area supervisors in Lilongwe, Mzimba, and Mulanje. We spoke with one regional manager and all three supervisors. The regional manager, Mr. Ngosi, gave as his major responsibility supervising and managing field operations, followed by assisting the area supervisors; assisting the general manager in the development and management of the DEMATT program, and coordinating DEMATT activities with other organizations were other responsibilities. The super-

visors all defined their task as assisting the business advisor.

There was frequent contact between business advisors and other administrators. Area supervisors held regularly scheduled meetings with the three or four business advisors under them. Each area supervisor was responsible for about four business advisors. They reported, and the business advisors confirmed, that they visited each advisor for at least several days each month, visiting clients with them, making contacts with governmental, banking, and other organizations, going over progress reports, etc. They worked directly with the clients identified by the business advisors as potentially credit worthy and helped the advisor prepare the necessary financial analyses to make a loan application. Regional managers also called meetings of business advisors and supervisors, and were frequently in the field. The supervisors also expressed the desire to get together more frequently, because they felt they had much to learn from each other. The business advisors seemed satisfied with the contact they maintained with DEMATT.

In addition to meetings, business advisors communicated to the center through monthly reports (read by the supervisors and regional managers) and quarterly reports (read by everyone, including the general manager). It was interesting to note that when the general manager suggested eliminating the advisors' monthly reports, the advisors themselves objected they did not feel overwhelmed by paperwork and received positive reinforcement on their work. The reports advisors kept on individual clients were also read by the supervisors and occasionally by other administrators. In short, the patterns of interaction were not a complaint; they seemed well established, and seemed to encourage the business advisors to perform well.

The stages in the development of a relationship between a business advisor and a client were also institutionalized. After the evaluation team interviewed twelve business advisors and twenty-two clients, a very clear picture of client/business advisor interaction emerged. The process of developing a good client was as follows:

- 1) at the initial introductory meeting to explain DEMATT to the business community, businessmen were asked to sign up if they wanted a visit by the advisor.
- 2) the advisor began his rounds of visits. Geographically, he considered his home base the trading center and surrounding areas up to a radius of six miles from the center. He did take clients further away, however.
- 3) the advisor attempted to meet his potential clients every week.
- 4) by the end of the third month, the advisor had a good idea of whether a trader was likely to be a regular client. Many of the traders initially interested had faded from the scene, often because DEMATT offered no credit to them.
- 5) the advisor helped the trader set his business objectives and work towards them. He visited the client weekly. He established a file recording the client's business facts, progress made, graphs of sales and purchases and other guides useful to the client. The precise nature of the assistance he gave varied depending on the client's objectives.

The essence of this system was the one-to-one relationship established between the DEMATT business advisor and his client. In most cases, trust and credibility were slow to be established; the client only gradually believed in the discretion of the advisor. This was the great strength of the DEMATT program. It finally resulted in clients willing to change old business behavior patterns.

The importance of meeting individually and regularly with clients was emphasized both in interviews with the business advisors and by examining the client/business advisor relationship when the two were separated geographically; in such cases advisors saw clients less

frequently on a one-to-one basis, and more frequently in seminar settings. The business advisors adamantly believed that for traders to develop permanently new attitudes toward their businesses and better business management, the one-to-one relationship on a regular basis was crucial. When an advisor visits an adjoining trade center, usually by bus, one day a week and finds a client not there, he cannot return the next day; as a result, there is less overall contact, and less interest. Seminars, while they might succeed in bringing together a group of traders, were not a good forum for working on individual business objectives, and, as one advisor pointed out, traders are afraid of ridicule by peers for showing ignorance about business practices. The individual approach alleviated this problem, and built the client's sense of commitment to managerial change.

The client files were examined in many of the DEMATT offices. Advisors kept logs of their weekly visits and a number of progress reports for each client. Most had graphs showing monthly changes in sales and expenses during the time the client had worked with DEMATT; this visual aid was mentioned specifically by some clients with a sense of pride, as an indication of their ability to understand how their businesses were doing. Advisors also kept a progress sheet showing how each client was reaching his objectives. This record was quite sophisticated and used as much to train the business advisor in how to think about the client as for any intrinsic benefit to the client. The program seemed still be to experimenting to determine how to measure client progress. This may be largely a function of time, however, as most clients had not been with the program long enough to have more objective measures (such as increased

net worth, increased profits, etc.) by which to measure success.

Overall, the administration of the program supported DEMATT's objectives, focusing on the business advisor/client relationship. Paperwork emphasized the approach the business advisor was taking with his clients, rather than quantitative measures of number of clients, for example. The field visits by the administrative staff were also focused on the long-term on-to-one interaction with the client. This systematic approach satisfied the clients and was one of the strengths of the DEMATT pilot phase.

B. Evaluation. There did not appear to be a completely institutionalized method of evaluating clients' progress on business advisors' work but supervision was excellent at all levels. The general manager had developed several different forms to measure client progress which were cumbersome although they seemed to be important analytic exercises for the advisors. Essentially, each client and business advisor set a particular business objective, and periodically the advisor attempted to determine progress towards it. This was not a readily quantifiable process and required a judgment on how fast an individual was capable of change. Nonetheless, it seemed highly effective for the clients' own progress. Some clients were at the stage where they were also measuring their own progress and business success through monthly financial analysis of their businesses.

The quality of the business advisors' work was scrutinized by administrators at all levels, particularly by the area supervisors; the program was small enough that administrators knew the strengths and weaknesses of each business advisor well.

C. The Procedure of Selecting DEMATT Trade Centers. One process that did not appear well systematized was the selection of trading centers for the DEMATT program. The trading centers were initially chosen in the central and southern regions, since this allowed the supervisors and managers easier access to clients and business advisors, an important consideration in a pilot program. However, the government felt it important to make DEMATT a national program from its inception, so sites in the north, where supervision has been more difficult, were also selected. (See Map 1.) The selection of particular trading centers seemed somewhat arbitrary. The general manager reported that he wanted to try the program in a variety of settings to see what kind of difficulties might be encountered in different locations. We did note that the 11 trading centers we visited all had Chipiku wholesale outlets. However, very little baseline data was collected to make possible any valid comparisons among trading centers. There was no effective assessment of need, or comprehensive survey of rural traders before a trading center was selected. A short and very incomplete survey was conducted, but was not specific on factors important to traders (transportation systems, for example), nor was it apparent how it could be used in selecting or rejecting a trading center. As the staff began the tentative selection of new trading centers for an expanded program, there did not appear to be consistent criteria for selection.

The lack of good data on the trading centers may be one reason why the selection process is somewhat arbitrary. Two possible sources of information are discussed in Appendix F.

QUESTION 4: What has been the impact of DEMATT advisors in Rural Trade Centers?

A. Clients and Non-Clients. During the pilot phase of the DEMATT program, the objective was not to effect change, but to establish a structure and system that would eventually have some impact on rural trade. Nonetheless, DEMATT had already had some impact on its clients. Documenting the program's impact at this point provided a benchmark of progress and, more importantly, offered valuable clues about the impact that could reasonably be expected in the trade centers. The evaluation team first looked at DEMATT clients, comparing their situation with non-clients. Second, and more tentatively, it made an effort to assess probable community changes as a result of the program.

The selection of criteria to measure impact was a function of what data were available.¹ Previous evaluations of training programs have suggested some quantifiable indicators--the change in profits, turnover, and net worth among the client population, for example--as well as less easily quantifiable indicators such as the increase in business skills among the clients. DEMATT itself used a highly individualized evaluation of how well a particular client seemed to be working towards the business objectives set by him and his business advisor together. Using either a strictly quantifiable measure

¹In addition to the questionnaires, the major data sources in this section were individual client files. The team collected information from every client file in four centers (and examined some files in all centers), including sales, profits, net worth, and reports on skill levels and business objectives. The data on the use of business skills however, came from direct examination of the businesses and the business books kept by traders in their stores.

of business change or DEMATT's attainment of business objectives posed problems. First, good business analysis records were kept for clients on a monthly basis, but most clients have been with the program for only about a year. Production and sales figures were heavily tied to the farming and marketing cycle in the rural areas. Only after the first year could month to month comparisons be made, and even here any conclusions about the program's impact would be highly suspect; the health of the local agricultural economy in a particular year (and hence the consumers' incomes) is clearly the dominant force in sales changes. Good time series data for measuring business impact, therefore, were not available. Second, DEMATT's own evaluation, while excellent for the purpose it was designed for--to assist individual clients--did not lend itself to aggregation. The evaluation therefore concentrated first on comparing business practices of clients and non-clients. Table IV breaks down shop-keeper business skills.

The results showed a significant difference between the two groups. Only one client kept no books at all, for example, while over a third of the non-clients kept no books. In all categories of business management, the DEMATT clients outperformed the non-clients. The difference between the two groups may well be underestimated by this table, since some of DEMATT's clients were new, and many will presumably continue to improve their business practices.

B. The Impact of DEMATT on Small-scale Producers. About 18 percent of DEMATT clients were small scale producers. They included carpenters, tinsmiths, tailors, a potential fishmeal producer, quarry owners, and others. Although this group represented a small

TABLE IV
SHOPKEEPER BUSINESS SKILLS

	No Book-keeping	Daily Cash Book	Purchases & Expense Book	Creditor or Debtor Books	Stock Taking	Computes Profit	Multiple Entry Book-keeping
Clients Responding 21	1 (4.7%)	20 (95.2%)	18 (85.7%)	12 (57.1%)	12 (57.1%)	11 (52.4%)	8 (38.1%)
Non-Clients Responding 40	14 (35.0%)	26 (65.0%)	15 (37.5%)	6 (15.0%)	10 (25.0%)	8 (20.0%)	6 (15.0%)

proportion of the DEMATT clients, program emphasis on it was growing. Most of these clients were relatively new, so measuring impact was premature. Some findings were made, however:

1) The program was spending relatively more time on producers and less on retailers, although most time was still spent advising retailers.

2) The advice sought by producers was somewhat different than that needed by retailers. Both groups needed bookkeeping and management skills but producers needed much more assistance in assessing market needs, finding new sources of demand, and obtaining financial assistance for capital equipment. The business advisors, judging from their monthly reports and interviews found this work exciting, and the most important limitation in making an impact was their own skill and knowledge. Advisors working with producers singled them out first when asked what was the most important work they were doing. Cases cited included, among others:

--a tailor assisted in developing the governmental contacts necessary to obtain large orders for school uniforms.

(Several other tailor clients were being advised on the process of taking advanced orders.)

--a new fishmeal producer assisted in applying for a loan for capital equipment.

--carpenters assisted in working out a contract for Southern Bottlers to produce wooden crates.

The credit worthiness scheme also appeared to be emphasizing producers. Two clients had loan applications ready; both were producers. Two others, one a tinsmith and one a tailor, have applications at the regional manager level.

If this focus continues, the program may soon have a significant impact on producer clients.

C. The Impact of DEMATT on Wholesalers. Very few wholesalers were clients of DEMATT. Yet this is an important source of clients because of their economic importance in the trading center and their linkages to retailers. Furthermore, as this evaluation has shown, private wholesalers are under duress. Their sole non-governmental sources of goods, the Asian wholesalers in the large cities, are finding it increasingly difficult to operate and are less able to extend credit to African wholesalers in the trading centers. Wholesalers in the Northern region and more isolated trading centers have been particularly affected. DEMATT advisors may not work with wholesalers because (1) wholesalers, like producers, have somewhat different and more sophisticated business needs which the advisors are not yet qualified to give or (2) the problems they most frequently have, transport, supply, and credit are not ones (with the possible exception of credit) DEMATT is presently able to handle. More emphasis on wholesalers might yield the following:

- 1) employment generation is greater here than in retail stores, due to size and the need for drivers, stockclerks, and so forth. This is a potential gain for the whole community.

- 2) the existence of wholesalers strengthens an entire trading center. Retailers come in from outside the community to shop; they may hire local transporters in some cases to deliver their goods. New retailers are attracted to the trade center because transport costs are lower.

3) There are important linkages between a healthy wholesaler and healthy retail market. Local retailers can make better profits because their transport costs are lowered, and, in turn, purchase more stock from the wholesaler. If there is more than one wholesaler, a competitive situation may lead them to offer a wider variety and greater quantity of stock and better credit facilities, which benefits the retailer and consumer.

In short, DEMATT could have a significant impact on retailers and on the trading centers by working on the wholesale linkage in the distribution process. The Asian communities had such linkages previously; Chipiku does not offer comparable linkages; PTC has developed its own, independent of private wholesalers and retailers.

D. The Impact of DEMATT on the Trading Center and Local Community. DEMATT was considered a progressive, useful organization in the trade centers in which it operated. Advisors worked closely with local government officials, Import-Export, and the rest of the business community. The 12 supervisors of the Chipiku stores interviewed praised the program's intent and the skills of the business advisors. They often donated free office space to the DEMATT advisors and provided other assistance. They also referred their own customers to DEMATT, particularly those who seemed to be in economic difficulty, or who were uncertain what stock to buy, or who wanted to become eligible for Chipiku credit.

The local organizations with which DEMATT worked varied from trading center to trading center. In Mangochi, for example, the national bank referred its local clients requesting loans and overdrafts to the DEMATT business advisor, who explained the differences between credit and loans and assisted the applicant in preparing

the financial analysis of his business required by the bank. In other areas, the District Commissioner provided assistance and support. The evaluation team found no trading centers where DEMATT was viewed with dislike or suspicion.

It is too early to measure the overall economic impact DEMATT will have on the trade centers. Each business advisor could handle approximately twenty clients at any one time in a community. The trade centers varied in size from about 10 to 70 small businesses. Given some turnover among clients, the cumulative effect on the business community could be impressive. The DEMATT business advisors and area supervisors had also become an important rural resource themselves. The program represented an infusion of technically skilled, business-oriented expertise back into the rural areas.

QUESTION 5: What are the micro and macro economic considerations that affect the potential of the Traders Trust Program?

Regardless of the administrative capabilities of DEMATT, there are numerous exogenous variables operating in a rural area that may curtail the operation of a trader who has adopted sound business management practices. Some of these influences are: a) the change in the economic status of a trade area and the indirect impact on the individual shopkeeper; b) the focus of the government on creating new planned unit centers in areas where former trade centers had recently been reoccupied by Malawians; c) the formation of a parastatal nationwide retail chain in direct competition with African traders; and d) the lack of diversity in stock and the rigidity of price control as instruments of business failure.

During the initial briefing by the Principle Secretary of the Ministry of Trade and Industry, the team was directed to look at the rural trade centers that were affected by the localization policy from 1976-1978. The Secretary related that "most centers are occupied, but many are failing. Stores open and shut fast--some have a complete lack of stock." All but one of the trading locations the team surveyed had previously been occupied by Asians (Mitundu was the exception--although Kasiya #2 existed as a separate and distinct non-Asian center.). The purpose of sampling some of the places for a more thorough analysis of trade transition was to establish what scale of shop closure had occurred and determine if it reflected an economic decline of the local trading area. This data was correlated with local economic figures (when available) to determine the business trends in the community. In practically every center there were vacant shops purchased from Asians that had either gone out of business or had never opened. The number of

vacancies ranged from four out of fourteen shops in the Nkata Bay trade center, five out of twelve in the old Asian section of Ekwendeni and two out of seven former Asian shops in Embangweni. The team decided to measure these vacancies in light of the economic support base of the trade area. The questionnaire to traders inquired about opening and closing of shops in the trade center and additional interviews were held with wholesalers and informed local people about the reasons for failed or vacant shops. Most of the empty shops did not appear to substantiate that the economic condition of the center was declining. A number of the buildings were purchased by civil servants, some assisted by the National Loans Board, as a matter of speculation or for future employment following government retirement. There were also vacant buildings as a result of business failure, but not from lack of customers as much as over extension on a loan or credit. Several of these former traders were still continuing as entrepreneurs in the community by operating maize mills or establishing their wife as a chibuka¹ salesman; the motive was to generate cash to support the license fee and costs of basic stock. Usually for every shop unopened there was a large shop doing a healthy volume of trade.

Government officials, wholesalers, and substantial community businessmen related that most of the older trade centers could not support all of the former businesses. The explanation most frequently cited was that the Asians operated on a cooperative basis as a "family community" where the African trader operates in direct competition

¹Chibuku is a fermented maize beer that is brewed by a public brewery and distributed nationwide.

with all other shops.² The second reason (provided by three different wholesalers) was that there has been a proliferation of small retail shops in the bush since the localization period and this has had a direct affect on activity at the center. Unfortunately, compilation of community economic profiles was extremely difficult to manage as time series data was either not available or was completely lacking. To determine the public and private payroll of the area requires visits to each department or organization located near the center. None of this material is centralized or could it be estimated by local officials. The best possible information available about economic change would be found in the National Sample Surveys³ of 1968-69 and 1980-81. The sampling of smallholders (in units of 1000 population per sample area) provided information on income and purchasing of durable goods. Unfortunately the 1980-81 survey has not been computerized as yet and no material was available. Another seemingly excellent resource is the pile of MCE (Malawi Certificate of Education) project papers which are completed each year and stored for three years. One project analyzed the market range of a commercial center and the economic transition within the system. A group of students select this option each year, providing a large quantity of papers at the MCE office (Zomba).⁴

²The speculation that Asian Trade Centers would have been smaller if direct competition occurred was brought out in Dotson and Dotson's, The Indian Minority of Zambia, Rhodesia and Malawi, 1970.

³Compiled and tabulated by the Department of Statistics of the Ministry of Finance in Zambia.

⁴A sample paper was loaned to us and discussed by Brother Guy Lachance, head of Geography at Zomba Catholic Secondary School.

Much of the data is quantifiable and several papers would provide cross checks of each other. ADMARC data on depots and income characteristics of public agencies were not available on a time series for comparison.⁵ Even so, the general consensus is that there has not been a major decline in purchasing power, but that it is more widely distributed. A reduced size of a trading center does not reflect economic decline, but may simply describe the real situation from competition. In these cases, the success of the trader may hinge more on the present trade saturation in an area that may have surpassed the economic breaking point.

The Government of Malawi has not shown complete support to the Malawian trader who has recently entered trade in the former established trade centers. Only two of the rural traders surveyed (68 in total) responded that they had received assistance from the government to go into business. The sale terms on nearly all Asian shops were cash with some of the Asians carrying balances for up to two years. Prices varied for the shops from a low of K2000 to a reported high of K7000 (which may have included stock). One wholesaler was assisted by the National Loans Board (which most had never heard of) and the other wouldn't reveal his source of support.

The Malawian rural trader is generally new at the game of running a business. Most of them have been in business since 1976 (including areas without former Asian traders). The cash purchase of the shop represented an outlay of their career savings plus large amounts supplied by members of the extended family. He frequently

⁵One year depot statistics did provide interesting 1980 comparisons between centers visited. However, one year agricultural market data does not provide sufficient material to make assumptions from.

had little financial resources remaining to purchase stock, one of the reasons there are many large shop buildings in Malawi containing very few consumer goods (the other reason is mismanagement of cash flow). In line with these difficulties of the small trader, the government has embarked on a program of policies that will tend to increase his problems rather than allieviate them.

The Ministry of Agriculture, and recently the Office of the President and Cabinet, have embarked on rural schemes called Agricultural Development Districts (ADD's) and Rural Development Programs (RDP's) respectively. The combination of these programs covers the entire inhabitable rural area of Malawi.⁶ In both areas there was a focus on the establishment of an Extension Planning Area (EPA)--Planned Unit Center in the ADD;s, and on Rural Growth Centers in the RDP's. The schemes were nearly identical in that the government would establish an agricultural center with ADMARC depot, schools, clinics, market, and rural road access from the center throughout the agricultural area it intended to develop. There would be places reserved for commerce and the government would encourage (without financial assistance) the location of new rural shops at the new centers.

The new planned centers may stimulate growth in some areas of Malawi, but they are likely to also drain from the newly reestablished old trade centers. The new market towns should be viewed as competition with the likelihood of compressing consumer market areas. The old Asian centers represent much capital in the form of building stock. If the government is trying to encourage capital investment

⁶ There are eight ADD's: Karonga-Chitipa; Mzuzu, Karunga; Lilongwe; Salima; Liwonde; Blantyre; and Ngala. These were bordered by ten large RDP areas.

in new buildings, while at the same time the traders are severely under-utilizing the existing structures, this appears to be unrealistic and non-supportive of rural trade in general.

All products in Malawi are quite heavily controlled by the government and import regulations become very restrictive during periods of tight foreign exchange reserves. This hampers the import of goods by private wholesalers (McConnell's and Asians) that can effectively compete with the low-cost locally produced manufactured items. The restrictions on these items will have an immediate effect on the African wholesalers who depend on marketing goods not found in the Chipiku wholesale network. They operate mobile van services to rural trade centers with bulk discounted stock they have acquired from McConnell's and the Asians. They are primarily responsible for whatever stock variation that exists between shops in the small rural trade centers. Import-Export presently controls most of the supply of goods to the rural shopkeepers. As the Chipiku Wholesale depots are mainly responsible for distributing home-industry goods, all Malawian shops are stocked with these basic items (soaps, materials, blankets, sugar, etc,); providing very little variation between stores in a rural center.⁷ Import-Export does provide additional services in the form of a mobile van service (in competition with Malawian wholesalers) under the name of Marketing Services Malawi (MSM) which provides ranges of imported goods to local traders. As a result of this extremely tight control on the flow of stocks at

⁷Even the monotonous range of items can be altered by effective presentation. It became apparent to the team when a shop had an attractive method of display that in most cases the trader had been influenced by the advise of the Trader Trust advisor.

all levels in Malawi, there is hardly any choice available to rural shopkeepers. Thus all shops appear uniform. Quite frequently it is the quantity of stock (most prominent traders) which provides the main trade advantage in a local area.

Gradually entering the rural scene, at a time that traders are limited by range in stock, is a parastatal retail network called Peoples Trading Centers (PTC). PTC is the present evolution of a form of retail chains in rural Malawi that have existed since 1950 under the names of Mandala, Kandodo, and Usiwatha (Press Trading Ltd.).⁸ Peoples Trading Centers presently operate in fifteen rural locations and are under intense pressure to expand to more trading areas. PTC which is owned by Press Holdings (Malawi Congress Party Executive Council) is a growing commercial venture that includes wholesaling, product processing, transportation, and retailing. Press Holdings has also established a network of hardware shops in fourteen rural centers and has effectively taken over the rural bakery trade, operating mobile vans to all rural places from bakeries in Blantyre, Lilongwe, and Mzuzu.

PTC has little competition for its products in rural Malawi. The other major private chains have gone out of business (Mandala, 1961) or been forced to localize their networks (Kandodo, 1970, Asians, 1978). There is no African independent trader who can compete financially with PTC and has the capability of stocking a similar range of slow-turnover items that are extremely attractive in areas where they are normally absent. Although the stores appear to focus

⁸A general summary of private and public involvement in rural retail networks is provided in Appendix E.

on the local wage earners, the seasonal farmers who normally buy from local shops (where credit is available) are also attracted by the diversity of goods. Many local traders, with their basic high-turnover goods, are aware that they will lose some trade to PTC. They feel that they can remain in business by operating on weekends and evenings, extending credit, and providing discounts (all practices unavailable at PTC). It appears that these maneuvers put the small trader on a greater business edge and decreases the capacity for him to increase sales, a necessary practice when his goods generate small margins.

The implementation of price controls in Malawi have a great effect on the operation of a rural retail business. The control of pricing on items began in 1968 and presently is "officially" designated to only 8 commodities: matches; sugar; beer; hoe blades; meat; petrol; dried milk and infant foods; and certain medicines. In reality this is only the top of the iceberg in that practically every item passed on to the retailer has a "controlled" price on it. This evolved from a Ministry of Trade circular in 1973 to all manufacturers that it would assist the Ministry if they would notify the government about any price changes they anticipated. This system evolved into a control mechanism established by the Ministry of Trade and Industry (MTI) in which the manufacturer's "notification" became a "request for permission" to change the prices of products. MTI believed that this system would provide some government input into price inflation (presumably for consumer protection) and reduce the monopolistic control of product-lines in Malawi where market forces cannot effectively work. The request for price margins by the manufacturer is set at three levels; manufacturer; wholesaler; and retailer. This system is designed to protect the manufacturer

who can lobby for a suitable margin and does not severely jeopardize the wholesale system which is largely parastatal and also has a lobby mechanism. The greatest impact is on the independent rural retailer who has no effective lobby group and is in direct contact with the consumer. The consumer has a lobby mechanism through the election of members of parliament and by petitioning the District Commissioner.

Although there are eight officially controlled product lines in Malawi, all locally produced goods and many imports have "recommended" prices. The recommended list is passed on to retailers by the wholesale distributors who receive instructions from the central offices in Blantyre. There appears to be no concern about the necessary margins to sustain a retail business after the margin percentages have been adjusted by manufacturers and wholesalers. Margins on a wide range of items are from 5 percent to 12 percent without removing transport and overhead. This compares with a suggested usually minimum retail margin of costs (overhead/transport) plus 20 percent.⁹

This has a greater effect on rural traders, especially those in outlying places with poor access to a wholesale distributor. The trader does not have a clear understanding of how transport costs effectively remove the profit margin on his products. Many of the bicycle transporters are trip-employees of the storekeepers, an overhead that is frequently overlooked. The rural trader is also a low volume businessman and cannot recover most of his transport costs without dramatically increasing his volume. The Ministry of Trade and Industry⁹ apparently is unaware of these difficulties facing the retail industry in rural Malawi.

⁹Suggested by Mr. Robert Renshaw, formally with Import-Export and now Director of Sales-Service. This was also verified by Mr. Watson of McConnell-Kandodo.

Sound management programs may increase the efficiency of the rural businessman and that alone may suffice to keep him in business. However, there are numerous forces at play in rural areas that will also affect the operation of his business. Most of these forces are beyond the capacity of the DEMATT advisors to deal with, but the problems generated may have a long-term effect on the present operation of their program. Rural traders are not completely isolated from policy creation. The light at the end of the window is being generated by PTC and Kandodo who also are impacted by price control margins (although they can generate profit by high volume). They have spurred on an organization called the Wholesale-Retail Association which was established to liason with MTI on issues of price control and producer licensing. Wholesale Retail Association (WRA), which has come forth as a result of the lobbying ineffectiveness of the African Businessmen's Association (ABA), is composed of large and small traders. By the scale of operations involved, the WRA may become an effective arm of benefit to the rural retailer. The general manager of DEMATT was requested to participate in the organization of WRA. If the organization is successful in protecting retailers and producers it will be extremely useful that the DEMATT program be associated with it.

QUESTION 6: What are the major governmental and non-governmental alternatives for assisting small businessmen in rural areas and how do they compare to DEMATT?

One of the questions raised by the team in its assessment of the DEMATT program was to determine if it was a replacement for any existing programs and to decide if it duplicated any other services within Malawi. We also reviewed proposals for new programs associated with small-scale enterprise to provide recommendations for the involvement or non-involvement of DEMATT. The following organizations will be reviewed in terms of effectiveness compared with DEMATT: The African Businessmen's Association; the Rural Trade, Education and Training Committee of the Chamber of Commerce and Industry; the Chipiku Rural Seminars Program; the Small Enterprise Development Organization of Malawi; and the UNIDO Program on Small Industries Development.

African Businessmen's Association (ABA)

During the course of the field evaluation the team inquired of traders, advisors, and officials as to the role of the ABA in assisting small businessmen. This was stimulated by conversations with the Chairman and the Executive Secretary of the Association during our first several days in Malawi, and later reaffirmed by a former Chairman, that the ABA was duplicating the DEMATT program. The charter stated that the purpose of the organization, when it was formed in 1967, was to channel the problems of the small businessman to the proper government officials, to educate the Malawian businessman and to consult with him about purchasing and stocking a shop. The present leadership of the ABA stated that the branch chairmen in the twenty-four districts were responsible for organizing

seminars, inviting in business speakers, and providing advise on business management. The ABA officials indicated that this was an ongoing process, but with less emphasis (due to costs) than had been previously given. Small traders were not the present focus of the ABA. The concentration was now clearly directed toward the transportation enterprises (lorries) and to small-scale industry.

The team made every effort in the field to determine what the ABA had done (and was doing) for the small rural businessman. Thirty-one of the seventy-two rural entrepreneurs surveyed were members of the ABA and several were chairmen of local committees. All of the interviewees knew about the ABA, but most could not relate to anything that they did to assist the local businesses. It became apparent that the "seminars" were often held to persuade non-members to join the association (annual dues retail K5; wholesale K10) and provided very little educational assistance. Several traders said that the ABA was presently focusing on the acquisition of lorries for prominent rural businessmen. If this is true, they are at least concentrating on a problem perceived by the trader to be one of his greatest difficulties. There is no evidence that the ABA is effected by or effects the DEMATT program. There were cases of suspicion between the local chairman and the DEMATT advisor, but in general they operated in a cooperative manner. The Chairman of the ABA is a member of the board of DEMATT which provides a direct linkage between the two programs. Although it would seem logical that the two organizations compliment each other in the field, this has not occurred. Another parallel institution is forming, of which DEMATT is associated, that may eventually encompass the declining ABA. The Wholesale-Retail Association (WRA) is focusing on the retailer and may effectively

draw away this arm of support from the ABA, causing ABA to primarily exist as an urban-based organization. DEMATT has not substituted for or duplicated any aspect of the ABA program in rural Malawi.

Rural Trade, Education and Training Committee of the Chamber of Commerce and Industry

The Committee was formed at the request of the Ministry of Trade and Industry to assist the businessmen who had recently acquired businesses (1974-1978) from the Asians. The committee was able to approach several organizations (EEC, UNIDO, etc.) for proposals on assistance for small scale enterprise development. The Chairman of the Rural Trade, Education and Training Committee related that many responses for financial aid were offered, but most centered on production enterprises and not trade (with the exception of the Traders Trust). The Chamber of Commerce does not draw its membership from rural areas and did not feel particularly responsible to the small traders in those areas. The Chamber has no training school nor provides funds for such purposes. Seminars are held (maybe three times per year) in peri-urban areas of Lilongwe or Blantyre and occasionally topics such as bookkeeping, banking, and other business matters are presented. The people they reach are distinctly non-rural and in most cases are prominent traders or small industrialists.

DEMATT provides no interference with the "Rural" Trade Education Committee. The Chamber does not operate in any of the areas where Traders Trust advisors are and does not appear to offer an alternative that will reach a similar clientele. Although the goals of the Committee read as similar to DEMATT's:

- a) monitor the business environment and climate of rural trade and traders,

- b) educate them about any business trends and opportunities,
- and c) train them as necessary and possible in business management and developing their skills.

The lack of methodology and funding has kept this proposal primarily on paper. It may be of some advantage for DEMATT to maintain its connection with the Chamber and could find them helpful in establishing gross roots business organizations. They cannot be too far removed from the rural trader as they are the only organization to spell out in four stages the top four difficulties that were identified by the shopkeepers (import restrictions, transport costs, supply shortages, and inflation).

Chipiku Rural Seminars

Chipiku and MSM, wholesale outlets of the Import-Export Company, operated a trader advisory service that began in 1975. The regional officer would visit a Chipiku depot at a trading location and establish a seminar for local traders while he was there. Sometimes the seminars would last an entire week and would cover topics such as: cashbook; purchase book; stocktaking; handling customers; and credit facilities. Each trade center had a seminar about once each year. The regional officer would also provide appraisal forms to monitor progress during the seminar and would also visit certain shops to check performance. By 1980 Import-Export found the service to be too expensive (gasoline costs) and when the government refused to provide financial assistance, the program was stopped. This was approximately the same time that Traders Trust was preparing to send advisors into the field. Although the goals of the two programs were similar, the methodology was different. Where as Import-Export would hold large seminar meetings (as did ABA and the Chamber of Commerce) and possibly establish

contact with only a portion of the audience, DEMATT reaches each client on a mon-to-one basis and allows each to work for their own goals at their own pace.

Import-Export had a training facility in Blantyre and had established some preliminary agreement to allow DEMATT use of the facilities. The original negotiations between the president of PFP and the Malawian government in 1978 created an anticipation that DEMATT would become a branch of Chipiku and training would be provided by the Import-Export staff. This fell through when negotiations did not satisfy the relationship. In the field there is a strong (and logical) marriage between the DEMATT personnel and Chipiku. Space was provided in a number of Chipiku depots for the local offices of DEMATT. This appeared to the team to be the logical location for a trader advisor in that the trader was required to visit the wholesaler for stock which provided an additional opportunity for the client to meet the DEMATT staffer outside of his business establishment. The office at Chipiku was a convenient method of advertising the DEMATT services provided opportunities for the advisor to meet large numbers of non-clients. The Chipiku supervisor would also recommend the DEMATT office to a number of customers who would express business problems to him.

Import-Export did attempt to offer a service similar to the DEMATT program for several years prior to the entry of Traders Trust into Malawi. Their trained staff provided seminars for the rural traders and provided basic follow-up through occasional visits to the shopkeepers place of business. Although Chipiku reached more

traders, it was not as effective as the DEMATT one-to-one relationship with its clients. There was also considerable confusion between the purpose of the seminars. Some traders reported (as did several Chipiku supervisors) that the purpose of the meetings was to discuss new products of Chipiku and the skills training was a secondary element of the seminars. There is no personal business advantage gained by the advisor from the DEMATT service and all of the businessmen we polled were familiar with that. We believe that the DEMATT service was a solid improvement to the Chipiku effort.

Small Enterprise Development Organization of Malawi (SEDOM)

SEDOM is an organization aimed at improving the skills of Malawian small and medium scale producers. Financial banking for the program is being provided by the European Economic Community (EEC) which intends to funnel loans of up to K25,000 (\$26,880) to successful candidates which will allow them to become established in a small-scale enterprise. The loan fund will be operated through the Investment and Development Bank of Malawi Ltd. (IndeBank). The SEDOM proposal is to begin operation on a three-year pilot phase and to then transfer it to an appropriate GOM office for administration. This producer-enterprise program resembles the DEMATT process in that it proposes to establish Field Operating Units (FOU), which like the BAS is to encourage contact between the recipients of the service and a near by advisor. The FOU will also coordinate the SEDOM program with the local authority where he is posted and together they would be responsible for resolving what small-scale producer projects are appropriate (and desirable) for the local region.

SEDOM is not a duplicate of DEMATT. The FOU is responsible for direct contact with the small-scale entrepreneur and is expected to provide him with technical assistance, identify and provide appropriate training needs, provide management and business training, and develop direct access to financial assistance. The plan is to begin in Blantyre, where a training center is to be established, and establish a Lilongwe center after the Blantyre base has matured. The proposal states that "eventually it will reach the rural areas as well." The DEMATT program also established a Blantyre training facility and provided management and business skills training. The advisors also work with local authorities in identification of rural small-scale enterprise needs. SEDOM works with producers only and does not incorporate traders into the small business program. DEMATT has recently branched into producer assistance (18 percent of its clients at the local level) and is planning to bring in two Peace Corps technical assistants to work with producers on technology and skills.

There is apparent overlap between these two organizations, but the team views it as complimentary rather than conflicting. SEDOM will begin its program in the urban areas and will initially have all of its staff and most field advisors in the immediate vicinities of Blantyre and Lilongwe. DEMATT does not operate programs in these areas and is most effective in the rural centers. They have experience in organizing and advising the creation of producer enterprises (SOBO Box scheme, fish meal scheme, ox cart production, etc.) and are capable of assisting the Field Operating Units in identifying projects that should receive financial assistance. This emphasis on producer advisory service should be encouraged to continue as long as it does not interfere with the advisor service to the rural

trader. If the FOU do become established in rural centers (as proposed), the DEMATT advisor and SEDOM field staff should coordinate their efforts in management and skills development. However, at that point the DEMATT focus should be on traders and SEDOM on producers. The general manager of DEMATT presently serves as a consultant to the SEDOM organization. There should continue to be close contact between the two programs and IndeBank to assure that they do not duplicate their field services.

UNIDO Program on Small Industries Development

This program is included in the report in that there is an apparent connection between the SEDOM effort and the proposals submitted by the UNIDO (United Nations Industrial Development Organization) advisor. UNIDO is apparently entering the small-scale enterprise picture in Malawi at a completely different level than DEMATT. Their intention is to work with small industries rather than focus on small producers. There have been some suspicions raised that SEDOM may also operate at this level and provide very little financial assistance to rural producers. The team did not have an opportunity to thoroughly investigate the UNIDO intentions in a small enterprise, but we do not believe there shall be any overlap or duplication of DEMATT services.

DEMATT is not the sole organization working with small scale enterprise in Malawi, but its unique approach does provide it with the lead in effectively reaching the rural businessman. There is no real competition between DEMATT and other organizations who claim to provide business advice to traders (ABA and Chamber of Commerce). These organizations rarely reach the rural trader and do not provide

individualized attention. The only trader advisory program that appears to have been superceded by DEMATT is the Chipiku service which went out of operation with the introduction of Traders Trust advisors into the field. Chipiku offered only seminars on a once per month basis to groups of rural traders and provided very little individual follow-up. They were the only organization that was attempting to reach the individual trader prior to the DEMATT program. The team feels that the DEMATT advisory service is superior to the efforts provided by Chipiku and hopes there will be continued coordination between Import-Export and DEMATT in extension services to rural traders. As DEMATT has moved into producer advisory services on both technical and managerial skills, the team believes they should closely collaborate with the newly introduced SEDOM program to avoid duplicating services. If SEDOM become effective as an advisory and funding service to rural producer enterprises, we can foresee a rural development team possibility with DEMATT and SEDOM advisors.

QUESTION 7: What recommendations should be made for the second phase of DEMATT?

Funding

- (1) The U.S. Agency for International Development should enter into a funding agreement with the Government of Malawi for the support of the five-year second phase of DEMATT. The team believes that a relatively low level of funding will result in a program that has high visibility and is capable of expansion. The emphasis in funding should be on people development, rather than creating a complex infrastructure.
- (2) As a Statutory Body, DEMATT should operate in close collaboration with Import-Export Co., Ltd., for the following reasons:
 - a. Field studies showed that the Chipiku wholesale stores (Import-Export) have established close ties with the DEMATT advisors and a good level of cooperation, referring clients, providing free office space, information on price changes, etc. Chipiku was initially interested in sponsoring the DEMATT program, but did not have the funding.
 - b. Both organizations have an overlapping interest in developing traders in rural areas. Chipiku maintains a number of essentially unprofitable wholesale outlets in rural trade centers, especially in the north and other isolated areas, because it feels an obligation to provide its services throughout the country, regardless of profit. However, it naturally welcomes any opportunity to strengthen its own economic position by developing strong rural retail operations.

c. The Ministry of Trade and Industry does not have the field orientation of Chipiku and DEMATT, and is responsible for trade policies (licensing and trade regulation, enforcement of price controls) that DEMATT advisors should not be directly associated with. DEMATT advisors find building credibility and trust in a community challenging enough without this association.

DEMATT should, however, maintain close linkages with MTI, which should continue on the Board of Trustees.

Program Orientation

- (3) DEMATT should continue to be oriented towards development of rural trade centers. Its rural-based trade development strategy is unique; it is one of the few organizations working to revitalize rural trade centers.
- (4) DEMATT should continue to be built on a one-to-one client/business advisor relationship. This tie has been the reason for its success in developing basic bookkeeping and business analysis skills among a rural, often poorly education, clientele. Earlier Chipiku and ABA seminars did not have a permanent effect on traders' business practices. Group meetings to discuss common problems may be appropriate but they should be a substitute for, individual weekly contact between DEMATT advisors and clients. One implication of this is that the success of the program should not be primarily measured by the number of traders DEMATT reaches. The present ratio of 20 clients per advisor seems effective.

- (5) DEMATT should continue its focus on medium and small scale traders. To this end, the business advisors should not be overly trained for their jobs. If their initial training is significantly upgraded they may find the challenge of basic rural community development work less appealing, be less inclined to make a permanent commitment to living in rural areas, and more eager to take on the more technically challenging problems of large, rather than small, traders. DEMATT's efforts to develop credit possibilities for traders, should similarly be focused on small traders.

Program Administration

- (6) DEMATT should continue its localization efforts. By the end of the second phase, the entire organization should be localized at all levels. There should be an appropriate period to allow for easy transition between the present general manager and his counterpart.
- (7) The system of field supervision should continue with supervisors living in rural areas, supervising and providing technical assistance to approximately four business advisors each.
- (8) The training program should increase its emphasis on basic trader problems of supply, transport, and credit and motivation for business improvement. Organizing the course materials and a textbook must become a high priority for the training staff. In-service training for field staff should be regularly scheduled to upgrade their skills, maintain their professionalism as DEMATT employees, and allow them an opportunity to learn more from one another.

DEMATT Expansion

- (9) The DEMATT program should gradually be expanded, perhaps with the eventual goal of having a DEMATT business advisor in every trade center. The second phase, in other words, should expand the program following the grassroots emphasis of the first phase.
- (10) The development of a mobile advisory service, based on advisors and supervisors visiting trade centers in vans to give seminars, is not recommended because of (a) high transportation and vehicle expenses, (b) the seminar learning situation is not as effective as the one-on-one method presently used; the money could better be spent by putting more people in the trading centers permanently.
- (11) The development of a "credit worthiness scheme" should focus on credit as well as loans. Specifically, DEMATT should develop a joint program with Chipiku so that DEMATT clients who are recommended by DEMATT as credit worthy can receive reasonable credit from Chipiku, without the security normally required. DEMATT's coordination with SEDOM and the use of INDEFUND loans for DEMATT small scale producers should continue.
- (12) In the second phase, DEMATT should continue to focus on retailers and producers, but should also work more closely with wholesalers who provide an important revitalizing force in a trading center.

Policies

- (13) DEMATT should carefully assess current governmental practices and policies affecting rural traders and trading centers. When a policy or program clearly is detrimental to the interests of rural trade, DEMATT should inform and work with governmental officials to change it. The final success of DEMATT in revitalizing rural trade centers and encouraging the growth of private enterprise in rural areas finally rests on developing comprehensive governmental policies that support these aims.

APPENDIX A

Tel phone Lilongwe 31711
Telexgrams TRADEMIN, Lilongwe



In reply please quote No. BL 110/042/02 III

MINISTRY OF TRADE, INDUSTRY & TOURISM
P.O. BOX 30366
CAPITAL CITY, LILONGWE 3
MALAWI

8th March, 1982

Mrs. Vivian Anderson,
USAID Director,
P.O. Box 30016,
LILONGWE 3

cc : The Secretary to the Treasury,
P.O. Box 30049,
LILONGWE 3

Dear Madam,

THE DEVELOPMENT OF MALAWIAN TRADERS
TRUST : PROPOSAL FOR USAID FUNDING

Following our meeting in my office last week, I had promised to be in touch with you to confirm our request for USAID funding which has been submitted to you for your consideration.

To begin with, I would like to clarify the position of the involvement of PFP/International in this project. As it is, the funding proposal falls in two parts. Basically a major part is the request for USAID funding and about 6.7 per cent of the total estimated cost constitutes the PFP/International continued involvement entailing PFP/International technical support costs as shown in the project proposal. Underlining the involvement of PFP/International is the need for some continuation of collaboration with private bodies which have the necessary expertise in executing the project.

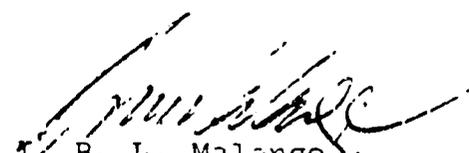
It is envisaged that in the one year transitional period, as we move from Phase I to Phase II, there will be need to have a Chief Technical Advisor to assist the local General Manager. PFP/International, being to-date the only familiar body, is assumed to continue providing this form of assistance. However, we are flexible in approach. We should accept any alternative should USAID

come with a proposal of their own considering that the funding to meet the involvement of PFP/International is not firm as yet. For your information it has already been proposed that a Malawian General Manager should be in post prior to the beginning of Phase II and the present General Manager should assume the duties of the Chief Technical Advisor immediately this happens.

We discussed the merit of evaluating the Pilot Phase and we agreed that this would be necessary as it is only to be expected that any donor would wish to know the effectiveness of the project before embarking on a major financing programme such as Phase II of the project. In this respect, I would urge strongly that technical assistance be sought to execute this exercise in order not to delay Phase II of the project. Our view is that, the evaluation of the Pilot Phase should also afford us the opportunity of assessing in definitive terms the size of financing relating to Phase II of the project. It follows from this that the total estimated costs presented should form the basis of our negotiations as and when we have the results of the evaluation of the Pilot Phase. There may as well be some minor modifications to the project proposal requiring the revision of the project. This should not be a major problem and should not in any way delay Phase II.

We are anxious to know USAID reaction to our proposal and we should be most grateful for your appropriate action.

Yours faithfully,


J. B. L. Malange
SECRETARY FOR TRADE AND INDUSTRY

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APPENDIX B

INTERVIEWEES AT LILONGWE, BLANTYRE AND ZOMBA

LILONGWE

1. Mr. Musa Njolwa, Principal Economist
Ministry of Trade and Industry
2. Mr. Julius Malange, Principal Secretary
Ministry of Trade and Industry
3. Mr. Peter Grant, Economist of Price Inspector's Office
Ministry of Trade and Industry
4. Mr. H. M. S. Chunga, Deputy Secretary
Ministry of Trade and Industry
5. Mr. Muwila, National Rural Development Program
Ministry of Agriculture
6. Mr. B. M. Phiri, Deputy Secretary
Ministry of Finance
7. Mr. Augustin Bobe, Economic Advisor
Office of President and Cabinet
8. Ms. Vivian Anderson, Representative
U.S. Agency for International Development
9. Mr. David Garms, Program Officer
U.S. Agency for International Development

BLANTYRE

1. Mr. D. R. Harara, Training Director: McConnell/Kandodo;
Representative of Chamber of Commerce and Industry;
former Trustee of Traders Trust
2. Mr. Roy Burgell, General Manager
Peoples Trading Center Ltd. (Press)
3. Mr. Bob Renshaw, General Manager
Sales Service Ltd. (Gutherie Holdings - Former
Bookers); Trustee of Traders Trust
4. Mr. Peter Watson, Group Accountant
McConnell-Kandodo (Gutherie Holdings)
5. Mr. Keith Jenkins, Chief Accountant
McConnell
6. Mr. Peter Rutherford, Lecturer; Business College
Polytechnic of the University of Malawi

7. Mr. Greenwel Mponela, Executive SEcretary
African Businessmen's Association
8. Mr. O. J. Chikawo, Chairman
African Businessmen's Association
9. Mr. Leonard Nemula, Accountant: Development Division
ADMARC
10. Mr. Chitsime, Administrative Officer: Deport Statistics
ADMARC
11. Mr. Moses Macunge, Group General Manager
Import-Export Co., Ltd.

ZOMBA

1. Mr. Chiganda, Director
National Statistical Office

QUESTIONNAIRE FOR SHOPKEEPERS

We are working for the US govt at request of Malawian govt to find out what problems there are in the rural areas and how we can help them.

History

1. When did you buy the store?
2. How did you pay for it? Did the govt. help?
3. When did you buy your first license?
4. Is the store paid for now?
5. Did you buy it from an Asian trader? y n
6. Where is he now?
7. Why did you decide to buy it?
8. Previous experience in trade? Previous profession?
9. Is the store your only source of income? y n What?
- 10, Did you move here to buy it? y n From where?

Facts about the Store

1. Type of store
2. Do you have any other enterprise with the shop?
Scone bakery? Grinding? Tailor?
3. How many paid employees do you have?
4. What are the biggest problems you have as a store owner? Any others?
5. Is supply a problem? y n
Of what mostly?
Who is your wholesaler?
Do you have a choice?
Do other stores of this place use them?
Do any companies provide direct delivery? What products?
How do goods arrive at your store?
Is transportation a problem for you? y n Why?
Are there more shortages than there used to be? y n Products:

2

6. Do you need credit or loans?

For what purpose do you need credit? loan?

At present do you have credit or a loan?

Who has provided this credit or loan?

7. Do you support many relatives? y n
 Can your business support these people? y n

Rural Trade in the Community

1. Is it getting easier or harder right now to be shopkeeper? harder easier
Why?
2. What shop is your biggest competition?
Why?
3. Have there been any new shops built here since you opened business?
4. How many shops have closed since you opened?
5. Are you a member of the ABA? y n
What does the ABA do for the rural businessman?
6. How do most people earn cash in this community?

TT and Management

1. Do you know about TT? y n
What is its purpose?
2. Have you ever been a client of TT? y n
For how long?
If not, why not?
3. Do you keep business records? y n
How do you record expenses and amount of money taken in?
4. How do you figure a profit?
Can you charge enough for items in your shop to cover your costs?

If a Client

1. What has changed since you became a client? Anything else?

more profit? better control over money?
2. What else should the b. a. do? Why?
3. Would credit advise help you? y n
A "mobile unit?"
4. Will there be a time when you will not need a business advisor?

APPENDIX D

WHOLESALE CHANGES IN MALAWI

1. Decline in the number of available wholesalers.

McConnells disappearance which used to service its own retail outlet (Kandodo - with over 60 outlets in rural Malawi) and other retailers. It was private (Bookers Group Ltd.) with attendant advantages of the private sector: profit-oriented and attentive to customers' needs in goods and variety. Foced by the government to work only in urban areas where both McConnell-Kandodo stores remain as major competition to public sector enterprises of Chipiku/MSM and Peoples Trading Center (PTC). Provide transportation at a cost; surely cheaper than every retailer providing his own.

Again wholesalers were replaced by March of 1978. Nearly every trade center until that time had access to at least one and on most occasions several wholesale outlets. The urban areas were very closely linked through family networks to the rural wholesalers and there was a free flow of goods backed by liberal family credit relationships. The Asians who departed from the rural scene did not all resettle in Malawi designated zones. Instead many migrated to England the the United States as the urban areas were already concentrated established wholesalers. This created a sizable vaccum in the rural trade areas, but also restricted the backward linkages of the urban wholesaler to the commodity import supplier. He no longer had the extensive line of bulkbreaking to rely on and the cash credit to base his orders upon.

2. Rise of Chipiku as McConnell/Kandodo substitute.

It provides a real service, an absolute necessity since McConnell's is barred from rural wholesale. It is clearly in the public sector; many Chipiku managers we interviewed complained about the "civil servant" mentality of Chipiku employees. As an alternative to the private sector it has the advantage of a national perspective. In line with the national priority to develop the rural areas, it seems to be willing to subsidize losses in the rural areas through its profits in the urban areas. Indeed, many rural managers felt their own stores were probably operating at a loss. This priority may be laudable, but the question arises if it is really necessary to operate at a loss, since McConnell's seemed to operate profitably.

Certain characteristics of Chipiku work against the rural trader.

A. Its monopoly position. Though it is willing to give discounts to other wholesalers nearly all the traders we interviewed relied primarily on Chipiku, and the smaller the retailer (and more basic his stock) the more heavily he relied on it. First, with so many retailers depending on the same wholesaler, the stocks in all the stores look very much alike. The lack of variety means that stores compete not only across product lines, but in terms of the exact same goods. The result is too many of the same stores, too few consumers for them.

Second, its monopoly position prevents it from some activities a competitive position would force it into: a wider variety of stock, perhaps easier credit to retailers and some promotional activities, closer marketing attention to consumer demands.

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B. Its centralized governmental decision-making. This was also a constant complaint. The further from the center--i.e., the more isolated and rural the setting--the less attention traders and Chipiku managers felt that Chipiku paid to them. They felt they experienced more shortages and less attention to consumer demand (Karonga, for example). Furthermore, as a governmental entity not concerned with making a profit, the argument that this inattention to consumer demand resulted in dissatisfaction and lower sales seemed not to be particularly important to Chipiku.

C. Its credit policies. Chipiku gives very little credit to very few customers. In some of the trading centers only 3 or 4 retailers received any credit at all. Those who did were often given absurdly low credit levels. Several retailers had K400 or K500 credit per month, one bolt of cloth might cost K96--so the credit might net them 4 extra bolts of cloth. Some who were interviewed considered this low credit almost an insult.

Credit policy is determined at the center; anyone who wants to open a credit line must submit financial information, on which basis the center accepts or declines the client as creditor and decides on the level of credit. This has the advantage of preventing credit from being extended due to local friendships and cronyism between Chipiku managers and shop owners. However, it also means that the assessment of the person closest to the scene--the local manager--is not taken into account. People who are credit worthy and responsible are denied credit as a result of this decisionmaking policy.

Good business management and credit worthiness are at present not sufficient characteristics to assure Chipiku credit. Many business advisors could point to a number of clients whom they felt were

excellent candidates for credit, but who knew they would never be given credit.

Chipiku's policy contrasts sharply with private wholesalers in Blantyre and Lilongwe who extended long lines of credit to good clients. We talked to clients who regularly had K30-60,000 outstanding in credit with private wholesalers, but who got no or very small credit from Chipiku. The credit allows retailers to build up their stock.

D. Its transportation policies. Chipiku is located in 31 rural trade centers, but provides no transportation facilities, either paid or free, to the thousands of retailers who rely on it. Again, this contrasts with private "mobile" wholesalers (many of whom also buy much of their stock from Chipiku) who truck their goods to the retailers. One wholesaler, for example, had his van going on its run through the north region, stop at over 400 places. Chipiku's policy is costly and time consuming. Clients must rent private transportation, use the bus or furnish their own transportation--a very expensive proposition. The private wholesalers which figure in their transportation costs in their sales price, charge the same price as Chipiku.

APPENDIX E

RETAIL CHAINS IN RURAL MALAWI^a

In Nyasaland early trade was dominated by large companies who could absorb the cost of transportation for imported goods which was beyond the means of the small entrepreneur. The first to appear in 1878 was the African Lakes Company (commonly known today as Mandala) which was organized to serve the missionary stations located throughout the country. Beginning as mud and wattle trading stations,¹ the bush stations sold to missionaries and traded with local Africans. By 1930 there was a Mandala shop in every district headquarters and substantial branch shops located near all major mission posts. The increase in pioneer settlements and colonial administrators brought an increased demand for imported items, providing a demand for the Asian trader who was introduced to the area by H. H. Johnson near the turn of the century. The Asians rapidly established a network of trading families that connected Nyasaland to the Indian Ocean (via Quelimane and later Beira) and opened a liberal import operation with major firms in Blantyre and Limbe. The urban-based firms recruited relatives and family friends to British Central

^aInformation for this summary has been provided by: Mr. Roy Burgell, General Manager of PTC; Mr. D. R. Harara, Chairman of Rural Trade Education Committee of the Chamber of Commerce and Industry; Mr. Peter Watson, Group Accountant for McCollinells-Kandodo; and by Mr. Moses Macungue, Group General Manager of Import-Export Company.

^bRefer to accounts in Dotson and Dotson's Indian Minority of Zambia, Rhodesia, and Malawi (1968), Chapter two.

Africa and provided the financial support to establish retail-wholesale outlets throughout rural Nyasaland. By 1930 the rural areas were dotted with Asian trade clusters, many of them located in the trading places established by Mandala.

Following World War II there was a rapid increase in the European population in Nyasaland along with large increases in cash remittances from wage migrants to the rural subsistent societies. This increased the competition between European retail-wholesale networks and the Asians, with McConnells-Kandodo establishing in over sixty locations throughout the country. Bookers Ltd., the parent company of McConnells-Kandodo, effectively eliminated the operation of Mandala retail outlets. Mandala closed its shops in 1961-62, selling most of them to Asians, and concentrated their holdings into tea, tobacco, coffee, and rubber.

Kandodo was informed by the Government of Malawi in 1968 that localization of its rural shops was expected to occur by 1970. Press Holdings, formed by the Malawi Congress Party in the mid-1960s, created the Malawi Development Corporation (MDC) which formed a partnership with McConnells-Kandodo (as a national security reason) in 1969. This operation, called the National Trading Company (NTC) existed less than two years, resulting in tremendous losses (which may have been paper losses presented by the unsatisfied partner represented by the Booker's General Manager). MDC held 51 percent of the shares in NTC and when the Life President dissolved the partnership in 1970, the rural assets of Booker's-Kandodo were acquired by MDC. Booker's from that time on (effective by 1974)

were limited to wholesale and retail distribution from townships only, allowing them to operate in Blantyre, Limbe, Zomba, Lilongwe and Mzuzu.

Press took over the operation of retail outlets in 1970 as Press Trading Limited and operated part of the Kandodo stores under the name of Usiwatha. Approximately fifteen of the former Kandodo's were sold to African businessmen. Usiwatha was connected to a parent operation called the Import-Export Company which supplied most of the rural shops through a chain it was developing called the National Wholesale Corporation. Press Trading Limited (PTL) operated at a loss until 1976 when the company was reorganized under new management and called Peoples Trading Center (PTC). Many of the losses that occurred from 1970-76 have been blamed on poor administration and lack of trained personnel (although most Usiwatha, Import-Export, and NWC employees came directly from Booker's operations). It was also apparent that the new corporation was experiencing problems by competing with the established Asian networks.

The Asians were encouraged to transfer their rural operations to Malawians as early as 1970^C and by 1974 a localization policy was passed that would effectively remove the Asians from rural trade by March, 1978. Asian wholesale-retail networks are now confined to Blantyre, Limbe, Zomba and Lilongwe. The rural areas in 1978 had been effectively abandoned by all commercial chains that would

^CRefer to James R. Hooker, The Businessman's Position, Observations on Expatriate Commerce in Malawi, (May 1971) American Universities Field Staff Report.

provide competition to the parastatal operation.

Peoples Trading Centers operate supermarkets and superettes in fifteen rural locations. PTC is a subsidiary of Press Holdings, which is owned by the executive council of the Malawi Congress Party and chaired by the Life President. Press also controls 49 percent of Import-Export and 40 percent of MDC which controls the remaining 51 percent of Import-Export. Press Holdings has effective control of operations of all retail (PTC) and wholesale (Chipiku-MSM) chains currently operating throughout rural Malawi. Press Holdings also operates Hardware and General Dealers stores which are located in fourteen rural centers and Press Bakeries Ltd. which operates mobile van services to most rural traders from Blantyre, Lilongwe and Mzuzu.

PTC functions independently of Import-Export Company and operates a centralized wholesale system of its own in Blantyre. Peoples Trading has recently branched into processing and packaging high demand items (such as cooking oil) at a Blantyre factory. The management of PTC also operates two smaller rural chains, Chikoko Trading and Chinwari Trading (CTCs), of which there are nine shops. Both chains are owned solely by the Life President. PTC is under extreme pressure to open more outlets in rural areas, as it carries basic stocks largely unavailable to independent traders. The stores primarily serve the wage earners of a rural center, but the extensive range of stock they carry also attracts the customers who normally purchase from the small independent businessman.



APPENDIX F

SOURCES OF INFORMATION ON TRADING CENTERS

One possible and unique source of information is the yearly MCE Coursework project in geography. One of the projects suggested is a comprehensive analysis of the sphere of influence of a small town or trading center in Malawi, including transportation systems, marketing, and other subjects of importance to DEMATT. A copy is attached.

A second source is the National Statistical Office in Zomba, which will soon be putting out a new National Sample Survey of Agriculture. Most of the information they collected on agricultural areas (including consumer patterns of farmers) has not yet been processed, although Mr. Chirganda, Director, indicated his agency's willingness to process data of special interest.

INFLUENCE OF SMALL TOWN OR TRADING CENTRE

TOPIC: The sphere of influence of a small town or trading area.

**** This project is to study a town or trading area to determine how important it is and the area that it serves.**

Introduction and Aim: Tell what the project is about and the purpose for doing the study, what you are trying to find out etc.

Location: Give the position of the town or trading centre (the region, district, distance from towns etc). Give the site (the general relief, altitude, water supply, communications etc.)

Is it in a good location in the country? Why?

Transport: Is the centre easily accessible (reached)? What kinds of transport are available? How is the town linked with the outlying towns, villages and area?

Functions: What functions does this town or area serve, eg. marketing, education, health, political, social, religious etc. Tell how many of these services there are (how many markets, stores etc.) to serve the people. Locate examples of these places on a map of the town or area.

Sphere of Influence: The sphere of influence means how many people are served by this town, what needs rely on it, and how important it is to the area and the people. In order to know this it will be necessary to talk to the people who have come to the town. Go to the different service areas, the hospital, stores etc. and talk to the people; Ask them:

- 1-where they are from and how far it is from the town and how they travelled there (have a map of the area with you to mark the different villages on)
- 2-why they came to the area or town
- 3-how often they come to the town
- 4-if this is the main centre for them or is there another one where they often go as well
- 5-how important is the town for them, i.e. if this town did not exist what needs of theirs would not be met.
- 6-do they live in the town or area or do they come there only for employment and then return to their home area.

Now list all of the villages and areas that the people came from on a map. These are the villages that rely on this town for some or all of their needs. For each of these areas. 1. Give the distance of it from the town or trading centre, 2. The method of transport used to reach the town.

Analysis: Now take all of the information you have gathered and draw some conclusions about it. For example:

1. What factors seem to make this town one of importance: is it the location, services it provides etc?
2. Does the density of the population have any influence on the importance of the town. Does the population make the town or the town make the population?
3. How large of an area does the town serve? Measure from the town in all directions to the villages it serves. Where does it seem to have the most influence—the area on the west, east, north, south? Are there any geographical factors to explain this (eg. is the relief more favourable for some villages so the place is easier to reach than for other villages or does it hinder communications, etc.)

- Conclusion: Summarize what you have learned. Does it seem that the area will grow or decline in influence in the years ahead? Why?
- Comparison: You might travel to the next major centre from this one. Find out which places are served by it or if some people use both areas equally or if some services are provided at one place and not the other. Then in your conclusion tell which place has the better chance for growth etc.
- Bibliography: Any books used to provide information or any people who helped with the study should be listed. Books are given by title and author.
- Possible Maps: To show the region, district where the area is located; to show the site of the area; to show the communication available; to show the main services provided; to show the area served and the villages served; to show the density of population; methods of travel.
- Possible charts: To show the number and kinds of services provided; to show how many people come to the area from other villages, how many work there, trade there etc.; to show how often the people interviewed come to the centre etc.

These are suggested guidelines to help you in carrying out your project. You are expected to use your own imagination and initiative.

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THE DEVELOPMENT OF MALAWIAN TRADERS TRUST
A SMALL SCALE BUSINESS ADVISORY SERVICE

P.O. BOX 1540 --- BLANTYRE --- MALAWI --- TELEPHONE 635 466

11 April, 1983

(9) Int. to USAID (1) to END-2-A

Mr. David J. Garms,
U.S.A.I.D.
P.O. Box 30016
Capital City
LILONGWE 3.

Dear Mr. Garms,

I enclose herewith our policy statement which, in a nutshell, explains what DEMATT is, its activities and its aspirations. True, it does not go into details, but does bring up into prominence the major areas of its concern and its methodology.

The problem is vast and formidable. But I am trying my best through circulars and in-service training to upgrade my field staff in consultancy work and myriad problems involved in it.

This approach to training is indeed insufficient; but I strongly believe that notwithstanding its being a scratch on the surface, it will yet pay dividends in the long future as development work is not a one day's job. I would appreciate though, any means of accelerating it, having so far succeeded to some degree in motivating my field staff.

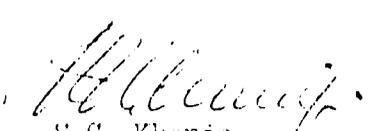
The addresses of the other members of your delegation are not clear on the card I was given. May I therefore request your favour to send them a copy each of the enclosed statement for their perusal. In their own several ways, they may have ideas to share with me as to how we could improve and accelerate our training procedure, for efficient and effective consultancy services to our clients.

Mr. Cole might wish to have a copy of this handout. Kindly let him have one for his reference.

And if you have any suggestions, please do not hesitate to share them with me.

With kind regards.

Yours sincerely,


S.C. Khonje
ACTING GENERAL MANAGER

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THE DEVELOPMENT OF MALAWIAN TRADERS TRUST
A Small-Scale Business Advisory Service

BOX 1540-BLANTYRE-MALAWI-TELEPHONE 635-466

The Development of Malawian Traders Trust-DEMATT-is a non-profit making organisation that provides Business Advisory Services to the client small businesses in the country. These are mainly traders (retail and wholesale traders) and small producers. The latter group comprises of blacksmiths, welders, tinsmiths, carpenters, hawkers, ox-cart makers, butchers and any other small business entrepreneurs, especially in rural areas.

Our emphasis on rural areas is based on our belief that this is where this type of service is most urgently needed and its absence is most strongly felt. Notwithstanding that, the service is not exclusively meant for small traders in the rural sector. We are mindful of similar needs being felt by small entrepreneurs in urban areas who face high competition from the long established businesses with wide experience in the field, as well as small entrepreneurs in places which are rapidly becoming urbanised.

Small businesses make substantial contribution to the general economic development of our country. Apart from providing essential goods and services to people who reside in remote areas from big towns, they are a great potential for providing employment to the many people in rural areas. This rare opportunity if made available in abundance would abate urban migration by job seekers. Employment opportunities would become abundant if small businesses developed and expanded, because they are many. DEMATT is fully aware of this long-term benefit; hence the keen interest DEMATT has in assisting the development of small entrepreneurs in rural areas.

If properly developed, some producer enterprises would attain a status where they would be able to produce substitution products for some imported commodities. These locally made products would save the scarce foreign exchange from being drained by imported materials. Some agricultural implements, such as hoes, axes, spades, forks, pangas, rakes, ox-drawn ploughs, pruning knives, watering cans etc would be made and/or repaired by local producers at cheaper prices, while the products would remain as durable as the imported items.

At the same time, DEMATT is aware that not all small producers would find ready markets for their products. DEMATT therefore goes all out to assist client producers in the category, in finding markets (buyers) for their products so that such products do not remain unsold in case they deteriorate and become unusable at the expense of the entrepreneurs. Efforts are therefore made, to alert possible buyers to that merchandise is available from small scale producers within the ambit of their business activities.

It is our conviction that the assistance DEMATT offers is essential because most of the up and coming Malawian entrepreneurs lack business expertise, and they are inexperienced. They need to know the fundamentals of business entrepreneurship which, among other things, include management skills in buying, pricing, selling, marketing and advertising, salesmanship, shop organisation, customer attraction and record keeping. Most owner-managers have had no training in business management. They start, or if in business already, they started from the scratch and are learning by mistakes in their operations. This is not good enough for the economy, and indeed, not even for the entrepreneur.

DEMATT also gives assistance to intending entrepreneurs. It is not always an easy task to start a business with all that is involved in the preparatory stages. And, there are only a few people who understand planning for business undertaking. DEMATT has opened its doors to anyone who needs assistance in this. We offer assistance in business planning and market surveying and other preparatory actions that ought to be accorded precedence prior to the establishment of a business.

When rapport has been established with the client, it is DEMATT's policy that this co-operation between us continues until such time that the entrepreneur can stand on his/her own in managing the business.

Our methodology is the one-to-one approach. A Business Advisor is posted to an identified trading centre. He rotates among clients, visiting everyone at their places of business. They discuss problems encountered by the business to find possible solutions. When this is done, the Business Advisor offers advice as to how to go about solving these problems for the betterment of the business. These visits are made as regularly as possible until the Business Advisor is satisfied that things are moving in the right direction. All records are checked and verified as correct. A note is then made in the Advisor's record book, on each particular business, stating achievements made by the owner-manager and what requires further review. In a few cases, common problems are solved through group discussions, and seminars.

DEMITT does not give loans. But when a business is credit worthy, assistance is given in applying for a loan.

In this case, DEMITT staff prepares a client and business profile which accompanies the application. The business profile includes a statement of the purpose of the loan, a profit and loss statement, Balance sheet and computations of liquidity ratios, profitability ratios, operating ratio and the turnover ratio. These are explained to the client so that he understands their application to the business, as well as their implication.

Depending on the reflection these figures give at this moment, as compared to what they showed previously, the application may or may not be allowed to go. If the recommendation is negative, advice is given in what to do to correct the weaknesses revealed. If everything reflects a healthy situation, then the loan application is submitted.

Besides these computations, the Business Advisor writes out a cash budget for one year, and a cash flow showing how the loan will be repaid plus interest on the loan.

The cash budget prepared is primarily intended to back up DEMITT's concurrence that the client requires a loan in the amount proposed by him.

Finally, a list of items is made out to show on what items the loan will be spent. The subsequent DEMITT's activity is to carefully monitor the activities of the business and assist the client in preparing periodic financial and progress reports, in co-ordination with the creditors.

BUDGET ADDENDUM

Breakdown of cash contribution

	<u>FY 1</u>	<u>FY 2</u>	<u>FY 3</u>	<u>FY 4</u>	<u>FY 5</u>	<u>TOTAL</u>
GOM	113,360	117,894	122,610	127,514	132,614	613,992
USAID	333,274	388,927	429,107	572,247	553,261	2,276,816
OVERHEAD @ 24.2%						<u>550,990</u>
TOTAL PROJECT COST						3,441,798

OTHER CONTRIBUTIONS

GOM IN KIND	146,522
Clientele Equity	<u>200,000</u>
TOTAL	346,522

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Budget Narrative

-Costs have been given for the first year in US dollars at an exchange rate of 1 Kwacha = US dollars 1.15. Subsequent years have been calculated at an inflation rate of approximately 10% plus program needs as they come on line.

-Costs for the Mobile Advisory Service have been budgeted for the full five year program life. Given that the feasibility of this project will be tested in the first year and the results are found to be negative these budgeted costs will not be utilized as shown. If, however, the results are positive the funds will be used as shown.

The following narrative is by line item:

1. Salaries and Direct Benefits

This includes a base salary plus 12.5% housing allowance and 5% savings plan paid on behalf of the employe in accordance with GOM policy. Breakdown of individual costs are included with the budget.

2. Indirect Benefits

a. Disturbance allowance/moving costs - An allowance of between \$63 for junior staff and \$126 for senior staff is paid to a staff person for relocation expenses as required. An additional \$1.50 per mile is paid for transportation at an average of 20 miles per move. It should be noted that an employee could possibly receive more than one allowance over the project life based upon program requirements as they arise.

b. Education Support/Extention Training - Over the project life, employees and senior staff will be encouraged to improve their professional capabilities through participation in accredited training courses. Costs in this line item will cover this expense.

3. Residence Costs

a. Residence Rents/Leases - Costs related to employee residences not covered as part of housing benefits computed in salaries. Payments vary according to the employees' organizational position. These payments vary as follows: junior level - \$1200 per annum to senior level \$3600 per annum. Housing for American TA staff is being provided by the GOM as part of its in-kind contribution.

b. Residence Repair/Maintenance - Labor and materials in connection with repairs of DEMATT leased residences.

4. Office Rent and Maintenance

a. Office Rent - Includes DEMATT's headquarters office at a yearly rental of \$11,000 and three regional offices. Temporary and/or lecture room space is also budgeted.

b. Office Repairs/Supplies - Costs are based on experience for office space maintenance.

c. Office Utilities - All office space utility costs projected at \$135 per month.

d. Office Equipment Repair - Maintenance of office equipment including service agreements and freight at a monthly average of \$15.

e. Insurance - Premiums for all office space, equipment or furnishings whether owned or leased.

f. Telephone and Telegraph - Current costs of \$150 per month are expected to double as increased program activities are undertaken.

5. Administration and Office Supplies

a. expendable Supplies - Purchase of stationery, books, brochures, and related supplies for headquarters and regional offices at \$600 per month average.

b. Postage and Mailing - Based on current levels of approximately \$15 to \$27 per month to include increased program mailing activity.

c. Routine banking fees projected at a monthly cost of \$35.

d. Printing and Photocopy - Costs associated with reproduction of training and other related materials. As increased program activity occurs these are projected to increase from their current monthly level of \$120 to \$275.

e. Promotion and Publicity - An essential element of the program's National Acceptance and Understanding component. Costs include promotional material for radio and other news media projected at an average of \$35 per month.

f. Guest Expenses - Cost of meals, lodging and other related expenses for guests or visitors on DEMATT business. Average monthly costs projected at \$39.

g. Professional Services - Annual audit fees.

h. Protective Clothing - Special clothing and/or protective wear as may be required for the safety of the employees.

6. Local Travel

a. Local Transportation (bus, taxi, private auto, and air) - Local travel would normally be undertaken utilizing program vehicles (auto, motorcycle, and bicycle). This line item would be used only when assigned program vehicles are not available or the cost of their use would not be economical. Projected average cost per staff person is \$7 per month. Program use of privately owned vehicles by staff is reimbursed at the GOM approved rate of \$1.38 per mile which includes petrol costs.

b. Local Per Diem - Actual costs will be paid for staff accommodations and meals when away from assigned postings overnight. (Hotels average \$50 per night in the larger cities and guest houses average \$5 per night. Meals vary between \$10-\$20 per day depending on location.) Projections are for an average per diem cost of \$30 for a projected 420 overnight trips.

c. Petrol and Oil - Projections for petrol usage is at a rate of 35 gallons per month. Current petrol costs are \$4 per gallon. First year projection are the following: 4 vehicles x 35 gal. x \$4 x 12 mo. = \$6,720. Oil usage projections total \$280. (See item 8b)

d. Vehicle Minor Maintenance - Lubrication, tune-up and minor repairs estimated at approximately \$40 per month for four vehicles. (See item 8b)

e. Vehicle Major Maintenance - Major overhauls including tires, batteries and other accessories at an average cost of \$441 per vehicle per year. (See item 8b)

f. Vehicle Insurance - All licensing and insurance costs associated with DEMATT vehicles. An average cost of \$700 per vehicle. (See item 8b)

g. Bicycle Repair and Maintenance - General repairs of DEMATT bicycles.

h. Vehicle Accessories - Accessories not required for normal operations i.e. racks, carriers, special tanks etc. An average cost of \$270 per vehicle. (See item 8b)

i. Bicycle Accessories - Bells, racks, reflectors, etc. required for normal use. An average cost of \$18 per bicycle.

7. Overseas Travel

a. Overseas Transport - Total budget includes five roundtrip fares to the U.S. for senior staff to participate in international conferences and training seminars.

b. Overseas Per Diem - Eighty days of per diem at \$75 per day have been budgeted for five trips over the life of the project.

8. Capital Equipment

a. Office Furniture and Equipment - Includes purchase of photocopier, typewriter and desks.

b. Motor Driven Vehicles - Includes purchase of 14 vehicles (4 assigned to headquarters staff, 8 for the Mobile Advisory Service and 2 replacement vehicles), and the purchase of 4 motorcycles.

c. Bicycles - Includes purchase of 15 bicycles at \$175 each.

9. Miscellaneous

All miscellaneous costs.

10. PFP In Country Support

a. Personnel - Two technical consultants.

b. Benefits - At 25% of salaries

c. Relocation Expense - Freight to Malawi and back to U.S. including settling in allowance and storage of personal effects in the U.S.

d. Utilities - Minimum allowance for electricity and water only.

e. Overseas Travel - One trip to and from Malawi plus two home leave trips and one international conference trip. An additional three trips are budgeted for possible emergencies.

11. PFP Program Support

Includes cost for PFP's monitoring, evaluation, administration, and overseas travel to Malawi. Seven such trip are projected for the five year program.