The Malawi Entrepreneur's Handbook

PN-ABH-121
69961

A small business reference manual

MALAWI / U.S.A.I.D.
RURAL ENTERPRISE AND AGROBUSINESS DEVELOPMENT INSTITUTIONS PROJECT
(READI Project)

DECEMBER 1990

This booklet is Volume 1.0 in a series, issued as a service to Small Business in Malawi.

Acknowledgements

Much of the material in this booklet was adapted from "Starting Your Own Business" published by the Small Business Development Corporation, of South Africa. Other reference sources used extensively in preparation of the text included "Doing Business in Malawi" (a READI Project manual); "Investing in Malawi" (1989 edition), published by Malawi Development Corporation (MDC)/ Price Waterhouse/ Economic Resources Ltd; and of course, the relevant Acts of Parliament.

I would like to thank the following persons for their valuable assistance with this publication:

Mr Don Henry (Project Coordinator)

Mr. L. H. K. Tomoka (Malawi Export Promotion Council)

Mr John Metcalfe (Past General Manager, Malawi Property Investment Company Ltd.)

Mr P. Nkosi (Manager, National Insurance Company Ltd.)

Mr L. L. Nyengo (Branch Manager, Old Mutual, Lilongwe)

Mr. Augustine Bobe (United Nations Development Programme)

Ms. Beattie Banda (Typist, READI Project)

Mr. Frank Giarrizzo, READI Project, was the Editor and Production Manager. Mr. Richard Mwale was the Artist and Assistant Production Manager.

Chris Forshaw
Consultant
READI Project
December 1990

Foreword

Business Environment in Malawi

Malawi's economic and social objectives as highlighted in the "Statement of Development Policies 1987 - 1996" are the reduction of poverty, ignorance and disease; improvement in income distribution; and a reduction in the instability of welfare for both the individual and the nation.

Reduction in poverty will be achieved through a rapid and sustained economic growth. While agriculture will continue to be the engine of growth as in the 1980s, a steady growth in the size and share of the industrial sector will be undertaken and in this regard, manufacturing is seen as a key development variable in the 1990s. Government will create a general climate which encourages enterprise development and investment, both domestic and foreign, and the private sector will be encouraged to develop.

Government will continue to be concerned with issues of equity and economic progress through the broadening of opportunities for personal advancement while at the same time restricting the scope of personal gain that can be realised by an individual to the detriment of the social welfare of the nation.

Over and above political stability, peace, law and order which are prerequisites for long term business plans, the Malawi Government promotes business and entrepreneurship through among other things:

- assistance in the identification of industrial opportunities particularly where Malawian entrepreneurs could invest;
- liberalisation of industrial licensing;
- provision of special incentives including protection of truly infant industries; promotion of joint venture facilities; establishment of industrial estates and research institutions; provision of training, advisory, and credit institutions; and improvement in the availability of both long-term and working capital facilities;
- encouragement of participation of smallholder farmers in commercial farming especially of crops that were exclusively reserved for estate farming during the colonial period;
- involvement of private traders in the purchase and trading of produce grown on customary land which was hitherto the monopoly of the Agricultural Development and Marketing Corporation (ADMARC);
- formulation of development programmes for rural areas designed to promote the welfare of women including supporting income generating activities for women.

Contents

Part A: **A Good Idea?** 1-6

You think you have a good idea for a business and you like the thought of being your own boss. Of course, these are important but not all that is needed to make a success of your own business. Think carefully about what you would like to achieve and whether you are ready to put in all the effort needed to obtain the rewards.

1. Before you start 1
2. What are you going to sell? 4

Part B: **Getting Started** 7-40

If you haven't done any business administration before, you will need to think about whether you will be able to manage these tasks and responsibilities. This part of the booklet explains some of the tasks and responsibilities and may help you to avoid some of the problems which you might not know about.

Always remember that you must seek good professional advice, whatever you are planning to do. Although this can be quite expensive, it is always much cheaper to get professional help at the start than to call for help when you already have problems

3. Employing people 7
4. Premises 14
5. Advertising & marketing 21
6. Take-over opportunities 24
7. Franchising & other ways of starting your own business 29
8. The right legal arrangements 32
9. Setting up your business 36

Part C: **Finding The Money** 41-67

You probably won't have enough money to start your own business and will have to borrow some more. This part helps you make a plan to find out how much money you need and suggests where you can go to try to borrow the extra money needed.

This part also gives information about certain Government incentives, that is, ways in which the Government may be able to encourage your business.

10. A plan for the business 41

11. Getting financial support 45

12. Government incentives 65

Part D: Business Administration 68-119

This may put off many people, but help is given, not only with the subjects of bookkeeping and taxation which are the more obvious parts of business administration, but also with things like the duties of directors and insurance matters.

13. Keeping books and records 68

14. Taxation - business profits 72

15. Other taxation matters affecting businesses 92

16. Other laws and issues affecting businesses 100

17. Insurance and pensions 110

18. Business infrastructure 116

Part E: Appendices 120-159

These will help you understand the ways to set prices and prepare statements. Also advice is given on how to protect your product and obtain any licenses you may need.

1. What price to charge? 120

2. Patents, trademarks, designs and copyright 125

3. Business licenses, permits and registrations 127

4. Financial forecasts - a worked example 138

5. Business information source 149

The aim of this booklet

Do you have a good idea for a new or better product? Can you provide a better service? Are you a good salesman? If the answer to any of these questions is yes, you might be thinking of starting your own business. But in order to be successful you will need other qualities and skills. This booklet provides you with a step-by-step guide on how to be your own boss.

The booklet aims to help businesses that have just started or are about to start up. Different sections give good advice on obtaining funds and general business administration. The booklet is not meant to be a complete do-it-yourself guide to starting a business. What it does do is suggest the main things to be thought about when starting a business. If a business is started with careful planning and suitable professional advice, it is much more likely to succeed.

"Starting Your Own Business" is intended to:

- provide practical steps and requirements in starting a business in Malawi;
- provide information on where and how to obtain financial assistance for a business;
- provide information on Government incentives and infrastructural facilities for promoting business and entrepreneurship particularly among Malawians;
- highlight some of the salient managerial tasks and responsibilities in managing a business;
- explain in simple language book keeping, taxation and other legal requirements which affect business operations;
- highlight the role and importance of business plans and explain how these should be prepared;
- enable existing and potential businessmen to know some of the laws that are intended to protect their business interests; and
- provide contact addresses on various issues affecting business.

Donald E. Henry
Project Coordinator

1. Before you start

Have you got the right qualities?

The next few chapters look at the practical steps and requirements that you should think about when starting a business. But before this you should have a long careful think about whether you will be able to run a business.

You may have many reasons for starting a business. You may have recently retired, you may be unhappy with your present job, you may have some spare cash or you may have a business already but wish to look again at your position. Whatever the reasons the demands are the same. You must have:

- patience;
- determination;
- belief in your own abilities;
- enthusiasm;
- willingness to work hard.

The rewards are clear; you can control your own time, you can affect your own income, but most of all you can become independent - "be your own boss". The following chapters should help you to successfully meet the challenges you will face.

Take Note

If you are starting your own business just to fill in time until:

- your next job;
- your retirement;
- you marry someone with plenty of money!

The only advice we can give is ..... **DON'T!**

You must have skills and experience to offer. For example, you may be an expert at making chili sauce but on your own you will have to know not only about how to manufacture the product but also about:

- selling;
- marketing;
- administration;

- accounting;
- financing;
- personnel;

You will also need:

- great enthusiasm for your project and willingness to work harder than ever;
- good judgement and the ability to make prompt decisions;
- to be able to adapt well to changing situations and to handle sudden difficulties;
- support from your family who may have to work for long hours when the business is starting up;
- enough money to support yourself and your family as in the early stages the business may not provide enough cash flow for you to live on;
- to be able to accept the personal risks you must take.

The normal aspects of working for someone else, things which you may have become used to, will disappear. When you become self-employed you will probably not have the same job security, a known and steady income, fixed work and rest times, holidays and other advantages of being employed by someone else.

Less obvious benefits you may lose are the friendship of your workmates, good working conditions and not having so many things to worry about.

If it will not interfere with your present job, think about starting your business on a part-time basis until it begins to produce enough income support to you.

Don't draw too much money out of the business at the start. One of the main ways that the business will grow, is by leaving as much money as possible in the business.

Further Information and Advice

- your accountand and bank manager - for financial advice.
- DEMATT (Development of Malawian Traders Trust) - for general advice on starting a business.
- Associated Chamber of Commerce and Industry of Malawi and the A.B.A. (African Businessmen Association) - for information on where to get advice on specific subjects.
- National Assosiation of Business Women – for information on where women can get business advice. (Private Bag 55, Blantyre, Tel. 67686).
- Financial Institutions e.g., Indefund; SEDOM (Small Enterprise Development Organisation of Malawi); Government Loans Board (Ministry of Trade, Industry and Tourism, Tel. 732711) - for advice on borrowing money.

2. What are you going to sell?

As pointed out in Chapter 1, you need several skills to run a business. However, it is very important that you know all about the product which you want to sell as this may make the difference between success and failure.

The other skills which you need for success can be gained along the way but you must have a good knowledge of your product to ensure final success in your business.

The information about the product you must know will depend on the kind of product, but you should think about the following:

Take Note

Do you know your product? Make sure you know what kind of person will buy it and how many live in your business area.

- Centre your attention only on those who are most likely to buy your product. The benefits of widespread advertising are usually not worth the expense, especially for small businesses.
- At the start your business will probably be limited to one particular location. Find out as much as you can about the population and businesses in that area so that you can decide whether there will be a market for your product and if there will be any competition. You may be able to get some of this type of information from government statistics and from looking through the advertisements in the newspaper.
- Is there a trade association which deals with the product or service you want to offer? You may be able to get useful information about this from wholesalers and distributors.

Decide on a price for your product or service. This is probably one of the most important decisions you will have to make. Remember that:

- you need to make a profit! (Appendix 1 looks in detail at budgets and pricing);

- present market prices for your product will affect the price you can charge. As a small business you are not likely to affect the market very much;
- will any competitors, especially large companies, cut their prices to try to force you out of business?

Other Points

Is your product a copy of, or similar to someone else's? If so, you must check whether the other product is protected by a copyright, trademark or patent. If there is something special about your product, you may want to protect it by registering a patent or copyright for it, for example. Appendix 2 gives information about this.

If your product has some special or new property or different quality which may be unknown or untested in the market, you should think of having it tested. The Malawi Bureau of Standards sets national standards for some products. If your product is tested and approved by them, you can apply for a permit to mark your product with a standardisation mark of quality for which an annual fee is charged. This may help in gaining acceptance of the product by the public.

Local research may be done on your product or a similar one and co-operation with this from the start would be wise and could be profitable. For example, Chancellor College carries out research on chemical products, Bunda College on agricultural products and the Polytechnic into engineering products.

Is your product likely to be affected by changes in technology? Will it then become out of date or old-fashioned? If so, would your business have a long-term future?

Do you need a licence to make or sell your product? - see Appendix 3 for information on this.

Further Information and Advice

- Your accountant - for financial advice.
- Trade Associations (look in the Yellow Pages of the Malawi telephone directory) for information on products of services covered by these.
- National Statistical Office, Box 333, Zomba (tel: 522377) - for details of population and businesses in a particular location.
- Chancellor College, Box 280, Zomba (tel: 522222), Bunda College of Agriculture, Box 219, Lilongwe (tel: 721455) or Malawi Polytechnic, P/Bag 303, Chichiri, Blantyre 3 (tel: 670411) - for details of any research into your product.
- Malawi Bureau of Standards, Box 946, Blantyre (tel: 670488) - for information on existing standards and product testing.
- Appendix 3 - for details of licence applications.

3. Employing people

Choosing the right people to work for you is one of the most important points in running a business, especially if you want to work in a service industry, that is, providing a service rather than selling a product.

Of course, the sort of person you are will affect your choice of the kind of people you like to work with. This chapter explains ways to find the right people, judge their abilities and help you to understand the laws concerning employment of people.

Take Note

You need to take great care in choosing the right people. This may cost you both time and money. You must first advertise the job vacancy (either in the newspaper, on the radio or by means of a note on a shop notice-board) or through the nearest labour office and then arrange to interview the applicants.

Successful interviewing and selection of staff needs a great deal of time, skill and care.

Make sure to give sufficient time for an interview. The choice of whom to employ is important not only for you but also for the possible employee, especially since he/she may be entering a business with no past record of performance or success.

You should prepare a plan for the interview, but it need not be fixed. You should ask a few very important questions for which you need an answer, but then let the applicant talk about him/herself. That way you will be able to find out much more about the person. Some of the things you must find out about the person are:

- how much skill and experience do they have in the area you require?
- were they loyal to their past employers? - look out for people who have changed jobs often or who have many minor complaints about past employers.

This may suggest that they will become quickly dissatisfied with the job and may turn out to be unreliable or difficult to work with

- how much pay was the person getting before and does this compare well with what you are willing to offer?
- what are the person's long-term hopes and plans?

The person you are interviewing may be applying for other vacancies. You may need to make a special effort to persuade them that it is better for them to work for you.

It is always a good idea to ask the person to give at least two references. These are letters from people who know the person well and are able to give information about the person's skills, experience and character. After the interview you should try to talk to the referees (the people who wrote the references), either in person or over the telephone, as they may be able to provide some more useful information about the applicant. But be sure to ask the permission of the applicant first before you do this. One of the most important questions to ask a past employer is "would you be happy to employ this person again?"

As soon as you have made your choice, write a letter to the successful person offering them the job. Be careful how you write this letter as it will probably form the basis of a contract of employment.

You must provide each of the people you employ with a written contract of employment. This is an agreement signed by both the employer and the employee, who each keep a copy, which gives all the details of the job description and conditions of service.

For example, the contract should cover wages, annual holidays, sick leave, period for giving notice, grounds for dismissal (sacking), working hours, duties and responsibilities. To help you write such a contract, you should contact the nearest labour office, or get hold of a good example which you can then change as required to suit your needs.

Don't forget to tell any other applicants, by letter or by telephone, that they have not been successful. Do this as politely and as soon as possible and thank them for their interest. You may need their help some other time.

Once you have got the staff you need, make sure that they stay happy in their work. Show an interest in them, give them encouragement and support when needed, be prepared to listen to any problems they may have which are connected with their work and ensure that the conditions in which they started the job are continued or, if possible, improved.

Always let your employees, especially those who are important to the success of your business, know exactly what they should be doing and what their progress has been. You must try to avoid having to sack people and then find replacement staff too often as this can cause big problems

for your business, is very expensive (especially for small businesses) and wastes a lot of valuable time.

Always be ready to reward reliable and hard-working staff with regular pay increases or even special extra payments, particularly when they have been asked to carry out extra duties or have done a job particularly well.

Laws Applying to Employment of People

REGULATION OF MINIMUM WAGES & CONDITIONS OF EMPLOYMENT ACT

(Chapter 55:01)

This covers such things as minimum wages, normal hours of work, rest days, annual leave, sick leave, overtime payments and food and housing allowances.

Important points from this act include:

Wages and Salaries

- The National Wages Advisory Board looks into minimum wages and conditions of employment and makes recommendations to the Ministry of Labour.
- The present daily minimum wage rates as of April 1990, are as follows:

  i. in Blantyre and Lilongwe and Mzuzu - K2.17 (plus housing or a housing allowance in the three cities and Municipality of Zomba);

  ii. in municipalities and townships - K1.95;

  iii. in rural areas - K1.74.
- Employees aged fourteen and below are entitled to not less than half the daily minimum wage rate. Employees aged between fourteen and eighteen are entitled to not less than three quarters of the minimum wage rate; and employees aged eighteen and above are entitled to the full daily minimum wage rate.
- These wages are for a standard 48 hour working week for labourers (40 hours is normal at higher levels). Overtime for extra hours is at rates between time-and-a-half and double time, depending on circumstances.
- Wages must be paid in cash unless an employee agrees to payment by cheque or bank credit or in kind.

Normal Working Hours and Overtime

- Normal hours of work should not be more than 48 hours per week in all industries except in the building industry where normal hours of work should not be more than 45 hours per week.
- Each employee should have a minimum of one rest-day per week.
- No employee should work for more than 5 hours non-stop without a break of at least 1 hour, when he/she may leave the work-place.
- Overtime should be paid at the hourly rate times one and a half on normal working days and times two on rest days and holidays. Each part of an hour worked over any number of full hours is also counted as a full hour.

Annual Leave and Sick Leave

The Act has wages orders which cover conditions of employment for employees in a number of industries and professions. A prospective employer will do well to read the relevant Order to inform himself or herself of the entitlement of employees in such matters as annual leave, sick leave, etc.

Employment Act (Chapter 55:02)

This deals with such things as requirements for written contracts, termination of employment, summary dismissal, method of payment of wages, deductions from wages, care of employees (eg. medical examinations and reporting of illness), keeping of employment books and settlement of disputes between employees and employers.

Important points from this act include:

Contracts and Giving of Notice

- most contracts lasting over 3 months (except where annual basic pay is over K480) need to be in writing, signed by both employer and employee and three or more copies taken to a labour office for attestation (to check that it has been correctly written) and registered;
- where no length of contract is stated, the amount of notice to be given by either the employer or the employee (warning of a decision to end the contract), depends on how the wages are to be paid. For example, if a person is to be paid each week, the period of notice is one week. However these periods increase after the person has been working for

the employer for several year. It can be agreed that the employee will be paid for the period of notice, and the contract ended immediately, rather than working the period of notice, being paid as usual and then finishing.

Summary Dismissal (sacking without notice)

- This is only allowed when there has been:

i. misconduct;

ii. deliberate disobedience of lawful orders;

iii. lack of a skill thought to be necessary for the job;

iv. regular or major neglect of duties;

v. absence from work without permission or reasonable excuse.

Deductions (amounts taken) from Wages by the Employer

- These are only allowed for deferred pay (pay which is kept back by agreement to be paid at a later date), advances (money taken out to pay back wages which were paid before the normal pay day), contributions paid to an approved and agreed fund (eg. medical or pension fund), payment of any income tax due from the employer, a sum to pay for food or a midday meal supplied by the employer, installments (parts of a total sum) connected with loans and other types of advance, lost pay for periods of unauthorised absence from work, payments for damage caused by carelessness, and certain other less common reasons.
- Deductions for any housing provided by the employer have to follow a specified scale.
- Total deductions must not be more than one half of the normal total wages.
- Employers are usually not allowed to charge interest on any advances of wages paid to an employee.

Records of Wage Payments

- Employers must keep a record of all wage payments in an approved form, which is usually to be kept at the work-place. Records of all deductions and the reasons for these must also be made.

Other Acts which may affect you as an employer are the:

Workmen's Compensation Act (Chapter 55:03);

Employment of Women, Young Persons and Children Act (Chapter 55:04);

Shop Hours Act (Chapter 55:05);

Apprenticeship Act (Chapter 55:06);

Factories Act (Chapter 55:07);

Industrial Training Act (Chapter 55:08);

Trade Unions Act (Chapter 54:01);

Trade Disputes Act (Chapter 54:02).

Fringe Benefits for Employees

- Food or a meal is often provided, and whether or not a deduction from wages is made for this varies from employer to employer.
- The only statutory benefits involve:
  - labour housing or housing allowance in cities of Blantyre, Lilongwe, Zomba and Mzuzu and where workers are employed on a contract basis;
  - very limited severance pay;
  - sick leave following accidents for up to one month (where there is a written contract of employment).
- Particularly for lower paid employees, many industries and employers provide any or all of the following:
  - contributory or non-contributory pension schemes;
  - sickness and maternity leave and free dispensary facilities or payment of minor medical expenses;
  - funeral assistance;
  - housing or house building materials;
  - transportation for shift workers and to important political events.

The points above have been given in a very short form. If you are not sure whether or how an Act applies to you, then check in the Act or, better still, get professional advice. The Acts can be found in major libraries. If you want

your own copies of the Acts they can be bought from the Government Printer and other bookshops.

Further Information and Advice

- Your accountant or auditor.
- Your lawyer, the Ministry of Labour, P/Bag 344, Lilongwe 3 (tel: 730344), or the relevant Acts of Parliament - for information on how these Acts apply to you.
- The Employers Consultative Association of Malawi (ECAM), Box 2134, Blantyre (tel: 670007) - for details of the Employment Acts and requirements of contracts.
- The Malawi Institute of Management - for advice on personnel management.

4. Premises

The place where you decide to have your business premises (work-place buildings) and the type of premises you choose are of the greatest importance to the success of your business. This chapter gives advice on how to find the most suitable premises.

Take Note

The place where you decide to have your premises will depend on your needs. Things which you must think carefully about are:

- do you expect many visits from customers and suppliers?
- does your business need to be in a place where it can be easily seen so that it can attract passing trade? In other words, does your business need to tempt people passing by on the street to enter as customers?
- where will your staff be living? Will they be easily able to get to work using public transport?
- do you need to provide some parking space for customers' cars?
- your premises are probably your biggest contribution to advertising because of their position and external and internal appearance.
- do your premises need to have a particular appearance of professionalism or a good financial position? Do they need to have a specially clean and modern appearance because of their location in a new part of town?
- you will usually need to get planning permission if you wish to build new premises.

Finding suitable premises is most easily done by going to an estate agent, who will have details of available property in the area you are interested in having your business.

Estate agents may advertise in the newspaper, where you may also find adverts for properties or businesses for sale.

If you do wish to use an estate agent to find a suitable property, make sure of their honesty and reliability. Some so-called estate agents set up business without any real experience, are unable to give a good service

and may disappear overnight! Contact the Surveyors Institute of Malawi for details of reliable estate agents who are members of the Institute. The few agents available are at present found only in Lilongwe and Blantyre and usually deal only with larger businesses. Under THE LAND ECONOMY SURVEYORS, VALUERS, ESTATE AGENTS AND AUCTIONEERS ACT (No.5 of 1989), a registration board will be set up and estate agents who have been providing a recognised service for over 6 months or who are members of the Surveyors Institute will be able to be registered by the board. By writing to this board, you will be able to get details of suitable estate agents in your area.

Remember that the estate agent's commission (the fee received for selling or renting a property on behalf of a client) are likely to be paid by the landlord (unless other agreements are made) and so the agent will probably be more favourable to the landlord than to yourself.

Premises may be either bought or leased (rented) or you may be able to rent a plot of land and build your own premises. Buying a property clearly uses up a large amount of your available funds and may be less flexible (less easy to change your mind about later) as it is a much longer term decision than a lease (an arrangement to rent a property).

If at all possible, it is well worth thinking about leasing a plot of land and building your own premises as there is a shortage of available rented manufacturing and warehousing property. There are also good tax incentives if you decide to build your business premises for manufacturing and farming activities and/or put in new equipment (see Chapter 12: Grants and other incentives).

Leasing of land is covered by several Acts of Parliament, depending on whether it is public land (owned by the Government), private land (leased or purchased from the Government by private individuals or companies) or customary land (administered on behalf of the Government by Traditional Chiefs).

Leasing of Customary Land

The procedures for leasing depend on the location. Briefly the procedures are as follows:

- rural areas - contact the village headman, then the Traditional Authority, then the District Commissioner;

- Blantyre, Zomba, Mzuzu - contact the District Commissioner for permission to lease. Once this has been obtained, contact the Department of Town and Country Planning, PO Box 30385, Capital City, Lilongwe 3 (tel: 733666), or one of the regional offices, and the Department of Lands and Valuation, P/Bag 311, Capital City, Lilongwe 3 (tel: 732688), to begin the legal process for leasing;
- Lilongwe - apply in writing to the Department of Lands and Valuation (address above) for permission to lease.

Acquiring a plot on unleased public land or land in Statutory Planning Areas

- permission must be obtained from the Department of Town and Country Planning (address above). Statutory Planning Areas are located in Lilongwe, Blantyre, Zomba, Balaka, Liwonde, Mangochi, Kasungu, and Mzuzu.

Sub-leasing

- To acquire a plot of land already under lease, identification of a suitable plot should be done through the District Commissioner. Applications for sub-leasing can be obtained and should be submitted to:

Lilongwe - the Controller of Lands;

Blantyre, Limbe - the Regional Lands Officer;

Liwonde - the Town Clerk;

All other areas - the District Commissioner.

Note that some lending institutions require that land be leased before any investments can be made.

If the land is a large rural plot, a map or survey of the land area must be submitted with any application to lease.

You must also check with a legal practitioner the details of the legal requirements for leasing the plot of land you are interested in obtaining for your business. The Land Registrar in your nearest Regional Land Office will also be able to provide details on the type of land where the plot you are interested in leasing is located and legal requirements for

leasing such land. He will often also be willing to check through the details of the lease agreement with you.

It may be possible to get a loan for building new premises (See Chapter 11: Where to borrow money).

Before you make a final choice of premises, make sure the facilities provided are adequate. You should check carefully:

- security - make sure the buildings are well built with strong doors having good locks and well-fitted windows with burglar bars;
- access - check that it is easy for you and your customers to get to the building and that there is sufficient space for car parking and delivery of supplies;
- services - ensure that required essential services are provided (electricity, water, waste disposal and telephone);
- adaptability of design ie, will it be possible to enlarge or easily change the design of the premises if this should be needed in the future?
- do the premises fit the needs of your business, eg. ceiling height, floor area, number of rooms, etc

Before you sign a lease (rental agreement) read it carefully and always check through it with a legal practitioner (lawyer) and also an accountant if necessary. Make sure that the lawyer is registered under the LEGAL EDUCATION AND LEGAL PRACTITIONERS ACT (Chapter 3.04). The Government Gazette of 17/5/90 gives the most recent list of licensed legal practitioners with their business addresses. Always check the legal fees to be paid - these are fixed by law.

All terms (conditions) of a lease are completely negotiable ie. they can be discussed and agreed upon by the landlord and tenant or their representatives. These conditions will be affected by the demand for property at the time and on the negotiating strength and skills of the people involved on each side of the discussions. In particular, you should check if you can negotiate:

- a lower initial rental - you may be able to get a reduced rental for a certain period from the start of the lease;
- reduced annual escalations (the amount the rent is due to go up each year) - most commonly in Malawi the rent is fixed for a certain number of years after which it is reviewed and adjusted (usually increased).

But in cases where the rent is increased each year, you may be able to reduce the amount by which it increases;

- a rent-free period - sometimes it may be possible to agree that for a certain period no rent will be charged;
- payment by the landlord for improving or renovating (renewing, repairing, restoring etc.) the property or agreed parts of it;
- payment by the landlord of any of the outgoings connected with the property. For example:
  - charges for services like water, electricity, security guards and waste disposal;
  - costs of external maintenance (the tenant usually pays for interior maintenance);
  - annual insurance premiums. The landlord often only insures the premises against fire. The tenant is usually responsible for insuring the contents of the building;
  - city rates. These are often the largest annual outgoing in urban areas;
  - annual ground rent. This applies for property which is being rented by the landlord himself from the Government.

The landlord usually leases his property from the Government. You should check whether there are any conditions attached to this (the head lease) as they may in turn affect the conditions of your lease. The Regional Lands Officer will be able to advise you on these details if you wish to confirm what you may have been told by the landlord.

Some particular things to look out for in a lease:

- make sure that the lease clearly states the extent of the premises being let. All leases in Malawi refer to a plan attached. This is an accurate drawing representing the premises which accompanies the lease;
- the term (length of time) of a lease is important. A long lease may cause problems if you wish to change your mind later. A shorter lease with the possibility of choosing to renew it at the end of the lease period may be more suitable, although this depends on the current economic conditions and your choice of premises;
- how do the conditions of the lease compare with leases for similar types of premises in your area?

- make sure that the proposed use of the building does not go against any conditions of the lease;
- in some cases you may be asked to pay rent for a certain period in advance and you may be required to sign a personal guarantee (a statement that you will promise to pay the rent as agreed). Less commonly you might need to pay a deposit (eg. one month's rent) which may be used to cover any rent arrears (overdue payments) and to cover repairs of damage caused to the premises;
- verbal leases ie. without any agreement in writing, are allowed by law for leases for periods less than 3 years and are binding (have to be followed) under the law, but they are not recommended. It is always better to have a written agreement which can be referred to at any time especially where there is argument about some condition in the lease;
- does the lease allow you to sub-let the premises (rent them out to someone else) - many leases do not permit this.

For any written lease to be legal, it has to be submitted for payment of stamp duty to the Stamp Duty Commissioner. This duty is paid by the lessee (the person renting the property from the landlord or lessor) and may be a large amount, depending on the size of the annual rent. All leases for periods over 3 years have to be in writing, in a recommended form, and must be registered at the Regional Lands Office by a Land Registrar. Anywhere else they must be registered with a Deeds Registry Office, by a Deeds Registrar.

In general the more detailed a lease is the better, especially when stating who (the landlord or tenant) is responsible for payment of the various outgoings mentioned above. Where this is not stated, such payments are covered by law and usually have to be made by the tenant.

Make sure that the premises you choose or plan to build comply with:

- town planning regulations - certain parts of the country, particularly urban areas, are covered by these. In this case you must send in detailed proposals for the use of the building, together with any plans for a proposed new building, to the Regional Planning Office for approval;
- city or municipality by-laws. For example, the City Engineer will have to check arrangements for waste disposal;
- health, safety and welfare regulations. These are detailed by the FACTORIES ACT (Chapter 55:07) and cover not only factories but also

certain other premises where 5 or more persons are employed in manual work eg. bars and restaurants. Retail premises however are not covered by these regulations. Factory inspectors, under the Ministry of Labour, have the duty to see that such regulations are complied with.

You need also to think about how the premises will be affected by tax laws. Rent payments are fully deductible for tax purposes. In other words these will be taken off from the total of taxable income used to calculate the amount of tax you will pay. If you build new premises and/or put in new or unused equipment for certain types of business, you will be entitled to a generous capital allowance (investment allowance) on the costs involved. For more details of this and other allowances see Chapter 12: Grants and other incentives and Chapter 14: Taxation - business profits.

You have probably realised by now that obtaining suitable premises can be a long and complicated process. The notes above cover briefly only the main points you should think about. You should certainly look for professional advice to help you with the details of the various legal requirements and for checking through the conditions of the lease.

Further Information and Advice

- Your accountant or auditor.
- An Estate Agent registered under the Land Economy Surveyors, Valuers, Estate Agents and Auctioners Act No. 5 of 1989.
- Relevant laws of Malawi: Lands Aquisition Act, Cap. 58:04; Land Survey Act, Cap. 59:03; Local Lands Board Act, Cap. 59:02; Registered Land Act, Cap. 58:01; Town and Country Planning Act, Cap. 23:01; and Factories Act, Cap. 55:07.
- Architects, Quantity Surveyors, Consultants and Contractors registered by Architects and Quantity Surveyors Registration Board, Cap. 53:02 and Consultants and Contractors Registration Board, Cap. 53:05.
- Other relevant Acts such as Deeds of Arrangements Act, Cap. 11:02 and Deeds Registration Act, Cap. 58:02.

5. Advertising and marketing

You may have the best product of its type available or you may have the most efficient business administration methods but unless you can sell your product, you will not be able to make a success of your business. This means not only attracting orders for your product and turning these into sales but also the whole process of distributing your goods and providing the required after-sales support.

You must also keep abreast with changes in customer demands so that you don't end up trying to sell an obsolete product (one that is out of fashion or for which there is little demand). One of the most common causes of failure in small businesses happens when the manager of a business is so busy with day-to-day matters that he fails to notice changes in demand for his product.

Take Note

The secret of successful marketing is to know your customers needs, to know where they are, and to contact those whom you think might be likely customers. You must therefore:

- choose your advertising methods carefully. Try to advertise a specialised product in a specialised publication if one is available. For example, you could advertise agricultural products in a farmers newspaper or sports products in a sports journal;
- aim your product promotion at the section of the public you can or hope to supply.

You may be able to use one or more of the following methods of advertising:

- national newspaper advertising (Daily Times or Sunday News);
- advertising in specialised publications e.g., farmers papers, sports journals, school magazines;
- national radio advertising (MBC);
- display posters;
- using a display stall at a trade exhibition;
- sponsoring local community events.

Be careful when choosing the methods to use. It may be better to divide your advertising between several methods rather than putting all your promotion funds into one method. For example, not all of your possible customers may listen to a particular radio programme or read a particular newspaper.

Unless you are very fortunate you will have competition from other businesses also wanting to sell the same types of products you are interested in promoting. You should therefore try to highlight the strong points you have compared with the competitors which may include:

- lower price;
- improved product or a better product range selection;
- better delivery or after-sales service.

Do not enter into a "price war" with a large competitor company as they will have more resources than you and thus you are likely to lose. A price war occurs when competitors selling the same product repeatedly reduce their prices to less than the competitors' in order to attract customers.

Your advertising needs to be as professional as possible to have the best effect. Larger companies use advertising agencies to produce adverts for them but this may be very expensive.

You may be able to find an independent commercial artist or a good printer to help you with design of printed adverts.

It is a good idea to create some kind of corporate logo (a special emblem or symbol representing your business). Use this on everything you can eg. plastic bags, business stationary, all printed adverts, on the outside and inside of your premises, on your business vehicle etc. In this way people will begin to recognise the logo and become familiar with your business. The design does not need to be very complicated or colourful as long as it catches the attention of people and gives a good business image.

Remember that regular advertising helps to keep your business name in customers' minds and this is important in producing demand and future sales.

You will need to regularly re-examine your market and check how effective your advertising is. You must be adaptable and willing to change your advertising if you are not getting good results i.e., increased sales.

Keep as much information as you can about the sales you make such as:

- the kind of customers who buy your product e.g., their age, social background, income level, home location;
- what the product will be used for (for specialised items);
- how the customer got to know about your product.

It is most important to know about changes in demand. Your own sales information will help you do this as well as talking to customers about their preferences for different types of product i.e., why they choose one particular product rather than another.

Make a marketing plan setting out your objectives (what you hope to achieve), the expected cost and the time framework (which activities should take place at which time). Try to measure your performance against this plan to see if it is working as you planned.

Advertising and marketing should produce many enquiries about your product. It is up to you and your staff to turn these into sales. You and your staff must:

- know all about the product and be able to offer good after-sales service where required;
- be smart, well-mannered, helpful, friendly, and very good sales people.

Further Information and Advice

- Graphics Lintas Worldwide Limited, Box 835, Blantyre, Tel. 633803/633804 for advertisement design,
- Malawi Export Promotion Council, Box 1299, Blantyre, Tel. 620499 for information on export markets and consumer preferences,
- Malawi Broadcasting Corporation (MBC),
  Southern Region: Box 30133, Chichiri, Blantyre 3, Tel. 671222
  Central Region: Box 162, Lilongwe, Tel. 720063 for advertising.

6. Take-over opportunities

By now you will have begun to understand the amount of work needed to set up your own business. One way to reduce this is to take over an existing business. This may however also just replace some of the problems with new ones. The most important point is, of course, what do you pay for a business which already exists.

You must first find out whether you will be buying a company or limited company (which have their own legal standing) or a partnership or sole trader's business, in which the owners of the business actually own the assets themselves. For more information about the legal types of businesses, see Chapter 8.

Because of the different legal nature of these different types of businesses, this chapter is divided into two parts: Buying a business (i.e., a partnership or sole trader's business) and buying a company.

Part 1: Buying a business

Take Note

It is absolutely essential to seek professional advice. The valuation of a business (estimation of how much it is worth) is a complicated process and depends on many different things. If you tried to bargain for a fair price without professional help, you could lose a lot of money.

The two most difficult parts of business valuation are stocks or inventory (the value of the goods and equipment owned by the business) and goodwill (an estimate of the value of the trade produced by, and the reputation of the business). Usually the sellers of a business will keep the cash from the sale and pay off the liabilities (any amounts owing) themselves.

If you take over the debtors (anyone who owes the business money), you should make sure that you get some kind of guarantee as to their value. There may be amounts owing which are never paid and are impossible to collect.

There are several different basic methods for valuing a business and these may have to be changed to suit particular circumstances. However these details should be the concern of your accountant and not yourself.

If the business has been successful then you will probably have to pay for goodwill which is really a payment for future profits that the business will produce. Calculations of the value of goodwill are usually based on the past profit record of the business. You must be aware of the way that the past profits have been calculated before accepting a goodwill calculation. For example, was a sufficient amount for the owners' salaries allowed for, and will the past profit record be able to be maintained in the future?

Will the sellers of the business be restrained (prevented by the conditions of the sale) from setting up a new business in competition with yours and thus possibly taking some valuable customers from you?

The amount calculated for the value of tangible assets (those items which can be actually physically touched - and thus not including goodwill) must show their "value to the business" which is really their replacement cost. This is how much it would cost to replace the item if it were not available to the business. This is particularly true in the case of fixed assets e.g., the building itself, fittings, business vehicles, etc. It is unlikely that the value of these assets in the books of the business (the financial records) shows this because of annual allowances given for tax purposes to allow for depreciation. These are fixed allowances to take account of ageing and use of the item

For example, business vehicles have an annual allowance of 20%, so after 5 years a vehicle would be worth nothing for tax purposes but of course may cost a lot to replace even with one of similar age and condition. So it can be seen that correct valuation of assets is always an important negotiating (bargaining) point.

For taxation purposes and in order to write up your own books (financial records) the amount you pay for a business needs to be divided up into the following types of assets being obtained:

- stock - the items you sell;
- fixed assets - for example, buildings, fittings, business vehicles, etc;
- current assets - such as cash and debtors (people who owe the business money);
- intangible assets - those items which cannot be physically touched e.g., goodwill.

The above is the best way for the assets to be split as this would give the most tax benefits. For example, the cost of the stock is deductible (can be subtracted) directly from the first year's profits. Although the above order

provides the most benefits for the purchaser, it gives least benefits for the vendor (seller). This again shows the importance of proper negotiation of the valuation of assets. Of course, the Collector of Taxes will look carefully at the values given for each type of asset, so any valuation needs to be commercially justifiable i.e., must be able to be defended according to the financial details of the business.

Before you make the final decision to buy a business, try to find out as much as you can about it. You must get to know the customers, suppliers and staff. If you are planning to buy a sole trader's (one-man) business, you must make sure that the previous owner's business contacts will be happy to deal with you instead.

As well as getting to know the people who have been involved with the business, you should also find out about the way the business works. Make sure you know all about:

- the manufacturing process;
- the premises and facilities available;
- the accounting system - the way the financial records are made;
- employment procedures and rules;
- any other details about running the business.

Before completing your negotiations you must ask a legal practitioner (lawyer) who has experience of these matters to write out an agreement for purchase of the business. This will give full details of what you are buying and the duties of both the purchaser and the vendor. It is most important that you understand and are able to agree on these points before you make a final decision. It will be much more difficult to sort out a disagreement between yourself and the vendor after you have been running the business for some time.

The vendor is usually expected to give certain warranties (guarantees). For example, a warranty that debtors will be able to pay up i.e., that they will be worth the money paid for them. Your legal practitioner and accountant will be able to help you put these things into an agreement.

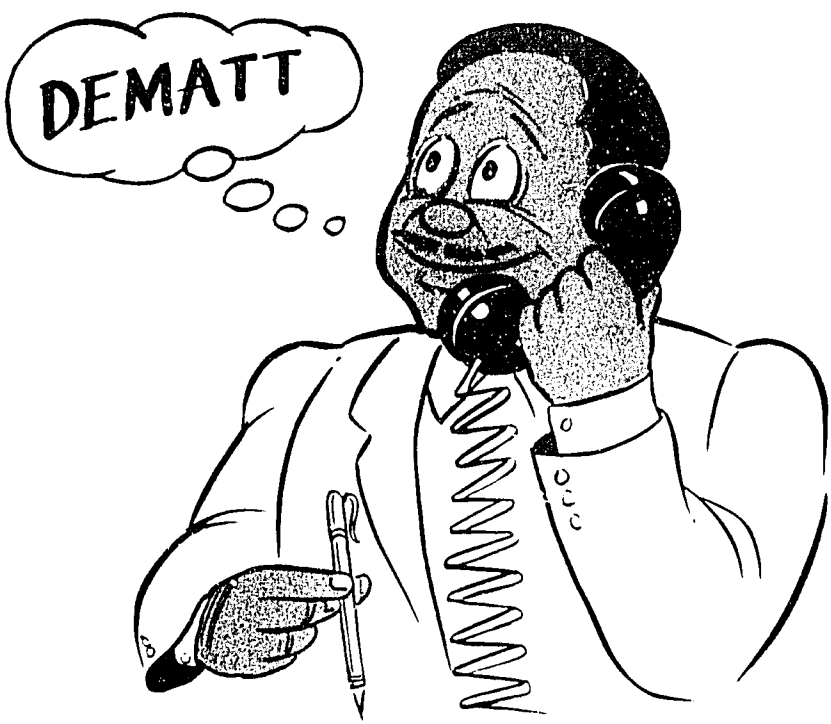
Employees of a sole trader or partnership may have employment contracts with that business. You must get permission from them to transfer (change over) their contracts to your business.

Before you finally decide to buy a business, make sure you do have enough money available to carry out the purchase.

Payment of certain taxes may be required when you purchase a business. As these are complicated and depend on the type of business, you should check these with your accountant.

Further Information and Advice

- Your accountant or auditor - for advice on the financial aspects of buying a business.
- Your legal practitioner - for advice on legal matters.
- Your bank manager - for guidance on business valuation.
- DEMATT - for general advice on purchasing a business.



Part 2: Buying a company

Take Note

The advice given in Part 1 on buying a business also applies to buying a company. For the difference between these types of organisations see Chapter 8: The right legal structure. In particular, you must get professional advice and make certain you have enough finance (money) before you make a decision to buy a company.

The financial statements of a limited company must by law be audited (examined and prepared by an auditor). This means that an independent expert has checked the statements and so they can be relied upon much more than unaudited statements. This may make the valuation of the business easier as the financial information on which the calculations are based is much more reliable.

The financial statements of an unlimited company, on the other hand, do not need to be audited but must be checked by an accounting officer. This gives a degree of reliability as to the accuracy of the figures.

When you buy a company you must remember that you obtain everything which it owns and owes, including all liabilities whether these are revealed or not. It may be better therefore for you to obtain only certain assets rather than all the assets of the company. You should ask your accountant for guidance about your particular position with regard to this.

Make sure that the business owner is not trying to sell a "tax loss" as an asset. It is true that usually business losses can be set off against future income. This means that the losses made by a business in one year can be carried forward to the next year to be subtracted from the total income (money taken in) calculated for taxation. But the Taxation Act does not allow a business to be sold or a change in share holding to be made (where a part share in a company is sold) simply in order to take advantage of this allowance for losses.

When a share in a company is transferred (sold to someone else), stamp duty must be paid on the fair market value of the transferred share. This is usually payable by the purchaser.

7. Franchising and other ways of starting your own business

You may have the skills and personal qualities needed to start your own business, but may not be able to decide what type of business you want to go into.

Whichever way you use to find a business, always remember to seek advice from your accountant and legal practitioner before involving yourself in any business opportunity.

Franchising

This means running your own business but selling someone else's product. Although there are only few businesses of this type in Malawi, there is no reason why, if you are interested in this kind of business opportunity, you shouldn't approach businesses which operate franchises in other countries in the region, with a view to starting one here in Malawi. Typical franchise operations include fast-food (take-away) shops eg. hamburgers, pizzas, fried chicken; printing services and photographic developing services.

Take Note

Starting a franchise operation does not have as many risks as setting up your own business from nothing. You may also have the advantage of not needing to build up demand for the product or service.

As a franchisee (franchise business operator) you will have certain other advantages compared with a person setting up a business on his own. However you must remember that you will still be running your own business. All the advice given in Chapters 1 and 2 will still apply to you.

The franchise agreement is the foundation of any franchise operation. You must examine this very carefully and it is important to get the advice of your accountant and legal practitioner before you enter any such agreement. The things to look out for depend of course on the type of business it is, but you should think carefully about the following:

- will you be able to deal with the technical requirements of the product or service you will be selling?
- is the product or service being supplied exclusive ie. will you be the only supplier in the area, or will there be any competition to supply the same product or service from other suppliers?

- how much control will the franchisor (the business owning the franchise operation) have over your business and how much help will they provide?
- try to check on the financial strength of the franchisor - has the company been running successfully and profitably and for how long?
- if possible, talk to other franchisees about the franchise type of business and how the system works, particularly involving the franchisor you are interested in.
- if the franchisor is running a business which is likely to be affected by changes in technology (developments in equipment and processes), will he have the skills and money required to keep up with the market?
- how long is the franchise agreement for and what are the arrangements for ending it? What fees will have to be paid?
- if the products to be supplied or equipment to be used are obtained abroad, what are the delivery times and risks of delays and is there any possibility of losing foreign currency as a result of these or other problems? Are there any import duties or regulations which might affect the price of the product?

Other ways of starting your own business

There may be other ways of starting your own business. These may particularly suit you if you have the skills, personal qualities and a good idea which you want to follow but do not have the money available which will be needed to go ahead. On the other hand you may have money available to invest in (put into) a business but be undecided as to exactly the kind of business you should be interested in starting. There are places arrangements can be made for you to meet people who might be the ideal partner in the business for which you are looking.

Take Note

The Development of Malawian Traders Trust (DEMATT) may be able to put you in touch with people looking for those who want to invest money in a business, or; DEMATT may be able to put you in touch with existing owners of a business who wish to sell it, or who are looking for someone to invest in their business.

Further Information and Advice

- Your auditor or accountant - for financial analysis of the business.
- Your legal practitioner - for legal implications of the franchise arrangement.
- National newspaper - adverts for business opportunities.
- DEMATT, for general information on business opportunities and business advisory service. Assistance is available for both small and medium scale enterpreneurs, existing businesses or starting up new ones, needing loans or not. DEMATT Regional Offices:

  South, P.O. Box 1727, Blantyre, Tel. 636522
  Centre, P.O. Box 555, Lilongwe, Tel. 722891
  North, P.O. Box 239, Mzuzu, Tel. 332423
  DEMATT Head Office, P.O. Box 1540, Blantyre, Tel. 635466 and 635060,
- Trade missions of foreign governments (located in their Embassy or High Commission) - for information on franchise operators in their country, where these exist• e.g., South African Franchise Association, P/Bag X34, Auckland Park 2006, Johannesburg (tel: (011) 726 5300)
- Associated Chamber of Commerce and Industry of Malawi, Box 258, Blantyre, Tel. 671988 for general investment opportunities,
- Malawi Export Promotion Council, Box 1299, Blantyre, Tel. 620499 - for investment opportunities including joint venture with foreign investors in export-oriented investments.
- Ministry of Trade, Industry and Tourism, Box 30366, Lilongwe 3, Tel. 732711 - for general information of investment opportunities.

8. The right legal arrangements

It is a common misunderstanding that the first thing you need to do to set up your own business is to form a company. Although a limited company may turn out to be the best legal arrangement for your business, this is not necessarily the case and you need to think about the other legal frameworks for businesses which may be possible and in your case, more suitable. In this chapter, a brief description is given of the main characteristics of the different legal structures available. The best one for your business will depend mainly on your personal circumstances and on the type of business you want to run. It is important to remember, as with most other points to be considered when starting your own business, that you must seek good professional advice before making any vital decisions. This will save you a lot of time and probably help you avoid getting into serious difficulties at some later stage.

Take Note

Types of Private Commercial Entities (Businesses)

- Under Malawi law, there are three types of company as well as partnerships and sole proprietorships which may carry out business for profit.
- There are also other structures such as trusts, guarantee companies and cooperatives, which are covered by special legislation and usually operate on a non-profit basis. Discussion in this chapter will be restricted to the first types of business i.e., those carried out for profit.

Laws Applying to Private Businesses

- The relevant Acts of Parliament covering the setting up and running of private profit-making businesses are as follows:
  - the Companies Act 1984 (Chapter 46:03), which applies to limited and unlimited companies;
  - the Partnership Act (Chapter 46:04), which applies to partnerships;
  - the Business Names Registration Act (Chapter 46:02), which covers registration of firms and persons carrying on business under a business name (see Appendix 3 for details).

Types of Company

Under the Act, a company may be either public or private.

- Here we only look at private companies, which are incorporated under the Act but unlike public companies place tight restrictions on transfer

of their shares, if any. Private companies also cannot have more than 50 shareholders and are prohibited from offering shares for sale to the public. Annual accounts do not have to be filed and an annual directors' report is not required.

- A company may be limited or unlimited.

  A limited company may be one where:

  - the liability (financial responsibility) of its members is limited to the amount, if any, unpaid on their shares, and is called a "company limited by shares", or;
  - the liability of its members is limited by such amount as the members agree to contribute to the assets of the company if it is wound up (closed down), and is called a "company limited by guarantee". Such a company is not registered with shares, cannot create or issue shares, and is not allowed to operate to make any profit.

An unlimited company is one where there is no limit on the liability of its members.

Partnerships

- A partnership is defined by law as "persons carrying on business in common, other than as a corporate entity [ie. a company] with a view to profit". Persons may include residents, non-residents, corporations and companies, in other words, any legal entity or individual.
- Persons who have entered into partnership with one another are called collectively a firm and the name under which the business is carried on is called a firm-name.
- There are no legal arrangements in Malawi for the creation of limited liability partnerships, but these may be created in practice by having companies as partners or as shareholders of an unlimited company.
- No more than 50 partners (which may be individuals or companies) may participate in a partnership. This may be less in any business specified by the Minister of Trade, Industry and Tourism.
- The usual types of partnerships are general partnerships and these carry on business with unlimited liability and do not have a formal legal position separate from their partners.
- The following of any loss-sharing arrangements agreed among the partners is a private matter between themselves.

- A managing partner can, if empowered under the partnership agreement, sue and hold property on behalf of the partnership.
- The amount and form of capital paid in is not regulated by law and is not liable to stamp duties.
- With a partnership, the ability to borrow funds may be limited by the legal inability to provide security for the loan. Bills of sale over moveable assets and real estate mortgages are the most common forms of security for small businesses.
- Rights and Duties of Partners are:
  - unless otherwise agreed, each of the partners has a full right to take part in management of the partnership;
  - as far as the public is concerned, each partner has unlimited power to bind a partnership and all of its partners in all matters connected with the business;
  - notice to a partnership can be served on any partner and the person is jointly liable with his partners for all obligations and debts which may arise during his period of partnership.
- Changes in the Partnership
  - All changes in the composition of a partnership must be advertised generally and also notified individually to the parties involved, in order to release them from personal liability on retirement.
  - All changes must also be registered if the business is covered by the Business Names Registration Act.

Sole Proprietorships (Sole Traders)

- These involve individuals and are usually restricted to small professional and other entrepreneurial activities.
- They are not covered by any specific legal requirements other than those which apply to businesses in general, such as the Business Names Registration Act and the various licencing requirements.
- No separate legal identity for the business is established and there is no limitation of personal liability.
- The ability to borrow funds may be limited in the same way as for partnerships.

Further Information and Advice

- Your auditor or accountant - for advice on the financial points to be considered with the different types of business.
- Your legal practitioner - for advice on the legal implications of the various types of business structure.
- The relevant Acts of Parliament - for detailed information on the laws applying to each type of business.

9. Setting up your business

The steps which you will need to take in order to set up your own business will depend on the type of legal structure (see Chapter 8) which you have chosen. As it is vital that this process is done correctly, you should seek professional help from your accountant and/or your legal adviser before you proceed. This will help you to avoid mistakes and possible later difficulties. This chapter outlines briefly the relevant steps necessary to set up the various types of business and some important points to be remembered in running the business.

Take Note

PRIVATE COMPANIES

Private companies are incorporated under the same Act (the Companies Act 1984) as public companies (corporations) and there is nothing in the name of a limited company to show whether it is public or private - all must have the word "Limited" or "Ltd" as the last part of their company name.

Shareholders: the minimum number of shareholders is two and the maximum is 50, apart from employees and any former employees who have continuously held at least one share since leaving employment. Shareholders can be individuals or other corporate entities (companies or corporations) and need not be Malawi residents.

Permission: before the incorporation procedures can be started, permission must be sought, using a local corporate lawyer (legal practitioner), through the Registrar of Companies, from the Ministry of Trade and the police. Details of intended business operations and how they will be controlled and financed are required, together with the name of the proposed company. Apart from the choice of name, the other information provided is not binding (i.e., it may be changed later, if necessary).

These extra steps required before incorporation can begin may take from 3 months to one year.

Memorandum of Association: this must now be prepared with the assistance of a lawyer and represents the constitution of the company.

For a limited company (i.e., one limited by shares, as this is the only type allowed to operate to make a profit) this must follow a form specified in the Act and must state:

- the name of the company;
- any restrictions, if any, on the business to be carried on by the company;
- the amount of share capital with which the company is to be registered, and the division of this into shares of a fixed amount;
- details on different classes of shares, if these exist;
- that the company is a private company and that the liability of its members is limited;
- the full name, address, and occupation of each member.

For an unlimited company, there are similar requirements, except that:

- the memorandum does not need to follow any specified form;
- the number of shares with which the company is to be registered must be stated (rather than as above);
- there must be a statement that the liability of its members is unlimited.

In all cases, the memorandum must be dated and signed by each member in the presence of a witness, who must also sign. Each member must write opposite his name the number of shares for which he subscribes.

Articles of Association: these may be registered along with the Memorandum and consist of a statement of the rules or by-laws of the company covering its administration. Your lawyer will be needed to assist in their preparation. If these are to be registered for a limited company, they must follow a form specified in the Act and may contain any or all of the regulations contained in the Act.

The articles cover the rights of shareholders, transfer of shares, alteration of capital, general meetings, votes of members, directors, the company secretary, company seal, dividends and reserve, accounts, capitalisation of profits, appointment and duties of auditors, company notices, winding up and indemnity of company officers.

The Articles must be dated and signed in the presence of a witness, by each member signing the memorandum.

Registration: the memorandum and the articles, if any, must then be delivered to the Registrar of Companies, PO Box 100, Blantyre (tel: 635077), for registration purposes, together with a "statement" in a specified form which contains the following particulars:

- the full name (together with any former or other names), residential and postal address, and occupation of each of the first directors and the secretary of the company;
- the situation and postal address of the company's registered office;
- any further particulars as may be required.

This statement must be signed by or on behalf of the signers of the memorandum and must contain an agreement signed by each of the named directors and the secretary to act in the relevant capacity for the company.

Once the memorandum is registered and the registration fees are paid, the registrar issues a certificate of incorporation. From this date, the company has permanent existence unless it is wound up or struck off the register. It has its own legal status and is entitled to begin business, borrow money and sign binding contracts without further formalities (procedures).

Registration Fees: the main part of these is a fee of 0.5% of the authorised share capital. A relatively high figure for this is normal, as subsequent increases attract a fee of 0.75%.

Lawyer's Fees: the assisting lawyer's fees are fixed by scale according to the authorised capital, but are usually not very high. In some cases, you may also need to pay fees for professional services from other lawyers and accountants if you have sought their advice.

the whole incorporation process, after initial permission has been obtained, takes approximately 3-4 months.

PARTNERSHIPS

Partnership Agreement: you should not go into partnership with anyone without a formal written and signed partnership agreement or deed. Often people may start up together in business as good friends and end

up in disagreement over the terms of the partnership. If the rights and duties of the parties involved are specified in advance in a written agreement, serious problems may be avoided. Although this is desirable it is not a legal requirement.

Where there is no deed (or other evidence of an agreement), the regulations contained in the Partnership Act (Chapter 46:04) will apply. Partnership formation costs are very small.

If you decide to have a proper written partnership agreement, it should be drawn up by a legal practitioner and should include:

- formation;
- profit-sharing arrangements;
- salaries;
- banking arrangements;
- change of partners;
- dissolution (ending) of the partnership.

Legal Requirements: there are no incorporation procedures as with companies, but registration under the Business Names Registration Act (Chapter 46:02) is required (see Appendix 3) if the partnership carries on its business under any description, other than the names of all its partners. Registration of a business name does not protect it from use by others.

Although this may take a long time to be officially approved by the various authorities concerned, a partnership exists legally from the date the application forms are submitted.

The only information available for public inspection is details of the partners filed under the Business Names Registration Act.

SOLE PROPRIETORSHIP (SOLE TRADER)

There are no specific requirements for setting up as a sole trader, other than registration of the business name where necessary and following the various licensing regulations.

Further Information and Advice

- Your accountant or auditor - for advice on financial aspects of setting up your business.
- Your legal practitioner - for advice on the legal requirements of starting a business, such as registration, licensing, and preparation of any necessary documentation for incorporation procedures.
- The relevant Acts of Parliament - for details of the laws applying to setting up your particular type of business.

10. A plan for the business

Before you start your new business you will have to be sure that it will produce enough cash to be able to pay your creditors (those who you will owe money to, e.g., suppliers), expand the business and of course to live on.

At the beginning you will usually need to borrow some money (see Chapter 11: Where to borrow money). Any of the organisations which lend money to you will want to see a business plan. This plan will help you work out how much money you will need and also give you something to check your progress against.

If you don't know how to write a business plan, your accountant will help you but you must yourself understand the main financial details of the business and the way the plan is made.

Of course, the business plan has to be made to suit the particular business you wish to manage. It is not possible to use a standard plan for all businesses. However, the main parts of business plans are the same. These are an income statement, balance sheet, cash flow forecast, and sales and production projections for three to five years. Although the details of these will depend on the particular business concerned, the general outlines will be very similar.

Examples of these types of financial statements are found in Appendix 4.

It can be seen that writing a business plan is fairly complicated and you should definitely get professional advice, unless you have prepared one successfully in the past. However, try to let your enthusiasm for your project show through in your plan.

Take Note

Financial points in the plan

You can divide your ideas for the plan into two main areas:

- estimated figures, and;
- assumptions.

Estimated figures are your calculated amounts for likely sales income, cost of sales, and expenses for business administration.

Assumptions are the foundation of your plan and must be stated. These are informed (wise) guesses based on accurate historical information and will probably include:

- the expected annual rate of inflation (the percentage that the cost of living changes in one year);
- the expected rate of taxation;
- the expected interest rates of financial institutions e.g., banks and credit organisations;
- capital expenditure and when this will take place;
- stock turnover (the average length of time you expect items obtained from suppliers to remain in stock before being sold);
- debtors collection period (the length of time you expect to take to collect money owed to you by customers);
- creditors payment period (the time allowed for you by suppliers to pay money owed to them).

You must not be too optimistic with your assumptions when preparing your business plan as you will not be able to meet the demands placed on you.

Your business might be affected by seasonal fluctuations (changes in demand for products at different times of the year).

For example, if you were supplying fertiliser, the demand for this would be much greater during the crop planting and growing season than at other times). Remember to consider this when making your business forecasts (estimates) for the future.

Don't forget to think about the many costs involved in setting up your business. There will be a period when you are having to spend significant amounts of money (cash outflow) which will not be balanced by money made from sales (revenue inflow). This period may be longer than you think.

When you give details of the type and amount of finance that you will need, it is best to over-estimate rather than under - estimate the figures. Financiers (those who will be lending you money to set up your business) will not be very happy if you return some time after starting your business short of funds and asking to borrow more money. Several things may go wrong in business, particularly at the start. You should try to make allowances for this in your estimates of the amounts you will need to borrow, so that you can handle any problems which might occur.

Your source of finance (the organisation you approach to borrow money) will need projections (forecasts) for at least a year. If possible you should provide forecasts for a longer period. A suitable way of presenting these might be:

- first year - monthly projections;
- second year - quarterly (3-monthly) projections;
- third year - annual projection.

Your projections should include not only a cash flow forecast, but also a balance sheet and an income statement. These will not only show whether your business will be profitable but will also prove the accuracy of the figures you have estimated.

The use of a micro-computer can help greatly in working out your projections. Also the assumptions you made can be easily changed and the affects of these changes immediately calculated. Although you will not have your own computer at the start of your business, your accountant may be able to use one to help prepare your business plan.

It may be worth thinking about getting a computer yourself at some later stage to help your business administration, particularly if your business becomes very successful and begins to expand quickly.

Other points in the business plan

A one or two page "executive summary" will provide a useful description of the business. This would include the background to the project, short details of the product or service to be supplied, what the finance is needed for, the amount you wish to borrow, and the results forecasted.

The plan should cover all the points given above but should not be too detailed. The person considering your request for finance will not want a long report and if your plan is over 10-12 pages long, you should try to reduce it to that size. It is not possible to say exactly what you should include in your plan as this will depend on your particular situation, but you should certainly think about including:

- brief information on your products or service to be supplied;
- a description of the business premises;

- appropriate details from your curriculum vitae (educational and employment history) and those of any other people who will be helping you manage the business;
- your marketing strategy - details of your plans for marketing and promoting your product or service as covered in Chapter 5: Advertising and Marketing;
- your financial forecacts and details of any assumptions which were made in obtaining the figures;
- the financial resources needed to set up the business and any changes which will be required if your assumptions turn out to be optimistic (more favourable than actually turns out) or pessimistic (less favourable);
- your estimation of the risks and possible problems which might affect the business.

It is important to say again, that although it is very important to get professional advice when making your business plan, you must be fully involved yourself in the plan. It is **your** plan, you will be asked questions about it, and must be ready to give good answers. A badly presented business plan is one of the main reasons why a business may fail to get the financial support it needs.

Further Information and Advice

- Your auditor or accountant - for help in preparing a business proposal.
- READI Project (USAID), Box 30455, Lilongwe (tel: 723422) - for general advice on business opportunities and planning.
- INDEFUND, SEDOM and other institutions which lend money for setting up a business - for information on particular requirements needed for a business plan presentation.

11. Getting financial support

The importance of putting together a carefully thought out business plan has been emphasised in Chapter 10. You now need to think about where to borrow the money needed to set up or maybe expand your business or to provide assistance for the continued existence of your business and you must also decide on the type of financial support which will best suit your needs.

There are various institutions which are operating in Malawi to provide different kinds of financial help. This chapter looks at the sources of finance which may be available to you and gives details of what each type of financial support should be used for. It is important that you choose the right mixture of financial help which will fit your particular business.

Some of these financial support institutions are used more often than others because their services are better known. It is hoped that the information given below, which is grouped according to the type of institution, will encourage greater use of some of the less known facilities where these are suitable for your business.

Take Note

1. Development Banks

A. INDEFUND

Type of project - Indefund will consider requests for financial help in the following areas of business:

- agriculture;
- agro-industry;
- fisheries;
- manufacturing;
- textiles;
- services;
- traders (rural wholesalers);
- construction;
- mining;
- hotels and tourism;

- transport;
- wholesale/large retail.

Types of financial help available:

- **medium and long-term loans.** These are possible for capital investments, including working capital. Loan applications for working capital alone will only be considered in special cases;
- **financial guarantees.** INDEFUND can act as a guarantor for people seeking to obtain loans from other sources;
- **equity capital.** INDEFUND may buy shares in a business. Once you have paid back the loan you can buy the shares;
- **leasing and hire purchase financing.** In the future INDEFUND will loan money for leasing (renting) and hire purchase purposes.

Size of loans available:

- INDEFUND can lend between K30,000 and K350,000. In special cases, the loan can be greater than this.

Securities required:

- mortgage bonds over land and buildings;
- bill of sale over plant and equipment;
- charge over business assets;
- sureties/guarantees from a third party;
- domestic chattels (property or possessions).

Documents required from the client (borrower):

- books of records, balance sheets, profit and loss accounts, orders, any other receipts, invoices etc., or evidence of previous transactions (trading agreements).

Pay back period (duration of the loan):

- this is between 2-12 years. A grace period (a time during which no money needs to be paid back by the borrower) may be negotiated for certain special projects.

Interest Rates:

- these are usually similar to current market interest rates and may be negotiated.

Borrowers Contribution:

- the client is usually expected to make a significant contribution towards the cost of the business project. The minimum is normally 10 to 15% of the total project costs. Contribution is preferably cash, but useful items needed for the business can be contributed in "kind". For example, the land or building cost, if owned by the entrepreneur. A pick up truck needed for a business requiring a truck, can be considered. A private car is usually not considered to be a contribution, but this is subject to review by INDEFUND for the nature of the business.

Investigation Fee/Application Fee:

- you must pay an application fee of K50.00 when presenting an application for a loan. This is not refunded if you withdraw the application but is refunded if the application is accepted;
- you must also pay an investigation fee of 2% of the total approved amount of the loan. A quarter of this has to be paid before the loan being applied for is approved by INDEFUND's board but is refunded if the loan is not accepted. The whole fee must be paid before the loan money is made available to you.

B. SMALL ENTERPRISE DEVELOPMENT ORGANISATION OF MALAWI (SEDOM)

Types of projects considered - SEDOM was set up to help Malawian-owned small enterprises (businesses) and may loan money particularly for the following areas:

- manufacturing;
- processing;
- repair and maintenance operations;
- mining;
- construction;
- agro-business.

Types of financial help available:

- **mini loans.** These are loans of up to K5,000 mainly to meet working capital needs on a short-term (12 months) basis;

- **term loans.** These loans between K3,000 and K100,000 are to cover acquisition of capital goods and infrastructure. Working capital may also be included. The repayment period is up to 10 years;
- **leasing finance.** SEDOM will purchase equipment on behalf of the client and lease it for a fixed period. Once the lease has been paid, the equipment is offered for sale to the client at a reasonable price. This type of assistance can be up to K100,000;
- **building contractors finance.** This is for people in the building industry (construction or maintenance) and amounts range from K500-K10,000. The client may apply for a fixed amount of a loan to be approved by SEDOM. When the client is awarded a contract, they can use this fixed amount. The loan is usually repaid from the proceeds (receipts) of the contract;
- **credit guarantees.** SEDOM has made arrangements with two commercial banks under which overdrafts to entrepreneurs (businessmen) recommended by SEDOM may be guaranteed for up to 80% of the amount. The size of the overdraft can be between K2,000 and K20,000 and can only be offered to existing SEDOM clients;
- **workshop finance.** This is a new kind of financial assistance for purchase or construction of a workshop. The maximum amount will be K100,000, with reduced interest rate charges and a pay back period of up to 20 years.

Securities Required. These depend on the type of loan requested and may include:

- mortgage bonds, bills of sale, sureties/guarantees from third parties, domestic chattels, life insurance policy of the client, policy for equipment.

Documents Required From Clients:

- books of records, balance sheets, profit and loss accounts, orders, any other receipts, invoices etc., or evidence of previous transactions.

Pay Back Period:

- this depends on the kind of loan involved and may be up to 10 years.

Interest Rates:

- 18% per year calculated daily on the reducing balance of the loan outstanding. On workshop construction finance, the rate is 10% per year again on a daily reducing balance.

Borrower's Contribution:

- for maize mills this is 30% of the total cost. For other kinds of financial assistance it depends on the type of loan and on the client's financial position.

Application Fee/Investigation Fee:

- this fee depends on the amount of loan being requested, but will be between K15-K300.

C. MACOHA - SEDOM REVOLVING LOAN FUND

The Malawi Council for the Handicapped (MACOHA) has a revolving loan fund scheme, administered by SEDOM, to help disabled entrepreneurs.

The maximum loan available is K1,500 repayable at 5% interest over a period of 18 months. There is a 3 month grace period before loan repayment starts.

Loan application forms can be obtained from Community Rehabilitation Officers (CROs) who may be found at Agricultural Development Division (ADD) centres around the country. The completed form must be submitted to the local CRO for further processing.

You can also contact SEDOM for more information on this scheme.

2. Commercial Banks

A. THE COMMERCIAL BANK OF MALAWI (CBM)

This bank can provide financial assistance to agricultural concerns and small businesses.

Seasonal Loans for Tobacco Farmers

- To qualify for a seasonal loan, you must be a licensed grower, and if growing Burley tobacco, must have a production quota from the

Government. The land must be classified as estate land and evidence of ownership must be produced in the form of a lease or title deed for the land.

- Borrower's Contribution. This is a minimum of 30% of the estimated crop costs but also depends on the viability of the proprosal (how likely it is to be successful) and the type of security offered.
- Repayment Arrangements. A seasonal loan must be paid back at the end of the season with 16% interest. The bank requires a Registered Stop Order. You must also take out full insurance and cede (give over) this to the bank.
- Securities Required. These may include mortgages, title deeds, insurance policies, bills of sale, etc.
- Documents Required. To be considered for a seasonal loan, you must present a balance sheet, profit and loss statement, and forecasted cash flows.
- Additional informatison. Contact the Manager of their local branch of the CBM.

Short Term Loans

- These are mainly given for working capital and are payable with interest of 17% over a period of one year.
- Borrower's Contribution. This must be approximately 50% for all short-term loans.
- Securities Required. These may include mortgages, title deeds, insurance policies, etc.
- Documents Required. These are as above for seasonal loans.
- Additional information. Contact your local CBM branch manager.

B. THE NATIONAL BANK OF MALAWI (NB)

Seasonal Loans for Tobacco Farmers

- To qualify for such loans, farmers must be licensed tobacco growers and, in the case of Burley tobacco, must have had suitable production quotas from the Government for at least 2 years before the application. Ownership of land is required and must be shown by producing a leasehold or freehold title deed.

- Size of Loans. For established farmers the amount available is between K20,000 and K1 million. For non-established farmers, the amount available is up to about K20,000.
- Borrower's Comtibution. This is between 40% and 50% of the expected loan.
- Repayment Arrangements. As the loan is seasonal, it must be repaid with a minimum agricultural interest rate of 16% at the end of the tobacco season. The applicant must sign an agreement with the bank that the income from auction sales will go directly to the bank. This guarantees repayment to the bank and therefore also acts as security for the loan.
- Documents Required. You must submit cash flow and balance sheet statements to the manager of your local National Bank manager.

Short Term Loans

- These may be available to business people for assistance with working capital.
- Repayment Arrangements. The duration of the loan is for one year and the minimum commercial interest rate for such loans is 17%.
- Securities Required. These can include life insurance policies (preferably with a surrender value), property, Building Society shares, fixed deposits, etc.
- Documents Required. Applicants must present a balance sheet with a profit and loss accounts statement and a cash-flow forecast.
- Additional Information. Contact your local NB branch manager.

Overdraft Facilities

- The NB can provide overdraft facilities for business people who have an account with the bank.
- The maximum overdraft possible is set by the Bank Manager, after considering the nature of the business and other things. The interest rate charged is a few percentage points over the current prime rate.
- Consult your local NB branch manager for further details on how to apply for an overdraft.

Bardev

- This is a credit facility offering high-risk loans. For more information, contact your bank manager.

3. Government Institutions and Departments

A. GOVERNMENT LOANS BOARD (MINISTRY OF TRADE, INDUSTRY & TOURISM)

- Loans can be given for starting businesses e.g., shops, maize mills, farms. The loan committee meets every 3 months to examine applications for loans.
- Any Malawian citizen may qualify for a loan, provided the person has sufficient securities (e.g., house, motor vehicle, etc.) to match or exceed the amount of the loan being applied for.
- Amount Available. For an individual loan, this is from K1,000-K12,000.
- Repayment Arrangements. The loan must be paid back within 5 years. Interest is charged every quarter (3 months) at a rate of 15%. Failure to pay back the loan can result in loss of the declared securities to recover the amount still owing.
- Loan application forms can be obtained from the Government Loans Board, Ministry of Trade, Industry & Tourism.

B. MINISTRY OF AGRICULTURE

The Ministry of Agriculture can provide different types of credit to both Farmers Clubs and individual farmers.

Seasonal Credit

- This can be made available for use in buying farm inputs such as fertilisers, seeds, and pesticides.
- Seasonal credit is a short term loan which must be paid back at the end of a harvesting season.

- Credit Application Procedure. Individuals within a farmers club estimate their input needs for a season. These are then compiled into a list and this is presented together with a Seasonal Loan Application Form to a Field Assistant. After the loan application is processed, the goods required are supplied to the farmers club.
- Although individual farmers can apply for seasonal credit, this is not encouraged as it is preferred that farmers join a farmers club so that provision of such services and other assistance can be simplified.
- Rates of Interest. For farmers clubs, the interest on the loan is 12%. For individual farmers, it is 20%.

Short-term, Non-seasonal Farm Animals Credit Facility

- Steers can be supplied to farmers while still very young. The farmer is then responsible for raising the animal until it reaches a recommended weight (usually after about 6 months). The animal is then delivered to Cold Storage who pay the Government for it. The Government, in turn, recovers the cost of providing the steer to the farmer and pays him the difference.
- Application forms can be obtained from and should be sent to an Extension Planning Area office.

Medium-term Farm Animals Credit Facility

- Under this credit scheme, farmers are provided with dairy cows to raise and sprayers/chemicals to dip them.
- In order to qualify for this credit, farmers must have 2-3 hectares of land for growing pasture.
- Securities are requested, although in some cases the land itself can act as a security.
- The farmer is given up to 5 years to repay the value of the loan.
- Credit Application Procedure. An application form is obtained from and submitted to an Extension Planning Area office. If the loan is approved, the farmer will be given training in cattle raising.

- Before any cows are released to the farmer, they are insured by the Ministry of Agriculture.

Medium-term Loans

- These are offered to individuals for the purchase of farm implements such as carts, ploughs, ridgers, cultivators, sprayers and wheel barrows.
- Repayment Arrangements. The loan must be paid back within 3-7 years, depending on the implement. Interest is charged at a rate of 15%.
- Application Procedure. Loan application forms are obtained from and submitted to the local Extension Planning Area office.

4. Non-Governmental Institutions

A. CHRISTIAN SERVICE COMMITTEE (CSC)

- The CSC is interested in stimulating income-generating activities amongst women and offers finance to groups of women in support of this. This funding activity is a new sheme for CSC. Most recently they have funded a maize milling project, crop production and chicken rearing.
- To be considered for such assistance, the women should belong to a church which is a member of the CSC.
- Application Procedure. An application for financial support, outlining the idea for the project, is submitted to the CSC on recommendation from the member church.
- No interest is charged on the loan and the pay back period depends on the project.
- Further information can be obtained from: Mrs. Mzengereza, The Christian Service Committee, PO Box 51294, Limbe (tel: 652877), or from your local church.

B. WORLD VISION INTERNATIONAL (WVI)

- WVI can provide a maximum loan of K500 to people interested in starting a small business.

The loan is offered to the neediest people in the community and can be used to buy materials and for working capital for various types of business, e.g., agriculture, fishing, retail shops, repair shops.

- There are few restrictions on how the loan should be used other than the business and any technology to be used should be appropriate for the community in which the business will be situated.
- Repayment Arrangements. Loans are usually to be paid back within 12 months and have a low rate of interest.
- Application Procedure. Contact the WVI Business Facilitator at WVI, PO Box 2050, Blantyre (tel:651444) for details.

Once a request is approved, the client will work with the Facilitator to carry out a feasibility study (to see if the project is likely to be successful) and to develop a business plan. He will also work out the repayment period with the client.

C. SMALLHOLDER TEA AUTHORITY (STA)

Long Term Loans

- These may be offered to new tea farmers for seeds, tea plants, fertilisers, insecticides and other chemicals, and pruning knives.
- The farmer is not lent money but is lent the implements and materials requested. The total amount of these supplied as a loan depends on the number of hectares of land to be cultivated.
- Repayment Arrangements. The loan is repayable over a 21-25 year period, with a grace period at the start of 5 years. Repayment begins in the 6th year and the amounts to be paid are based on the income received from sale of the tea leaves. Under this scheme (called the CESS system), the STA takes 2 tambala from every kilo of leaves sold. No interest is charged.
- Application Procedure. Application forms should be obtained from and submitted to the Smallholder Tea Authority, Headquarters Offices, PO Box 80, Thyolo (tel: 472399).

Annual Loans

- These may be given to established tea farmers in the form of farming/planting materials such as fertiliser, and tea plants for in-filling.

- Repayment Arrangements: the STA recovers the value of the loan at the end of the year after the sales. A maximum of 50% of the farmers income from sales will be recovered. No interest is charged.
- Application procedures: a person who is growing tea on public land should obtain and submit their application form direct to the STA offices in Thyolo. Those growing tea on customary land should contact a Sectional Manager of the STA for details.

D. SMALLHOLDER COFFEE AUTHORITY (SCA)

Medium and Long Term Loans

- These loans may be given to new growers of coffee in the form of farming implements and inputs such as fertilisers, chemicals and coffee plants.
- The amounts of equipment and materials that can be awarded depend on the number of bushes to be planted and the quantity of chemicals needed at the start.
- Repayment Arrangements: the payback period for a medium term loan is 2-4 years, and for a long term loan is 8 years at an Interest of 15%.
- Application Procedure: applications forms may be obtained from and should be submitted to either the SCA Field Assistants who are found in their field offices or from the Development Officers at the SCA head office, PO Box 230, Mzuzu (tel: 332899).

Annual Loans

- These may be given to established coffee growers who are already selling their coffee beans in the form of farming implements, and inputs such as pesticides, fertiliser, and other chemicals.
- The amount of inputs a grower can receive depends on the number of bushes being grown and the types of inputs needed.
- Repayment Arrangements: the value of the loan should be paid back within one year. Interest is charged at 8 per annum.
- Application Procedure: as above for medium and long term loan applications.

Further information about loans available from the SCA can be obtained by contacting SCA Field Assistants or Develpment Officers at the SCA head office.

E. SMALLHOLDER SUGAR AUTHORITY (SSA)

Long Term Loans

- These may be given to new sugar growers to help in the development work (clearing land, setting up irrigation systems, fertilising, etc.) of the fields to be used to grow the sugar cane.

- The amount of inputs given for this loan depends on the number of hectares to be cultivated.

- Repayment Arrangements: the loan must be paid back within 20 years with an interest rate at which the STA borrowed the capital.

Annual Loans

- These may be given on a yearly basis for help in obtaining inputs such as fertiliser, other chemicals, water for irrigation, tractor services, and labour for cutting the cane.

- Repayment Arrangements: the loan must be paid back within a year of the sale of the sugar cane. Interest is charged at 10% per annum.

No securities are required for either type of loan as growers may only sell their crop to the SSA. To be able to apply for the above loan facilities the interested person must first join the SSA as a trainee and undergo 12-18 months training. Advertisements for recruitment are published through the local District Commissioner's Office and the local Agricultural Development Division (ADDs).

5. Leasing and Hire Purchase Possibilities

A. LEASING AND FINANCE COMPANY OF MALAWI LTD.

- The Leasing and Finance company (LF) can buy equipment for a businessman or farmer and lease (rent) it to the client. Examples of equipment leased in this way are: cars, trucks, trailers, business equipment, factory machinery, farm machinery, and earthmoving equipment. For the future the company is thinking about offering similar services to wholesalers and retailers.
- To qualify for a lease hire arrangement, the applicant does not need to have a deposit account with LF.
- LF does not lend money directly to the client but purchases the required equipment and leases this to the client. If an item is not available locally, LF can make arrangements to import it into the country.
- The maximum value of an item which the company can purchase for leasing is K1.5 million.
- Documents Required: the company requires applicants to submit annual accounts. Local staff are available to help the applicant prepare these.
- Securities Needed: there is no security required for leasing arrangements as the equipment acts as security.
- Repayment Arrangements: the payback period depends on the applicant's financial situation. Usually however, the expected life of the equipment would decide the period of repayment which can be up to 5 years or more.
- Interest charges depend on the type of equipment being leased, its value, and whether it is new or not. But generally credit for the leasing and purchase of equipment is charged at an effective interest rate of 26%.
- Additional Information: contact the company's office in Blantyre - the address is given at the end of this chapter.

B. ENGINEERING AND FOUNDRY COMPANY

- This company offers for sale maize mills, maize/rice shellers, and feed mixers, on a hire purchase basis.

- Any Malawian may arrange to purchase such machinery as long as 75% of the total cost is paid on collection of the item.
- The balance must be paid within 3 months of the date of the first payment. No interest is charged. Failure to pay within this period will lead to the machinery being repossessed (taken back) by the company and it will only be returned to the client on settlement of the amount owing.
- The company requires general information about the purchaser. Further details about requirements can be obtained from the company - address at the end of this chapter.

C. STEWARTS AND LLOYDS (MALAWI) LTD

- This company offers for sale Lister diesel engines with accessories, and Christy and Norris hammer mills.
- Any Malawian may arrange to buy such machinery as long as 75% of the total cost is paid on collection of the item.
- The balance must be paid within 12 months of the first payment and 16% interest is charged on this.
- Securities Required: the company requires references and would like to have a guarantee from a third party. Although collateral securities, personal insurance policies, a house, and domestic property can help in obtaining equipment with a hire purchase agreement, the company may not necessarily insist on these as security.
- Application Procedure: an application and hire purchase agreement form must be completed and signed to be considered for such an arrangement. Further details from the company - address at the end of this chapter.

D. BROWN AND CLAPPERTON GROUP

- This company offers for sale on a hire purchase basis Ruston diesel engines and electric maize mills complete with accessories
- Any Malawian may buy such machinery as long as 60% of the total cost is paid at the time of collection and the balance can be paid within a 6-12 month period.

- Interest is charged on the balance at a rate of 2% per month for an agreed period. After this period expires, the interest rate on the balance owing rises to 24%. If the customer does not pay up within a given period, the machinery may be repossessed and sold.
- Securities Required: the company requires the names of 2 other companies the customer has had dealings or a credit account with as well as other securities.
- Application Procedure: an application and hire purchase agreement form must be completed and signed to be considered for such an arrangement.
- Further information may be obtained from one of the companies offices - addresses given at the end of this chapter.

6. Other Financial Institutions

A. OLD MUTUAL (OM)

- OM may give loans to individuals, groups, and organisations whether they are OM policy holders or not.
- In the past, loans have been given for construction of commercial buildings, warehouses, and offices, as well as for working capital for businesses. For business ventures, OM prefers to loan money to those who are already in business and have been successful in the past.
- Loans of up to K1.5 million have been given, but the amount of a particular loan depends on the certified value of marketable fixed assets being offered as security. OM will lend up to 60% of the value of these.
- Securities Required: OM requires the applicant for a loan to have at least 2 of the following securities: a loan agreement, debenture, mortgage on property, bank guarantee, life insurance policy, Government guarantee, or a guarantee by parents.
- Repayment Arrangements: the repayment period can be negotiated between 5-15 years. The interest rate for a loan is also negotiable, but is pegged to the commercial banks' prime rate (17%).
- Documents Required: the applicant must submit books of accounts for the past 5 years.

- Application Procedure: for details of this and other information about loan arrangements, contact one of the OM offices - addresses given at the end of this chapter.

B. THE NEW BUILDING SOCIETY (NBS)

- Members of the NBS who have a fixed deposit account or a tax-free interest deposit account with them may apply to take out a loan against the money they have deposited or the money can be ceded as collateral security.
- The loan amount cannot be more than 75% of the sum which has been deposited.
- Repayment Arrangements: the loan must be paid back within 12 months. Interest is charged at 3% more than the fixed-deposit account earning rate.
- Contact any branch of the NBS for further details - addresses are given at the end of this chapter.

C. FINANCE CORPORATION OF MALAWI LTD (FINCOM)

This was set up by the Government for 2 main purposes:

- to act as a buyer on behalf of the Government;
- to act as a confirming house to assist the private sector in Malawi when ordering goods from outside the country.

Plans are being made for FINCOM to act as a confirming house on behalf of small/medium scale businesses. Two facilities will soon be introduced to help entrepreneurs:

- clients will be able to use FINCOM to buy imports from outside the country;
- FINCOM will provide working capital to business people filling export orders.

For futher information contact the FINCOM office - address given at the end of this chapter.

Further Information and Advice

1. DEVELOPMENT BANKS

- INDEFUND - contact the General Manager, Indefund Ltd., P.O. Box 2339, Blantyre (tel: 620244).
- SEDOM - contact one of their regional offices at:

  P.O. Box 525, Blantyre (tel: 636555)
  P.O. Box 256, Lilongwe (tel: 722288)
  P.O. Box 130, Mzuzu (tel: 332605)

  SEDOM has also published a pamphlet on the services they offer which may provide useful information.
- MACOHA/SEDOM REVOLVING LOAN FUND - contact either a SEDOM branch or a Community Rehabilitation Officer, located in your local Agricultural Development Division (ADD) office.

2. COMMERCIAL BANKS

- THE COMMERCIAL BANK OF MALAWI LTD - contact the manager at one of the 14 branches, 17 agencies or 52 mobile agency stopping points located throughout the country.
- NATIONAL BANK OF MALAWI - contact the manager at any of the 15 branches located in the main centres (Blantyre, Limbe, Lilongwe, Karonga, Kasungu, Mangochi, Mulanje, Mzuzu, Zomba) or at any of the bank's agencies in other district centres.
- MINISTRY OF AGRICULTURE credit and loan schemes - contact your local Extension Planning Area office at the nearest Ministry of Agriculture department.

3. NON-GOVERNMENTAL INSTITUTIONS

- CHRISTIAN SERVICE COMMITTEE project funding - contact Mrs. Mzengereza at the CSC office, P.O. Box 51294, Limbe (tel: 652877) or your local church.

Further Information and Advice (Continued)

- WORLD VISION INTERNATIONAL small business loans - contact the WVI Business Facilitator in your area or the WVI office, P.O. Box 2050, Blantyre (tel: 651444).
- SMALLHOLDER TEA AUTHORITY loans for tea growers - contact the STA Headquarters offices, P.O. Box 80, Thyolo (tel: 472399) if you are growing tea on public land, or a Sectional Manager of the STA, if you are growing tea on customary land.
- SMALLHOLDER COFFEE AUTHORITY loans for coffee growers - contact an SCA Field Assistant at a field office or a Development Officer at the SCA Head Office, P.O. Box 230, Mzuzu (tel: 332899).
- SMALLHOLDER SUGAR AUTHORITY loans for sugar cane growers - contact the SSA Head office, P/Bag 1, Nkhotakota (tel: 295208), or your District Commissioners Office or local ADD office for information about training vacancies.

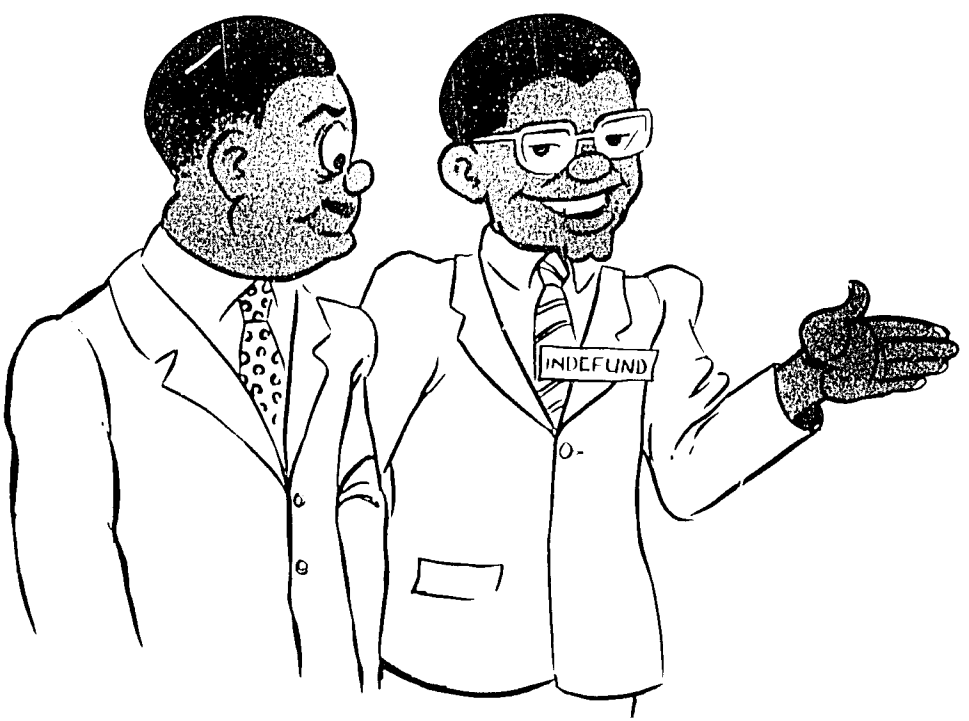
4. LEASING AND HIRE PURCHASE

- LEASING AND FINANCE COMPANY OF MALAWI LTD. - hire purchase of business or farm equipment - contact the company's office at P.O. Box 1963, Blantyre (tel: 626333).
- ENGINEERING AND FOUNDRY COMPANY - hire purchase of maize mills, maize/rice shellers, and feed mixers - contact the company's office at P.O. Box 30477, Chichiri, Blantyre 3 (tel: 671241/672028).
- STEWARTS AND LLOYDS (MALAWI) LTD. - hire purchase of diesel engines and hammer mills - contact the company's office at P.O. Box 579, Blantyre (tel: 635033) or P.O. Box 680, Lilongwe (tel: 721511).
- Brown and Clapperton Group - hire purchase of diesel engines and electric maize mills - contact the company's office at Box 1582, Blantyre (tel: 634677), Box 531, Blantyre (tel: 720544 or Box 97, Mzuzu (tel: 332000).

Further Information and Advice (Continued)

5. OTHER INSTITUTIONS

- OLD MUTUAL loans - contact the Old Mutual offices at P.O. Box 393, Blantyre (tel: 620677) or P.O. Box 30158, Lilongwe (tel: 730542/730588).
- NEW BUILDING SOCIETY loans for members with deposit accounts - contact any branch of the NBS or the head office, P.O. Box 30350, Lilongwe 3 (tel: 733455).
- FINANCE CORPORATION OF MALAWI LTD. (FINCOM), P.O. Box 750, Blantyre, Telephone No. 620102-33.



12. Government incentives

The Government views promotion and encouragement of the small and medium scale business sector in Malawi as a valuable and practical way of increasing economic and social development. In order to help those involved in the setting up and maintaining of such businesses, a number of incentives have been established.

Take Note

MINISTRY OF FINANCE, CUSTOMS AND EXCISE DEPARTMENT

TARIFF PROTECTION

- If a local manufacturer thinks he is facing unfair competition from imported products, he may apply for tariff protection.
- If this is granted, tariff rates for the imported products will be raised to protect the local producer against the imported product.
- Note that it is not generally the policy of the Government to use direct import controls on products which may compete with locally made goods.

INDUSTRIAL REBATES AND DRAWBACKS

- Rebates of duty, either reduced tariff rates, or no duty at all, are granted on imported materials needed for manufacturing processes in Malawi.
- Registered manufacturers may also claim a refund of duties paid on materials which have been used to manufacture articles which have been exported.

TARIFF REBATES

- Goods imported for the setting up of any industrial concern regarded by the Government as being of national importance may be entitled to duty rates of 15% only.

MINISTRY OF FINANCE, INCOME TAX DEPARTMENT

TAX REBATES

- Tax deductions may be granted for:
  - repairs to articles, implements, plant, machinery and utensils used for the purpose of trade;

- repairs to premises or parts of premises used for business purposes;
- expenses involved in setting up a new manufacturing business;
- amounts paid for use or occupation of land or buildings, or for use of plant or machinery, or the use of a patent, design, trade-mark or copyright, needed for business purposes;
- losses arising from trading operations;
- capital allowances (initial and annual allowances) which take account of the costs of purchase and depreciation (reduction of value with time) of capital items, eg. industrial buildings, business vehicles, plant and machinery, furniture and fittings;
- capital allowances (investment allowance) on new and unused equipment brought into use in certain businesses in the year of tax assessment.

For further information on these deductions and other business taxation details see Chapter 14: Taxation - business profits.

MINISTRY OF TRADE, INDUSTRY AND TOURISM

LICENSING

- Industrial licences for Malawians are only K40.00 per year compared with K1,200.00 for foreign owned businesses.
- These and other arrangements for licensing, permits, and registrations, administered by this and other Ministries and government departments, together with patent, copyright, design and trade mark legislation can act as incentives to setting up a business by providing protection against competition from unlicensed or unregistered businesses and against unauthorised use of product names, designs etc. used in the business. For further information on licences, permits, and registrations, see Appendix 3 and for details of patent protection etc. see Appendix 2.

PROVISION OF INDUSTRIAL INFRASTRUCTURE

- The Government provides fully serviced industrial sites for the use of entrepreneurs wishing to set up businesses.

PROVISION OF EXPORT INCENTIVES

Under the Export Incentives Act No. of 1988, exporters who are registed with the Malawi Export Promotion Council have access to:

- a foreign exchange revolving fund operated by the Reserve Bank of Malawi. This facility has yet to be established;
- 4% tax allowance on income derived from export proceeds;
- drawback on duty on imported raw materials including packaging materials.

Further Information and Advice

- Ministry of Finance, Customs and Excise Department - for information on tariff protection and rebates - contact the Controller of Customs and Excise, Customs and Excise Department, P/Bag 20, Blantyre (tel: 620288).
- Ministry of Finance, Income Tax Department - for details of tax rebates for businesses - contact the Income Tax Department:

  P.O. Box 250, Blantyre (tel: 620844) (head Office)
  P/Bag 26, Lilongwe (tel: 723155)
  P/Bag 15, Mzuzu (tel: 332032);
- Ministry of Trade, Industry and Tourism - for information on business licenses and registrations - contact the Licensing Officer, MTIT, p.o. bOX 30366, Lilongwe 3 (tel: 732711).
- For information on other licenses and permits - see Appendix 3.
- For information on patents, trademarks etc., - see Appendix 2.
- For details of serviced industrial sites - contact the Ministry of Trade, Industry and Tourism, Industrial Development Department, P.O. Box 30366, Lilongwe 3 (tel: 732711).

13. Keeping books and records

Your business books and records not only measure your past success, they are also a basis on which you can try to forecast future performance. Without these documents, you can easily lose your way and this may cost you both time and money.

The exact kind of bookkeeping system you should use depends on the type of business you have. However, there are several characteristics which all businesses have and these are covered in this chapter. Also, general guidance is given on control and information systems which may apply to your business.

Your accountant will advise you on the best bookkeeping method for your business and may help you write up the books. He will also know which records have to be kept for tax and statutory (legal) requirements. Even if your accountant is providing complete accounting services for you, it is important that you are able to understand the way the bookkeeping methods work, so that you can correctly interpret the figures and use them to make the right decisions in running your business.

Take Note

All businesses will need a bank account. You must first see your bank manager and complete a bank mandate form, which gives information on the name of the account, the names of those who may sign cheques on the account and samples of their signatures. Take the manager's advice on who should be allowed to sign cheques and what kind of cheque crossing you should use as this can give you important protection. In the case of a company, the manager will also need to see the Memorandum and Articles of Association, and Certificate of Incorporation.

Avoid using your business bank account for personal money transactions. These will only cause confusion when you come to sort out your financial statements.

Keep a cash book. This should be divided into headings suitable for your business. For example you could divide receipts between cash receipts, debtors, and others, and divide payments between stock, wages, services, etc.

Use your bank statements as a check on your books and records. Each time you get a statement, which should be at least once a month, you should compare the figures with your cash book and make sure they agree. Remember to note down in your cash book relevant items from your

statement such as bank charges, interest, standing orders, and money which has been deposited directly into your account.

In very small businesses the books and records which you need to keep should be simple and straightforward. As well as your cash book which is the main item of your financial records system, you may also need:

- a petty cash book which is used to record small cash payments;
- a wages and salaries analysis book which shows how you calculated these amounts for each employee. By law you must give each employee a payslip when they are paid, and you must keep proper records of the amounts paid;
- a file of paid purchase and service invoices marked with the date and cheque number with which they were paid. You should also keep a seperate file for unpaid invoices;
- a file of paid sales invoices kept in some useful order (eg. by invoice number or date) with a note on each of the date on which it was paid. Keep a seperate file of unpaid invoices which you need to follow up regularly;

As your business grows you may need to make some additions to your accounting system such as:

- a purchase day book in which you record all the goods you buy and details of payments for these - date and cheque number or a note to say if cash was paid;
- a sales day book in which you record details of all sales and when cash was received from the customers;
- for regular customers and suppliers you may want to keep for each a detailed ledger account to help you remember how much you owe and are owed.

Your accountant will be able to show you how to keep these types of books and records.

In the future, you may decide to computerise your bookkeeping system. There are many types of micro-computers and accounting systems which can be used for small businesses. You should seek professional advice before choosing a particular system in order to avoid making an expensive mistake.

You should regularly allow yourself some time to check the information being produced by your accounting system. It is wise to write a monthly

set of accounts. Your accountant will show you how to do this using the information contained in your books and records. When you have done this, look at them carefully and compare them with:

- your forecast or budget;
- the results of any previous periods.

Calculate the gross profit percentage. This is the trading profit before subtracting overheads (trading expenses) stated as a percentage of sales. If this figure goes down, it could mean that you are being affected by price increases in your supplies/raw materials which you have not passed on to your customers in the form of increased prices.

Look carefully at the level of overheads. Make your budget for these as accurately as you can and then check on any items which seem to be too high.

Pay close attention to your debtors (people that owe you money). Make sure you have a good credit control system. Are there any outstanding balances which should have been paid? Follow up invoices that are long overdue. Ask your accountant about credit control methods that may be suitable for your business. You may need to think about getting credit references for certain customers before supplying them.

Keep a check on your type and level of stock. Are there any old items which are no longer easily sold? Think about selling them at a reduced price or disposing of them if they cannot be sold. Old stock costs you money because of the storage space and administration required. If you have large quantities of certain items which are only moving slowly make sure to adjust the quantities of these which you order in the future and think about trying to promote sales of these in some way, e.g., as special offers.

Are you meeting your cash flow forecasts? If not, try to work out why. If necessary you must adjust your forecasts and be sure to see your bank manager in good time to explain the changes - before he asks to see you!

Further Information and Advice

- Your auditor or accountant - for details of what records to keep and how to keep them.
- Your local business stationers - for obtaining the different types of record books you may need.
- Your bank manager - for information on setting up a business account and general advice on business financial matters.
- Computer sales and services people - for advice on computerised accounting systems.

14. Taxation - business profits

Although you may find the subject of taxation unpleasant, it is something you will have to accept and learn to get used to!

If you were employed before starting your own business, then you will find that taxation becomes complicated, particularly where your business is registered as a company. It is therefore important to get good professional advice right at the beginning.

The income tax position of sole traders and partnerships is similar to that of individuals (personal taxation). Taxation of companies (corporate taxation) differs in several important aspects. Where this is the case, these differences are detailed in the appropriate section. At the end of the chapter there are some tax planning points that you may find useful.

Take Note

Income Tax Legislation and Administration

The Minister of Finance has overall responsibility for tax administration and the Income Tax department, headed by the Commissioner of taxes, is responsible for collection of income tax. All income taxation matters are covered by the Taxation Act (Cap 41:01) of 1964. Amendments and additions to this Act are included in various Finance Acts passed since 1964. Laws covering other types of taxation are found in seperate Acts and those affecting businesses are detailed in Chapter 15 following.

Basis of Taxation

Only income from sources within Malawi is taxed. Any income which is proved by the taxpayer to be of a capital nature (ie. received from sale of fixed assets such as buildings, vehicles, plant and machinery) and any income listed in the first schedule of the Taxation Act is excluded from taxable income. Source of income means where the income is earned and not place of payment, with certain exceptions specified in the Act.

Classification of Taxpayers

The two main types of taxpayers are individuals (including sole traders and partnerships) and companies (which include any association, regardless of where incorporated).

Each partner in a partnership is assessed individually on his share of the taxable income of the partnership, but a joint return (statement of income and any claims for exemption for the partnership) must be submitted.

Tax Year

The tax year begins on April 1st and ends on March 31st for all taxpayers except companies which may use any financial year end that is suited to the nature of trading, subject to the approval of the Commissioner. A rough working rule is used by the tax authorities to decide the year of assessment of businesses whose year end is not March 31st. Businesses with year-ends in April or May are assessed to tax in the previous year ended March 31st, and businesses whose year-ends are after May are assessed in the foloowing year that ends on March 31st.

Tax Incentives

These are provided for businesses by way of investment allowances for capital expenditure on industrial buildings, and plant and machinery used in manufacturing and agricultural operations. Initial allowances are also given on industrial buildings and all other depreciable fixed assets, in the year in which they are obtained. The above allowances may also be granted on buildings which would not normally qualify, if the business involved is judged to be making an important contribution to national development.

For manufacturing businesses, expenditure incurred not more than 18 months before start of operations in setting up the business is allowed as a deduction.

Further details of these and other incentives are given in the section dealing with Deductible Items.

Tax Rates

- Individuals

The basic tax rates are progressive and range from 3% to 45% of taxable income derived from employment and or pension as detailed in the table below. Husbands and wives are treated as separate individuals for their earned income. Any other income of a wife is included in the husband's taxable income.

Taxable Income	Rate
First K2,400	3%
Next K6,000	15%
Next K9,600	25%
Next K18,000	35%
Excess over K36,000	45%

For income derived other than from employment and or pension, there is a minimum amount of tax as follows:

Income Per Annum	Minimum Amount of Income Tax (K)
Does not exceed K500	Nil
Exceeds K500 but does not exceed K2,500	25.00
Exceeds K2,500 but does not exceed K5,000	50.00
Exceeds K5,000 but does not exceed K10,000	75.00
Exceeds K10,000	100.00

The graduated tax rates for employees earning not more than K2,400 per annum are as follows:

Income	Rate of Tax
Not exceeding K1,200	2%
Exceeding K1,200 but not exceeding K2,400	3%

- Companies

The basic tax rate is 45% of taxable income. An additional tax at 5% of the taxable income is charged in respect of all companies not incorporated

in Malawi. Life Insurance businesses are taxed at 30% of their taxable income.

There is a minimum tax for companies based on sales turnover where a company is in a loss situation as follows:

Income (Turnover)	Tax
Not exceeding K100,000	K 500
Not exceeding K100,000 but not exceeding K300,000	K 1,000
Not exceeding K300,000 but not exceeding K500,000	K 2,500
Not exceeding K500,000 but not exceeding K1,000,000	K 5,000
Exceeding K1,000,000	K10,000

- Other Organisations

Ecclesiastical, charitable or educational institutions of a public character or of trusts are taxed at 25% of their taxable incomes.

Tax Returns

Returns submitted to the Commissioner of Taxes are for information purposes only, the actual tax payable is calculated from these by the tax department and the taxpayer informed in a formal notice of assessment.

Individual taxpayers returns must be sent in by May 1st every year. Companies must submit returns within 30 days of their financial year end.

Extensions may be permitted in certain situations. Application for extension must be sent in before the due date for returns and accompanied by an estimate of taxable income which may be assessed immediately.

Returns must be accompanied by any balance sheets, trading accounts or profit and loss accounts necessary to support the information in the return. Extensions of time may be allowed in special situations.

Every person carrying on a trade in Malawi must give details of dividends paid, interest payable or receivable and any other information required by the Commissioner related to income from the trade.

Where the taxpayer fails to send in a return or other information required or if the Commissioner is not satisfied with a return or information submitted, the Commissioner may estimate the taxpayer's taxable income.

Tax Payment - Provisional Income Tax

- Companies

Provisional income tax (other than PAYE - which is discussed in the next chapter) must be paid in advance using one of the two following methods:

Method 1: The tax to be paid is based on the income tax actually paid for the previous year of assessment and must be paid quarterly in arrears in four equal instalments. Each taxpayer's quarter is determined by the business year end.

Method 2: The tax to be paid is based on the taxpayer's own estimate of the current year's taxable income and must be paid in four quarterly instalments as follows:

a. the first quarter's instalment should be not less than 20% of the total estimated tax payable for the year;

b. the tax to be paid in the second and following quarters may be varied depending on the latest taxable income details available to the taxpayer;

c. penalties may be charged for under-estimating the tax to be paid.

- Individuals

All persons liable to pay income tax must, at the beginning of every year of assessment, estimate the total amount of provisional tax payable for that year and pay such tax in quarterly instalments within 30 days after the end of each quarter in that year.

Exemption from Provisional Tax

The following classes of individuals are exempt and do not have to pay provisional income tax:

a. Any person whose income for the year of assessment is not more than K6,000;

b. Any person whose income, although more than K6,000 per year, is all obtained from employment and/or pension, and from which PAYE is being deducted (see Chapter 15 for details of PAYE and other withholding taxes).

However, at the time of sending in returns of income to the Department of Taxes, all the above taxpayers must pay the difference in tax between the actual tax as revealed in the tax returns and the total of any PAYE or other withholding tax deducted from their income.

Any over or under deductions are corrected at the end of the tax year by means of a further assessment.

Transitional Arrangements for Payments of Tax **by Companies**

In order to reduce the tax burden on taxpayers, the Commissioner has made transitional arrangements for payment of tax during the first four years of assessment starting from April 1st 1988 and ending on 31st March 1992.

Under these arrangements, the total provisional tax to be paid for the year of assessment shall be equal to the percentage specified for that year of assessment and depends on which of the two above methods has been chosen for making payments. The table below gives details of the provisional income tax payable under these arrangements.

Year of Assessment	Tax Payable Method 1	+ Method 2
1st year	25%	20%
2nd year	50%	40%
3rd year	75%	60%
4th year	100%	80%

Note: The balance of tax payable, between the actual tax liability as shown in the accounts and tax calculations, and the provisional tax paid in advance, must be paid at the time of forwarding the accounts, tax returns

and calculations to the Department of Taxes which is 90 days after the end of the financial year of the particular business.

Method of Payment

Tax is normally paid by cheque or cash. However, the Commisioner of Taxes has the power to take possession of certain property ("goods and chattels") of a taxpayer who is unable to pay. These may be sold at public auction, and the money obtained used to pay off the unpaid tax. Any money left over from the sale is refunded to the taxpayer.

Examination of Returns

The administrative work of checking returns and preparing assessments is done by assessors appointed by the Commissioner. The taxpayer may be required to send in any documents needed to prove the accuracy of information supplied in the returns.

If the Commisioner satisfies a magistrate that a taxpayer is liable to a penalty under the Act, the magistrate can authorise the Commissioner to take and keep any documents required to determine the person's liability for tax and to use these as evidence in any court case which may arise.

Penalties and Interest for Late Returns or Payments

Any taxpayer who fails to send to the Department of Taxes his quarter's instalment of provisional tax payable under either method of payment, or;
any taxpayer who, when sending in to the Department his tax returns, accounts and tax calculations, fails to pay the difference between the actual tax as calculated and disclosed in the tax returns and accounts, and any provisional tax forwarded or any PAYE or withholding tax (see Chapter 15 for details of these) deducted will have to pay:

i. interest equal to 15% of the unpaid tax and;

ii. a penalty at the rate of 5% of the unpaid tax for each month or part of a month up to a maximum period of four months during which the tax remains unpaid.

Note: Neither the interest charge nor penalty are allowable deductions for tax purposes.

- There are also penalties for:
  - failing to comply with any notice served by a Commissioner;
  - failing to keep records, books or accounts as required;
  - failing to provide the Commissioner with returns required on employees;
  - failing to make a return, or sending a return with any error or omission;
  - fraudulently falsifying a return or books, accounts or records on which a return is based, or making a false claim for repayment of tax;
  - assisting in making a return which is known to be false.

INCOME SUBJECT TO TAX

The Nature of Income

Income is defined by the Act as being any amount (in cash or otherwise) received by or due to a person from a source in Malawi, excluding any amount proved to be of a capital nature or otherwise exempt from (free of) tax under the Act.

Income of Minor Children

For tax purposes, a minor is an unmarried person under 21. Such persons who work or run a business, and who live independently of their parents, are taxed in their own right. The practice regarding dependent minors is to calculate their income in the hands of their parents. However, minimum tax (see Chapter 15) starts to be deducted from age 18.

Income of Married Women

The income of a married woman is regarded as being the income of her husband and is taxed accordingly. However, if seperate taxation of the wife's and husband's income would result in less tax having to be paid, a tax credit will be granted against the tax produced by combined assessments.

Business Income

The taxable income of a business is generally the profit shown in the accounts less any exempt income and allowable deductions. Capital gains on sale of fixed assests are not included in taxable income. Any tax losses (trade losses) which may arise may be carried forward and deducted from future taxable income.

Interest Income

Tax must be paid on all interest income including that from a building society registered in Malawi, except for the following exempt items:

- interest on Post Office deposits, savings certificates issued by the Government or tax reserve certificates;
- interest on public loans raised by the Government and specified as exempt from tax;
- interest on Government stock or bonds specified as exempt from tax;
- interest on Malawi Development Bonds;
- interest on 4.5% African Development Loan issued on 1/7/60.

Income from Dividends

Any income received by individuals as dividends from investment in the stocks and shares of another company is also liable to tax.

Dividends declared by companies incorporated in Malawi are payable from after-tax profits and are therefore deemed to be declared net of income tax.

Dividends received by companies incorporated in Malawi from another company resident in Malawi are excluded from taxable income.

Dividends payable to non-resident shareholders are taxed at 15% of the amount declared. However, this does not apply where the dividend is exempt from tax under a double taxation agreement between Malawi and the country of residence of the person receiving the dividend.

Capital Gains or Losses

Capital gains on the sale of fixed assets are not taxable and capital losses are not deductible from taxable income. However, any gains from the

sale of property which was originally obtained for the purpose of profit-making by sale, must be included in taxable income.

Where an asset is sold for more than the written down tax value (the original cost of an asset for capital allowance purposes less the amount of capital allowances granted on the asset), the extra amount is subject to tax up to the amount of allowances granted. In the same way, where an asset is sold for less than the written down tax value, the difference is allowed as a deduction from taxable income. This is known as a balancing allowance.

Purchased Annuities

The part of the annuity which represents the undeducted purchase price may be excluded from taxable income. This price is the amount paid by the taxpayer which has not been allowed and is not allowable in assessments for income. This is annualised (calculated in terms of each year) by dividing by the life expectancy of the taxpayer (as shown in life tables) or over the term of the annuity, if the latter is payable over a pre-determined fixed term.

Timber Sales

Where land is sold and there is timber on the land which the Commissioner considers has been grown for sale, the market selling value of the timber (the expected value of the timber when sold) must be included in the seller's taxable income.

Premiums

Any income received as a premium (payment) for the right of use or occupation of land and buildings or plant and machinery, or for the use of any patent, design, trademark or copyright, must also be included in the taxable income.

DEDUCTIBLE ITEMS

With individuals, there are no personal or child allowances, and there is no relief for life assurance payments.

Business Expenses

All expenditures and losses (except those of a capital nature) which arise completely as a result of trading operations or in the production of income, are generally allowed as deductions from taxable income. Interest paid to a building society on a mortgage advance is also allowed as a deduction.

Depreciation (Annual Allowance)

This is one type of capital allowance and may be deducted on all assets used for the purpose of the taxpayer's trade, apart from buildings which are not industrial buildings. The exception to this rule is that allowances may be claimed by manufacturers or persons carrying out farmering operataions on all staff housing built as long as the employee living in the house is completely or almost completely occupied in the service of the company and does not control more than 5% of the voting rights attached to any shares in the company.

The Act defines an industrial building as one which is used for:

- making any article or part of an article;
- processing of goods or materials, including breaking up or destroying;
- adapting any article for sale;
- generating power;
- a transport, dock, inland navigation, water refridgeration, hydraulic electricity power tunnel or bridge undertaking;
- a hotel;
- processing and distribution of fish;
- any activity regarded officially as contributing significantly to national development.

Dwellings, retail shops, showrooms, storehouses, or offices do not count as industrial buildings.

Capital expenditure on mining operations is allowed at the rate of 20% per year on the straight line basis.

Capital Allowances

These are granted at the following current rates:

Item	Initial Allowances	Annual Allowances 1st year	Thereafter
Industrial buildings	10%	5%	5%
Trucks & Heavy lorries	20%	25-33.3%	25-33.3%
Saloons & Pickups	20%	20%	20%
Plant & Machinery	20%	10-15%	10-15%
Furniture & Fittings	20%	10%	10%
Motorcycles & Bicycles	20%	20-25%	20-25%

Initial allowances may be claimed for capital expenditure on second hand items and for new items which are not covered under investment allowances detailed below.

The initial and first year annual allowances are normally based on cost and the annual allowances thereafter are normally based on the reduced balance of the undepreciated cost.

Investment Allowances

In addition, certain businesses such as manufacturing and farming are granted another form of capital allowance called an investment allowance on **new and unused** assets (industrial buildings, plant and machinery) brought into use in the year of assesment. This is a one-off allowance of 40% of the cost of the assets and is deductible from cost for purposes of calculation of annual allowances. No initial allowance can be granted for assets upon which investment allowance is claimed. For the purposes of this allowance, plant and machinery does not include motor vehicles, however initial and annual allowances may be claimed for these instead.

A manufacturer includes the owner of a business carried out in an industrial building (see above for definition) and the owner of a plantation producing tea, coffee, tobacco, sugar, cocoa, or other approved crop.

Bad and Doubtful Debts

Any debt proved to the Commissioner to have become a bad debt ie. not recoverable during the year of assessment, will be allowed as a deduction provided that the amount must have been included in the taxpayer's assessable income either in the current year or in a previous year.

A deduction may also be made for debts considered to be doubtful, but any allowance made must be included in income for the following year.

On recovery of any amount for which a deduction has been allowed under this section must be included in taxable income in the year in which it is received.

Premiums

The payment of any premium for the right of use or occupation of land and buildings or for the right of use of plant or machinery (eg. hire purchase agreements), or of any patent, design, trademark, or copyright is allowed as a deduction, provided the property is used in the production of income. The premium paid, however, must be spread over the period of right of occupation or use, or over 25 years, whichever is less.

Taxes

There are no specific arrangements covering deduction of taxes paid, except that income tax or interest payable on this tax are not allowed as deductions. Other miscellaneous taxes such as rates (property tax), customs duties, licences, etc. are allowed as deductions in the normal way, provided they are incurred for the purposes of the taxpayer's trade, or in the production of income, and are not of a capital nature.

Interest

If this is incurred by the taxpayer in the production of income, it is allowed as a deduction, as is interest paid to a building society on a mortgage.

Operating (Trading) Losses

Any assessed loss arising solely out of trading operations may be carried forward and allowed as a deduction from future taxable income.

Sales of Assets on which allowances have been claimed

Where an asset is sold at less than the written down value, the difference is deducted in the year of sale.

Worthless Stocks, Securities or other Assets

Capital profits are not taxed in Malawi and any loss arising from any of the above will not be allowed as a deduction, unless the asset is depreciable, in which case a balancing allowance may arise out of the disposal.

Casualty Losses

There are no special arrangements for deduction of casualty losses. Any inventory (stock) destroyed or damaged is allowed as a deduction and any depreciable asset damaged beyond repair would be treated as a disposal and so would lead to a balancing allowance. Any other assets damaged or destroyed are not deductible.

Charitable Contributions

Individual contributions of not less than K20 made to any charitable organisation approved by the Minister of Finance are deductible. Any contribution to a scientific or educational body for purposes of research connected with the trade of the taxpayer, and any grant, bursary, or scholarship for technical education at an approved institution is also allowed.

An overall limit of K10,000 on contributions of this kind applies to any one year of assessment.

Advertising, Entertainment and Travel Expenses

Any expenditure on these is deductible, provided it is not of a capital nature and is incurred only for the purposes of the taxpayer's trade or in the production of income.

Legal Expenses

These are deductible if incurred in the production of income. Thus fees for debt collection, renewal of leases, and litigation (legal action) connected with business income or reduction of business expenses are

allowed. Fees resulting from new lease agreements, acquisition of assets, or loan and share agreements are not deductible.

Insurance Premiums

Premiums paid for insuring of normal business risks are deductible, as are premiums on life, accident or disability insurance for employees.

Sale of Timber

Deductions may be allowed for income arising from the sale of timber on land owned by the taxpayer. The Commissioner determines the amount of deductions allowable depending on the particular circumstances involved.

Annuity Payments and Alimony

Any amount paid as an annuity, allowance or pension to a former employee or dependant of the taxpayer is deductible. However, the maximum deduction allowed is K1,200.

Any amount paid as alimony or an allowance under any judicial order or written agreement of seperation is not deductible nor is it taxable in the hands of the person who receives it.

Pension Contributions

Any contributions to approved pension or provident schemes are allowed as deductions.

Educational Passages

Travelling expenses for these are not deductible. So, where paid by the employer, they become a taxable benefit of the employee.

Special Deductions for Farmers

The following types of expenditure in the year of taxation are allowable as deductions:

- stumping, clearing, and levelling of land;
- works for prevention of soil erosion;
- boreholes;

- wells;
- aerial and geophysical surveys;
- any water control work connected with cultivation of rice, sugar and any other approved crops;
- water conservation work (reservoir, weir, dam, or embankment constructed for the regulation of water flow).

Any farmer who gets income from growing of timber may decide to have this determined by the following rules:

- the cost of planting the timber plus 5% per year is carried forward until the timber reaches maturity;
- the 5% must be added to taxable income or deducted from the assessable loss in each year of assessment;
- on the sale of the timber, the part of the cost relating to the quantity sold is deducted from the sale value to determine taxable income.

Export Allowances

An export allowance may be granted in respect of exports made during the year of assessment.

Initial Expenditure on New Businesses

Any expenditure involved before start of operations by a taxpayer involved in a manufacturing business, will be allowed as a deduction provided that it was incurred not more than 18 months before start of operations and that such expenditure would have been allowed as a deduction if it had been incurred after the start of operations.

Research Expenditure

The amount of any expenditure, which is not of a capital nature, incurred by the taxpayer during the year of assessment on experiments and research connected with his trade is allowed as a deduction. Similar deductions apply to any contributions, bursaries and donations to research institutions for the purposes of industrial research or scientific experimental work or education connected with the trade of the taxpayer.

NON-DEDUCTIBLE ITEMS

The following items are specified in the Act as those for which no deductions shall be made:

- the cost to a taxpayer of maintenance of himself, his family or establishment;
- private or domestic expenses, including the cost of travel between the taxpayer's residence and workplace;
- any loss or expense which is covered by an insurance policy or indemnity;
- income tax or interest on this;
- income transferred to a reserve fund or capitalised;
- any expenses related to income which is not included in taxable income under the Act;
- contributions by an employer to any pension, sickness, accident, or unemployment fund which has not been approved by the Commissioner;
- any expense for which a subsidy is received.
- rent or cost of repairs to premises not occupied for the purposes of trade.

SPECIAL TAX RULES FOR COMPANIES

Corporations are classified in two main groups for tax purposes:

- Statutory bodies (some of which are exempt from tax by legislation);
- Limited liability companies (most of which are private or family companies and are subject to tax).

The information given in this booklet dealing with taxation of corporations refers only to companies.

Resident and Non-Resident Companies

All companies, whether registered outside Malawi and/or controlled by outside shareholders or not, must pay tax on all income from sources in Malawi.

Foreign registered companies and branches of these have to pay tax at a flat rate of 50%.

Undistributed Profits Tax

There is no taxation on undistributed profits.

Affiliated Companies - Group Relief

All companies are taxed seperately and tax losses incurred by one company may not be offset against the profits of another. The Commissioner would not allow any transactions between affiliated companies which are carried out, in his opinion, specifically to take advantage of assessed losses.

Investment Holding Companies

A company which deals in shares as a normal part of its business is taxable on capital gains from the sale of shares. Interest income must also be included in taxable income, but dividends are excluded from the taxable income of the holding company.

Liquidations and Other Corporate Charges

These do not affect the tax position of a company. There would, however be a balancing charge or allowance on the sale of assets on which capital allowances had been granted.

ACCOUNTING FOR INCOME AND EXPENSES

General Points

Every person carrying on a business must keep sufficient records of his income and expenditure to enable his taxable income to be easily calculated. These records must be kept for seven years.

Accounts must be submitted annually, unless a company changes its financial year end. All non-company businesses must submit accounts made up to 31st March each year.

Generally the Commissioner requires an income statement more detailed than that needed to comply with the Companies Act, as well as full details of rent, interest payable and travel expenses.

Accrual of Business Income and Expenses

The Act states that income shall include the total amount "received by or accrued to" a person from sources in Malawi. Income and expenses therefore must be calculated on an accrual basis for tax purposes.

However, in certain circumstances, the Commissioner may accept such calculations on a cash basis.

Amounts accrued are sums owing on a sale or service agreement but expected to be paid by financial year end.

Instalment Sales and Long-term Contracts

In any instalment sale agreement the income is regarded as being accrued on the date on which the agreement was signed. However the Commissioner may make allowances on the sale of moveable property regarding amounts which should have accrued during the year but are still outstanding at the accounting year end. This is in addition to any allowances made for bad or doubtful debts, but as with the latter, the sum should be included in income for the following year.

Allowances for immovable property are calculated by multiplying the amount outstanding at the end of the year by the overall profit on the transaction and dividing this total by the total amount receivable under the agreement. The effect of this is to spread the profit over the period of the agreement.

The Act does not specify the treatment to be applied to long-term contracts and this is therefore subject to agreement with the Commissioner. However the company must have a fixed policy on this.

Inventories

Trading stock and work in progress must be valued on the basis of cost price or market selling price at the end of the accounting year.

However, by agreement with the Commissioner, the taxpayer may use any recognised accounting practice which is not contrary to the Act.

Once adopted, this practice must be used for future years and may not be changed without the permission of the Commissioner. The Act says that livestock must be valued at cost or market selling value.

Judicial Review

In any dispute over tax to be paid, it is the taxpayer who must prove that an amount should not be taxed. Appeals may be made to the Commissioner who may change an assessment or decision, or disallow the appeal. If the taxpayer is still not happy with the Commissioners decision, he may appeal to a Special Arbitrator (appointed by the President) who can summon and enforce attendance of witnesses and appoint assessors to advose at a hearing. His findings are final and conclusive. Any further appeals may only be on points of law and must be directed to the High Court.

Further Information and Advice

- Your auditor or accountant.
- The Malawi Tax Act (Chapter 41:01).
- Regional offices of the Income Tax department.
  - P.O. Box 250, Blantyre (tel: 620844)
  - P/Bag 26, Lilongwe (tel: 723155)
  - P/Bag 15, Mzuzu (tel: 332032);
- The taxing authority: Ministry of Finance, Department of Taxes, P.O. Box 162, Blantyre (tel: 620277).

15. Other taxation matters affecting businesses

This chapter deals with the other main types of taxation and miscellaneous related matters which may affect the running of your business operations. In particular details are given on taxation applying to employees, such as withholding taxes (eg. pay-as you-earn [PAYE]), gratuities and annuities, pensions and contributions, and taxable benefits. Also covered are customs and excise duties, transaction taxes, and local authority taxes.

TAXATION AFFECTING EMPLOYEES

Withholding Taxes

Withholding of Income Tax on Salaries and Wages or "Pay-As-You Earn" (PAYE)

Employers paying employees over K1,200 per year, whether paid weekly or monthly under a contract of employment or not, must deduct income tax from such payments.

The amount to be deducted is calculated by reference to tax rate tables prepared by the Commissioner of Taxes.

Failure to do this means that the employer becomes liable to pay the amount not deducted. The employer may recover this amount from the employee.

At the end of the tax year (31st March) the employer issues a certificate to the employee which states gross earnings, income tax deducted and the value of any free benefits. This certificate is used by the employee for completing his annual return to the Inspector of Taxes.

The tax deducted is used to buy tax stamps from the Commissioner, which are then stuck on the employee's tax card.

Minimum Tax

All resident males over 18 years of age whose annual taxable income is less than K500 pay a minimum tax of K3.50.

Withholding Tax on Specified Payments

Certain payments for supplies and services are subject to a withholding tax, as detailed in the table below, which is deducted by the payer and sent to the Department of Taxes on a monthly basis (by the 14th of the

following month. For bookkeeping purposes, the payee treats the deduction as an advance payment of tax which will be offset against the income tax later assessed. The Commissioner may exempt from withholding tax the receipts of certain persons or organisations. Withholding tax exemption certificates will normally be issued on application to taxpayers whose tax affairs are up to date.

Table of Withholding Tax Rates	
Most fees and commissions	10%
Royalties	10%
Most rents	10%
Payments of over K500 for supplies to traders and institutions (eg. Government departments) under tender or similar arrangements:	
Foodstuffs	5%
Other items	10%
Transportations	5%
Payments to all contractors and subcontractors	5%
Payments of over K500 for tobacco and other farm produce	5%
Payments of over K500 for personal services	5%
Bank interest over K100	10%
Payment for public entertainment	5%

THE NATURE OF INCOME - NON-TAXABLES

Any amount paid to an employee as a contract gratuity on completion of a contract of employment may be excluded from the employee's taxable income provided that:

- he is not a member of a pension fund to which the employer makes contributions on his behalf;
- the contract must have been approved by the Commissioner;

- the employee must spend his time completely or almost completely in the service of the company;
- the employee must not be able to control directly or indirectly more than 5% of the voting rights of the company;
- for contract entered into before 1st April 1990; a gratuity shall be excluded from income upto 25% of the salary accrued over the period of employment or K40,000 which ever amount is lower.

Certain items are specifically required by the Act to be included in taxable income: annuities, casual profits from sale of property obtained for the purposes of profit-making on resale, certain non-cash benefits eg. motor vehicles, available for the employee s private use, amd free housing (the value of both of these benefits being determined by the Commissioner) and any living expenses incurred by the employee but paid for by the employer, premiums for the right to use property, timber sales, recoupment of any initial or annual allowances on sale of an asset and dividends.

Lump Sum Payments to Employees

Any lump sum payment on ceasing employment which is not a gratuity, an annuity, a payment in commutation of a pension from the Government or other approved pension or provident fund, or a payment on account of ill-health or disability, must be included in taxable income.

Taxable Benefits of Employees

Where employees receive free benefits such as housing, a car, etc., provided by the employer, the following are included in their taxable income:

- **Housing**

10% of salary for unfurnished accommodation or 12% of salary for furnished accommodation. There is a 30% reduction in respect of accommodation situated within the employers' business premises.

- **Motor Vehicle**
  - For those in the low private use category (i.e., where use of the car is restricted; and there is a requirement to maintain an auditable log book for purpose of recording distances covered for both business and private use; and private uses does not exceed 9,000 kilometres

per annum) 50% of the lower of 10% of the cost of the vehicle on a declining value basis or 15% of salary of the employee.

- For those in the high private use (unrestricted usage) 10% of the cost of the vehicle on a declining basis or 15% of the employee's salary whichever is lower.
- House to office travel constitutes private use.

- **Other benefits**

For other benefits such as expenses for electricity, water, servants, swimming pool, etc., actual benefit or negotiated fair sum.

PENSIONS AND OTHER RETIREMENT BENEFITS

Taxation of Retirement Benefits and Contributions

The gross amount of annuity is taxable as received except for contract gratuities and the undeducted price of a purchased annuity.

Lump sum benefits received from approved pension funds are exempt from tax up to K5,000. Any amount over this is taxed at the average rate of tax on the person's taxable income in the year of payment of the benefit after excluding the amount of the lump sum benefit.

Deductions of Pensions and Contributions to Approved Funds

Employers may deduct contributions to approved pension or provident funds in any one year of assessment up to the lower of:

- the total of the employer's contributions;
- the difference between 24% of the employee's annual pay and the amount of the contribution (if any) allowed as a deduction to the employee;
- K9,000, less the amount of the contribution (if any) allowed as a deduction.

An employee's contribution to an approved pension fund is deductible up to the lesser of K3,000 per year or 8% of his earnings or combined earnings of himself and his wife during the period.

OTHER SIGNIFICANT TAXES

TAXES ON TRANSACTIONS, COMMODITIES AND PROPERTY

Customs and Excise Duties on Specific Commodities

These duties are covered by the Customs and Excise Act (Chapter 42:01).

- **Imported Goods**

These are subject to:

- customs duty ranging from 0-100%;
- import levy of 5%
- import surtax ranging from 0-85% of landed cost plus duty;

depending on the class of goods involved.

Customs duties are payable at the time goods are cleared from bond storage. Exemption from these duties can be obtained, if applied for in advance, for imports needed for the development phase of new projects of national importance.

- **Locally Manufactured Goods**

These are liable to local surtax ranging from 0-35%. Manufacturing for surtax purposes includes bottling, repackaging and single assembly.

Excise duties are also levied on tobacco products, beer, spirits, aerated beverages, sugar cane, soap, and woven cotton fabric. Special licences are also required for the manufacture of such items.

- **Exports**

Locally manufactured goods may be exported free of local surtax and excise duty under customs control.

- **Notes on Surtax (Sales Tax [Value Added])**

Surtax is levied on a wide range of imported and locally manufactured goods. It is paid by the consumer (user) of the product but is collected and paid over to the Government by the businesses (registered with the Controller of Customs and Excise) involved on a monthly basis.

The surtax tariff is divided into five categories ie. 0%, 10%, 35%, 55%, and 85%. The higher rates are applied to "non-essential" items. However the "luxury element of the tax system" has been removed from import duties.

Surtax is not charged on industrial raw materials, basic food stuffs and certain capital goods.

The surtax definition of "sales value" includes after-sales servicing, repairs, financing, advertising and "any other services".

In cases where, for example, a parent company manufactures goods and then transfers them to a subsidiary for distribution, surtax is calculated on the basis of a price applicable to an arm's length transaction at open market values (ie. without any special considerations applying), which would not necessarily be the transfer price. Where this is not the case, the Department of Taxes may place arbitrary values on such transactions between related parties.

Local Taxes on Real Property

Taxation of real estate (referred to as rates) is the responsibility of the local government authorities ie. the city and town councils. Rates are levied both on land and on improvements based on local government valuations of these.

Rates apply to real estate and not to personal property. Agricultural land and buildings are exempt from these taxes.

Land and Property Transfers

Land and property are subject to transfer duties of approximately 3% of the value of the property, plus a registration fee of K15.

Stamp Duties

These are imposed on such documents as mortgages, debentures, charges, etc. needed for banking transactions, certain property transactions, transfer of shares or secured loan stock.

The rate of duty is K1.20 for every K200 or part of this above K1,000 of value if the documents are effected under seal, and K0.30 for every K200 or part of this, where documents are effected under hand.

EMPLOYMENT TAXES

General

There are no regulations concerning social security or unemployment insurance.

Severance Pay

Under the Severance Pay Order of the Regulation of Minimum Wages and Conditions of Employment Act, employees are entitled to sererance pay under specified circumstances. In order for an employee to be entitled to severance pay he must, at the time of the termination of his employment, have served for at least five years and be a recipient of not more than K480 or less per annum. Calculation of his pay is based on the latest annual salary at graduated rates according to length of service.

Workmen's Compensation

Under the Workmen's Compensation Act, employers are required to compensate all employees involved in manual work and other employees earning up to K1,000 per year for injury, disablement, or death occuring as a direct result of employment. The amount of the compensation is decided by the Ministry of Labour after consultation of official medical reports.

Usually, employers take out insurance to cover them against such liabilities.

EXCHANGE CONTROLS

In order to obtain approval to remit funds abroad, a taxpayer must supply the Reserve Bank with:

- a tax clearance certificate from the Commissioner of Taxes certifying that tax for the year has been paid or that satisfactory arrangements have been made for this;
- proof of the income tax assessment and, where necessary, receipt for tax payment;
- a bank account statement which does not show an overdraft;
- a copy of the audited accounts showing the dividend payable and a copy of the minutes of the annual general meeting at which the dividend was declared;
- a receipt or exemption certificate for remittances subject to the 15% non-resident tax.

Further Information and Advice

- Customs and Excise Department, P/Bag 20, Blantyre (tel: 620288) - for information on excise taxes, customs duties and surtax.
- The Commissioner of Stamp Duties, Registrar General, P.O. Box 100, Blantyre (tel: 635077) - for details of stamp duty requirements.
- Regional offices of the Income Tax Department (see addresses at end of Chapter 14) - for advice on PAYE and other withholding taxes.
- Your local city or town council offices - for details of local rates applicable to your business premises.
- Your auditor or accountant - for general advice on taxation matters.

16. Other laws and issues affecting businesses

Several of the main Acts of Parliament which affect the setting up and operation of the various types of business have already been mentioned in relevant sections of this guide dealing with a particular topic. For example, the Taxation Act (in Chapters 14 and 15), the Employment Act (in Chapter 3), the Companies Act (in Chapters 8 and 9) and the Business Licensing Act (in Appendix 3).

This chapter therefore looks briefly at the way these laws affect other aspects of running a business which have not already been covered in detail, such as audit requirements for companies and the statutory duties of directors, and also at other laws and issues which may apply to or affect businessmen, such as Exchange Control, Export/Import, Weights and Measures and Price Control regulations.

Take Note

STATUTORY REQUIREMENTS

Books and Records (see also Chapter 13 for general requirements)

- The Companies Act 1984 covers these and requires that companies keep accounting records which are adequate to show a true and fair view of the state of affairs and operations at any time.
- The requirements extend specifically to the keeping of detailed records of fixed assets.
- Accounting records may be maintained by computerised methods but the "audit-trail" must not be lost - this is the ability to follow the progress of any specific payment or receipt through the complete accounting records.
- Records must be kept in Malawi, and (under other legislation) in kwacha, and in the English language.
- Auditors must state in their reports on annual accounts if proper accounting records have not been kept.
- Running stock records and details of individual sales transactions are required except for retail companies.
- Details of individual purchase transactions are required in all cases.

- All sales invoices must show the surtax registration numbers and the amount of surtax.
- Accounts must be prepared annually, approved formally, audited, and circulated to shareholders, debenture holders, and directors. However, unlike public companies, a copy does not have to be filed for public information, nor is a directors' report required.
- Accounting data must be kept for at least the following periods:
  - 2 years, for routine vouchers;
  - 7 years, for surtax invoices;
  - 6 years, for debtor and creditor records;
  - 12 years, for ledgers, journals, etc.

Longer periods may apply during and after liquidation of a company

- Certain statutory registers must be kept with details of share and debenture holders, directors, and charges over assets and undertakings. These must be available for public inspection, and information taken from these has to be filed annually with the Registrar of Companies.
- A permanent (but private) record has to be kept of all meetings of shareholders, directors, and any committees of directors.
- All companies must submit their annual accounts to independent financial audit by a Malawi-registered auditor and audited consolidated accounts are also required.
- There are regulations covering appointment and change of auditors.
- Most other types of businesses do not need independent audit by law, but in some cases this may be a practical necessity. For example it may simplify agreement of tax liabilities and may be required to satisfy conditions attached to a loan agreement or to enable foreign remittance of profits.
- Although not specified in seperate legislation, the requirements for accounting records for partnerships and sole traders are very similar to those for companies. However, there are no defined disclosure requirements or specific accounting methods for partnerships (except law firms) and sole traders.
- Auditors are seldom appointed to partnerships (except law firms) and sole traders, unless this is necessary for exchange control requirements.

But accountants may often be employed to prepare unaudited accounts to satisfy the requirements of the Department of Taxes.

STATUTORY REQUIREMENTS - DIRECTORS

- Every company must have at least three directors, which are defined as persons appointed to direct and administer the business and affairs of the company.
- Certain persons are not allowed to be directors, eg. persons prohibited by court orders, undischarged bankrupts or those prevented by the company in its Articles of Association.
- The majority of the directors (including at least one of the managing directors must be Malawi residents.
- A director need not be a member of the company or hold any of its shares, unless stated otherwise in the Articles.
- Directors may be removed from office by a resolution at any general meeting of the company.
- A director must have agreed in writing to be apppointed, before his appointment.
- A director who is absent from the country or unable for any other reason to carry out his duties, may appoint another director or any other person approved by the board of directors, to act as an alternate director, unless this is prohibited in the Articles.
- A company may not make a loan to a director, or guarantee or provide any security connected with a loan made to the director by another person. There are other regulations affecting company loans.
- There are also other regulations covering limitations on the powers of directors, contracts in which directors are interested, duties connected with sale or purchase of company securities, and various payments to directors.

STATUTORY REQUIREMENTS - COMPANY SECRETARY

- Every company must have a secretary, appointed by the directors, who is a Malawi resident.
- The term, pay and conditions of the appointment is decided by the directors and the person may be removed by them (unless the Articles

state otherwise). However the secretary may claim damages from the company if removed in breach of contract.

- The secretary may be a body corporate.
- Two or more persons may act jointly as a company secretary.
- An assistant or deputy secretary or any other company officer may be authorised by the directors to act as company secretary if the office is vacant or if the secretary cannot carry out his duties for any reason.

STATUTORY REQUIREMENTS - COMPANY REGISTER

- Every company must keep a register of its directors and secretaries at its registered office containing specified details with respect to each officer.
- This must be available for inspection by any member of the company during business hours without charge, and by any other person on payment of a specified small fee.
- Every company must send to the Registrar of Companies a return, in a specied form, containing the particulars recorded in the register.

The above Statutory Requirements (mainly dealing with companies) represent only some of the basic regulations affecting the running of a company. For details of other legislation, you must seek professional advice and/or obtain a copy of the Companies Act.

STATUTORY REQUIREMENTS - DUTIES AND RIGHTS OF PARTNERS

In general, a partner must act in complete good faith towards the other partners and must comply with the conditions of the partnership agreement.

According to the Partnership Act (Chapter 46:04), and subject to any agreement between the partners:

- all partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses;
- the firm must cover any partner for payments made and liabilities incurred by him in carrying out the business of the firm or in the process of preserving the business or properry of the firm;
- any partner who makes on behalf of the partnership, any payment or advance greater than the amount of capital he has agreed to subscribe,

must be paid interest of 5% per year from the date of the payment or advance;

- a partner is not entitled, before calculation of profits, to interest on any capital subscribed by him;
- every partner may take part in the management of the business;
- no partner may be paid for acting in the partnership business;
- no-one may be introduced as a new partner without the agreement of all the existing partners;
- any difference arising concerning ordinary matters connected with the business may be decided by a majority of the partners, but no change in the nature of the business may be made without the agreement of all the partners;
- the partnership books must be kept at the business offices (or the main office, if there is more than one) and every partner must, at any time he wishes, be able to inspect and copy any of them;
- no majority of the partners can expel any partner unless the power to do this has been previously agreed by them;
- any partner may end his partnership at any time by giving notice of his intention to do so to all the other partners, unless a fixed term of partnership was agreed on in the original agreement;
- where the partnership was formed by a deed (formal written agreement), a signed notice in writing is sufficient notice of a decision to leave the partnership;
- when a fixed term partnership continues after the period has finished and there is no new agreement, the rights and duties of the partners are the same as they were under the previous agreement;
- continuing of the business by the partners beyond the period of the agreement, without any settlement or liquidation of the firm's affairs, is regarded as a continuance of the partnership;
- partners must provide true accounts and full information of all things affecting the partnership to any partner or his legal representatives;
- a partner must inform the firm of any private benefits or profits obtained by him from any transaction involving the partnership or its property, name or business connections, without the consent of the other partners;

- if a partner makes any profits by carrying on a similar business in competition with the firm, without the permission of the other partners, he must pay over and account for these to the firm.

The above points cover some of the basic regulations dealing with partnerships. Other parts of the Act deal with relations of partners to persons dealing with them, other aspects of partners relations to one another, and dissolution (ending) of the partnership and its consequences. For details of these, you should obtain professional advice and/or a copy of the Act.

OTHER REGULATIONS AFFECTING BUSINESSES

Exchange Controls

- These are regulations covering the movement of foreign exchange into and out of the country and are contained in the Exchange Control Act 1984 and the Exchange Control Regulations 1984.
- Exchange control applies to all foreign transactions, whether capital or recurrent, routine or one-off.
- Exchange control is administered by the Reserve Bank of Malawi under the authority of the Minister of Finance. The Reserve Bank in turn gives limited authority to commercial banks to act as its agents.
- All matters dealing with exchange control (most commonly applications for foreign currency allocations in order to import goods or raw materials) must be directed through a commercial bank dealing as an agent for the applicant.
- Powers in the Regulations allow for inspection of accounting and other documents and requirement for a person to provide information, even where this may be incriminating.
- All foreign exchange transactions are assumed to be unauthorised unless proof of the existence of authority can be produced.
- Penalties for infringements of the Act or Regulations are severe.
- Generally the effect of the Regulations in practice is to restrict transactions involving outward remittances of capital much more than those involving import of goods and services, and to restrict imports of luxury items more than essential items and raw materials.
- There are strict time limits between the date of exchange control approval and the date of receipt of goods, and between the latter and the date of application for foreign exchange for settlement.

- There is no appeal procedure against Exchange Control decisions, but applications can always be re-submitted together with further documentation or argument.
- If a remittance is not approved or is required to be phased, payment into a specially designated bank account usually provides a valid legal defence for a debtor.

EXPORT AND IMPORT REGULATIONS

- These are based on the Control of Goods Act (Chapter 18:08) and administered under the Ministry of Finance, Department of Customs and Excise, P/Bag 20, Blantyre (tel: 620288). The Act gives power to control all imports and exports. At present only a few items require licensing under this Act.
- Open general licensing (no application required) applies to most imports from non-Communist countries and also to petroleum products, personal effects, and items in transit, regardless of source or origin.
- Restricted imports include firearms and exposives and banned films and publications.
- Nearly all imports of goods and services require approval in advance of ordering from the Reserve Bank (usually based on pro forma invoices) if remittance of settlement is to be allowed (see above). This process may take several months. However, the import approval process is gradually being made easier, initially giving authority to commercial banks, within ceilings (maximum quantities) for each importer, for categories of items such as industrial raw materials, intermediate goods, and spare parts.
- All commercial importers and exporters must register with and obtain the required licences from the Ministry of Trade, Industry and Tourism, Licensing Officer, PO Box 30366, Capital City, Lilongwe 3 (tel: 732711).
- Exporters should contact the Malawi Export Promotion Council (MEPC) (address and telephone number given at the end of the chapter) for detailed information on procedures, regulations and licencing. They also advise existing and potential exporters on markets and buyers.
- Exporters are required to register with the MEPC if they wish to take advantage of various tax and other concessions.

Price Controls

- Acting on the advice of a Price Control Board, the Minister of Trade, Industry and Tourism, can fix maximum and minimum prices, or set prices for any goods.
- There are fair rules for the calculation of cost, but no legal standards for profit margins.
- These controls do not apply to export sales, and only a small number of crop purchase, wholesale or retail prices have so far been controlled including: motor fuel, sugar, hoes, fertilisers, maize flour and vehicle spare parts. However, very strong pressure can be applied without statutory authority by the import approval department of the Reserve Bank.
- Specified documentation must be kept for any items subject to formal price control.
- All licensed traders must clearly display sale prices for all goods.

Pollution Control

- Local government has primary responsibility for the control of noxious or potentially offensive industrial emissions, as well as for town and country planning generally.
- The Ministry of Health can take strong action against detected pollution and discharge of waste products, including those involving agricultural activities.
- Water Boards control all water-gathering grounds, and contamination of these is an offence. Particular attention is paid to protection of the pollution-free waters of Lake Malawi.
- All the relevant authorities should be consulted at the planning stage of a new business enterprise.

Miscellaneous Regulations

A number of laws not detailed above have regulatory effects on businesses, including:

- censorship of books, other publications, drama, films and videos (Censorship and control of Entertainments Act, Chapter 21:03);

- advertisement display (Advertisements Act, Chapter 23:03);
- display of net weights of goods on containers and invoices, and disclosure on foreign goods price lists of any non-metric weights or measures;
- disclosure on labels, containers, etc. in specified circumstances, of information such as country of origin of goods, and ingredients and their significance;
- passing of information harmful to the safety, interest or good name of Malawi, or subversive to the authority of the government.

OTHER ISSUES AFFECTING BUSINESSES

The Malawi Bureau of Standards (MBS)

- New businesses: the Ministry of Trade, Industry and Tourism sends a copy of all business registration applications to the MBS on behalf of new businesses and asks for any comments regarding local or national standards for any of the products involved. If standards have been set, a copy of these is sent to the entrepreneur for information and guidance.
- Small, unregistered businesses, such as oil expellers in villages, can send samples to the MBS for testing.
- For information on existing standards, contact the Malawi Bureau of Standards Library, PO Box 946, Blantyre (tel: 670488).
- Permits are issued by the MBS for the use of a "Standardisation Mark of Quality" on goods which comply with national standards and which are subject to regular factory inspection to ensure consistency and compliance with the standards. An annual fee is charged for these.

Government Tenders

- Any business person can request forms upon which to bid as a supplier of goods to the government.
- Advertisements for tenders are published in the national newspapers and each one requires a new form.
- Requests for forms and submissions of bids are made to:

  The Malawi Government Central Tender Board,

  PO Box 51300, Limbe.

Further Information and Advice

- Your legal practitioner and/or the relevant Acts of Parliament - for details of statutory requirements affecting business.
- Your local commercial bank - for information on exchange control procedures and applications.
- The Malawi Export Promotion Council, P.O. Box 1290, Blantyre (tel: 634499) - for advice on export licensing, markets, buyers, etc.
- Other addresses and telephone numbers are given in the relevant sections of the text for obtaining information on specific issues affecting businesses.

17. Insurance and pensions

Often, at the start-up of new businesses, businessmen may think of insurance as something they can do without. But problems arise when the decision to take out insurance comes too late, and the person is then faced with large losses which he could have avoided.

As has been mentioned many times throughout this booklet, there is no substitute for good professional advice, and it is well worth while seeking help from someone who is experienced in this area to guide you.

This chapter gives a brief outline of the main points to be remembered when thinking about insurance for your business.

Take Note

Usually an insurance broker (someone who arranges and sells insurance policies on behalf of insurance companies) will not charge fees for his services. He receives commission (a fee related to the value of the policy) from the insurance company on the policies he sells.

There are many different types of insurance, and certain of these are compulsory, for example, third party insurance on motor vehicles.

It is well worth considering taking out one or more of the following kinds of insurance depending on the type of business involved:

- **Burglary:** this covers property in business premises (and/or domestic premises if required) against loss or damage caused by thieves breaking into and out of the building. Such a policy specifies that there must be violent entry or exit from the premises, and therefore any losses or damage which arise from a thief hidden in the premises, and who does not need to break in or out, are not covered. Also losses sustained by employees within the premises are excluded;
- **Fire:** this provides cover against loss or damage caused by fire, lightning, exposion, and certain other special perils (eg. storm, earthquake, flood, wind) which may be included if required. The policy usually covers buildings but can be extended to cover contents as well;
- **Loss of Profits:** this cover provides a financial back-up in situations where there has been a loss covered under the main fire or machinery policy which will have a major effect on operation of the business. Lost revenue can be covered and thus the business concern will still function when the original loss has been reinstated or repaired;

- **Goods in transit:** this covers loss or damage to goods being transported from one place to another either by professional transporters or by own transportation. The cover can be arranged on an "all-risks" basis or against fire, collision, and overturning basis only;
- **Electronic Equipment:** this policy provides cover against accident, loss or damage to such equipment;
- **Machinery Breakdown:** provides cover against accidental loss or damage to specified machinery used in the business;
- **Public Liability:** cover provides insurance to indemnify (protect) the insured for claims against him arising out of loss or injury to third parties (other persons not involved in the business) during the day to day operations of the insured's activities as a property owner, or in any other circumstances which make him liable under the law;
- **Products Liability:** provides indemnity to a manufacturer for any liability arising due to defective products which have been manufactured or distributed by him;
- **Professional Indemnity:** this policy covers liability arising out of professional negligence or wrongful advice. Clients who have been given such wrongful advice could lose money or face other difficulties as a result and may be entitled to sue for damages;
- **Fidelity Guarantee:** covers employers against loss due to pilferage by employees. This is different from money or burglary insurance, where employees are excluded by the policy.
- **Farmers Insurance:** this may take one or both of two forms:
- **Tobacco field to floor cover**, which covers tobacco against loss or damage during picking, baking, storage, and finally transportation to the auction floors;
- **Tobacco hail cover**, which is a fairly new cover providing protection for growing tobacco against hail damage while in the field.
- **Individual and/or Group Personal Accident:** this provides some compensation for the expenses and loss of earning capability arising from an accident affecting the insured. It is available for certain specified amounts or may be based on annual earnings, for 2, 3, or 4 years depending on the insured's ability to pay the premiums involved.

  Benefits are selected and specified by the extent of the injuries sustained:

e.g., death - the capital benefit is paid;

loss of limb - a percentage of the capital benefit is paid.

This is a useful cover for employees and can be extended to cover medical expenses as well, up to a specified amount.

- **Workmens Compensation:** under the Workmens Compensation Act employers have a statutory responsibility to compensate workmen for death, injury or disease arising as a result of their employment (see also p.131 in Chapter 17). Such payments must be paid according to terms specified in the Act. This policy insures the employer against such compensation liabilities which may arise.

  Employees other than "workmen" can also be covered for Common Law liability if required and this policy extension is commonly taken up by employers.

- **Contractors "All Risks":** this policy provides "all risks" cover to contract works for accidental loss or damage. It can be extended to cover 3rd Party Liability, plant, construction machinery, etc.

- **Plate Glass:** this insurance provides "all risks" cover against loss or damage to plate glass.

- **Motor Insurance:** by law, all motor vehicles must be insured and you will need to consider which of the following types of cover will be required for any vehicles used in your business [and of course for your own personal vehicle(s)]:

  Comprehensive - this is the widest and covers accidental loss or damage to the vehicle, as well as 3rd party liability. A minimum limit of liability is stipulated by law and at present is MK10,000 for damage to property and unlimited for death. Policies usually provide a maximum limit for third party property damage (a typical amount is MK250,000);

  Third Party, Fire and Theft - provides a more restricted scope of cover than comprehensive insurance, but covers loss of the vehicle through fire and theft, in addition to 3rd party liability;

  Third Party Only - this covers only 3rd party liability, subject to the minimum legal limit (see above) and the maximum limit stated under the particular policy;

- **Group Life Assurance:** this policy provides cover for a minimum of two specified employees, should they die whilst in the service of an employer. The employer may arrange for the benefits payable to the

dependant(s) to be 1 or more times the annual salary of the employee up to a limit depending on the particular policy.

This type of insurance may be part of a combined Group Life and Pension scheme operated by an insurance or pensions company (see also below).

The above list is not exhaustive, and you should talk to an insurance company or broker to obtain further details about the cover (protection) provided by the different types of insurance policy and about which of these you may need for your business.

As well as considering the insurance requirements for your business, you must not forget to consider your own personal requirements. These might include protection for your property and possesions or a personal life assurance policy, which provides support for your dependants in the case of your death or a lump sum when the policy matures (comes to the end of its term).

Many people find that when the day of an accident or disaster comes, they are under-insured (ie. they do not have sufficient protection). Make sure therefore when taking out insurance that you obtain the right valuations for the property or other items involved.

Remember that inflation is always pushing up the replacement costs of assets and that you must therefore regularly review the insured values of these to make sure they are adequate.

PENSIONS

Saving for a pension may be the last thing on your mind when starting up a business and making contributions to your employees pensions may not even occur to you. But the sooner you start, the cheaper it is to obtain a given benefit on retirement. If you are running your own business, then your pension when you retire will depend solely on you. Including your employees in a group pension scheme will help provide them with long-term security for when they retire as a tax-efficient form of remuneration and will help to encourage their loyalty and good service.

Take Note

In the case of employees a pension is a periodic payment (eg. monthly, quarterly, annually) made to an employee on his retirement from service,

which thus provides support for the ex-employee and/or his dependants, after he ceases to be paid by his employer.

Contributions are paid at regular intervals by the employer and/or the employee into a pension fund operated by a pensions or insurance company, the amount of which depends on the size of benefit which is to be received upon retirement.

In some cases the employer pays the full amount for contributions to the employee's pension fund (non-contributory pensions) and in others the employee contributes up to a maximum of 5% of his salary (contributory pensions).

Under a typical pension scheme, on retirement the employee may commute (take as a lump sum) 1/3 of the total annuity (pension) and the remaining 2/3 is payable to the annuitant (the person receiving the pension), guaranteed for 5 years. This means that if the person dies within this period the balance of the annuity not yet paid to him will be paid as a lump sum to his dependant(s).

If the person survives beyond this time, he will continue to receive regular pension payments (paid monthly, quarterly or however is agreed with the pension company) for the rest of his life.

Insurance and Pension companies may operate a joint Group Life and Pension Scheme which combines both of these benefits (see above for details of Group Life assurance policies).

Certain tax concessions apply to pension contributions and benefits (see Chapter 15: Other Taxation Matters Affecting Businesses - for further details):

- lump sum benefits received from approved pension funds are exempt from tax up to K5,000;
- up to certain defined limits, employer's contributions to approved pension funds for their employees are deductible for tax purposes;
- employee's contributions to approved pension funds are deductible up to a defined maximum amount per year.

Another advantage of contributions to a personal pension scheme is that in certain circumstances it may be possible to borrow against the value of the scheme.

Further Information and Advice

- Your auditor or accountant - for general advice on insurance requirements for your type of business.
- An insurance broker (see the Yellow Pages in the telephone directory) or the National Insurance Company Ltd 9NICO), Head Office, NICO House, P/Bag Capital City, Lilongwe 3 (tel:730366), or any NICO branch office - for detailed information and advice on the different insurance policies available.
- NICO, Life and Pensions Division, NICO House, P.O. Box 501, Blantyre (tel: 636699), or;

  OLD MUTUAL, Old Mutual House, P.O. Box 30158, Capital City, Lilongwe 3 (tel: 730542/730588), or;
  OLD MUTUAL, P.O. Box 393, Blantyre (tel: 620677)
  – for details and advice on life assurance policies and pension schemes.

18. Business infrastructure

These are the services and amenities which are necessary for a business premises to function properly such as electricity, water, telephone, the building design itself and road access. This chapter gives information on how to go about obtaining and installing these facilities.

Take note

Electricity

The procedure for obtaining electrical service are:

- apply in person or in writing to your nearest Electricity Supply Commission of Malawi (ESCOM) office. The address and telephone number can be found in the telephone directory;
- inform them of your particular needs such as: power requirements (single or three phase supply), location of plot (plot number for urban buildings and a sketch map for rural buildings);
- ESCOM will then give you an estimate of the cost of installation of the supply. After detailed investigations, they will send you a detailed quotation. The cost will mainly depend on the distance of the building from existing power supply lines. After payment has been made, installation work can begin;
- buildings must be wired up by an ESCOM registered electrical contractor. Ensure that the design of the building includes sufficient lighting and power points for your needs. Too few of these may cause you difficulties and further expense later;
- if the location of the building is far from a current electricity supply point, you will be required to pay for the installation of a transformer which may cost from K7,000 - K15,000 depending on the size required;
- the cost of installing an electricity line varies between K12,000 - K22,000 per kilometre again depending on the size required for your supply needs.

Electricity Charges (Tariffs):

- Electricity supplied is charged by the number of units used (a unit is one kilowatt-hour) in a certain period. These are calculated by meter readings at approximate intervals of one calender month.
- There are 5 scales of tariff depending on the type and location of the electricity supply:

- Scale I (Domestic Tariff) - for the supply to premises used only for residential purposes and all electrical appliances normally used in such premises including motors up to 2 h.p.;
- Scale II (High Density Domestic Tariff) - for the supply to premises of a type approved by ESCOM used only for residential purposes in areas declared by ESCOM as high density residential areas for the purposes of electricity supply;
- Scale III (General Tariff) - for consumers using an average of less than 6,600 units per month. Where a consumer uses equipment which lowers the load factor to less than 20%, ESCOM may restrict the use of this to "off-peak" (less busy) periods or arrange for a special tariff;
- Scale IV (Power Tariff) - for consumers using an average of more than 6,600 units per month. For this there is a Maximum Demand charge, a unit charge, a monthly minimum charge and a Power Factor Clause charge;
- Scale V (Optional Annual Power Tariff) - for consumers with average demands of 500 kW or more per year. For this there is a Maximum Demand charge, a unit charge, an annual minimum charge and a Power Factor Clause charge.

Water Supply

- For information on availabilty and installation procedures, you should contact your local Water Board offices or the Regional Controller of Works, Water Department, in your region.
- The fees for installation vary according to the distance from present water supply lines and must be paid before installation work can begin.

Type of Building

1. Building Codes and By-laws

- The construction or renovation of premises for businesses must conform with (meet the requirements of) either the national building codes or the city, municipal, or town council by laws which cover the design and construction of such buildings.
- The location of the premises will determine whether you should contact the city, municipal, or town council (building by-laws created by the

local authority - usually covering urban areas) or the Department of Town and Country Planning (national building codes - usually for rural locations).

- Industrial buildings and installations must conform with the standards set out in the Factories Act. All proposals for such premises must be referred to the Inspector of Factories at the Ministry of Labour.

2. Zoning and Land Development

- You will need to contact the Town and Country Planning Department in Lilongwe or the appropriate District Commissioner, for details of these requirements.
- In all districts special areas have been zoned for commercial and industrial development purposes. Businesses or industrial operations will only be allowed in these areas.

Roads

- To enquire about local road conditions or plans for upgrading rural roads, you should contact the Roads Department, District Roads Improvement and Maintenance Project (DRIMP) office in Lilongwe or your local DRIMP office.

Further Information and Advice

Electricity Supply

- For all enquiries regarding supply and installation, contact one of the following ESCOM offices:
  - Head Office, ESCOM House, P.O. Box 2047, Blantyre (tel: 636000);
  - Engineering department and faults (tel: 670655);
  - Lilongwe Area Headquarters (Central & North), P.O. Box 768, Lilongwe (tel: 721788);
  - your local district ESCOM office (address and telephone number in the telephone directory).

Further Information and Advice (Continued)

Water Supply

- For information on availability and installation, contact:
  - Lilongwe Water Board, P.O. Box 96, Lilongwe (tel: 732766);
  - Blantyre Water Board, P.O. Box 30369, Chichiri, Blantyre 3 (tel: 670623);
  - Regional Controller of Works, Water Department:

    Tikwere House, P/Bag 390, Capital City, Lilongwe 3 (tel: 732155) - for the Central Region;
    P/Bag 6, Mzuzu (tel: 332733) - for the Northern Region;
    P/Bag 13, Blantyre (tel: 635755) - for the Southern Region.

Building Codes and By-Laws

- Your local city, municipal, or town council - for details of by-laws affecting urban premises.
- The Department of Town and Country Planning, P.O. Box 30385, Capital City, Lilongwe 3 (tel: 733666) - for information on national building codes applying to rural premises.
- The Inspector of Factories, Ministry of Labour, P/Bag 344, Capital City, Lilongwe 3, (tel: 730344), and the Factories Act (Chapter 55:07) - for details of standards applying to industrial premises.

Zoning and Land Development

- Contact the Department of Town and Country Planning (address and telephone number given above) or your local District Commissioner - for information on commercial and industrial zones in your area.

Roads

- Contact the Roads Department, District Roads Improvement and Maintenance Project (DRIMP), P.O. Box 30104, Capital City, Lilongwe 3 (tel: 721100) or your local DRIMP office - for details of road conditions and upgrading plans for rural roads in your area.

Appendix 1: What price to charge ?

This is one of the most complicated areas of a business. Generally, the price you can charge for a product or the fee you can charge for a service depends on what price your competitors are charging for theirs. You can change this situation by making your product or service slightly different (and preferably better) than the alternatives available.

You must know, however, how much it costs you to obtain or produce each unit of the product or to provide each type of service. There is clearly no point in continuing to produce or supply goods or provide a service which is causing you to make a loss.

The following steps show how you can work out a suitable price to charge for a product which you are producing, but can also be adapted to work out a price for a service being provided, or a ready made product being supplied.

Step 1 - Work out your variable costs

Make a note of the variable costs connected with making one unit of your product. Variable costs are those which vary directly with the number of units being produced and might include, for example:

Costs (MK per unit)	Product A	Product B
Materials	1.40	2.60
Wages	0.70	1.30
Other costs	0.20	0.30
Variable cost per unit	2.30	4.20

Step 2 - Work out your fixed costs

These are costs which do not change with the amount of production. This is really only true up to a certain point as at some stage you will have to enlarge your production premises or machinery and then fixed costs will increase (for example you may have to move to a larger building).

Your fixed costs per month may be as follows:

Item	Cost per month (MK)
Rent	2,000
Depreciation of machinery	200
Non-productive salaries	600
Selling expenses	1,000
Other	1,000
Total fixed costs	4,800

Step 3 - Find a fair way of dividing the costs

If you are only producing a single product, then this is easy to do. But many businesses will be producing more than one product. Then you will need to find a fair way of splitting the fixed costs between the different products. Which method you choose to do this will depend on the kind of business. Methods you may think about include splitting costs:

- according to labour hours used to produce each product;
- according to the area of factory floor space used to produce each product;
- according to the machine hours used to produce each product;

Suppose in the example above, Product A takes 3 hours labour to make and Product B takes 5 hours. If equal quantities of each product were made, then 3/8 of the fixed costs would be carried by Product A and 5/8 by Product B.

Step 4 - How much are you going to make?

So far we have assumed that there are two limiting factors affecting how much you will produce:

- how much you can sell, and;
- how much your production facilities allow you to produce.

However, there may also be other limiting factors such as how much materials, labour or finance is available.

Suppose, for the purposes of our example, you think you can manufacture and sell 2,500 units of Product A and 1,000 units of Product B. Allocation (dividing up) of fixed costs is then calculated as follows:

	Product A (MK)	Product B (MK)
Number produced	2,500	1,000
Machine hours per unit	3	5
Total machine hours used per month	7,500	5,000
Total machine hours are 12,500, therefore % of total used	60%	40%
Allocation of fixed costs in line with % (MK)	2,880	1,920
Fixed cost per unit (MK)	1.15	1.92

Step 5 - Work out the selling price required

The calculation of the selling price depends on what you decide is a reasonable level of mark-up. This is the level of normal profit that you require and has to cover costs other than fixed and variable costs, such as interest you may have had to pay on any money borrowed and an acceptable amount of profit for you to live on.

Suppose that after considering all these points you decide that a mark-up of 25% is required.

Your selling price is then calculated as follows:

	Product A (MK)	Product B (MK)
Variable costs	2.30	4.20
Fixed costs	1.15	1.92
	3.45	6.12
25% mark-up	0.86	1.53
Required selling price	4.31	7.65

Step 6 - Can you sell at this price ?

A check on products available on the market may show that products similar to Product A are being sold at K5.00 (ie. more than your price) but those similar to Product B are being sold at K7.00 (ie. less than your price).

Clearly the solution in this case is to produce more of Product A and less of Product B. Suppose though that the market for Product A is saturated (ie. demand for the product is completely satisfied) at a level of 2,500 units.

It is still worth producing Product B as it gives a "contribution" towards the fixed costs of the business. In fact you could sell Product B for as low as K4.21 (slightly above the variable costs) and a contribution would still be there. This would only be a short-term solution, as in the long-term this would not be a satisfactory way to run a business. All your products should be profitable if possible.

Step 7 - Working out the break even point for the business

We will now look at the break even point for a particular business. This is the point at which you just cover your costs. You must always know the break even point for your business as a whole so that you can adapt to changes in trade conditions. Suppose that you were able to obtain the prices shown in Step 5. The calculations would then be as follows:

	Product A (MK)	Product B (MK)	Total (MK)
Units sold	2,500	1,000	
Selling price	4.31	7.65	
Sales value	10,775	7,650	18,425
Variable costs	5,750	4,200	9,950
Gross margin	5,025	3,450	8,475
Gross margin %	47%	45%	46%

If the proportion of Products A and B in the sales mixture stays the same, then the gross margin as a percentage of sales is 46%. This means that for every K1.00 of sales value, K0.46 can be used to cover fixed costs. As fixed costs are K4,800, this means that you will have to acheive a sales value of K10,435 (K4,800 K0.46) before starting to make any profit. This is the break even point of your business. This changes if the mix of sales varies. You must then check it again carefully.

Appendix 2: Patents, trademarks, designs and copyright

Patents

- The purpose of these is to protect technological inventions being used without a special licence.
- They can be granted for any new invention, but this has to be a tangible product (something which can be touched) and not something like a scientific theory or mathematical formula.
- Generally, patents are used for products or processes used in industrial, commercial or agricultural activities.
- The holder of a patent has the sole right to make or produce the invention and, therefore, receive all the profits from the sale of the invention.
- A full description of the invention is included in the patent specification and, for this reason, you will need the assistance of a legal practitioner to prepare your patent application.
- A patent certificate costs K12.00 if granted and is valid for one year but it is good for 16 years, provided the renewal fees are paid each year. In certain cases, the period of validity may be extended.
- To apply for a patent certificate, an application must be sent to the Legal Practitioner, Registrar of Patents and Trademarks, PO Box 100, Blantyre (tel: 635077). The application fee is 50 tambala.
- Other people interested in using the invention must apply for one of the following licences:
  - Compulsory Usage Licence, if the patent has been judged of importance by the government, or if the patent has not been used 3 years after being granted. Fee: K8.00;
  - Usage Licence, for all other patents. Fee: K4.00.
- All enquiries regarding patents and usage licences should be made to the Legal Practitioner, Registrar of Patents and Trademarks.

Trademarks

- A trademark is a brand name, heading, label, word or symbol or a combination of these which is displayed on your product or used in your trade in order to distinguish the goods you sell or services you offer from others of a similar type.

- In order to protect the trademark from being used by other people a certificate must be obtained.
- Applications for trademark registration must be submitted to the Legal Practitioner. Registrar of Patents and Trademarks (address above). The application fee is K12.50.
- Trademarks are registered publicly following advertisement and a period during which any objections may be made.
- The fee for issue of a certificate if the trademark is granted is K4.00 and the certificate is valid for 7 years.
- Once the trademark is registered it may only be used by the applicant and other people are prohibited from using it or a similar mark on the same type of goods or services.

Copyright

- This applies to all written works, works of art or music, films, videos, radio broadcasts, computer software, etc. and prevents copying of the material covered by the copyright without either special permission of the artist or producer of the work or a licence.
- Copyright is given automatically and lasts until 50 years after the death of the author or originator of the work. Shorter periods apply to films, sound recordings, videos, computer software, and audio tapes.
- Usage licences can be compulsory. All enquiries regarding copyright should be addressed to the Registrar General, PO Box 100, Blantyre (tel: 635077).
- Formal registration of works is not required.

Industrial Designs

- Protection of new or original artistic designs for industrial purposes can be obtained through registration similar to that of trademarks.
- There are also provisions for compulsory licensing for use of designs in certain cases.
- Designs for greetings cards, advertisements and similar items are excluded from such protection.
- Certain types of design are withheld from public inspection for a limited time.
- There is no advertising requirement before registration.

Appendix 3: Business licences, permits and registrations

Various types of these may be required by law, depending on the kind of business, before you can begin trading. Different government Ministries and Departments handle applications for and granting of different types of licence etc., and therefore this chapter is divided into sections depending on the particular licensing authority involved.

Ministry of Trade, Industry and Tourism, (MTIT)
Licensing Officer, PO Box 30366, Capital City
Lilongwe 3 (tel: 732711)

INDUSTRIAL LICENCE

- This is required for any type of manufacturing, processing or assembling activity generally employing 10 or more employees and using machinery of 25 h.p. or more.
  - Exceptions to this requirement under the Act include: wooden and metal furniture manufacturers and joineries, bakeries, confectioners, pulp and paper product manufacturers with 3 or more employees and using 3 h.p. of energy.
  - Clothing manufacturers with 5 or more employees and using 5 h.p. or more must be licenced.
- The Minister may declare any specified business to be subject to or exempt from the requirements of the Act, regardless of the size of the business.
- A written request for a licence application form should be sent to the Licensing Officer and the completed form must be sent to the same office. After review, the application is published in a national newspaper for the information of the public, so that anyone wishing to make a representation concerning the application may do so. Such representations must be in writing to the Ministry within a specified period and a copy will be sent to the licence applicant.
- The licence may be granted or refused, in part or in full, after considering the application, any representations and any reports concerning these. Reasons why the Minister may refuse a licence include:
  - inadequate available capital, technical skills or raw materials;
  - unsuitable business location;

- that in his opinion the licence would not be in the best interests of the economy or public need or of the particular industry concerned;

- The annual licence fees for a Malawian owned business is K100 whereas that for foreign owned businesses is K1,200.
- The licence may be cancelled for such reasons as:
  - failure to begin manufacture of the licenced product within a reasonable time;
  - ceasing to manufacture the licenced product;
  - failure to pass random safety or hygeine inspections (spot-checks).

TRADING LICENCES

These are covered by the Business Licencing Act (Chapter 46:01) and apply to retail and wholesale trading:

- applications can be obtained from and the completed forms sent to your local District Commissioner;
- each set of premises used for the particular trade must be licenced seperately;
- wholesale and retail activities must be carried out in seperate premises;
- licences must be renewed each year, effective April 1st. For licences issued after June 30th, September 30th, or December 30th, fees are paid according to the number of quarters or parts of these remaining;
- the fee for application for the issue or renewal of a licence is MK15.00.

Types of Trading Licences

- Agent's Licence - for receiving orders for goods for other persons at any premises. Fee: K750.00.
- Commercial Traveller's Licence - for travelling from place to place to seek or receive orders for goods. Fee: K750.00.
- Retailer's Licence - for carrying on the selling of goods by retail in any premises.

Fee: Within Blantyre, Zomba, Lilongwe, and Mzuzu - K250.00 per year.

Outside these areas, per year, according to the grade of the trading centre.

Grade A - K150;
Grade B - K120;
Grade C - K70;
Grade D - K40;
Grade F - K25.

- Wholesaler's Licence - for carrying on the selling of goods by wholesale on any premises.

Fee: Within Blantyre, Zomba, Lilongwe, and Mzuzu - K500.00 per year.

Elsewhere - K200.00 per year.

- Travelling Wholesaler's Licence - for travelling from place to place to sell goods by wholesale. Fee: K500.00 per year.
- Auctioneer's Licence - for selling real or personal property by public auction.

Fee: MK2,000.00 per year.

- Clearing and Forwarding Agency licence - K2,000,
- Travel Agents Licence - K1,000.

The issue, renewal or transfer of a licence may be refused for the following reasons:

- the applicant is under 21 years old;
- the applicant or spouse is an undischarged bankrupt;
- a receiving order of bankruptcy has been made against the applicant or spouse within the past 2 years;
- the applicant or spouse has been convicted of a bankruptcy offence within the past 3 years;
- the business is likely to create a nuisance or annoyance to persons living or working near the premises;
- the business premises do not satisfy the requirements of any law, which may apply to them;
- in the case of a wholesaler's licence, the business would not be in the interests of the development of trade in the district or area;
- the applicant, any partners, or managers has been convicted in the past 3 years of breaking any law in the Business Licencing Act or any other Act or by-law which applies to the conduct of the business.

If the application for any of the licences above has been disapproved, a further application may be made after a period of 6 months.

COMMERCIAL IMPORTERS AND EXPORTERS LICENCE

A licence to import and/or export for commercial purposes must be obtained from the Import/Export Desk at the MTIT (for additional information, see Export and Import Regulations on pp.142-3 in Chapter 16. If a person wants to export certain crops (particularly food crops), the licence application must be endorsed by ADMARC.

HOTELS AND RESTAURANTS LICENCE

These licences are handled by the Department of Tourism, PO Box 402, Blantyre (tel: 620300):

- hotels with at least 10 rooms and which are located in areas suitable for tourism must obtain the above licence;
- in the case of hotels located in tourist sports, the site of the business must be approved by the Department of Town and Country Planning and inspected by the Department of Tourism before a licence is given.

Ministry of Forestry and Natural Resources

FISHING LICENCE (Department of Fisheries, PO Box 593, Lilongwe [tel: 721766])

- Licensing is covered by the Fisheries Act (Chapter 66:05).
- Pair Trawling Licence - these are very limited and difficult to obtain.
- Ring Nets - Commercial Licence, vacancies are available.
- For all other Fishing Units - register at any Fisheries Office in the country. Unlimited number of permits.
- Trading Licences: if fishermen process their catch in any way before selling it (ie. drying, smoking, filleting etc), they must obtain a trading licence from the local District Commissioner.

MINING LICENCE (Department of Mines, PO Box 251, Lilongwe [tel: 722194])

- Non-exclusive Prospecting Licence - for small-scale operators to search for minerals in any district. The application is reviewed by a committee before a decision is made. Fee: K10.00 per district.
- Mining Claim Licence - if a mineral is found after prospecting, this licence is needed in order to mine and sell minerals on a small-scale. The licence is valid for one year and is renewable. Fee: K11.00.
- Reserved Minerals Licence - needed to buy, sell and hold semi-precious and precious stones obtained from people with a mining claim licence. The licence is valid for one year and is renewable. Fee: K300.00.
- All applicants for mining licences are advised to obtain a copy of the Mines and Minerals Act, Chapter 67:01) price K3.50 and the regulations, price K1.50, from the Department.

TIMBER SAWING PERMIT and other permits (Department of Forestry, PO Box 30048, Capital City, Lilongwe 3 [tel: 731322/734144])

- Timber Sawing - for a permit to saw any type of wood except Mulanje cedar, apply to the Regional or District Forestry Officer. Fee: varies according to the type and amount of timber involved.
- Timber Sawing (Mulanje Cedar) - for a permit to saw this timber in Mulanje Forest Reserve, apply to the Chief Forestry Officer at the Department of Forestry.
- A Trading Licence to sell timber and/or an industrial licence may also be required. Check with the District Commissioner and the Ministry of Trade, Industry and Tourism.
- A Special Permit is needed to export soft wood (ie. pine). Export of hard wood (eg. Mlombwa, Mbawa) is not allowed.
- Gravel Extraction - a permit is needed to extract gravel from any forest reserve. Apply to the Chief Forestry Officer. There is no fee.
- Charcoal Processing Permits - Hardwood charcoal is not permitted by law, or certainly not encouraged. Softwood (pine) charcoal is being encouraged as a new business opportunity. The Department of Forestry can give policy advice on these. DEMATT can give business advice on softwood charcoal.

SMALLHOLDER AGRICULTURAL PRODUCT LICENCE

- The Smallholder Agricultural Produce (Marketing) Regulations of the Agriculture (General Purposes) Act (1987) cover the marketing of smallholder agricultural produce, which is the produce of any agricultural crop specified under the regulations (for which minimum prices are set) and grown on customary land.
- Under these regulations, no one may buy such produce from producers unless:
  - this is done between 0600 and 1800 hours on any day except Sunday, Martyr's day, (or other days specified under the Public Holidays Act) at markets listed in the regulations for each ADD;
  - he is the holder of a valid licence to do this.
- These rules do not apply to the buying of:
  - smallholder agricultural produce at any market operated by a District, Town, Municipal, or City Council;
  - fresh edible vegetables.
- Application forms for licences must be obtained from and sent to the nearest ADD office (addresses given below) together with the application fee of MK10.00 which is not refundable. If a licence is granted an extra fee of MK50.00 must be paid before it can be issued.
- Licences are valid in the ADD in which the produce is purchased from the date of issue to the next March 31st and are subject to certain conditions detailed in the regulations.

SPECIAL CROPS LICENCE

- The Special Crops Act (Chapter 65:01) covers the designation of special crops and crop areas, and the establishment of smallholder authorities.
- Special Crops (Licensing) Regulations under the Act apply to the growing, purchasing and selling of special crops in areas designated as special crop areas. Special crops (except tobacco) grown outside these areas are not covered by the licensing regulations and so there is therefore no control over these. With tobacco, the whole country is regarded as a special crop area.

- Designated special crops are: cashew nuts, coffee, cotton, groundnuts, macadamia nuts, tea, tobacco, and tung nuts.
- Applications for licences under these regulations must be on a standard form (or a copy of one) and must be submitted before October 31st of the year preceding that in which you intend to grow, buy or sell a special crop.
- Application forms may be obtained from the Ministry of Agriculture, PO Box 30134, Capital City, Lilongwe 3 (tel: 733300), or from District Commissioners' offices, or from ADMARC (Agricultural Development and Marketing Corporation) Headquarters office, PO Box 5052, Limbe (tel: 640500/640044/640713).
- Completed forms should be sent to the Programme Officer of the Agricultural Development Division (ADD) office nearest to the location where it is proposed to grow, buy or sell the special crop:
  - Mzuzu ADD, PO Box 131, Mzuzu (tel: 332066);
  - Kasungu ADD, PO Box 92, Lilongwe (tel: 720344);
  - Blantyre ADD, PO Box 30227, Blantyre 3 (tel: 672022);
  - Liwonde ADD, P/Bag 3, Liwonde (tel: 532410);
  - Ngabu ADD, P/Bag Ngabu (tel: 426211);
  - Salima ADD, P/Bag 1, Salima (tel: 261371/261361);
  - Karonga ADD, PO Box 97, Karonga (tel: 362244);
  - Mwanza ADD, PO Box 99, Mwanza (tel: Mwanza 12).
- Particular regulations apply to individual special crops. These are summarised below, but for further information you should contact the relevant growers authority.

  Coffee - the Smallholder Coffee Authority (SCA) has no licensing powers but can define special "coffee location" areas. Contact the General Manager, SCA, PO Box 230, Mzuzu (tel: 332899);

  Tea - the Smallholder Tea Authority (STA) has powers to regulate and licence growers, buyers, and processors in the Mulanje, Thyolo, and Nkhata Bay areas with holdings less than 10 acres in area. Larger holdings or those in other parts of the country are not apparently controlled. Contact the General Manager, STA, PO Box 80, Thyolo (tel: 472399);

Tree Nuts - the Tree Nut Authority (TNA) has certain controls over the growing of Macadamia nuts, Tung nuts, and Cashew nuts. It has the power to license but not to define special crop areas. Thus the Authority would appear to have country-wide jurisdiction. Contact the General Manager, TNA, PO Box 2134, Blantyre (tel: 670007);

Sugar - the Smallholder Sugar Authority (SSA) has powers over land held under sub-lease from Dwangwa Sugar Corporation (DSC) which has been allocated to smallholders, and any other areas which may be defined by the Minister of Agriculture. It issues licences to grow and sell sugar in these areas. Holders of sub-leases from DSC are excluded from the Special Crops (Licensing) Regulations. Contact the General Manager, SSA, P/Bag 1, Nkhotakota (tel: 293208);

Tobacco - the Tobacco Act (Chapter 65:02) requires that a licence be obtained to grow tobacco anywhere in the country. A person cannot be registered to grow tobacco both on customary land and as a tenant.

Burley and flue-cured tobacco (except in the case of small-holders under the Kasungu Flue-Cured Tobacco Authority [KFCTA]) can only be grown on estates and a licence is required to buy and resell these tobaccos (in the case of landlords with tenants) or to grow and sell (in the case of owner occupiers using their own labour to grow the crop).

Growers of dark-fired, sun-cured and oriental tobaccos must register with ADMARC. Growers of Burley tobacco on customary land must apply for a licence to the Ministry of Agriculture, through their local ADD office.

The Ministry forwards these applications to the Tobacco Control Commission (TCC) for registration. The granting of licences depends on the trade demand for the tobacco in a particular year. The TCC assigns each grower a grower registration number and sends any licences granted direct to the farmer.

Tenants growing tobacco for sale on private or public land must be registered with the owner or manager of the land who must have a licence to buy or sell tobacco. An exception to this applies to the KFCTA which covers the Kasungu, Mpasadzi, Mpherembe, and Linyangwa areas. The KFCTA issues licences to (a) occupy a plot and (b)

grow tobacco and the Special Crop (Licensing) Regulations do not apply.

Applications for licences must be made to the Chairman, KFCTA, P/Bag 12, Lilongwe (tel: 253700).

Cotton - under the Cotton Act (Chapter 65:04) and Cotton (Licences and Fees) Rules, a licence is required to gin or bale cotton, and to buy seed cotton. There are apparently no requirements for licences to grow cotton.

The Special Crop (Licensing) Regulations would normally apply but no Authority has so far been set up, nor have any special crop areas been designated for cotton growing.

- Tobacco or cotton which is grown on customary land must be sold to ADMARC. Other crops grown on customary land are subject to the regulations detailed above for smallholder agricultural produce.

Ministry of Transport and Communication

ROAD PERMITS (Road Traffic Commissioner, PO Box 30177, Blantyre [tel: 620277])

- These are needed to haul goods and to transport passengers commercially.
- For vehicles, taxis, minibuses, and car hires of 3 tons and above, the fee is K30.00 for a one year permit.

  For buses, the permit fee is K90.00 for a 3 year permit.
  For commercial vehicles of less than 3 tons, the permit fee is K10.00 for a one year permit.
- To qualify for a permit, a certificate of fitness must be obtained and the vehicle must be licenced.

Ministry of Health, PO Box 30377, Capital City, Lilongwe 3 (tel: 730099)

PHARMACEUTICAL LICENCES

- Different classes of licence are required to sell by wholesale or retail, supply, export, import, manufacture, assemble, or dispense medicinal products.

- For details of the licences and regulations covering these, consult the Pharmacy, Medicines and Poisons Act 1988.
- Applications for licences must be submitted in the correct form to the licensing authority (the Minister of Health).
- Before a decision is made on a licence application, the details of this are reviewed by the Medicines Committe of the Pharmacy, Medicines and Poisons Board, who then advise the Minister on whether the licence should be granted or not.

Ministry of Labour, P/Bag 344, Capital City, Lilongwe 3 (tel: 730344)

FACTORY REGISTRATION

- Factories having 5 or more employees must register through the Factories Inspection Office at the Ministry.

  Fee: K20.00 per year.

- All applicants should have a copy of the Factories Act (Chapter 55:07) which gives details of the regulations affecting registration.

Ministry of Justice

BUSINESS NAMES REGISTRATION

- Any business carried on using a name or names other than those of the owner(s) must be registered under the Business Names Registration Act (Chapter 46:02).
- The details filed for registration purposes are public information.
- Business names are registered with the Registrar General, PO Box 100, Blantyre (tel: 635077).
- Fee: K0.62.

OTHER LICENCES

- Butcheries: -
  - Those located within a market square must obtain a licence through the Ministry of Local Government, PO Box 30312, Capital City, Lilongwe 3 (tel: 732555).
  - Those located outside a market area must obtain a licence through the local District Commissioner.

- Repair Services: same licence requirements as for butcheries.
- Catering and Accomodation (ie. local restaurants and rest houses): licences for these must be obtained from the District Commissioner.
- Bars and Nightclubs: licences must be obtained through the Liquor Licensing Board at the relevant District Commissioner's office.

Appendix 4: Financial forecasts - a worked example

In this appendix, step by step examples are given of the method of preparation of financial statements, including an income statement, cash flow statement, and projected balance sheet for a fictitious company, Tropical Products Ltd. (TPL).

The steps involved in preparing these types of statements are numbered and the step number is indicated in the statements for easy reference.

Step 1

Calculate the expected monthly sales based on known orders and thorough market research. For TPL, this works out as follows:

Month	Expected Sales (K)
April	19,800
May	26,700
June	25,500
July	27,000
August	18,900
September	40,500
October	48,600
November	38,100
December	24,300
January	58,800
February	60,000
March	59,100
TOTAL	**447,300**

Step 2

For each month, work out the cost of materials you need to buy and the stocks you need to have to achieve the above sales. Then work out the materials used by taking the opening stock (which is normally nil at the start) and subtracting the closing stock. For TPL, this is as follows:

Month	Opening Stock (K)	Purchases (K)	Closing Stock (K)	Materials Used (K)
April		22,722	15,000	7,722
May	15,000	12,447	16,500	10,947
June	16,500	11,790	18,600	9,690
July	18,600	13,740	21,000	11,340
August	21,000	9,060	22,500	7,560
September	22,500	17,394	24,300	15,594
October	24,300	22,869	27,000	20,169
November	27,000	21,429	33,000	15,429
December	33,000	16,497	39,900	9,597
January	39,900	30,720	47,100	23,520
February	47,100	29,400	51,900	24,600
March	51,900	23,352	52,500	22,752
TOTALS		**231,420**		**178,920**

TPL company policy is to hold a initial (starting) stock level at K15,000 and build this up to K52,500 by the end of the year. The figures show that there is some excessive use of materials which the company hopes to reduce in the next year.

Step 3

Work out the wage costs of those involved in production. In the case of TPL, this is as follows:

ITEM	K
Gross wages and salaries - 14 employees	100,431
Other employment costs - pension contributions etc.	10,494
TOTAL	**110,925**

Step 4

Estimate your overheads. These are other costs of production apart from cost of materials and wages, such as rent and rates, electricity and water, telephone and postage, insurance, printing and stationary, etc. Normally you should work out the maximum likely overhead cost.

Step 5

Work out how much you need to spend on capital items, and the depreciation on these items in the first year according to the expected life of the item. For TPL this calculation is as follows:

Item	Capital Cost (K)	Expected life (years)	Annual Depreciation charge (K)
Machinery	18,000	4	4,500
Vehicles	4,800	4	1,200
Other	1,200	2	600
TOTALS	**24,000**		**6,300**

Step 6

Make sure that you do not under-estimate your capital costs, bearing in mind your expected level of activity and the need to arrange for sufficient funds.

Step 7

Work out the period over which your debtors are going to pay you. In many cases, it would be unwise to assume that you will receive payment in less than 60 days. TPL have assumed that debtors will pay their accounts on average 60 days (2 months) from the date of issue of the invoice.

Remember that you may have to charge your customers surtax, which will have to be paid to the Controller of Customs and Excise.

Step 8

You should include all other forms of receipts such as sales of assets, loans, cash raised from share issues, etc. In the case of TPL, K24,000 is shown as a term loan from a bank to assist in financing the purchase of machinery and vehicles.

Step 9

Usually by discussion with your suppliers, you can work out the credit period (ie. how long before you have to pay your account) that you will be allowed and then you can work out when your payments will be due. TPL are paying for their materials the month after receiving the invoice.

Remember to include surtax in your payments where appropriate.

Step 10

The likely timing of payments for all other items should be worked out in order to complete the cash flow forecast.

In the worked example shown, you should note the following points:

- the wages and salaries payment in April allows for payroll deductions (amounting to K1,850) paid over to the Income Tax Department for "pay as you earn" (PAYE) in May and so on for each other month. These monthly deductions are assumed to be equal each month and no increase is expected in either numbers of employees or wage rates;
- no PAYE contributions are taken into consideration for directors as they are provisional taxpayers;
- the pension contribution is for a director and K1,500 is the annual premium;
- rent is payable in advance to the landlord at a rate of K1,925 per month;
- electricity and water are payable one month in arrears at an estimated combined charge of K700 per month;
- postage is payable monthly at an estimated K60 per month and telephone is payable in the following month at K240 per month;
- insurance is an annual premium payable in advance at K3,600;

- capital purchases, repairs, travel, printing and stationary, advertising, legal and accounting fees, and sundries (other miscellaneous items) include surtax where appropriate and are paid in the month in which they are incurred;
- travel bills are estimated at K550 per month and are to be paid the month following the receipt of the bill;
- advertising expenses are payable quarterly in advance at K1,125 per quarter;
- the loan repayments are for the term loan from the bank of K24,000 and include interest of K4,000 per year;
- bank interest is calculated at an assumed rate of interest of 21% on the average monthly overdraft. In addition, bank charges are estimated at K50 per month.

Step 11

Work out the balance sheet value of fixed assets by subtracting the total depreciation charge from the total fixed asset cost. In the worked example, the total cost (including surtax) is K24,000 and the total depreciation is K6,300, giving a balance sheet value of K17,700.

Step 12

Stocks should always be shown in the balance sheet at cost, but a lower valuation can arise if the stocks are old, slow-moving, obsolete, or where selling prices are below cost.

The worked example assumes that no deduction from cost is required and the stock values are as given in Step 2.

Step 13

The figure for debtors represents the outstanding (not yet paid) amounts due from your customers for the period, including any surtax.

The February and March sales are outstanding in the worked example, giving the following figures for debtors:

Item		K
February sales		60,000
March sales		59,100
		119,100
less: an amount deducted to represent an estimate of the debts that, for one reason or another, + will not be paid	(4,500)	
TOTAL DEBTORS		114,600

Step 14

Trade creditors are the outstanding amounts owed to your suppliers, including surtax, where applicable.

In the worked example, one month's purchases are outstanding (see Step 2).

Step 15

Sundry creditors are other amounts owed (and therefore charged as part of expenses in the income statement) but not yet paid. Accruals are expenses incurred but not yet charged, for example, fuel, telephone and legal bills.

In the worked example, the calculations are as follows:

Item	Charged or used (K)	Paid for (K)	Amount owing(K)
Wages	110,925	109,075	1,850
Administrative salaries	10,500	10,375	125
Telephone/postage	3,600	3,360	240
Travel	6,600	6,050	550
Electricity/water	8,400	7,700	700
TOTALS	140,025	136,560	3,465

Step 16

The bank overdraft figure is the one shown at the end of the cash flow statement. In the example it is K52,843.

Step 17

The amount due to the bank under the term loan arrangement in the example, is the K24,000 advance, plus one year's interest of K4,000, less the repayments including interest of K5,400, giving a figure of K22,600 still outstanding.

Step 18

"Current assets" are the assets of the business which can normally be realised within 12 months of the balance sheet date.

"Current liabilities" are the amounts due and payable by the business normally within 12 months of the balance sheet date.

"Net current assets" are the current assets less the current liabilities. If current liabilities are greater than current assets then the term "net current liabilities is used instead.

"Net assets" are fixed assets plus net current assets.

Step 19

"Members' interest" means the amounts that theoretically could be distributed if the company were to be wound up (closed down) and the assets and liabilities were to work out as shown in the balance sheet.

The "reserves" are the income retained (kept) in the company.

In the worked example, no taxation has been allowed for in the figures. In many cases, the taxation liabilities could be significant so it is worth asking your accountant to estimate a figure for you.

Following are the worked examples of three types of financial statement: an income statement, cash flow statement, and projected balance sheet. In each case the step used to calculate each set of figures in the statement is shown by the step number, so that you can easily check back to the description of that step (given above) to see how the particular figures were calculated.

Income Statement - Tropical Products Ltd.

ITEM	Step No.	April (K)	May (K)	June etc (K)	Year (K)
SALES	1	19,800	26,700	25,500	447,300
Less: Cost of sales					
Materials used	2	7,722	10,947	9,690	178,920
Production wages/salaries	3	9,244	9,244	9,244	110,925
		16,966	20,191	18,934	289,925
GROSS PROFIT (A)		2,834	6,509	6,566	157,455
OVERHEADS - ADMINISTRATION					
Directors' salaries	4	3,900	3,900	3,900	46,800
Pension contributions	4	125	125	125	1,500
Administrative salaries	4	875	875	875	10,500
Telephone & postage	4	300	300	300	3,600
Travel expenses	4	550	550	550	6,600
Printing & stationary	4	425	425	425	5,100
Legal & accounting fees	4	575	575	575	6,900
Sundry expenses	4	250	250	250	3,000
		7,000	7,000	7,000	84,000
OVERHEADS - ESTABLISHMENT					
Rent & rates	4	1,925	1,925	1,925	23,100
Electricity & water	4	700	700	700	8,400
Insurance premiums	4	300	300	300	3,600
Depreciation - machinery	5	375	375	375	4,500
- vehicles	5	100	100	100	1,200
- other	5	50	50	50	600
Lease payments	4	175	175	175	2,100
Repair costs	4	125	125	125	1,500
		3,750	3,750	3,750	45,000
OVERHEADS - SELLING					
Advertising costs	4	375	375	375	4,500
Bad debts	13	375	375	375	4,500
Commission payments	4	200	200	200	2,400
		950	950	950	11,400
OVERHEADS - FINANCE					
Bank interest (OD & loan)	10	350	350	350	8,915
Bank charges	10	50	50	50	600
		400	400	400	9,515
TOTAL OVERHEADS (B)		12,100	12,100	12,100	149,915
PROFIT/LOSS BEFORE TAX (A-B)		(9,266)	(5,591)	(5,534)	7,540

Cash Flow - Tropical Products Ltd

ITEM	Step No.	April (K)	May (K)	June (K)	July (K)	Aug (K)
Receipts						
From debtors (cash/credit sales)	7			19,800	26,700	25,500
Issue of shares		75,00				
Bank term loan	8	24,00				
Total receipts (A)		99,000	0	19,800	26,700	25,500
Payments						
Purchase of materials	9		22,722	12,447	11,790	13,740
Production wages	10	7,394	9,244	9,244	9,244	9,244
Directors salaries	10	3,900	3,900	3,900	3,900	3,900
Pension contributions	10					
Administration salaries	10	750	875	875	875	875
Rent & rates	10	1,925	1,925	1,925	1,925	1,925
Electricity & water	10		700	700	700	700
Telephone & postage	10	60	300	300	300	300
Insurance premiums	10	3,600				
Capital - Machinery	10	18,000				
- Vehicles	10	4,800				
- Other	10	1,200				
Lease payments	10	175	175	175	175	175
Repairs	10	125	125	125	125	125
Travel expenses	10		550	550	550	550
Printing & stationary	10	425	425	425	425	425
Advertising costs	10	1,125			1,125	
Legal & accounting fees	10	575	575	575	575	575
Commission payments	10	200	200	200	200	200
Loan repayments (+ int.)	10	450	450	450	450	450
Bank interest (o/d only)	10				159	204
Bank charges	10	50	50	50	50	50
Sundry expenses	10	250	250	250	250	250
Total Payments (B)		45,004	42,466	32,191	32,818	33,688
Cash inflow-outflow (A-B)		53,996	(42,466)	(12,391)	(6,118)	(8,188)
Opening bank balance		0	53,996	11,530	(861)	(6,979)
Closing bank balance		53,996	11,530	(861)	(6,979)	(15,167)

Sept (K)	Oct (K)	Nov (K)	Dec (K)	Jan (K)	Feb (K)	Mar (K)	TOTAL (K)
27,000	18,900	40,500	48,600	38,100	24,300	58,800	328,200
							75,000
							24,000
27,000	18,900	40,500	48,600	38,100	24,300	58,800	427,200
9,060	17,394	22,069	21,429	16,497	30,720	29,400	208,068
9,244	9,244	9,244	9,244	9,244	9,244	9,241	109,075
3,900	3,900	3,900	3,900	3,900	3,900	3,900	46,800
				1,500			1,500
875	875	875	875	875	875	875	10,375
1,925	1,925	1,925	1,925	1,925	1,925	1,925	23,100
700	700	700	700	700	700	700	7,700
300	300	300	300	300	300	300	3,360
							3,600
							18,000
							4,800
							1,200
175	175	175	175	175	175	175	2,100
125	125	125	125	125	125	125	1,500
550	550	550	550	550	550	550	6,050
425	425	425	425	425	425	425	5,100
	1,125			1,125			4,500
575	575	575	575	575	575	575	6,900
200	200	200	200	200	200	200	2,400
450	450	450	450	450	450	450	5,400
293	484	681	646	599	845	1,004	4,915
50	50	50	50	50	50	50	600
250	250	250	250	250	250	250	3,000
29,097	**38,747**	**43,294**	**41,819**	**39,465**	**51,309**	**50,145**	**480,043**
(2,097)	(19,847)	(2,794)	6,781	(1,365)	(27,009)	8,655	(52,843)
(15,167)	(17,264)	(37,111)	(39,905)	(33,124)	(34,489)	(61,498)	0
(17,264)	(37,111)	(39,905)	(33,124)	(34,489)	(61,498)	(52,843)	(52,483)

Projected Balance Sheet At End Of First Year - Tropical Products Ltd

Item	Step No.	(K)	(K)
Fixed assets - cost		24,00	
- depreciation		-6,300	
- book value	11		17,700
Current assets:	12	52,500	
Stocks	13	114,600	
Debtors		167,100	
Current liabilities			
Trade creditors	14	23,352	
Sundry creditors	15	3,465	
Bank - overdraft	16	52,843	
- term loan	17	22,600	
		102,260	
Net current assets	18		64,840
Net assets	18		82,540
Members' Interest	19		
Initial capital	19		75,000
Reserves	19		7,540
			82,540

Note: the term loan from the bank is only a current liability in respect of the amounts payable in year two and strictly speaking the balance should be shown as an amount falling due after one year. The above statement, however, has the advantage of simplicity, and it would be adequate for the purposes of your business plan.

Appendix 5: Business information source

At the end of each chapter a box of Further Information and Advice gives details of where to contact for help in the particular area covered by that chapter. In this appendix are listed other sources of information and assistance which may prove useful in setting up your business.

1. LIBRARIES

READI Project: general information about different business ideas such as poultry rearing, cattle rearing etc. Contact at PO Box 30455, MUSCCO Building (Old Town), Lilongwe (tel: 723492).

INTERMEDIATE TECHNOLOGY DEVELOPMENT GROUP (ITDG): appropriate technology and business information. ITDG can offer information and advice on a range of technical subjects, such as food processing and production, rural industries, engineering and transport, and energy systems. Contact the local representative at PO Box 1268, Lilongwe (tel: 723718).

MALAWI EXPORT PROMOTION COUNCIL: trade information library which includes information on potential buyers, logistics (supplies management) and procedures for exports, and general import/export information. Contact at PO Box 1299, Blantyre (tel: 620499).

MINISTRY OF AGRICULTURE RESEARCH LIBRARY: this has information on agricultural projects. Contact at the Ministry of Agriculture, PO Box 30134, Capital City, Lilongwe 3, (tel: 733300).

DEMATT (DEVELOPMENT OF MALAWIAN TRADERS TRUST): the trust is in the process of building up a source of information (books, manuscripts, experts) available for agro-industrial projects. Contact at PO Box 555, Lilongwe (tel: 722891);

or, PO Box 1540, Blantyre (tel: 636522);

or, PO Box 239, Mzuzu (tel: 332423).

2. GOVERNMENT MINISTRIES AND DEPARTMENTS

Ministry of Trade, Industry and Tourism: general policy information on small- and medium-scale enterprises. Contact at PO Box 30366, Capital City, Lilongwe 3 (tel: 732711).

Ministry of Agriculture: ADDs - specific information on local production & technical information.

Research Stations - information on agricultural research, and ideas.

Department of Geological Surveys: information on mining and minerals. Contact at PO Box 30737, Capital City, Lilongwe 3 (tel: 721942).

Ministry of Natural Resources: Department of Fisheries - specific information on fishing and fisheries through local extension officers. Also acts as a distributor of fishing equipment (nets, rope, twine, yarn, etc.) through offices in Zomba, Salima, and Nkhata Bay. Contact department headquarters at PO Box 593, Lilongwe (tel: 721766).

Department of Forestry - specific information on timber and usage, licensing, etc. Contact headquarters office at PO Box 30048, Capital City, Lilongwe 3 (tel: 731322/734144).

Department of Mines - information on mineral exploration, mining, etc. Contact headquarters office at PO Box 251, Lilongwe (tel: 722194).

National Statistics Office (NSO): publishes statistical information about Malawi. Recent publications include:

- Malawi Statistical Yearbook 1984, 1985 - a current and historical statistical series on Malawi including figures for population, trade employment, agriculture, manufacturing, tourism, etc.;
- Malawi Population and Housing Census 1987 - gives population data;
- Urban Housing Survey 1987 - contains data on the potential market for different income types of houses in the intermediate traditional housing areas of Blantyre and Lilongwe;
- the NSO also publishes reports on tourism, transport, agriculture, etc. which may be of use to the businessman. Contact the NSO at PO Box 333, Zomba (tel: 522377) for further information and copies of reports (for which a fee is paid).
- **Office of the President and Cabinet:** Department of Town and Country Planning - produces the National Physical Development Plan,

which gives information on the socio-economic and physical conditions of Malawi. Areas covered include agriculture, industry, transport, electricity, water, and energy. Contact at PO Box 30385, Capital City, Lilongwe 3 (tel: 733666).

3. OTHER RESOURCES

Malawi Export Promotion Council (MEPC): offers services and provides information relating to exporters and potential exporters. Publishes a Malawi Buyers Guide which highlights export producers; and a quarterly newsletter detailing current developments in international trade, enquiries for Malawian products and investment opportunities. Contact MEPC at their headquarters, PO Box 1299, Blantyre (tel: 620499).

Associated Chambers of Commerce and Industry of Malawi: have information on different business opportunities available around the country, and act as a clearing house for information from other countries. They also have a library containing trade catalogues and directories for industrial suppliers and trade opportunities in other countries.

They publish the Industrial and Trade Directory 1988-1989 (available at bookshops) which gives comprehensive information on industry and trade in Malawi as well as useful background information on the country. They also publish a monthly newsletter. Contact through their General Manager at the Chichiri Trade Fair Grounds, PO Box 258, Blantyre (tel: 671988).

Malawi Bureau of Standards (MBS): provides information on standards and quality of products, safety, and production. They also give technical advice on improving product quality and control of this. MBS publishes two newsletters, the MBS News, and the MBS Bulletin, which provide information on standardisation, standards, and other relevant subjects. MBS will also test products if requested.

Contact at PO Box 946, Blantyre (tel: 670488).

Malawi Institute of Management (MIM): provides consultancy services for businessmen, offering advice on human resource (personnel) management, business administration, financial management, and management information systems (including computerisation). Contact the Institute at PO Box 30801, Capital City, Lilongwe 3 (tel: 722040/722115) for further details.

Employers' Consulatative Association of Malawi (ECAM): this is a central organisation of employers which forms an officially recognised and fully representative body of opinion on matters of common interest to employers. It functions as a channel of communication between employers and the government and through its representation on various Committees and Boards is able to influence the government in formulation of economic and social policy, particularly in matters concerning wages and conditions of employment. It also represents employers at national and international meetings concerned with industrial matters and labour relations.

Services provided to individual members include advice on wages and salaries, conditions of employment, training, recruitment, trade union and labour relations, and on the legal provisions of laws covering labour, employment, and industry.

It also collects and circulates relevant statistics and information among members. For further details on the activities of the association and application for membership, contact the Executive Secretary, ECAM, PO Box 2134, Blantyre (tel: 670007).

African Businessmen's Association [Malawi] (ABA): this organisation covers transporters, bar owners, retailers, wholesalers, hoteliers, and other small-scale business operators. It's aims are to encourage members to participate actively in business by promoting business opportunities and safeguarding thier interests in trade, commerce, and industry, so they might play a major role in national development. It is recognised by the government as an organisation representing the interests of African businessmen and providing a channel of communication and liason with government in business matters.

Activities carried out and services provided by ABA include:

- collection of general statistics or other data considered necessary from members or other sources and forwarding this to interested government bodies;
- provision of assistance to members in the form of advice, lectures, seminars, and other training programmes;
- lending of money and provision of credit to members;
- acting as guarantors for payment of money, performance of contracts or fulfilment of business obligations by members;

- securing or undertaking repayment of money lent to or advanced to members and covering of liabilities incurred by members;
- provision of facilities for exchange of views and information or discussion of matters of policy affecting trade, commerce, and industry;
- association, co-operation, and/or affiliation with other organisations with similar aims;

The membership fee is K10.00 per year for individuals. There is an affiliation fee of K10.00 - K50.00 for business organisations, depending on size and financial turnover.

For further information and application for membership contact ABA through:

- the Administrative Secreatary, ABA Head Office, PO Box 5861, Limbe (tel: 640544/640143/652840);
- the Regional Chairman (South), ABA Southern Region Office, PO Box 5861, Limbe (tel: 650643);
- the Regional Chairman (Centre), ABA Central Region Office, PO Box 777, Lilongwe (tel: 720764);
- the Regional Chairman (North), ABA Northern Region Office, PO Box 52, Mzuzu (tel: 332687);
- an ABA district committee office in your district.

Individual Employers/Business Associations: a number of these associations exist in Malawi, whose function is to promote and protect the specialised interests of their members. They include the following:

- the Motor Traders' Association of Malawi, PO Box 311, Blantyre (tel: 636966). This covers car dealers, auto spares and accessories dealers, panel beaters, carbreakers, service stations, garages, car repair businesses, etc.;
- the Master Builders, Civil Engineering Contractors and Allied Trades Association, PO Box 950, Blantyre (tel: 636966). This covers building contractors, civil engineering contractors, construction companies, electrical service companies; mechanical, electrical and plumbing supplies businesses; paint suppliers, steel processing companies, tinsmiths, furniture and joinery industries, builders merchants, and hardware retailers/ wholesalers, etc.;

- the Clearing and Forwarding Agents' Association of Malawi, PO Box 1113, Blantyre (tel: 636966);
- the Hotels and Catering Trades Association, PO Box 1126, Blantyre (tel: 636966). This covers hotels, bars, motels, clubs, and restaurants;
- the Exporters' Association, PO Box 950 Blantyre (tel: 636966);
- the Road Transport Operators' Association, PO Box 950, Blantyre (tel: 636966);
- the Master Printers' Association of Malawi, PO Box 2460, Blantyre (tel: 670608). This covers printing and publishing companies, stationary suppliers, rubber stamp manufacturers, duplicating equipment suppliers, etc.;
- the Tobacco Handling Industry Employers Association, PO Box 40048, Kanengo, Lilongwe 4 (tel: 765255);
- the Agricultural Employers' Association, PO Box 2134, Blantyre (tel: 670007). This covers farms, tea factories and estates, livestock feed companies, sugar estates, seed companies, tobacco estates, etc.

Trade Missions of Local Embassies: these will provide information on where sources for goods and raw materials can be found in their countries.

Local Experts: these may be located at the University campuses, and through SEDOM, INDEFUND, DEMATT, and the Ministries.

National Bank of Malawi: produces two publications annually of relevance to business:

- "Business Information on Malawi" may be obtained from the Research Department, National Bank of Malawi, PO Box 945, Blantyre (tel: 620622). It includes a wide range of information of general interest to businessmen, such as taxation, exchange controls, economic summary, government departments, banks and financial institutions, minimum wages, industrial promotion, development programmes, and useful addresses for further information;
- "Malawi Economic Brief" may be obtained from the Economics Department, National Bank of Malawi (address as above). This provides a brief on recent developments in the economy with annual summaries and tables covering areas such as gross domestic product, cash crops,

smallholder crop purchases, industrial and electricity production, construction, transport, consumer prices, employment and earnings, exports, government budgets, and interest rates. It also includes a list of useful addresses;

You can also order these publications through your local branch of the bank.

Although the above information sources may not have the information you require, they may be in a position to help you find the information for which you are looking.

4. TRAINING

MALAWIAN ENTREPRENEUR DEVELOPMENT INSTITUTION (MEDI)

MEDI offers on and off-campus training for "candidate entrepreneurs" (would be businessmen) in business training, and technical training. MEDI also offers a combined business and technical 5 or 10 month training course on campus.

The business training is general for all businesses, and the technical training is in four main areas: metalwork, building, electrical, amd automotive. MEDI advertises courses through the national newspapers and radio.

MEDI has a revolving fund available to graduates of the courses to enable them to open businesses.

For additional information, contact MEDI, P/Bag 2, Mponela.

SMALLHOLDER COFFEE AUTHORITY (SCA)

The SCA offers 1 week training courses in Growing Coffee (specifically for coffee growers), and General Agriculture, from January to November each year. Participants are taught about planting, weeding, pest control, pruning, harvesting, etc. There is no fee and transport is available. Contact SCA field assistants for more information.

KASUNGU FLUE-CURED TOBACCO AUTHORITY (KFCTA)

The KFCTA offers a 2-year training programme for those interested in starting a tobacco farm. There are two levels of training, one for those with little formal education, and another for those with at least JCE. There

is no fee and trainees are paid a support allowance during the course. The KFCTA advertises the course vacancies through the national newspapers and radio. Contact the KFCTA at P/Bag 12, Lilongwe (tel: 253700) for further details.

FISHERIES TRAINING PROGRAMME (NATURAL RESOURCES COLLEGE)

This is a 3-year certificate programme and trainees are given theoretical (at NRC) and practical (at Mpwepwe Fisheries Training Centre) training in fish culturing, fishing methods, fish handling and processing, fisheries business management, etc. Applicants must have at least an MCE to be considered for the training. For additional information, contact the NRC, PO Box 143, Lilongwe (tel: 722744), or Mpwepwe FTC, P/Bag Mangochi (tel: 584422).

MALAWI POLYTECHNIC EVENING CLASSES

Technical upgrading and City and Guilds evening classes are offered by the Polytechnic between 5:00 pm and 6:30 pm from October to June. The craft classes are designed to prepare students for the National Certificate Trade Test at Grades 1,2 and 3. Subjects include:

- general Fitters;
- diesel Fitters (Grade 3 only);
- carpentry and Joinery;
- motor Mechanics;
- welding, Gas and Electric;
- electricians;
- printing.

City and Guilds classes are offered for those preparing to take a City and Guilds examination and subjects include:

- radio Servicing;
- electronics and Electrical Principles;
- motor Vehicle Mechanics;

Other evening classes offered include:

- bookkeeping;
- accounting;
- purchasing and Supply;
- marketing and Management.

There is a fee of approximately K30.00 per session of classes. For additional information, contact the Supervisor of Evening Classes, Malawi Polytechnic, P/Bag 303, Chichiri, Blantyre 3 (tel: 670411).

TECHNICAL TRAINING COLLEGES (Apprenticeship Training)

There are several technical training colleges offering either 2-year training courses for Grade 2 certificates, or 4-year training courses for advanced craft certificates.

Both of these are generally for full-time students.

Admission to these colleges is under the control of Apprenticeship Board at the Ministry of Labour, who carry out recruiting and indenture for the courses. Advertisements for course vacancies appear periodically in the national newspapers and are announced over the radio.

Applications are sent in to the Senior Industrial Training Officer, Ministry of Labour, P/Bag 344, Capital City, Lilongwe 3 (tel: 730344). Applicants undergo an aptitude test and on passing this are sent to a college which offers the course they are interested in. In the first year of the 4 year courses, the students undergo basic theoretical training under the control of the Ministry of Education.

Then the subsequent industrial training passes into the hands of the Ministry of Labour. Indenture forms are filled out and for the next 3 years the student spends 3 months of each year at the college and the remaining 9 months attached to a suitable industrial establishment for practical on-the-job training and experience. On successful completion of the course, the Ministry of Labour issues a craft certificate, certifying that the person is a fully trained craftsman in his chosen field.

Several of the Technical Colleges also offer evening refresher classes in a variety of subjects.

- **SOCHE TECHNICAL COLLEGE:** offers technical training in brick-laying, carpentry, printing, and decoration (all 4- year programmes). The college also has evening classes for these subjects. There is a small

fee for the classes. For further details contact the college at PO Box 5691, Limbe (tel: 650857).

- **LIVINGSTONIA TECHNICAL SCHOOL:** this CCAP college offers technical training in motor vehicle mechanics, carpentry and joinery, and bricklaying (all 2-year programmes). The college also offers evening classes in these subjects.

  For additional information contact the school at PO Box 6, Livingstonia (tel: 368213).
- **MZUZU TECHNICAL COLLEGE:** offers technical training inmotor vehicle mechanics, carpentry and joinery, brickwork, bookkeeping and accounting, and secretarial duties. The trade subjects are covered in 4-year programmes and other subjects in programmes lasting 9 months or more.

  The college also offers evening refresher classes in the above subjects for which there is a small fee. For more information contact the college at PO Box 316, Mzuzu (tel: 332754).
- **LILONGWE TECHNICAL COLLEGE:** offers technical training in vehicle body repair, welding and fabrication, mechanical engineering, electrical engineering, plumbing, motor vehicle maintenance, carpentry and joinery, and commercial studies. The college also offers evening refresher and upgrading classes in the above subjects, for which there is a small fee. For further details contact the college at PO Box 190, Lilongwe (tel: 720422).
- **NAMITETE TECHNICAL COLLEGE:** offers technical training in carpentry and joinery, and bricklaying. Contact the college at PO Box 44, Namitete (tel: Namitete 0423) for further details.

OTHER TECHNICAL TRAINING INSTITUTIONS

The following two institutions are run jointly by the Department of Youth and the Department of Malawi Young Pioneers (MYP). Appications to undertake training have to be made to the Principal Administrative Officer, MYP, PO Box 30294, Capital City, Lilongwe 3 (tel: 730177).

- **NASAWA TECHNICAL TRAINING CENTRE:** offers technical training courses in general fitting, auto-electrics, secretarial work, carpentry and joinery, bricklaying, and motor vehicle mechanics.

  The courses are for 4 years during which the students follow an indentured apprenticeship (see above for details). Upgrading courses

may also be run from time to time. Contact the centre at PO Box 1, Magomero (tel: 534259/534245) for further details on the courses.

- **SALIMA RURAL TRADE SCHOOL:** offers technical training courses in carpentry and joinery, building construction and metalwork.

  The aims of the school are: to train mature young people as independent rural craftsmen; to provide a farm implement manufacturing and repair service for local farmers; to manufacture and repair houseware and building hardware and; to build and repair buildings in rural areas. Trainees are taught to become businessmen and not employees. Candidates are recruited throughout the country and there is no set educational standard entry requirement, however candidates must be able to write and understand basic English. Age of entry is 25 years and over. Contact the school at PO Box 175, Salima (tel: 261341) for more details on the courses.