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Malawi:
Informal Sector Assessment

September 1989

Prepared for
LABAT-ANDERSON, Inc. and AID/AFR/MDI

Fred O'Regan, Community Economics Corp./AID/AFR/MDI
Clay G. Wescott, Development Alternatives, Inc.
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LIST OF ACRONYMS USED

BBA	Blantyre Businesswomen's Association
BPC	Business Promotion Consultant
CDSS	Country Development Strategy Statement
DEMATT	Development of Malawian Traders' Trust
ECU	European Currency Unit
EEC	European Economic Community
GOM	Government of Malawi
IFAD	International Fund for Agricultural Development
INDEFUND	Industrial Development Fund of Malawi
ISIC	International Standard Industrial Code
ITDG	Intermediate Technology Development Group
MK	Malawi Kwacha
LDC	Less-Developed Country
MACOH	Malawi Council for the Handicapped
MED	Malawi Enterprise Development
MEDI	Malawi Enterprise Development Institute
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MTIT	Ministry of Trade, Industry and Tourism
PFP	Partnership for Productivity
PVO	private voluntary organization
READI	Rural Enterprises and Agribusiness Development Institutions
SEDOM	Small Industries Development Organization of Malawi
SME	Small and Medium Enterprise
SSTA	Small-scale Tailors' Association
TBCA	Tithandizane Bweila Carpenter's Association
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

This field work was undertaken to: 1) gain a greater understanding of the extent and characteristics of the non-farm informal sector in Malawi; 2) get a detailed understanding of the internal dynamics, self-support systems, and linkages within the informal sector, with the formal sector, and between urban and rural areas; 3) identify constraints to, and opportunities for, the further development of informal enterprises; and 4) put forward considerations for a possible support strategy.

FOCUS ON TWO SUB-SECTORS REPRESENTATIVE OF THE INFORMAL SECTOR

Working from the bottom up, the principal methodology was to focus on two sub-sectors which encompass relatively large numbers of informals, which could serve as representative areas of production and trade, and which had strong linkages to women. For these reasons, tailoring and metalwork were chosen. The principal source of information was interviews with 76 entrepreneurs in 7 cities, towns and villages. Most businesses examined were based in urban areas, although many had strong rural linkages. Additional data and insights came from interviews with credit and technical assistance organizations, and with government and donor-agency officials. Many of these latter interviews were also carried out by the Small and Medium Enterprises (SME) policy analysis team with whom we coordinated closely. A review of existing literature was also carried out.

Some of the major findings are as follows.

Tailoring Employs many Including Women; Metalwork provides Low-cost Products for Agriculture and Poor Households

The tailoring sub-sector was chosen because: 1) it is large in number of enterprises and employment, and is largely informal; 2) there are many woman-owned enterprises, particularly working out of homes; 3) it entails production, service and retailing; and 4) it has broad and diverse linkages. The metalwork sub-sector was chosen because: it is also large, it is tied directly and importantly to rural agricultural production (much of which is carried out by women); it also involves production, service (less than tailoring) and retail sales; and it provides an excellent subsector to examine appropriate technology.

The findings of the subsector analysis are limited by the fact that field visits were mainly to urban centers and secondary towns. The purpose was to understand the dynamics of the sector and its overall constraints, and not to carry out a specific industry promotion analysis per se.

Informal tailors gain competitive advantage by low overheads and flexible, customized production closely attuned to consumers' needs and budgets. In a typical transaction, a customer brings a dress or shirt he/she likes and some material, and the tailor copies the design of the old garment using the new material. Overheads are kept low by using apprenticeships for training, second-hand sewing machines, and by working outside on khondes (verandas). There are no inventory or marketing costs, and few if any taxes to pay. Customers are free to use any design or fabric they like, including the popular smuggled cloth from Zambia and Tanzania.

More experienced tailors may also receive orders from formal sector designers and clothing shops. If they have working capital, they purchase the most popular fabrics on their own, and make ready-made garments for sale. They may also supplement their income by selling second-hand clothes. In either case these tailors have more stable incomes since they can produce for stock, and are less dependent on sharply fluctuating farmer incomes.

Major constraints are lack of working capital, a shortage of used sewing machines (exacerbated by slow repairs due to shortage of spare parts among informal repair businesses), and boom-or-bust seasonal markets. In spite of these problems, the informal sector successfully competes on price and service, and could expand both its market share and perhaps the total size of the market as well if the constraints were reduced.

Informal metalworkers also gain competitive advantage with low overheads and flexible production runs. However, unlike most tailors, metalworkers typically purchase their own raw materials, and produce standardized products for stock. Because they work outside with simple tools, use apprenticeships for training, incur minimal transport and marketing costs, and use "just-in-time" inventories of sheet metal and other raw materials, typical products are less than half the cost of formal sector equivalents. Most sales are to retail consumers (small farmers) and to larger agricultural estates, although goods are sometimes sold to intermediaries at wholesale prices to generate working capital.

More experienced, better capitalized metalworkers are able to purchase more supplies, and meet larger orders. They may also purchase more sophisticated equipment, thereby diversifying their income with higher-value activities such as forging, tempering, and welding.

Major constraints include the lack of appropriate tools and equipment, and inadequate working capital. As with tailors, metalworkers successfully compete despite these problems, but could boost their market share and the overall size of the market if the constraints were mitigated.

Informal Sector is Large, Diverse, and Linked to all Other Sectors of Economy

Based on this brief look, the sector appears to be relatively very large; more than 600,000 Malawians participate in informal, non-farm activities ranging from selling tomatoes to passers-by on a rural footpath, to managing a tailoring business in Lilongwe Old Town with 3 employees, and assets in sewing machines and cloth worth thousands of Kwacha. If these estimates are correct, the informal sector provides employment for more than three times the number of people officially recorded in the formal non-farm sector.

In the mainly urban areas studied, the informal sector appears to be clustered largely in eight sub-sectors: tailoring, metalwork, transport, fishing, retailing, repair, woodwork, and hotel/restaurants. Each urban subsector is closely tied to rural areas through backward and/or forward linkages: some process and sell rural commodities, others provide essential inputs to rural production and consumption, and nearly all are tied directly to agricultural cash-flow cycles. Entrepreneurial drive across all sub-sectors appears sound, and motivation high. Technical skills, particularly in business management, are low. This is not surprising given the low educational level of the population as a whole and of most businessmen.

Constraints to enterprise development are severe although not insurmountable, and are due both to restrictions and lack of indigenous resources.

The analysis of sub-sectors was undertaken in large part to identify constraints and their spin-off effects at the enterprise level. Based on this analysis, the most critical constraints to entry and growth are the following: 1) shortage of materials, spare parts and equipment; 2) lack of information flow and technology transfer; 3) lack of access to credit and other financial resources, other than family investment and reinvested profits.

Policy and regulatory constraints are detailed in the SME policy report. The following perspectives are drawn from the ground-level analysis and concur with the findings of the SME report. While the government at both national and local levels attempts to be supportive in its outlook toward SME development, including the informal sector, there are indeed constraints imposed on informals. First, registration is required for access to import licenses and foreign exchange, and is, in turn, conditional upon secured business premises. This clearly inhibits graduation to more formal size and status, especially among service and production enterprises often located on porch-fronts or in informal markets.

Second, local authorities attempt to constrain most informal activity to designated market areas. While local municipalities do construct market places, these are inadequate in size to hold off the businesses -- especially the burgeoning petty retailers sub-sector--with overflow businesses being dispersed. Daily fees of 75 tambala (MK 150 per year assuming 200 days), are also charged; these are expensive as a percentage of gross revenues for informals. In short, the GOM proclivity toward "everything with its place and in its place" impedes access to more elite markets by existing businesses and constrains entry and business start-up.

Associations of Informal Producers are Urgently Needed but Difficult to Establish

One of the major findings to come out of the sub-sector analysis, and of interviews with other businessmen, was the lack of effective business associations. The experience of other countries suggests that groups of informal producers can sometimes lobby effectively to prevent harassment and removal, and to promote the adoption of more favorable laws and regulations. These groups can also help mobilize savings, provide a vehicle for credit both from within and from outside formal institutions, develop and promote improved product designs and production technology, purchase tools to be shared among members, and help members to reach new markets by obtaining economies of scale in distribution and sales.

Lessons from the Malawi experience with business associations are: 1) Successful associations take 10-20 years before they are able to deliver significant benefits to members; 2) Leadership must be clearly defined, and have enforceable sanctions to use to collect fees from members and ensure their cooperation; and 3) Groups may be most effective when their members come from the same business level.

Entry-level Financing and Skill Acquisition occur Without Outside Intervention

In the two subsectors investigated, informal financial mechanisms appear to work as follows:

- 1) For many, the initial investment is 2 - 6 months spent working as an apprentice, sometimes for a fee. The funds to cover this training typically come from savings from other activities (e.g., agriculture, formal sector employment), or from other family members. A lucky few receive their training from formal sector employment, sometimes in Zambia, South Africa, and other surrounding countries.
- 2) Many cannot afford to invest in any equipment in the early phase of their business; they initially sell their services, and expect customers or employers to provide all equipment and materials; after doing this for a while, some gather enough savings to purchase their own equipment.
- 3) In a smaller number of cases, participants use savings from formal sector employment and/or from other family members to purchase equipment; some of these are given equipment previously used by other family members. In every case observed, the initial equipment purchased is second-hand, since new equipment is too costly.
- 4) Most start-up tailors wait for customers to provide materials and designs, since they have neither the funds nor the expertise to purchase inventory on their own.
- 5) Metal workers must purchase sheet metal in advance; the only credit available is from family members.
- 6) There were only a handful of cases of informal producers interviewed receiving credit from non-family members, such as the Lilongwe Carpenters Association which received a loan of MK 20,000 from the Small Enterprise Development Organization of Malawi (SEDOM) to build their workshop for members in the Lilongwe Central Market. Asian shopkeepers claimed to offer cash discounts and loans for supplies to informal tailors on 60-90 day terms, but tailors denied receiving either. No evidence was found of business lending through the "katapila system", a 2:1 lending scheme evidently used for consumption purposes.

Institutions

There are many institutions targeting small and medium enterprises that have a modest impact on the informal sector. Other institutions targeting different groups may have a positive impact on the sector as well. Most reach an infinitesimal portion of their potential target group, and at costs per beneficiary which are unsustainable without donor assistance. SEDOM is the premier organization providing credit to the informal sector, but has serious financial management problems that are being addressed. The Development of Malawi Traders Trust (DEMATT) is well-suited to provide advisory services but needs to focus more on business opportunity counselling rather than bookkeeping. The Malawi Union of Savings and Credit Cooperatives (MUSCCO) could more effectively reach informals if there were associations of informal producers that could work with MUSCCO to set up credit unions for their members. The Rural Enterprises and Agribusiness Development Institutions Project (READI) is effectively supporting the work of these and other organizations. Other institutions have a less important role.

Three Strategic Options for USAID

In conclusion, three strategic options are proposed for USAID. The first option to help the informal sector is not to carry out any more direct assistance beyond that already supported. Here, USAID would concentrate on programs to help to improve

productivity and production in agriculture, to reduce transport costs, to improve farm-to-market roads, and to reduce the population growth rate so that production gains and cost savings will lead to increasing per capita incomes. In turn, this would increase the disposable income of Malawian consumers with which to purchase informal sector products.

The rationale for this option is that the policy and regulatory environment in Malawi for the informal sector is favorable in comparison with other countries, and still improving under the present structural adjustment exercise. There are many institutions already being supported by USAID and other donors which can be helpful, and the main underlying constraint to the informal sector is low disposable family income, which can only be significantly increased by increased productivity and production in agriculture and decreased transportation costs.

A second option would be to support a pilot program to assist key sub-sectors such as informal tailors and metalworkers to graduate to the next level within the informal sector, thereby increasing income stability and profitability. Our analysis suggests that most informal producers are stuck at the same level because of market constraints and little or no working capital. They fail to meet the demand during periods of peak farmer income, and have little or no work when farmers can't afford to buy their products.

Our rapid diagnostic research suggests that assistance could be provided through existing SME institutions to assist producers in sub-sectors to reach the next level. Additional research is proposed to confirm that there is unsatisfied demand during the remainder of the peak season, and to broaden the scope of the sub-sector research to include rural villages and market towns in all regions. If there are opportunities for expanding informal market share, or of expanding the size of the market as a whole due to better availability of low-cost products in the towns and villages during the times that customers want to purchase them, then an assistance program could be carried out to assist producers in meeting this demand. A Steering Committee of relevant institutions would decide on their respective roles and funding needs. The emphasis would be on assisting producers to purchase raw materials when supplies are ample and prices low, and to produce products for stock during the slack season, so they will be available for sale during the peak.

The disadvantage of this option is that the costs per beneficiary are expected to be high unless greater institutional efficiency is gained. For example, DEMATT's present costs per contract are over MK 800; even then, many present clients are easier-to-serve formal businesses, and the objectives of most contracts are not as difficult as moving to the next business level. To keep costs from getting out of hand, to maintain the focus needed to ensure results, and because of the experimental nature of such a program in Malawi, the initial pilot should be restricted to two or three sub-sectors, although additional sub-sectors could be reached in future stages. Organizational development within sub-sectors, linked to potential credit, should be a major component of this strategy.

A third option is the riskiest and most challenging of the three, but may be desirable if the primary aim is to assist groups presently left out of the informal sector, such as large numbers of women with less than a Standard 7 education, to come in at the entry level. The risk is that it is very difficult to select promising entrepreneurs for assistance who haven't yet proven themselves. MUSCCO's strategy of placing the responsibility and risk largely on the local credit union is a good one, but limits the number of beneficiaries. A further disadvantage is that costs per beneficiary would be even higher than in the second option above.

Research proposed for the second option is also needed under the third. Assuming favorable results for the tailoring sector, assistance organizations should initially focus on supporting informal sewing machine technicians to repair existing backlogs of used machines, and then to make the repaired machines available through MUSCCO credit unions and other associations to promising members. For the metals sector, these associations might purchase metal sheets and tools to be sold to their members. A research element should be built in relying as much as possible on Malawian institutions to evaluate the success of the program, and to draw out lessons that might be applied to other informal sub-sectors.

Of these three options, the second would appear most favorable as it would focus on increased productivity and growth, while lowering the risk associated with new enterprises. This would best be accompanied by further liberalization measures in the regulatory regime as outlined in the SME policy report.

1.0 INTRODUCTION

1.1 Background

USAID Malawi has over the past decade undertaken a number of project and policy initiatives to assist the growth of small- and medium-sized enterprises (SME). On the project side, assistance has been channeled to Malawian organizations through the Rural Enterprises and Agribusiness Development Institutions (READI) project. These include Development of Malawian Traders Trust (DEMATT); Malawi Union of Savings and Credit Cooperative Organizations (MUSCCO); and Small Enterprise Development Organization of Malawi (SEDOM). On the policy side, the Malawi Enterprise Development (MED) program is working for the removal of policy and regulatory constraints for SMEs.

Collectively, the initiatives undertaken to date are assisting well-established and recognizable small businesses; in other words, firms with secure premises, some employees, and legal status and holdings sufficient to either secure credit or demonstrate credit-worthiness through conventional means.

USAID, in preparing its next Country Development Strategy Statement (CDSS) wishes to gain a greater understanding of the informal sector in Malawi -- that is, the self-employed poor who constitute the next level down from the majority of enterprises currently targeted for assistance under READI and MED. This consultancy has been undertaken at Mission request as an exploratory effort to develop greater understanding of the structure and dynamics of informal business activity in Malawi -- an area about which little is known and even less documented. The Scope of Work for the field study is attached as Appendix I.

The specific purpose of the consultancy is to: (1) define the activities and characteristics of the sector itself, particularly its mode of operation, inner relationships, and self-support mechanisms; (2) identify both the opportunities and constraints to informal enterprise development from the ground up, including the potential for expanded market share, and, (3) outline potential strategies and options for informal sector support in the short-to-medium term for the Mission's consideration in developing its CDSS. It is also hoped that, since the report is a ground-breaking study of the informal sector in Malawi, it will form an initial chapter in an ongoing examination of a dynamic area for indigenous entrepreneurship development.

This informal sector assessment was designed to complement a parallel assessment of the policy and regulatory environment as it relates to enterprise development, including micro-enterprises. For that reason, the informal sector team concentrated upon enterprise-level research, coordinating with the policy team on policy and regulatory issues. Our analysis of regulatory issues constraining informals reinforces the broader analysis put forward by our counterparts.

1.2 Methodology

For this study, the non-farm informal sector in Malawi is defined to be all non-farm enterprises that meet most or all of the following criteria: (1) they do not work inside a permanent building devoted to the business; instead, they work from their homes, bicycles, the side of the road, on *khondes* (*verandas*), in market stalls, and so forth; (2) unlike casual unskilled laborers, they must learn technical and business skills,

and usually must invest in equipment and/or working capital; however, the initial direct investment is at most MK 1,000 (in July 1989, US\$ = MK 2.7); (3) their gross sales are less than MK 10,000 per annum, and thus they are not required to pay the government surtax on sales; (4) participants rarely have more than a Standard 7 education; and (5) businesses are rarely licensed by the government.

Given the exploratory nature of the field work, emphasis has been placed on gaining, first of all, an overview of informal activity, and then a more in-depth perspective on structure, dynamics and linkages both to support institutions and to other levels of the private sector. From this understanding, both initial policy and programmatic options can be drawn and further research work defined. Given the relatively short period of time for the study, only rudimentary attempts have been made to develop aggregate statistics or other quantitative measures of the size or distribution of the sector. Here we have relied on secondary sources cross-checked with the policy analysis team.

Specifically, the field work consisted of the following:

- o A review of pertinent reports and studies on support institutions, the policy and regulatory environment, and the general economy. A list of materials reviewed is presented in Appendix II;
- Interviews with a range of professionals within support institutions, Appendix III;
- A series of initial interviews at marketplaces, roadsides and small shops with informal sector entrepreneurs, Appendix III;
- Subsector analyses in two trade/industry areas -- tailoring and metalwork, Appendix III; and
- Inquiry from all sources on the operations of nonformal financial mechanisms in relation to enterprise financing.

The initial review of studies, together with interviews of professionals and informals, was undertaken to form some overall conclusions on the existence and scope and activities of the informal sector; it also allowed the consultants to gain an intuitive grasp of the sector itself and to establish communication links for follow-up and verification of findings.

The initial reviews and field work then led to the selection of the subsectors to analyze. In selecting tailoring and metalwork a number of criteria were used to insure that the areas chosen were, as far as possible, representative of the informal sector in terms of structure and dynamics. Study of these two subsectors would also enable the team to understand constraints and opportunities facing informals and to abstract some initial strategic options regarding support. Selection criteria included the following:

- Relative size and distribution; in other words, that the subsectors selected comprised sizeable numbers of enterprises and levels of employment and that they were distributed throughout primary and secondary cities as well as rural areas;
- Inclusion of women, to ensure that women's role in off-farm employment was emphasized;

- Sufficiency of linkages; in other words, that the subsectors display a range of linkages, both backward and forward, and a breadth of marketing scope (particularly to rural areas) sufficient to allow for a detailing of inter-relationships and an analysis of spin-off effects in terms of both constraints and potential inputs and regulatory and policy adjustments.
- Representativeness of activities; in other words, that the types of enterprises selected collectively comprise the three main business activities of production, service and sales, and provide the opportunity to assess the numerous areas associated with these activities, including procurement of materials, tools and labor, processing into finished goods (technology), and marketing.

The listing of subsectors from which selection was made came from the READI Project and is presented as Appendix IV.

In selecting tailoring and metalwork, we are confident that the criteria are well met. Initial field work demonstrated a high degree of activity and distribution for both, as well as a wide range of backward and forward linkages and significant graduation effects to investigate. Tailoring is a relatively large subsector, employing roughly one thousand people in Lilongwe alone, and contains a significant number of self-employed women. Metalworking is a very important subsector. It employs significant numbers, directly supports rural development and agriculture through the production of tools and equipment, and offers fertile ground to examine technological capacity and potential innovations. Both subsectors include procurement, production and sales activities, and both are largely informal up to the level of mass production. Lastly, while metalworking employs very few women, it is at least directly linked to women through the production of household utensils and farm equipment, which are key to the freeing of women's time -- a critical constraint to women's economic and social development.

We believe, therefore, that the selection of these two subsectors was appropriate and that the information and analysis gleaned through their selection has proven worthwhile.

2.0 SUBSECTOR ANALYSIS

Subsector analysis is a technique developed over the last decade for giving a systems overview of microenterprises, looking at the movement of product from the beginning as raw material until the end as a finished product bought by a consumer (Boomgard et al, 1986). The analysis looks at three aspects of production: the different stages through which a product goes, the linkages among stages, and the participants in each stage. The environment in which firms operate is also crucial: the rules, laws, contracts, information flows on technology, markets, prices and qualities of inputs and outputs, and the service institutions. The latter includes input suppliers that are not primary participants but help to make the system work like banks, courts, media, training institutions, and credit programs.

The assumption is that microenterprises can potentially gain competitive advantage over formal sector producers and importers at any or all stages of production and distribution. The task for the analyst is to discover as precisely as possible the scope of these advantages, and to estimate how robust the advantages will be over time, given likely changes in the environment.

In this particular exercise, subsector analysis focuses on gaining a greater understanding of the dynamics of the informal sector, as well as identifying the potential for informal enterprises to become more productive, create more employment, and improve products and services. Patterns in the subsectors analyzed have relevance to the informal sector as a whole.

Subsectors are made up of several levels of enterprise, and mobility from a lower to a higher level entails overcoming barriers. Some barriers can be overcome by adopting improved product designs and acquiring more up-to-date production technology and equipment. Most barriers can be overcome only by access to reasonably priced credit, to expanded markets, and by a quantum leap in improved business management practice.

Overcoming informal sector barriers could have a significant development impact. For example, raising the level of rural trading from a collection of market stands with limited stocks of identical items to permanent, well-stocked, stores would facilitate development. It would increase local availability of goods and reduce the need for travel and for inefficient, small-quantity, transportation of goods between rural areas and urban centers. In other agricultural countries, basic essentials such as soap, matches, kerosene, water containers, pots and pans, and stoves are stocked and sold in rural community trading stores.

The majority of rural retail stores visited during the subsector field work were understocked in both quantity and variety. Informal market vendors and local producers endeavor to fill the gap created by the empty trading stores, but they have no direct access to sources of supply or to the undersupplied rural population.

The tailoring and metalwork analyses that follow identify levels of enterprise within each subsector, the role of each level in the production/distribution chain, and the barriers to upward mobility.

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2.1 Tailoring (Clothing), ISIC Code NO 10

Informal urban entrepreneurs in the tailoring (clothing) subsector are primarily individual sewing machine operators, called *khonde* (veranda) tailors, located in and around market centers. A small portion have permanent shop premises and employ other tailors. Included in the subsector are part-time and full-time women dressmakers (seamstresses) producing and selling from their homes, retailers of ready-made and imported secondhand clothing, and sewing machine repair technicians.

2.1.1 Size and Importance

The subsector is estimated to include 25,000 enterprises nationwide, of which 8,000 to 10,000 are believed to be in urban centers. This estimate is based on an estimate of sewing machines in Malawi from the Lilongwe representative for the Singer Company. Including employees, apprentices, part-time workers, family participants, and service people, there are probably in excess of 50,000 persons. The gender breakdown is approximately 75 percent male and 25 percent female.

Informal tailors gain competitive advantage by low overheads and flexible, customized production closely attuned to consumers needs and budgets. In a typical transaction, a customer brings a dress or shirt he/she likes and some material, and the tailor copies the design of the old garment using the new material. Overheads are kept low by using apprentices for training, secondhand sewing machines, and by working outside on *khondes*. There are no inventory or marketing costs. Customers are free to use any design or fabric they like, including the popular smuggled cloth from Zambia and Tanzania.

More experienced tailors may also receive orders from formal sector designers and clothing shops. If they have working capital, they purchase the most popular fabrics, and make ready-made garments for sale. In either case these tailors have relatively stable incomes since they can buy cloth when it is plentiful and inexpensive, produce for stock, and are therefore less dependent on sharply fluctuating farmer incomes.

2.1.2 Linkages

Tailoring and clothing production links forward directly to urban, town, and village consumers, and, via transporters and traders, to rural consumers. Thus the subsector has potential linkage to the entire population.

In the central markets observed, clothing display occupies 20 percent of the available space. This is an indication that, next to food, clothing ranks second in consumer priority.

Backward linkage is to cloth and sewing accessory manufacturers, importers, wholesalers, and retailers, as well as to sewing machine and allied equipment distributors. There is one local producer of cloth in Malawi, David Whitehead, Ltd., whose production covers about one-half of the demand for cloth. Other cloth is imported mainly by Asian shopkeepers. However, another significant source is cloth smuggled in from Zambia and Tanzania; such cloth is attractive to informal producers and consumers because it has very attractive designs. It is mainly women from these two countries who carry the cloth to Malawi or hide it on trucks, and sell or barter it for goods

not available at home, including Malawian cloth. Prices for smuggled cloth in Lilongwe are MK 18-20 for two meters of Zambian cloth and MK 22-25 for Tanzanian cloth, compared to MK 14-16 for the standard Malawian equivalent. Prices are lower in Mzuzu, and up to 40 percent higher in Blantyre. Consumers apparently pay a premium for cloth smuggled by the informal sector because of the design, and because of the scarcity of less expensive, locally produced cloth.

Competition within the subsector is between locally produced clothing and secondhand imports. However, some informal tailor/retailers have diversified by adding lines of secondhand clothing. One such entrepreneur interviewed in Lilongwe, with equal-sized racks of self-made and secondhand clothes selling for roughly comparable prices, said that 70 percent of his sales were own-made and 30 percent secondhand.

Margins on secondhand clothing are potentially attractive. For example, dresses imported for MK 1300 a bale of 700 are for sale in the Lilongwe central Market for MK 14. Bales and sales prices are less in Mzuzu, since this is closer to the source of supply. However, the risks are high, since bales may contain rocks and/or unsalable goods, and may also be confiscated by authorities.

The entire subsector competes with Malawi's 15 medium- and large-scale formal sector clothing manufacturers. These are companies like Press and Shire, Crown Fashions, Textile Industries, and Naffi's clothing. Press and Shire told us that they were only running at 70 percent capacity because of competition from the informal sector. We learned later that red-tape delay in getting approval for the use of foreign exchange to buy production machinery parts may also contribute to the 30 percent idle capacity.

In the markets visited, most clothes sold are either second-hand or produced by the informal sector, and the share of these relative to formal imports and manufactured goods is increasing because of lower prices for products of comparable quality, and greater variety.

2.1.3 Skill Training

Sewing machine operation requires skill. Most tailors obtain initial training by apprenticing, or by paying a skilled tailor. Market prices range from MK 60 to MK 70 for 7 to 10 hours of instruction, to MK 50 for four or more months of apprenticeship training, and may be less for relatives. Courses formerly conducted by the Singer distributors have been discontinued for all except new machine buyers, to avoid competition between Singer and customer instructors.

Trades such as tailoring are considered less desirable by upwardly mobile Malawians than careers in government or agriculture. However, many male tailors come from Muslim trading families that discouraged formal education. Muslim males are attracted to tailoring because of their relatively low level of education, lack of opportunities for them in agriculture and government, and opportunities for apprenticeships from their Muslim friends and relatives. Such training is rarely offered to women, except family members. Thus, most of the women tailors interviewed acquired their skill in secondary school "home economics" classes; however, these are the educational elite of the tailoring profession.

Machine repair technicians acquire skill by working in a clothing factory, or for the Singer distributor, and by self-instruction. Qualified repairmen are in short supply because the rate of increase in persons acquiring machine and operating skills apparently exceeds the rate for persons acquiring repair skill.

A handful of urban dressmakers, including Malawian, Italian, British, Portuguese, and others, have fashion design skill. Most Malawians in the subsector tend to rely on foreign catalogues for designs which they modify to suit the fabrics and accessories available to them. The majority of entrepreneurs produce garments tailored to customer specifications and made from materials provided by the customer.

Entrepreneurial skills, including business and financial management, in the subsector as a whole are undeveloped.

The incentive to create and join any form of trade association appears to be offset by a firm resolve to maintain individuality and independence, and by the associations' failure, in the short term, to achieve results for members (see discussion, section 2.3, below).

2.1.4 Constraints

In order of importance, as perceived by tailors and seamstresses interviewed, constraints to profitable operation and growth are:

- The high cost of cloth, and unwillingness of cloth retailers to supply cloth on credit, except when the tailor is producing for the retailer's customer;
- Inability to accumulate, or borrow, the operating capital required to become auto-sufficient enterprises as opposed to remaining contract labor for cloth supplier customers and off-the-street customers;
- Shortage of serviceable secondhand sewing machines, spare parts, and qualified repair technicians; and
- Depressed sales resulting from the combination of lower than normal rural family purchasing power and competition from secondhand clothing brought in to Malawi in bales from Tanzania and Zambia and sold at prices lower than local tailors' production costs. However, as discussed above, some tailors take advantage of this situation and sell both own-made and secondhand clothes.

These constraints are a particular problem for informal tailors because of boom-and-bust demand tied to agricultural seasons. Many participants interviewed have no business whatsoever during the last part of the November-to-March period, when farmers are investing in new crops, paying school fees, and paying high prices for food. Since the tailors have no working capital or supplier credit, they cannot produce for stock. If they have their own land, they can do farming work, but many are landless. Yet during the "pick-up" season of July and August, they claim they cannot keep up with all the work.

There are also periodic shortages of cloth due to foreign exchange constraints. Tailors who cannot buy cloth when it is plentiful get caught short if cloth is hard for customers to find and expensive during the peak demand season.

Further research is needed, but impressionistic evidence is that consumers who would prefer tailor-made clothes are purchasing secondhand or factory-made clothes because tailors cannot produce enough during the peak season.

No tailors mentioned the lack of a permanent, enclosed place of business as a constraint. However, a sewing machine repairer told us that to obtain a simple space in Lilongwe, the main constraint was not the rent (circa MK 200 per month compared to the MK 15 per month *khonde* rent he currently pays), but the requirement of a large bank balance as security (he believed a minimum of MK 5,000 was required).

In addition to the constraints mentioned by participants, we observed the following additional constraints:

- Lack of a subsector association where tailors and seamstresses could:
 - share experience;
 - mobilize to win, and fulfill, quantity production contracts and subcontracts and influence national and municipal policy; and
 - become informed about, and eligible for, various kinds of small business financing and support services available from institutions already in place;
- Self-perception as artisans instead of as business persons; and
- Need for basic business management comprehension and skill.

2.1.5 Levels and other Dynamics

Tailors and seamstresses, whose enterprises are small enough to be classified as informal, perform functions in the production/distribution chain from cloth acquisition to finished clothing sales. Income and status depend on the functions performed, skill level, location, salesmanship, business connections, and financial resources (See Tables 1-3).

Levels in the subsector, starting with the highest earners and working down, are as follows:

Level 1 tailors and seamstresses obtain contracts from urban designers to produce lines of high style and quality ready-to-wear garments that will be sold in retail outlets selected by the designer.

Also at level 1 are skilled *khonde* tailors making men's suits for the customers of shops which import and retail high-quality cloth. These tailors usually work on the import shop's veranda and have piece work, or hourly rate, agreements with the shop owner. Alternatively, level 1 tailors may make men's suits out of their own fabrics and sell directly to customers, as does one of the most successful *khonde* tailors in Lilongwe. Some have paid employees. Since the customers of level 1 tailors are mainly formal sector employees, there is less seasonal fluctuation in demand than for other market niches, and therefore more stable incomes.

Moving to men's suit production requires a higher level of skill than the typical *khonde* tailor, and the ability to sell to a more sophisticated, mainly urban clientele. The advantage is much higher margins than on other garments, and more stable demand from urban customers who receive salaries throughout the year.

TABLE 1

LEVEL 1 TAILOR AFFILIATED WITH IMPORTER/RETAILER
(Typical Daily Transactions and Income)

Transactions	COST MK	PRICE MK	NET INCOME MK
<u>The Importer/Retailer</u>			
Imports:			
5 meters of cloth priced at MK 4.8/m	24.00		
Pays:			
import duty (45 percent)	10.80		
freight and insurance (25 percent)	6.00		
surcharge on price, duty freight and insurance (55 percent)	22.44		

Cost of goods	63.24		
Sells:			
cloth to customer at mark-up (30 percent)		82.21	
space on Khonde (veranda) to tailor		2.00	
tailoring service to customer taking sales commission (25 percent)	36.00	48.60	
	-----	-----	
Importer/retailer's transactions/income*	99.24	130.31	32.97
<u>The Khonde Tailor</u>			
Buys:			
accessories (buttons, lining, thread, zippers, etc.)	4.00		
Pays:			
space rent to importer/retailer	2.00		
Sells			
one day's skilled labor making customers' finished goods		30.00	
Khonde tailor's transactions/income	6.00	30.00	24.00
Khonde tailor's income per month less opportunity cost of MK 400 tied up in sewing machine (assume 13 percent per annum savings rate)			576.00
			4.30

Khonde tailor's net earning per month			570.60
Khonde tailor's net earning per hr. worked			2.90

* MK 132.21 is not the price of a suit. A suit takes 2.5 days of tailoring and consequently is priced, on the average, at MK 200 to MK 220.

The ability to purchase cloth allows the tailor to design clothes that can be sold in the market, thus reaching a larger customer base. The tailor can produce for stock during slow periods. He/she can work at home, thus saving *khonde* rental payments, and can travel to various markets at will depending on his perception of shifting opportunities. New customers can view the quality of the tailor's work first hand, rather than having to rely on reputation. Creative tailors can achieve competitive advantage by designing clothes with unique features. The tailor can decide whether or not to offer credit to customers, and build the interest charge into his price. Tailor-retailers with sufficient working capital may also sell secondhand clothes alongside their own wares, thus further diversifying their income source.

Two informal *khonde* tailors interviewed in Lilongwe have successfully made this transition. One sits on a strategically located *khonde* in Old Town Lilongwe, has three tailors working for him on three machines, and specializes in men's suits made from his own stock of fabrics. Another works at home, and sells both his own work and a selection of secondhand wares at the entrance to the main Lilongwe bus station. Both finance their working capital from internally generated profits.

Some tailors were also interviewed who have moved from the informal to the formal sector. Nearly all of these had another source of capital such as savings from work in South Africa, or savings from a husband's formal sector work to support a wife's business.

Another route to achieving this level was observed only among women entrepreneurs. For example, a Zomba businesswoman used savings from farming and brickmaking activities managed by her husband, and from her husband's formal sector income, to purchase cloth, give it to *khonde* tailors with designs for production, and then to sell the finished goods in the Zomba market.

As one importer/retailer of high-quality cloth said, "the tailors working in front of my shop are the most skilled in Malawi. They learned tailoring when they were boys because their Muslim families would not let them go to Christian School. Most of them have been making suits for my customers for many years. They earn MK 500 to MK 600 per month net profit. Now they have farms, livestock, other businesses, and comfortable homes." The tailors themselves generally confirmed this.

Level 2 tailors and seamstresses are those on verandas and working at home who purchase cloth from retailers and produce ready-made clothing copying designs in mail order catalogues. Some work with apprentice-helpers. They display the clothing on hangers against the wall behind their machine sites. Some have to stop sewing in order to sell to customers. They also may sell some finished goods in the municipal market area, and/or give them to relatives to sell.

Level 3 rural village tailors and seamstresses perform functions similar to their urban counterparts, but they buy less expensive cloth, produce simpler finished goods, and operate very old machines which have had many previous owners. They accept some repair work and engage in price negotiation and selling discussions with customers. This reduces their producing time.

Level 4: The largest group of *khonde* tailors and lowest income earners are urban, village, and rural tailors and seamstresses who work only when a customer gives them something to alter or repair, or a piece of cloth to be made into a garment according to the customer's instructions. This level includes less-skilled persons who have no money to buy cloth, and may be working only part time. One person in this category estimated daily earnings to be MK 4 or an hourly rate of 50 tambalas.

TABLE 2
LEVEL 2 TAILOR OR SEAMSTRESS
(Typical Daily Transactions and Income)

<u>Transactions</u>	<u>COST MK</u>	<u>PRICE MK</u>	<u>NET INCOME MK</u>
<u>The Level 2 Tailor or Seamstress</u>			
Buys:			
8 meters of imported cloth from local retail shops at average MK 10/m	80.00		
accessories (elastic, thread, buttons, etc.)	8.00		
Pays:			
for space and a place to leave the machine at night	.50		
for 3 hrs. of marketing helper time	1.50		

Total Costs	90.00		
Sells:			
8 garments (one day's production) for an average price of MK 13.50 ea.		108.00	
	-----	-----	
Tailor/seamstress transactions/income	90.00	108.00	18.00
<hr/>			
Tailor/seamstress income per month worked			432.00
less opportunity cost of MK 400 tied up in sewing machine (assume 13 percent per annum savings rate)			- 4.30

Tailor/seamstress net earning per month			427.70
Tailor/seamstress net earning per hr. worked			2.23

TABLE 3
LEVEL 3 TAILOR OR SEAMSTRESS
(Typical Daily Transactions and Income)

Transactions	COST MK	PRICE MK	NET INCOME MK
<u>The Level 3 Tailor or Seamstress</u>			
Buys:			
8 meters of Malawi manufactured "Whitex" cloth from a local retailer at average MK 5.8/m	46.40		
various accessories (elastic, thread, buttons, etc.)	4.00		
Pays:			
for space and a sewing machine security	.50		
Total Costs	50.90		
Sells:			
7 garrments (one day's production) for an average price of MK 9 ea.		63.00	
Tailor/seamstress transactions/income	50.90	63.00	12.10
Tailor/seamstress income per month worked less opportunity cost of MK 400 tied up in sewing machine (assume 13 percent per annum savings rate)			290.40
			- 4.30
Tailor/seamstress net earning per month			286.10
Tailor/seamstress net earning per hr. worked			1.49

General Comments: The majority of tailors and seamstresses interviewed were aware of the various levels in their trade, and of the level in which they worked. Most wanted to move up and cited lack of money to buy cloth as the major constraint. Some felt they could move up if they could acquire more versatile sewing machines.

One urban tailor said the inability of David Whitehead, Ltd. to meet the local demand for quality cloth, and the extremely high price of quality imported cloth which had to be passed on to customers, was leading to increased sales of secondhand clothing.

2.2 Metalwork, ISIC Codes Nos. 22, 23, and 25

Informal subsector metalworking enterprises include:

Tinsmiths making products such as watering cans, buckets, oil lamps, toys, cook stoves, pots, pans, and many other utensils out of new and scrap sheet metal; by cutting, bending, riveting, soldering, and applying putty to seams and protective coating to handles.

Blacksmiths making farm, transport and construction tools and equipment such as hoes, axes, machetes, trowels, and crowbars mostly out of scrap metal, but also using some new plate and rod; by hacksawing, torch cutting, forging, tempering, gas and electric welding, drilling, filing, and grinding.

Scrap metal retailers who collect, sort, repair, and refurbish discarded automotive parts, worn mechanic's tools, nuts and bolts, and metal bits and pieces of all kinds; in order to display what they have collected in a central market where customers cull through it to find precisely what they require.

Metal fabricators (some are multi-skilled, formal sector entrepreneurs) who make products according to customer plans and specifications, as well as to stock and sell, such as factory hand trucks (sackbarrows), wheelbarrows, ox cart axles and chassis, gears, tobacco drying equipment, plows, disc harrows, shovels, and other agricultural equipment; using tools such as power hacksaws, forges, shapers, drills, electric and gas welders, and, in the larger shops, metal benders, lathes, and milling machines.

Informal metalwork enterprises tend to be built around the particular skill of the proprietor.

The entrepreneur most representative of the informal metalwork subsector is the tinsmith. He, with perhaps two helpers plus one apprentice, works outdoors in an enclosed market area. This allows him to leave his finished goods and metal stock overnight secured by a market area watchman.

On a typical day, his operating statement might be as given in Table 4.

TABLE 4
TYPICAL DAILY OPERATING STATEMENT FOR INFORMAL TINSMITH

Gross production (at selling price)	MK	60.00
Cost of goods sold		48.00

Gross margin		12.00
Business expenses	MK	2.50
Helpers and apprentice		.80
Space fee		.80
Tool replacement and maintenance		1.80
Transportation		-----
Total business expenses		5.90

Net operating gain		6.10
Less: inventory financing cost *		3.00

Net profit	MK	3.01

* The daily cost of carrying a MK 5,400 inventory for 90 days assuming a 20 percent per annum financing cost (this expense usually is met by selling a portion of his finished goods at a reduced price).

2.2.1 Size and Importance

In terms of product value, the aggregate output of informal metalwork enterprises probably leads all other producing informal subsectors except for tailoring. The number of skilled metalworkers is limited, hence the subsector may not employ as many persons as retail trading. But metalworkers tend to work full time at their trade, stocking finished goods when sales are low in order to meet seasonal peak demand.

Metalwork is a vitally important entrepreneurial category in an agricultural economy. Metal products are used for land clearing, planting, cultivating, harvesting, transportation, and processing. Moreover, metal products have become essential for farm family home life (fetching and storing water, cooking, serving, and lighting).

Observation of the space in market centers allocated to the display of all kinds of metalwork suggests that the informal metalwork subsector ranks third, after food and clothing, in customer priority.

2.2.2 Linkages

Informal metalwork benefits all segments of Malawi's population, through links to agriculture, food processing, transportation, and consumption (cooking).

An important backward linkage, which may be undervalued, is to the metal product imports which become scrap metal. While formal enterprises use mainly imported sheet metal, the informal sector's recycling of scrap dramatically reduces the need for foreign exchange to finance imports. In a country with no iron and steel production, every metal product fabricated locally out of scrap is an import substitute.

2.2.3 Skill Training

Some metal fabricating enterprises are small enough to be classified as informal. They fabricate poultry keeping equipment, window and door frames, security mesh, gates, metal furniture, and sometimes engage in auto body repair. These entrepreneurs have a wide range of skills including gas and electric welding, body beating, spray painting, and rudimentary product design. They pass their skills on to employees and apprentices. But their skills appear to be self-taught and of a low standard. None show evidence of having learned business and workshop management.

Tinsmiths assembled in groups, though each is an independent entrepreneur, acquire new and improved skills from group members with vocational and factory training. For example; they learn to solder sheet metal seams instead of relying on putty; they learn to use a mechanical hand tool for knurling which adds strength to buckets and containers while also improving their appearance; and they learn to copy more up-to-date designs which increase the products serviceable life. But very few have any opportunity to acquire mechanized production skills, because the machinery and equipment for operations such as die cutting, precision bending, and riveting is found only in formal sector, factory production.

Working in tinsmith production groupings appears to expose individual producers to elements of business management such as costing, pricing, quantity production, quality control, employee supervision, and marketing. Tinsmiths operating alone do not receive this exposure.

Tinsmiths working alone, outdoors, in or near market centers, are the lowest level in the producing portion of the subsector. Most acquire the limited skill needed to produce several kinds of water containers by serving apprenticeships with experienced tinsmiths. Alternatively, participants learn their skill in a formal sector job in Malawi or one of the neighboring countries. They transfer their skill to offspring and local helpers. Because there is no skill enrichment, product quality is at the minimum standard for local salability.

2.2.4 Constraints

Probably because tinsmiths and metal fabricators earn more money than most other informal sector entrepreneurs, and because they perceive themselves as artisans as opposed to business persons, they were not immediately aware of constraints. When asked what they needed to increase production and income, after considerable thought, some replied:

- Better quality, reasonably priced tools (most considered new tool prices in Malawi to be so far out of their range that they could only employ used tools);
- Credit to buy tools (most wanted welding equipment but few could specify what for);

- Credit to finance production during periods when farmers are not buying so that they would not be forced to sell finished goods at reduced prices in order to get cash to finance continuous production.

At Kanengo market, a Lilongwe tinsmith claimed he could sell 2,000 watering cans during September if he could afford to produce throughout the year for stock; he had 20 cans in stock when we saw him in July. A Kanengo formal sector graduate from the informal sector had 90 identical watering cans in stock, and received a 20 percent premium over his informal counterparts' price of MK 15 per can, presumably reflecting his ability to deliver larger quantities. Another participant in the Biwi Triangle, Lilongwe received an order for 100 sack trolleys. He built 30 one month, 30 the next, and was then told by the customer to stop; another source of supply had been found for the balance. With sufficient working capital, the participant could have completed the order in the same period.

As with the tailors, no informal metalworker mentioned the lack of a permanent workplace as a constraint. This may in part reflect the unattainably high cost of such a facility for most participants. For example, the informal graduate in Kanengo paid a MK 15,000 "development charge" to the Ministry of Lands for his leased land, upon which he has built a simple structure.

Observation of tinsmiths and metal fabricators indicated that productivity could be increased, and product quality and working conditions improved, if the entrepreneurs had:

- Improved, but appropriate, production technology;
- A wider selection of better quality tools;
- Workshop layout and production flow know-how;
- Basic business management awareness and comprehension;
- Subsector organization to facilitate business and production skill dissemination and increase awareness of, and eligibility for, various types of micro business assistance available in Malawi.

2.2.5 Levels and other Dynamics

Like tailors, tinsmiths work at different levels. Level is determined by location (proximity to supply and market), trade skill (work speed and number of operations mastered), available tools and equipment, and whether or not the tinsmith is working in some kind of cohesive group with other tinsmiths (see Tables 5-7).

Level 1: Top-earning tinsmiths work in, or close to, urban centers which have well-stocked hardware and sheet metal suppliers. They own, or have access to, hand-operated, rotary, knurling devices. They have access to a great deal of varied scrap metal, especially fuel drums. They work in informal groupings, have paid employees, share equipment, pay specialists to perform certain tasks, and sometimes collaborate to produce large orders.

Their next step up would be to become formal sector manufacturers. But that is simply out of reach because of the capital investment, technical and managerial skill, and organizational ability required to start and operate a minimum-sized viable factory.

Most level 1 tinsmiths have advanced from level 2 and, in doing so, have more than doubled their earnings. Two tinsmiths were interviewed who successfully made this transition. Both are secondary school graduates. One received three successive SEDOM miniloans for MK 3,000 to produce metal buckets for an agency assisting refugees, during the "off-season" of February-March. Although this is no guarantee that he will receive such orders in the future, he has saved some of the proceeds of these large orders to self-finance future sales of this type. Another has been building his business since 1967, and has graduated many levels past the informal tinsmith to become a diversified metal fabricator. However, he had the unusual advantage of over ten years experience working as a metal fabricator in Zimbabwe and Zambia, and initial investment capital of MK 15,000.

Level 1 tinsmiths feel and behave like a tinsmith elite. A German sister city sponsor is financing a covered, secure, group production space with lockers for unsold stock for one tinsmith group.

Level 2: These are tinsmiths in rural villages who must travel to cities to obtain materials and supplies. They usually employ an apprentice/helper who is not paid but is supported, sometimes as a member of the tinsmith's household. Because they must perform every production task requiring skill themselves, and also engage in selling negotiations, they produce only one-third of the amount that level 1 tinsmiths produce. Many work with apprentice-helpers.

The barriers they must overcome to reach level 1 are:

- Reduce material acquisition and transport cost and time;
- Acquire more and better tools and equipment;
- Learn to knurl and solder; and
- Either organize, or join, a collaborating group based in one location and having at least three participants.

Level 3: The lowest earners are also the most prevalent. Typical of Level 3 is a tinsmith in a rural area working with one unpaid family helper and having limited metalworking skill and only old tools, in poor condition, to work with. Because he cannot afford new sheet metal for all his output, he spends many hours seeking, collecting, transporting, cutting, and flattening scrap metal. His production is limited, and product quality is poor, barely saleable. Consequently his selling prices are lower for equivalent items than any others.

To reach level 2, he must:

- Improve his skills, and product quality;
- Employ others to collect and prepare scrap metal so he can concentrate on fabrication;
- Accelerate production, and
- Perceive himself to be an entrepreneur as well as being an artisan.

TABLE 5

LEVEL 1 URBAN TINSMITH WORKING IN A COLLABORATIVE GROUP
(Typical Daily Transactions and Income)

Transactions	COST MK	PRICE MK	NET INCOME MK
<u>The Sheetmetal Importer/Retailer</u>			
Imports:			
as part of 500 to 1000 order, 3 72" x 28" galvanized metal sheets priced at MK 9.40/sheet	28.20		
Pays:			
import duty (15 percent)	4.23		
freight and insurance (25 percent)	7.05		
surcharge on price, duty freight and insurance (35 percent)	13.83		

Cost of goods	53.31		
Sells:			
3 sheets to tinsmith at mark up (30 percent)	69.30		
	-----	-----	
Importer/retailer's transactions/ income	53.31	69.30	15.99
<hr/>			
<u>The Tinsmith</u>			
Buys:			
3 sheets galvanized metal	69.30		
other fabricating items (rivets, rod, paint, etc.)	10.00		
Pays:			
material transport	2.00		
specialized workmanship (knurling, soldering)	5.00		
business license (prorated)	.75		
marketing and working space fee	.75		

Total Costs	87.80		
Sells:			
10 fabricated items priced MK 15 ea. but sold to travelling retailers at 30 percent off		105.00	
	-----	-----	
Tinsmith's transactions/income	87.80	105.00	17.20
<hr/>			
Tinsmith's net earning per month			412.80
Tinsmith's net earning per hr. worked			2.15
<hr/>			

2.3 Associations

Associations of informal entrepreneurs are rare in Malawi. They could be a positive mechanism for informal enterprise growth. The most successful association observed is the African Businessmen's Association (ABA), formally established in the early 1970s following a 1969 meeting of leading Malawian businessmen chaired by the Life President. ABA claims to have 45,000 mainly small-business members, 80 percent of whom are retail traders and 10 percent transporters.

ABA has been particularly successful in transportation, gaining a monopoly on sugar distribution for its members, and benefiting also from high margins to be earned in the sector due to regional conflicts. ABA makes loans of up to MK 5,000 to members, and does some political lobbying. However, none of the informal businessmen interviewed was an ABA member; the interviewees perceived the organization as too political, and run by prosperous businessmen mainly for their own interests.

The Small Scale Tailors Association (SSTA) was set up by SEDOM mainly for women tailors and designers in Blantyre and Linde. Both formal and informal businesses were represented. The association worked to improve the design of ready-made clothes produced by members by sponsoring, through SEDOM, two-week courses in Blantyre and Lilongwe. The SSTA also prompted SEDOM to obtain tax-free cloth from David Whitehead, Ltd. for informal sector members, and to protest to the Ministry of Trade, Industry and Tourism when Asians were given licenses for tailoring. However, members were apparently disillusioned with the SSTA because they felt it had accomplished so little.

The SSTA was recently disbanded, and replaced by the Blantyre Businesswomen's Association (BBA). Also set up with SEDOM assistance, the preliminary goal is to provide an organization that donors can work through to promote "women in development" activities. A nationwide, women's version of ABA is envisioned by some. The former chairman of the SSTA was encouraged to set up the BBA by the Malawi Export Promotion Council, the National Commission for Women in Development, the Ministry of Trade, Industry and Tourism (MTIT), and the READI project, many of whom claimed they were receiving requests from donors for such an organization through which to channel aid.

It remains to be seen whether gender will prove to be a more effective organizing principle for these women than subsector proved for the SSTA. However, most of the present members are at least secondary school graduates, and thus not typical of Malawi's informal sector.

Our informants recounted many other examples of failed attempts to start associations. A metalworker tried to start a Biwi Triangle Association, with the goal of purchasing equipment for shared use. He approached DEMATT and MUSCCO for support. However, the venture failed because of disagreements over leadership.

A group of Lilongwe formal sector tailors tried to start a tailors association to help get school uniform contracts, build workshops for *khonde* tailors, and set standards for quality. The attempt failed due to lack of trust by the informal *khonde* tailors, who thought their formal sector counterparts would use the association to exploit them. One of the founders of this abortive group is trying again, this time in partnership with one of the most successful *khonde* tailors in Lilongwe.

TABLE 6

LEVEL 2 TOWN TINSMITH WORKING WITH APPRENTICE
(Typical Daily Transactions and Income)

Transactions	COST MK	PRICE MK	NET INCOME MK
<u>The Level 2 Tinsmith</u>			
Buys:			
4 sheets galvanized metal of which 1 sheet is for use each day:			
Cost of one sheet	23.10		
other fabricating items (handle wire, putty, paint, rivets est. at MK 1 per item produced)	3.00		
Pays:			
for material transport: 10 buying trips costing MK 10.20 each prorated over 20 producing days	5.10		
business license (prorated)	.75		
marketing and working space fee	.40		
Sells:			
3 MK 15 items per full day worked:			
2 sold at full retail price	30.00		
1 sold at wholesale price	10.00		
Tinsmith's transactions/income	32.35	40.00	7.65
<hr/>			
Tinsmith's net earning per 20 producing day month			153.00
Tinsmith's net earning per hr. worked			.80

TABLE 7

LEVEL 3 RURAL TINSMITH WORKING WITH ONE FAMILY HELPER
(Typical Daily Transactions and Income)

Transactions	COST MK	PRICE MK	NET INCOME MK
The Level 3 Tinsmith			
Buys:			
3 to 4 sheets galvanized metal sheets from hardware dealer in nearest large town, of which he will use on the average, 3/4 sheet per day	17.33		
other fabricating material	2.00		
Pays:			
for material transport: 5 buying trips costing MK 10.20 each prorated over 20 producing days	2.55		
helper for collecting and cutting scrap metal, a non-cash support expense est. at MK 2 per day	2.00		
Sells:			
one day's production: 3 minimum quality water containers at MK 9 ea.		27.00	
Rural tinsmith's transactions/income	23.88	27.00	3.12
Rural tinsmith's net earning per 20 producing day month			62.40
Rural tinsmith's net earning per hr. worked			.32

Along with lack of trust, there are strong streaks of individualism among informal producers, and an aversion to anything that smacks of socialism or cooperatives. As one informant put it, pointing to an informal colleague in the distance: "If he goes bankrupt, that's his problem." (The implied meaning here is: I don't want to join anything that makes his problem also my problem.)

MUSCCO has set up a credit union for barley tobacco producers, but has not set one up for any subsector of informal non-farm producers, although some producers are members of rural credit unions.

The most successful association we found which benefited informal producers is the Tithandizane Bweila Carpenters Association (TBCA) in Lilongwe. Formed in 1962 with three members, it formally registered as an association in 1973 with 42 members. In 1983, SEDOM approached the group and offered business advisors; SEDOM was told by the TBCA that they did not need advice, they needed a workshop. SEDOM provided a loan of MK 20,000. With this loan, a MK 13,000 grant from the U.S. Embassy, and MK 7,000 from the now 32 members, the workshop was completed. DEMATT gave advice on costing and training at a technical school in tool making (clamps, chisels, blades, and sharpening tools) for 11 members. SEDOM provided an expert from the United Kingdom for training in new designs. The German government donated a planer; the TBCA has hired an experienced operator, and charges 10 T a board foot for planing.

TBCA receives its operating income from a fee paid by members on all goods and services sold: for example 30 T on a MK 25 chair, and MK 10 on a MK 1,500 oxcart. Total TBCA income is MK 40-50 per day from these sources. Members must pay a fee for services performed outside the workshop, and an additional MK 20 per month toward repayment of the SEDOM loan. No new members can be admitted unless a current member resigns, since there is no remaining workshop space. No member has resigned since the workshop was built.

Lessons from the TBCA experience are as follows: (1) it took over 20 years before the group was able to deliver significant benefits to members; thus any effort to replicate this experience in other subsectors should have a long time horizon; (2) leadership must be clearly defined, and have enforceable sanctions to use to collect fees from members and ensure their cooperation; and (3) groups may be most effective when their members come from the same level within the informal sector.

In summary, business associations are potentially a valuable means for supporting informal businesses, but time horizons are long and the risks many.

2.4 Summary: Informal Non-farm Enterprises in Malawi

The informal non-farm enterprise sector in Malawi cannot be defined precisely. A ceiling of MK 10,000 per annum gross sales for the informal sector conforms to government policy, but not to reality. There are unregistered, unlicensed enterprises exceeding that sales volume. Less than five employees describes most informals, but some employ more. The vast majority of informals do not have what the Government of Malawi (GOM) considers "permanent and secure premises," but some do. SEDOM defines informal as employing only local labor and producing for local consumption. There are urban informals employing foreign labor and selling, via mobile traders, throughout Malawi. Capital invested in informal enterprises range from nothing up to 20,000. It seems the only way to define the informal sector in Malawi is to say it includes all enterprises not classified as agricultural production or as formal. In that definition, formal implies licensed, registered, and taxpaying on a regular, verifiable basis.

2.4.1 Qualities

The informal sector has attributes which both protect its members and restrict its growth. One such attribute is mobility. Another is flexibility. Informals can change location, and product lines, to meet shifting demand quickly, and with minimal investment.

Ingenuity is another quality of the sector as a whole in finding solutions to sectoral problems. If local raw materials are unavailable or too high priced, cheaper materials are brought in from elsewhere, or extracted from scrap. As a result, product designs are modified to encompass the available materials (although there are not enough improvements in the functional designs of products, because of the small size of the market and the lack of outside stimulation). If demand exceeds supply, the sector accelerates training of new entrants, according to businessmen interviewed. One indicator of the sector's efficiency and competitive advantage are the price comparisons below.

Some Typical Prices (MK), Formal Versus Informal Sector

<u>Item</u>	<u>formal</u>	<u>informal</u>
woman's dress	32	14
man's shirt	28	18
small cooking pot	18	4
medium cooking pot	22	6
large cooking pot	29	10
large wash tub	59	55
bucket	35	17
axe	24	5
panga (machete)	14	8
hoe	8	5

Malawian incomes are so low and informal price savings so striking that even as incomes increase, consumers continue to prefer informal products.

Individuality and independence are highly developed qualities in Malawian entrepreneurs with both positive and negative results. They appear to be defensive qualities and may stem from negative experience with cooperative membership. Unfortunately these otherwise stellar qualities militate against progress. They limit the sharing of knowledge, experience, and skill. And they rule out most forms of collaborative effort. For example, these qualities have kept skills from advancing beyond traditional inherited levels. They make intervention difficult. The logistics entailed in delivering services to vast numbers of individualistic entrepreneurs are complex and expensive. Consequently, interventions to assist the sector, no matter how well conceived, may not end up being cost effective.

Informal enterprise in Malawi is active, and vital to the country's economic well-being. Nevertheless, designing and implementing any intervention to strengthen the sector is a challenge.

3.0 INFORMAL FINANCE

The subsector analysis and less-detailed studies of other parts of the informal sector indicate that nearly all financing for these businesses comes from nonformal mechanisms. In traditional Malawian villages, individuals are obliged to help others in need. For example, members of a village might construct a house for a family in need, in return for a meal or beer from the family. Financial help is available from chiefs, landlords, and commercial farmers. With traditional credit there are no promissory notes, but there has to be a third party witness. No interest is charged. Some lending risks a creditor's own solvency, but is done as an insurance policy against calamities, according to the "I'll scratch your back if you scratch mine" principle. Repayment schedules are discussed, but left indefinite; the transaction is not public knowledge. The borrower risks losing his personal integrity and community standing if he fails to repay (Beza, 1988).

These traditional lending practices survive today among entrepreneurs in the urban informal sector.

3.1 Types of Financial Mechanisms, and Levels and Types of Financing

Based on our interviews, overwhelmingly the source of finance is savings by the entrepreneur or a related family member. There are two investments needed to enter business: first for training and then for equipment. Most tailors and metalworkers learn their trade as an apprentice, and pay a fee to do so. Where the teacher is unrelated, the normal rate for tailoring is MK 50 for an apprenticeship of at least four months. However, in addition to the fee, the apprentice forgoes at least four months of income, and his/her living expenses are generally covered by savings or other sources of family income. Where the teacher is a family member, the fee is smaller and wages may also be paid during the apprenticeship period.

Tailors and metalworkers often pay for their equipment and other start-up capital with savings from a previous formal sector job. A house servant used his severance pay when his expatriate employer left Malawi to purchase a sewing machine. A metalworker received tools from his previous formal sector employer as a loan to be repaid. A Zimbabwe metal worker came to Malawi in the 1960s with MK 15,000 savings from formal sector jobs, which he invested in his first business. A Malawian working in Zambia saved enough to import eight sewing machines. He set himself up on a *khonde* in 1974, and now has a permanent shop and is one of the most prominent tailors in Lilongwe.

Agriculture frequently provides a source of start-up capital. A farmer living outside of Lilongwe sold some cassavas in the local village market and some pineapples to the Lilongwe central hospital, and used the proceeds to buy a used bicycle in 1983 for MK 48. Since then he has made on average one trip per day, six days per week, 15 km to Lilongwe with a load of firewood, which he sells for MK 7.70 per load mainly to women along the side of the road. Every household needs firewood, or charcoal, for daily meal preparation.

Others receive a loan from a family member, usually in kind. A tailor in Zomba got a sewing machine bought for him by an uncle in Mangochi for MK 200, and has since paid back the loan as he could, with no interest (assuming the machine really cost MK 200). Women typically receive loans from their husbands for training, equipment,

and working capital. One woman tailor receives MK 100 from her husband at a time, which she uses to buy cloth and to make and sell finished goods. She must pay him back out of business earnings.

Many participants avoid the need for financing by receiving free training and/or equipment. In such cases, the free training may come from prior formal sector employers, or from family members who already have the skill. A maintenance man at the Lilongwe golf club learned metal working skills on the job, and saved enough to set himself up on his own. A Lilongwe tailor received two free sewing machines from his brother.

One farmer received his sewing machine as a gift from his father, who then moved to South Africa, bought a new one for himself, and set himself up in business there. The son hired a laborer to look after his farm, paid MK 50 for training in Balaka, and moved himself and his family to the nearer town of Ntechu, 18 miles away from his farm, where he has practiced his tailoring business since 1985.

Another interviewee returned from working in the mines in South Africa, and received free training in tailoring from his brother. He had spent all his earnings on consumption goods, but found an owner of a sewing machine willing to rent it to him for MK 8.50 per month, payable at the end of the month. He started renting the machine in 1980, and paid for it with earnings from the business. By 1984, he had saved enough in the business to buy some old boards and plastic sheeting to construct a simple shelter in the Dezda market, where he still sits and sews.

Another financing system present in Malawi is the rotating savings and credit association known as *chilyelano*. These groups are commonly formed among low and medium wage earners; each month, members pool contributions and give the entire amount to a member in turn. The proceeds are normally used for consumption; no interviewee claimed to receive business financing from this source.

3.2 Disbursement, Collection and Guarantee Systems

The *katipila* system is a more organized informal finance system, where a professional informal moneylender and his agents lend for short periods at high interest rates. Unlike the traditional family and community credit system discussed above, the *katipila* system has definite repayment schedules and simple documentary contracts. None of our interviewees admitted to receiving loans from a *katipila*, where interest rates in Lilongwe range from 40-50 percent for the term of the loan, which is usually one month. A *katipila* interviewed in Lilongwe has about 200 loans outstanding averaging MK 200 each, with a range of MK 14 to MK 2,500. Nearly all were to formal sector employees because of the security element, although there were a handful to informal businessmen in dire financial straits.

This system is viewed with disdain by most informants. Borrowers are perceived to have lost control of their finances, and to be of dubious character (why else would they have to resort to such usurious borrowing rather than draw on the more benign family/community-based system?). However, the *katipila* contracts are typically certified by formal sector employers, and enforceable in traditional courts.

The better-off informal producers may offer credit as a service to their customers. For example, one tailor offers customers two months to pay for their men's suits after delivery. A retailer offers beers on credit to her regular customers because of competitive pressures.

Low-end informal producers often end up, by default, financing work left by customers, done promptly, and then not collected for three or more months. There is an ethic among producers that they do not sell the finished goods in the market to collect funds due, though in part this is due to the difficulty of selling customized products.

In another example, a metalworker built 30 sack trolleys, was not paid for three and one-half months, and had to close down during part of the period for lack of working capital.

3.3 Links to Formal Financial Mechanisms

Family finances, the main capital source for informal businesses, are often linked to the formal sector. As discussed above, businessmen often save their start-up capital while working in prior formal jobs. Capital provided from other family members often comes from formal jobs, particularly, among the interviewees, from government jobs.

Agricultural credit no doubt has an indirect link, since farmers who do not have to pay up front for their fertilizer and other inputs may as a result have surplus funds to invest in their non-farm business. Although this link was never mentioned in an interview, the converse came up: that a ready-made clothes business in Zomba was undercapitalized because all profits from that business were being invested in agriculture.

Supplier credits were reported as available from formal fabric shops. One Asian claimed to offer credit on up to 3,000 meters of cloth as long as he knew the borrower well (presumably this means that the borrower was another Asian). He also claimed that he let his *khonde* tailor get behind on her rent, though she claimed that she had always been up to date.

Other formal businesses claimed to offer credit for 60-90 days, and 5-10 percent cash discounts, but none of the informal businesses surveyed claimed to have received either. As discussed above, the lack of supplier credit is a major constraint for informal tailors and metalworkers in achieving more stable income levels, since they cannot produce for stock during slack periods and have to turn away business during peak agricultural seasons.

The ABA claimed that when a member was having difficulty repaying a supplier, the ABA would work out a repayment plan with the member, and then lend up to MK 5,000 to repay the supplier. This appears to be mainly for formal sector retailers and transporters.

Short-term supplier credit is available from formal sector shops to support informal retail trade. For example, each morning in Lilongwe, informal entrepreneurs load up their bicycles with goods received on consignment from formal shops, drive to villages within a 30 km radius, sell their goods, return to Lilongwe, pay for the goods sold, return the unsold goods, and keep a margin. In all, MK 20 million in credits from Malawi's Asian community to rural retailing is estimated to be outstanding at any time, but most of this is to formal sector, rural retail shops.

4.0 INSTITUTIONS ASSISTING INFORMAL ENTERPRISES

There are many institutions targeting small and medium enterprises that have a modest impact on the informal sector. Other institutions targeting different groups may have a positive impact on the sector as well. The following encapsulates our findings on the most important of these.

4.1 Small Enterprise Development Organization of Malawi (SEDOM)

SEDOM is the premier organization providing credit to the informal sector. SEDOM classifies its loan portfolio into two types: miniloans of up to MK 3,000, repayable in 12 months, and term loans up to MK 75,000 with a 2-12 month grace period, and repayable over a period up to eight years. Although many of SEDOM's clients are much larger, formal sector firms, the average miniloan is approximately MK 1,700, which is within the reach of the upper end of the informal sector. If groups of informal firms were to apply for loans, then the bulk of the informal sector in cities and towns could potentially be reached.

One of the groups interviewed, the Tithandizane Bwaila Carpenters Association of Lilongwe, had received a SEDOM loan of MK 13,000 to construct a workshop for their members. One metalworker in Kanengo, Lilongwe, had applied for a SEDOM loan to finance the cost of an imported lathe, but he heard nothing within the six-month time limit of his pro forma invoice, so gave up. A sewing machine repairman from Lilongwe has applied to SEDOM for funds to purchase spares, and is waiting for a response.

SEDOM was established as a Trust in 1982, and started operations in 1983. European Economic Community (EEC) grants have been provided as follows: 1983-1985, 3.28m ECUs, and 1986-1988, 4.8m ECUs. Funding for the third phase, 1988-1991, will be provided by Germany and the EEC. Since its inception, 3,414 loans have been approved. As of May 1989 there were 2,181 outstanding loans worth MK 7.68m, distributed as follows: 57 percent Southern Region, 30 percent Central Region, and 13 percent Northern Region.

Clients make applications for loans through local SEDOM offices. In deciding on loans, SEDOM emphasizes the type of individual applying, the prospects for the business, and the type of security, including third-party guarantees, pledging of mobile effects through a bill of sale, deposit of life insurance policy and/or mortgage on land and buildings. SEDOM staff support their borrowers with advisory and arrears visits.

SEDOM's achievements are impressive, but like many such organizations in other countries, there is much room for improvement. An estimated 66 percent of all loans by number are in arrears, and 7.8 percent by value of current balances outstanding, indicating that the miniloans are a particular problem. More visits are needed to address this situation, yet there is a shortage of transport. Finally, SEDOM is far from being self-financing. For example, over the period 1985/1986 to 1987/1988, total recurrent expenditures were MK 5.9m, and self-generated income only MK 1.3m. The balance of 78 percent of recurrent expenditure was financed by the Government of Malawi (GOM) and the EEC.

A recent consultant's review has recommended improvements in three areas. First, financial management needs to be strengthened at headquarters. This can be done by recruiting higher calibre accounting staff, adopting a new chart of accounts linked to cost centers and a new computerized accounting system, and adopting a formalized budgeting process with line management responsible for financial control.

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Second, the productivity of regional operations needs to improve. Procedures are suggested for monitoring the effectiveness of client operations, and in turn improving the cost effectiveness of visits. To address the arrears problem, it is suggested that the current average of one visit every four months be increased to one visit per month, which will in turn require more than doubling the present transport fleet. Combined with savings from increased productivity, the net increase in regional costs would be 172 percent, but these would be offset by improved collection of arrears.

The new computerized accounting system has already been implemented, and has successfully run in parallel with the old system for the last three months. The old system will soon be discontinued. SEDOM is committed to adopting the other recommendations as well.

4.2 Development of Malawi Traders Trust (DEMATT)

DEMATT is the development institution best suited to provide advisory services to Malawi's informal enterprise sector. It has the most relevant experience, and the widest outreach.

DEMATT works as follows: businessmen meet with Business Promotion Consultants (BPCs) and discuss their problems; if DEMATT can help, the BPC and client mutually draw up a contract outlining what assistance the BPC will provide, and what is expected from the client, and what the expected result will be. The engagement normally entails 1 - 2 additional meetings, for which the client pays MK 5. BPCs are provided with motorcycles to reach clients. DEMATT is presently carrying out about 450 such contracts. In addition to these contracts, DEMATT also puts on workshops on business-related topics throughout Malawi.

DEMATT is financed 85 percent by USAID and 15 percent by the GOM. It is not yet under pressure from donors to become self-financing; nevertheless, it is moving away from the provision of general business advisory services to marginally viable, very small, enterprises because the cost of over MK 800 per contract measured against consulting fees collected and economic return appeared unjustifiably high. DEMATT presently concentrates on promoting the start-up of new types of enterprise and on providing problem-solving-oriented assistance to entrepreneurs who come to DEMATT with specific requests for assistance.

Still, many DEMATT clients are informals and DEMATT is growing rapidly in number of Business Promotion Consultants (BPCs) and in number of clients served. Moreover, DEMATT is stepping up its public awareness activities in order to attract entrepreneurs to DEMATT of their own volition, with definable advisory requests and specific business problems to be solved.

DEMATT's stated objective is to assist small-scale enterprises to become auto-sufficient. Assisting a client in need of financing to qualify for a loan from SEDOM, or from a MUSCCO society credit union, a commercial bank, or the Industrial Development Fund of Malawi (INDEFUND), is DEMATT's normal role. Because women entrepreneurs have difficulty qualifying for credit, DEMATT is assisting at least one business women's group to organize its own financing mechanism. Some of the new enterprises DEMATT is promoting are part-time income generating activities engaged in by female farmers to supplement family income. In short, DEMATT is already immersed in the informal private sector.

DEMATT's present position, experience, and outreach capacity, make it the logical institution to provide the support services needed by the informal subsectors analyzed. These services can be described as injections of assistance aimed at enabling marginal entrepreneurs to advance to levels in which they become independent businesses with opportunity for self-financed growth.

Should it be decided to provide this type of assistance to Malawi's informal private sector, DEMATT management has expressed willingness to operate a pilot project designed to test the feasibility, and potential benefits, of field services promoting realization of upward mobility among carefully selected entrepreneurs capable of advancing from marginal to stable levels of operation. To produce measurable and replicable results, such a pilot would have to be administered separately, not as a BPC activity commingled with all others.

There are other reasons for considering DEMATT a suitable institution to operate an informal sector, upward mobility, pilot intervention. One is that, for Malawi, DEMATT's percentage of female clients is significant, and increasing. Another is that DEMATT has experience delivering assistance to retail traders. Indeed, DEMATT's origin stemmed from an identified need for managerial assistance to Malawian retail traders. Retail trading is, by far, the largest informal subsector, and has in it the largest female representation. These business women appeared to have above average financial management comprehension, opportunity awareness, and entrepreneurial motivation. Consequently assistance to them would benefit the whole sector.

An evaluation of DEMATT was not in our scope of work. Some interviews with DEMATT field personnel indicated that most BPCs have no first-hand business background. Partly as a result, their advice tends to focus on mechanical skills such as bookkeeping rather than business opportunities, salesmanship and competitive advantage. Some BPCs appeared to have an educated civil servant's disdain for the clients they are supposed to help.

Finally DEMATT has a working liaison with other institutions such as Intermediate Technology Development Group (ITDG), The Malawi Enterprise Development Institute (MEDI), and the Ministries of Agriculture, and of Trade and Industry. Some informals capable of moving up a level may need appropriate production technologies, or support in selling products and services to government agencies, and thus be able to benefit from DEMATT's access to other institutions.

4.3 Malawi Union of Savings and Credit Cooperatives (MUSCCO)

MUSCCO's activities are valuable to the informal sector in at least three areas. First of all, the mostly rural credit unions make finance available to members that can potentially be used for businesses. Each application for a loan includes a section where the applicant states the purpose of the loan. MUSCCO has never tabulated these data, and does not verify its accuracy, but believes that some of the loans are used to support informal businesses. Even if the funds are used for something else, this means that any profits generated by informal businesses of borrowers will not be needed for that "something else," and can be reinvested in the business.

Secondly, 39 business loans have been issued to members of credit unions. Funds are lent from the MUSCCO central fund at 11 percent per annum through the local credit union, and then to the individual at 16 percent per annum. The credit union is

responsible for the risk of a default. The first loan was to a woman to buy an oxcart for MK 1,500. The loan was for four years, but she repaid it in two. Since then, loans have averaged MK 5,000, with a maximum of MK 15,000. This is higher than the credit needs of the subsectors we looked at, but the basic principle of tying credit to savings is a valuable lesson.

Finally, MUSCCO's experience of working with associations holds another important lesson for the informal sector. MUSCCO never creates a new association. In the cases of most of the rural credit unions, a local chief or party leader calls together a meeting of people in the area. A MUSCCO representative then is introduced to the group and sells them the idea of adding a credit union to their other community activities. MUSCCO has used the same approach with an existing barley tobacco growers association, and is presently working with the Malawi Teachers Association to set up their credit union. The lesson is that ongoing associations can be important tools for mobilizing self-help activities and for channeling assistance. Trying to set up new associations is risky, but working with ongoing ones can be very productive.

4.4 Rural Enterprises and Agribusiness Development Institutions Project (READI)

Starting in 1984, USAID began channeling its funds to MUSCCO through the READI project. READI provided both credit funds and funds to support technical assistance. At the end of 1986, READI also took over from Partnership for Productivity (PFP) as the funding mechanism for DEMATT.

In addition to its managerial and coordinating role for small enterprise assistance institutions, READI carried out an extremely useful nationwide survey of SMEs in Malawi in 1986.

Although READI's attention is mainly focussed on SMEs, MUSCCO and DEMATT have an important link to the informal sector, as discussed above.

4.5 Other Institutions

Many other institutions affect the informal sector. Some of the more important ones will be discussed briefly here, and in more detail in the accompanying SME Policy Report.

Local and municipal councils have perhaps the most extensive direct contact with the informal sector, since they provide enclosed marketplaces and collect daily market fees from participants. In some cases, local police also clear away informal hawkers from the side of main streets, as was observed recently across the street from the Lilongwe Hotel. Market fees sometimes reach MK 1 per day, making them higher than most *khonde* fees, but these fees were not cited as major problems by participants. There were complaints from some that the enclosed markets are not covered to protect businesses from rain; this problem is being addressed in Zomba by a combined U.S. Peace Corps and Canadian sister city assistance effort.

Fees may also be collected from hawkers along the side of roads. One problem cited concerning local councils was the case of Lilongwe Central Market, where the council is constructing an extension to the enclosed market for clothes retailers. The concern is that these retailers will be forced away from their current position, ideally situated outside the main entrance to the bus terminal, and that the enclosed space will not be sufficient for all the retailers now outside.

Since most informal businesses are not registered or licensed, they have no contact with MTIT officials. Technically, any business carried on in a name other than that of the owner(s) must be registered under the Business Names Act for a fee of 62 T, but few informals bother to do so unless they are seeking formal sector benefits such as a SEDOM loan.

According to one participant, industrial and trading licenses cannot be obtained unless a business has space inside a permanent building. Since most informals are outside, they do not qualify. This can be a constraint in some cases. Participants cannot bid on government tenders until they are licensed, and cannot apply for start-up loans of MK 1,000-12,000 from the MTIT's Government Loans Board. They also cannot obtain permission to import from the Reserve Bank, nor can they receive surtax-free materials even if they otherwise qualify by having less than MK 10,000 per annum in gross sales. However, only a handful of businesses visited mentioned any of these limitations as problems.

The Ministry of Agriculture provides credit to farmers' clubs and individual farmers. This credit indirectly benefits informal producers, for when farmers receive credit for fertilizers, seeds, pesticides, and other inputs, they do not have to take funds for these inputs out of their informal businesses. Thus, they can reinvest their business profits for working capital and new equipment.

The Post Office has a useful service for some of the better-informed informals: any Malawian can order up to MK 100 in goods from another country, and pay for them through the Post Office upon arrival. A common practice is to order cloth and other goods through South African mail order catalogs. Multiple orders are allowed, as long as each order is no more than the limit.

Government institutions other than the ones already mentioned do not provide credit to the informal sector. The Post Office Bank has the widest coverage for savings, with 269 branches and agencies, and over one-half million savings accounts, but offers no credit. Promoting savings is important to the informal sector since most investment is financed out of savings; savings institutions would be even more valuable in Malawi if they paid positive real interest rates.

The two commercial banks have 27 branches, 28 agencies, and 130 mobile branch locations. However, only branches have credit officers, and they will only lend to known customers. Even formal sector participants complained that these banks only lend to "big men." The banks also discriminate against women. One businesswoman said she applied for a loan; the next day her husband got a letter from the bank asking if he knew his wife was applying for a loan. The loan was not granted.

Two interviewees had recently graduated from the Malawi Enterprise Development Institute and seemed to be making good progress with their formal sector businesses; however, they were already highly educated, and moved straight from formal sector jobs to formal sector entrepreneurship. INDEFUND's loans of MK 50,000-220,000 are too large for the informal sector. Africare's Business Advisory Service is keyed to INDEFUND clients.

Finally, NGOs play an important role in assisting the informal sector. World Vision International has a revolving loan fund, where loans of up to MK 500 are made for starting businesses; borrowers must reside in one of the 126 communities where World Vision works. The loans can be used for working capital, and are repayable at low interest with a maximum payback of 12 months. A World Vision facilitator helps draw up a feasibility study, repayment plan, and business plan.

The Malawi Council for the Handicapped (MACOH) has a revolving loan fund that has been in operation for one and one-half years, and so far has made 15 loans averaging MK 400. The program is administered by SEDOM. MACOH is also an effective distributor for ready-made clothes and other products produced by members; for example, the main Kandodo supermarket in Blantyre has a large selection of dresses from MACOH for sale on consignment at a 20 percent markup.

Technological assistance is available locally from the International Technology Development Institute, which has an expert in Malawi working on new blacksmithing techniques. One interviewee worked jointly with the Netherlands Institute of Technology to design and build a windmill. Unfortunately, parts sent from Holland took two years to clear Malawian customs; during that period a Dutch expert sent to help assemble the unit could do nothing. Finally, the Malawian firm was able to assemble it, but the intended government recipient still has not taken delivery after three years.

There are some institutions and programs just getting started which may give limited benefits to the informal sector. The Mudzi (village) Fund, which is supported by IFAD and the World Bank, is beginning a three-year pilot in two districts. Out of total funds of MK 2 million, MK 600,000 will fund a revolving credit fund for informals and SMEs. The Rural Growth Center Program has a SEDOM-administered loan program in 10 districts. The Women's World Bank is in the process of registering in Malawi, and it plans to help Malawian women get credit.

5.0 STRATEGIC OPTIONS FOR USAID FOR ASSISTING THE INFORMAL SECTOR

5.1 Do Nothing

Our subsector research and other empirical work suggests that the informal sector in Malawi is thriving with very little direct assistance from donors, PVOs, or the GOM. READI-supported programs and others are benefiting certain parts of the informal sector and should be continued, but no new initiatives specifically targeted toward the informal sector may be needed.

Informal tailors and metalworkers receive entry-level training from experienced practitioners, often as apprentices to unrelated people and with payment of a modest fee. Initial start-up capital comes from other family members, or from personal savings. There is some supplier credit as well.

Products are of acceptable quality for the market, and sell for as little as one-third the price of their factory-made equivalents, thus providing a savings to poor consumers. Malawian incomes are so low and informal price savings so striking that even as incomes increase, consumers continue to prefer informal products.

Informal producers play a vital role in conserving foreign exchange by recycling waste: for example, converting old battery lugs to solder, and car wrecks to cooking pots and *mbaulas* (cooking stoves). Entrepreneurs receive incomes which are generally higher, and sometimes much higher, than they previously earned in formal employment.

USAID and other donors are already supporting programs which marginally benefit the informal sector. Under these existing programs, SEDOM and DEMATT are planning to move upscale to support larger businesses in a more cost-effective manner. However, of all the informal businesses interviewed, only two benefited from these programs, one a tinsmith in Blantyre, and an association in Lilongwe that had been in existence for 20 years. Thus, reducing their outreach to the informal sector will have little real impact, since the impact has been so small up to now.

The two MEDI-assisted businesses interviewed were both in the formal sector. MUSCCO has assisted in the start-up or expansion of 39 rural informal businesses in the last year with loans averaging MK 5,000, and plans to continue this program.

Some of the formal sector tailoring businesses interviewed subcontract work to informal *khonde* tailors, but none of these formal businesses had received any institutional assistance.

Malawi government regulations and policies are favorable to the informal sector in comparison to other countries. Major centers have well-organized, enclosed market areas in good locations provided by local councils at a reasonable charge, and ample space on *khondes*. Ample supplies of cloth and sheet metal are available. Sheet metal prices have dropped by 25 percent in the last two months due to increased importer competition. Informal producers do not have to pay a surtax on their production as long as gross sales are less than MK 10,000 per annum, and do not have to pay a surtax on inputs if purchased by an approved, tax-exempt institution such as SEDOM. Goods produced by parastatal and other formal sector competitors are significantly more expensive because they are not subsidized or given preferences as in many other developing countries, thus encouraging low-income consumers to patronize the low-cost informals.

Thus, one option for USAID to help the informal sector is not to carry out any more direct assistance beyond that already supported, and to concentrate on programs to help to improve productivity and production in agriculture, to reduce transport costs, to improve farm-to-market roads, and to reduce the population growth rate so that production gains and cost savings will lead to increasing per capita incomes, increased foreign exchange with which to purchase more inputs for the informal sector such as cloth, sheet metal, and spares, and more disposable income of Malawian consumers with which to purchase informal sector products.

5.2 Assist Informals to Graduate to the Next Level Within the Informal Sector

If, in addition to the above, USAID desires to help informal producers directly, programs should be supported which assist them to graduate to the next level, thereby improving income stability and profits. For most, this does not mean graduate to the formal sector, but to the next level within the informal sector. In the terminology of USAID's recent *Microenterprise Stocktaking Report* (Boomgard, 1989), this would be a "microenterprise expansion approach."

The disadvantage of this option is that the costs per beneficiary are expected to be high. For example, DEMATT estimates its present costs per contract at over MK 800, although it only charges clients MK 5; even then, many clients are easier-to-serve formal businesses, and the objectives of most contracts are not as difficult as moving to the next business level. Costs per beneficiary for our proposed option would be higher. To keep costs from getting wildly out of hand, to maintain the focus needed to ensure results, and because of the experimental nature of such a program in Malawi, the initial pilot should be restricted to two or three subsectors, although additional subsectors could be reached in future stages.

Our analysis of the metalworkers shows that most producers are stuck at the same level: limited production for stock, use of putty for seams rather than solder, purchase of only four to six metal sheets at a time, and sales to customers of mostly one product at a time. Rural producers are even more constrained by their distance from suppliers of metal sheets, and the need for expensive purchasing trips.

Incomes are constrained at this level for many reasons. First of all, most of the demand for metal products comes during the months of July-October, when farmers have collected payment for their produce. Cooking pots are in particularly high demand during the early part of this peak period, and farm implements and watering cans during the latter part as farmers begin to prepare their fields for the new season. Yet most metalworkers interviewed say they cannot meet the demand during the peak season because of insufficient inventory of finished goods. They have time during the rest of the year to produce this inventory, but do not have the working capital to afford it. In addition, during the slow period of the year, metalworkers must sell their goods at wholesale prices that are about two-thirds of the retail price to generate any income at all. These goods could have been sold for retail by the tinsmith during the peak season if he could have afforded to carry the inventory cost.

The next level of producer achieves a higher, more stable income through a variety of routes. Moving to the next level can require a combination of securing firm, large orders, and a source of finance to cover costs of larger production runs, casual labor, inventory costs, and training in the use of more sophisticated inputs like solder, and management systems such as a cashbook and better costing techniques.

Nearly all the metalworkers interviewed had at most a few years of primary school, and at most a few hundred *kwacha* initial capital; their transition to the next level will be more difficult, but not impossible with the right assistance.

Most of the *khonde* tailors interviewed are also stuck at the same low level: nearly all their work is a combination of repairs and production of new garments based on designs and cloth supplied by their customers. Like the metalworkers, demand is concentrated during the peak season of agricultural income. During the period of our survey in July, nearly every sewing machine on every *khonde* was fully occupied. However, we were told that many tailors shut down operations completely in November, December, and January because all disposable farmer income goes for agricultural inputs, school fees, and more expensive food during this time.

Operating at this low level constrains incomes because: (1) margins are lower on tailoring to order than on ready-made clothes; (2) marketing tailoring-to-order services depends mainly on reputation and price; thus, the customer base is limited and the competitive pressure from other tailors on the *khonde* severe; (3) no production for stock is possible during the slow periods; and (4) customers will often not return to pick up and pay for their finished goods for months after the material is left off; thus the tailor is forced to offer interest-free credit to these customers.

The next level of tailor achieves a higher and more stable income by either one or both of the following: producing men's suits, and/or purchasing cloth and producing ready-made clothes. Most *khonde* tailors are unable to make such a leap on their own, but might with the right assistance.

Based on our own rapid diagnostic research, such assistance could and should be provided through existing SME institutions. A promising approach would be to support two pilot projects, one for *khonde* tailors currently doing tailoring with customer-supplied materials, and one for metalworkers currently doing production from lots of four to six tin sheets. To achieve the necessary efficiency of scale, these initial projects should be in Lilongwe, Zomba, Blantyre, or Mzuzu.

The project designer might convene a steering committee with representatives from SEDOM, DEMATT, and MUSCCO, and work out shared responsibilities among these and other organizations, as well as funding requirements. The first step would be to continue visiting the markets in the above centers between now and October to see if shortages appear during the peak buying period. Observations should also be carried out during the same period in selected rural market towns to determine if there is an unmet local demand among farmers who cannot afford to travel to the major towns, and cannot find the products they desire in their own local markets. Finally, the subsector research should be extended to tailors and metalworkers in these rural market towns.

If there are, as expected, product shortages during this peak period, then a program should be designed to assist producers to make more of these products during the slack season, so they will be available for sale next year. The emphasis should be on designing a methodology for assisting the maximum number of tailors and metalworkers to reach the next level of production. The emphasis would be on assisting producers to purchase raw materials when supplies are ample and prices low, and to produce products for stock during the slack season, so they will be available for sale during the peak.

Alternatively, existing distributors and large estates could be encouraged through incentives to purchase informal goods throughout the year. Special attention should be given to encouraging informal businesses to form associations, and to providing assistance through these associations (see Appendix V). Issues should be identified that can galvanize groups to see a common interest.

On the demand side, a sales campaign would target agricultural extension agents and farmer groups, making them aware of the larger than normal supply of low-cost farm implements during the peak season, and the short payback period and production increases possible from using these implements. In the case of large customers such as tobacco estates, metalworkers might be encouraged to move to the estates for part of the year to produce their wares, thereby gaining a transport cost and marketing advantage.

Assistance might also be provided in setting up business associations, including credit unions for producers.

Women would benefit from this approach both directly and indirectly. Women tailors and clothes designers in major centers would benefit directly from moving their businesses up to the next level of sophistication and profitability. Women consumers would benefit indirectly from the increased availability of low-cost ready-made clothes and metal products.

A further research component should also be built in, drawing as much as possible on Malawian capabilities from groups such as the Institute for Social Research, to evaluate the success of the program, and to draw out lessons that might be applied to other informal subsectors.

A more challenging research topic would be to estimate the increase in agricultural productivity made possible by the increased availability of low-cost agricultural implements. Analysis might show that money spent on assisting informal metalworkers was a cost-effective method for increasing agricultural productivity, and thus achieving the objectives of both the first and second assistance strategies at the same time.

5.3 Assist in the Formation of New Informal Businesses

This is the riskiest and most challenging of the three strategies, but may be desirable if the primary aim is to assist groups presently left out of the informal sector to come in at the entry level. This strategy would be the only one of the three that could potentially reach significant numbers of poor women with less than a Standard 7 education.

As above, a steering committee of the relevant institutions should be formed, and initial research conducted to confirm the existence of shortages during the peak buying period. Programs could then be designed to address them.

Research proposed for the second option is also needed under the third. Assuming favorable results for the tailoring sector, an expected constraint to new business formation is the shortage of low-cost, used sewing machines. A possible assistance strategy might start by helping informal machine repairmen in Lilongwe and Blantyre obtain spares and working capital to repair their existing backlogs of equipment. Groups such as MUSCCO credit unions, MACOH, the Blantyre Businesswomen's Association, and so forth, might then be encouraged to purchase these machines, and to make them available to members on a rental or hire-purchase arrangement. Experienced tailors in these organizations could train inexperienced ones for a fee. Members would be encouraged to bring their tailoring work to these new tailors.

For the metals sector, the greatest constraint to new business formation is expected to be working capital to pay for the metal sheets and other inputs (and if necessary transporting them to a rural area). Again, a MUSCCO credit union or local ABA

chapter might purchase some initial metal sheets and tools, and make them available to interested members who would be trained by more experienced members. When products were made and sold, the organizations would be repaid, and new sheets provided. This arrangement could go on for a limited period of time for each entrepreneur, after which he would be expected to become independent.

The new program might also pay apprentice fees for new entrants, or could subsidize master teachers directly.

The risk is that it is very difficult to select promising entrepreneurs for assistance. MUSCCO's strategy of placing the responsibility largely on the local credit union is a good one, but severely limits the number of beneficiaries. A further disadvantage is that costs per beneficiary would be even higher than in the second option above. To help ensure the success of the directly targeted assistance programs in both the second and third options, some lessons learned in past programs are provided in Appendix V.

As before, a research element should be built in relying as much as possible on Malawian institutions to evaluate the success of the program, and to draw out lessons that might be applied to other informal subsectors.

APPENDIX I
SCOPE OF WORK

SCOPE OF WORK

MALAWI: INFORMAL SECTOR ASSESSMENT

A. Background

USAID/Malawi has developed a series of program interventions over the past decade in support of small enterprises, and a number of institutions have been assisted to provide credit, technical assistance and training through the READI Project (Rural Enterprise and Agribusiness Development Institution). These projects concentrate mainly upon small but established enterprises which are registered, keep books and can offer some form of collateral to secure credit.

There is great interest and, more than likely, importance, in gaining a greater understanding of informal-sector activities and enterprises in Malawi about which little is known. A recent brief visit by APR/MDI SSE advisor Fred O'Regan discovered significant interest on the part of SSE-assistance organizations which do not by-and-large assist informals in gaining a greater understanding of the size, distribution, and above all, dynamics of the informal sector in Malawi.

USAID is also keenly interested in assessing the informal sector both to inform its upcoming CDSS and to determine whether project interventions, utilizing local currencies, should be contemplated. Lastly, it is understood that ~~the Government of Malawi, as part of its liberalization efforts,~~ is increasingly considering promotion of informal enterprises.

While little documentation exists on the sector itself, preliminary interviews with knowledgeable professionals, and a field visit to Blantyre, indicate the following:

- 1) there is a fairly sizeable informal sector in primary urban areas mainly composed of traders but with significant and reportedly growing service and production enterprises;
- 2) numerous informal businesses exist in secondary urban centers with strong backward linkages to rural areas (for primary materials and/or products to market);
- 3) the rural informal sector is very fluid, marked by much seasonality in employment (i.e., farmers fishing or lumbering during the dry season), significant petty trade with urban centers and clustering of activities around rural estates;

4) there appears to be fairly significant differentiation between formal and informal enterprises not only in legal status but also in terms of service quality and location. There is reportedly little linkage, for example, in regard to sub-contracting to informals for production and/or service from formal entities. Self-employed artisans, especially in rural-and secondary-urban areas, are, however, reportedly numerous and often hired by formal firms on a piecework basis (e.g., carpenters);

5) there reportedly exists widespread non-formal lending. The dominant system, termed katapila, appears to follow a universal method of simple 1:2 lending to repayment and reportedly evolved from borrowings to travel to work in the mines of South Africa. Repayment is said to average six months and borrowed funds are used both for social needs as well as enterprise financing. Urban variations on this basic system have evolved to the point of specialized money lenders;

A second system of informal finance involves group savings and credit, apparently similar to the familiar Tontine model of West Africa.

6) government policy toward the informals at the national level is characterized by most observers as laissez-faire, allowing informals to operate with no set pronouncements or policies either favorable or unfavorable. Municipalities reportedly offer a more constraining posture, limiting informals to set locations, attempting to demand payment for stalls near market places and generally trying to impose local taxation measures. This is said to lead to informals, especially retailers, moving out of municipal centers to avoid officialdom.

B. Objectives

Given the scant knowledge of the informal sector in Malawi and the paucity of related assistance efforts, it will be the consultants' task to 1) better define the sector and its particular characteristics in the Malawian context; 2) render a firmer understanding of its internal dynamics and linkages (both within the informal sector and with the formal sector); 3) identify constraints and opportunities to the further development of informal enterprises; and, 4) assess whether project support should be considered for informals in the short-to-medium term, and if so, in what form.

C. Methodology

While the work envisioned is largely exploratory in nature, it is expected that concrete information and options

regarding assistance will emerge. Toward this end, the consultants will concentrate upon three main areas of inquiry: 1) sub-sector analysis; 2) examination of non-formal financial markets; 3) and institutional assessment.

1. Sub-sector Analysis

To focus efforts from the bottom up, as well as to pinpoint interventions with potential spin-off effects, sub-sector analysis will be the central method of investigation. The consultants, in coordination with AFR/MDI and USAID/Malawi staff, will select for analysis two sub-sectors which encompass relatively large numbers of informals and which can serve as representative areas of production and trade. It is expected that one of the sub-sectors will be petty retailing and the other either transportation or wood supply and processing; final selection of sub-sectors will be made after initial consultation with knowledgeable professionals in the field, and a review of existing literature.

The sub-sector analysis will focus on the operations of informal enterprises, the delineation of backward and forward linkages, both among informals and to formal firms, and the identification of opportunities for, and constraints to, the start-up and growth of informal enterprises. The constraint/opportunity analysis will take into account factors both internal to the sector, in terms of capital, markets and entrepreneurial and technical skills, as well as external factors--particularly regulatory constraints at local levels which impede informal business operations, trade and access to capital. Macro-policy constraints as well as overall legal and regulatory constraints at the national level are not of primary concern to this consultancy as they are the focus of the Small Enterprise Policy Analysis consultancy with which the team is expected to coordinate (see below). Rather, the informal-sector assessment is expected to 1) inform the SME policy analysis as to particular constraints documented at local levels within sub-sectors and 2) be informed by the overall policy analysis work of the other team in identifying policy constraints in the informal sector. (Terms of Reference for the SME Policy Analysis are attached.)

2. Non-formal finance

The examination of non-formal financial mechanisms will, to the extent possible, proceed from the sub-sector analysis outward--identifying existing credit mechanisms utilized by the enterprises and then examining these in relation to the financing needs of enterprises. The analysis of informal finance mechanisms identified should determine:

- 1) the types of financial mechanisms/markets operating (e.g., extended family investments; group savings and loans; and individual money lenders);
- 2) the levels and types of finance made available through these systems;
- 3) the disbursement, collection and guarantee systems operating under each; and
- 4) their links, if any, to formal financial sources.

The assessment of non-formal financial mechanisms should determine to what extent informal enterprises utilize non-formal mechanisms, how well these mechanisms meet their needs, and most importantly, whether, and to what degree, particular informal financial mechanisms can be mobilized, supported and/or augmented to meet the financing needs of informal-sector enterprises. This should in turn inform both decision-making and/or preliminary steps toward project design.

3. Institutional Assessment

This aspect of the work will examine (i) existing conventional credit and technical assistance organizations engaged in support to SMEs that have the desire and capacity to assist informals and (ii) more representative grass-roots organizations which may exist. Conventional organizations that have expressed interest in both the results and possible follow-up of this informal-sector study include: READI; SEDOM (Small Enterprise Development Organization of Malawi); DEMATT (Development of Malawian Traders Trust); and MUSSCCO (Malawi Union of Savings and Credit Cooperatives). While non-conventional organizations are said to exist at local levels, little information exists on them. It is expected that work at local levels should uncover such organizations.

As with the approach to informal financial markets, the assessment of potential support institutions should flow backward from the ground-level assessment of informal-sector needs, matching institutional capacities directly with needs/opportunities identified in the sub-sector analyses. The assessment of potential support institutions should take into account both conventional factors--including managerial and financial capacity, cost effectiveness and technical/training skills--as well as the ability to reach and assist informals. Possibilities of linking lesser developed local organizations with more established entities should also be explored.

4. Approach to Research

In executing the above, the consultants will be expected to review pertinent existing literature; interview key

USAID, government and SME institutional officials; and carry out direct field work. As to field work, the team will be expected to carry out its work in one primary urban center (Blantyre); one secondary center (Zomba); and one small town with strong rural linkages (Mzuza).

The work is expected to be carried out in participatory fashion with and through local agencies (i.e., those connected to READI) who can provide access and contacts at local levels and assist in assessing possible intervention strategies. In addition, a Malawian counterpart will be assigned by USAID/Malawi to work with the team.

D. Report

The consultants will draft a report by the end of the field period for submission to the Mission. It will address all of the areas outlined above, rendering an overall assessment of informal-sector operations as well as a possible informal-sector assistance strategy for USAID/Malawi. The strategy should address in integral fashion both direct assistance needs of the sector as well as regulatory constraints that directly constrain entry and/or growth. It should outline distinct possibilities for both direct assistance and advocacy measures for reforms, identifying appropriate institutions and financing mechanisms--including possible non-formal mechanisms. Lastly, the report should address follow-up research and/or planning steps seen as necessary, particularly in regard to further analysis of sub-sectors and/or non-formal financial mechanisms.

E. Coordination

The team will coordinate with USAID/Malawi economist, Dr. Roberta Mahoney. In addition, the team will be expected to work in close coordination with the SME Policy Analysis team as the two team efforts are designed to be complementary.

F. Team Composition and Level of Effort

The scope of work outlined herein calls for two senior professionals, twenty person days each, plus Mr. Fred O'Regan. The team should be composed of one micro-enterprise program specialist and one financial specialist; both should be familiar with sub-sector analysis, and at least one should have experience with the assessment of regulatory constraints on informal enterprises.

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While both consultants will participate in sub-sector analysis, the program specialist will concentrate on related institutional assessment; the financial specialist on non-formal financial mechanisms. They will jointly work on the overall assessment of the informal sector as well as on a possible assistance strategy. Mr. O'Regan will participate and coordinate team efforts.

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APPENDIX II
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DOCUMENTS REVIEWED

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APPENDIX III
INFORMANTS

pendix III: Informants
garments

- . Akbani, Mr., Akbani Shop, Lilongwe
- . Alubi, Ali, khonde tailor, Zomba
- . Banda, Mrs. J.H., Ndekani Garments, Box 51321, Blantyre
- . Chadweka, Miss E., tailoring, Box 2571, Blantyre, tel 630136
- . Chilenani, Mrs. PO Box 628, Blantyre
- . Chipa, Mrs. G. Linda, Dressy Kid Center Shop and Tailoring, Box 994, Blantyre
- . Chisale, Mrs. E.A., Zomba clothes retailer, Zomba market
- . Coombes, Mr. H.H., Director, Sewing Machines Ltd. (Singer), Blantyre
- . Damba, Mrs. M., Blantyre
- . Ebrahim, M.S., Manager, Naffi's Clothing Co. Ltd., Kamuzu Highway, PO Box 5001, Limbe
- . Gombura, Mrs. J.R., PO Box 296, Blantyre
- . Gomes, Mrs. Rehana, tailoring, PO Box 2468, Blantyre, tel 635064
- . Kamwana, D.B., Manager, Sewing Machines Ltd. (Singer Sewing Machine Distributor), P.O. Box 825, Lilongwe
- . Kapeta, Emily. Mrs., tailoring, Box 30651, Chichiri, Blantyre 3, tel 635237
- . Kumitsonyo, Mrs. N., Box 565, Blantyre
- . Labany, Mrs., seamstress located on khonde in front of Central Trade Agents, Lilongwe
- . Mapemba, Miss E.R., Blantyre
- . Misan, Ms. Florence, garments and blanket salesperson, Kandodo Supermarket, Blantyre
- . Miseche Tailoring, located in front of Central Trade Agents, Lilongwe
- . Mohan, Mr., Bombay Tailors, Lilongwe
- . Mtegha, Mrs. Hilda F., Mbanasi Tailoring Shop, PO Box 2182, Blantyre tel 635825,671149
- . Mwaneni, Daveson, Ntechu

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- . Mwenifumbo, A.A., General Manager, Press Shire Clothing Ltd., PO Box 306, Lilongwe
- . Myiga, Mrs. K.L., Knitting and Tailoring, Box 2244, Blantyre
- . Ntonga, James, tailor working at home and salesman of both his own ready made clothes and second hand clothes at Lilongwe central market; outside entrance to bus station
- . Nyang'ama, Mrs. Paxie, tailoring, Box 5949, Limbe
- . Osman, Abdul, tailor in Dedza market
- . Pound, Dick, Box 439, Lilongwe
- . Sapangwa, Mrs. Kellie, tailoring, Box 5059, Limbe
- . Vokhiwa, Mrs. R., Tailoring, Private Bag 39, Blantyre
- . Works, Collin, sewing machine repairman, Lilongwe
- . Zgamo, Miss O., tailoring, Box 14, Blantyre, tel 631841

metalwork

- . 3 casual sheet metal workers, Area 29 market, Lilongwe
- . Cheyo, J.B. Exec and Tech Director, Agro-Engineering Services, PO Box 40082, Kanengo, Lilongwe 4, tel 723 914, located in Biwi Triangle, motor repair workshop
- . Chioko, Frank, Operation & Dev Dir, Agro-Engineering, Lilongwe
- . Gaffar, Rafik, Agriculture and Hardware Supplies, PO Box 331, Lilongwe, tel 722110, 722659
- . Hitesh, Sales Representative, Huang's & Co. Metal Products Manufacturer, Blantyre
- . Hollis, W.S., tinsmith. Lilongwe Central Market
- . Kaffere, Charles L., Managing Director, Dragon Welding House, PO Box 40119, Kanengo, Lilongwe 4, 765482
- . Kanguna, Edrick, metalworker, Kanengo market, Lilongwe 4
- . Kasube, Mr. Supervisor, ME International, Ndirande, Blantyre
- . Kinthu, Mr. D. Zaguleni, Born Again Tinsmith, Monga 171 Inoronde, Blantyre
- . Kona, Mr. tinsmith, Ndirande, Blantyre

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- . Kusimbwa, Mr. S.D., tinsmith, Dedza market
- . Kwenda, Alfred, tinsmith, Ndirande, Blantyre
- . Manchomwa, Mrs. Hardware & General Dealers, Lilongwe
- . Masamba, Mr. M.B., auto spray painter, Biwi Triangle, Lilongwe
- . Matupwa, Mr., C to C Engineering, PO Box 619, (Kanengo) Lilongwe, tel 765156
- . Moses, Mike, Kanengo Electrical Services, Kanengo, Lilongwe
- . Nyasuru, McStanley, metalworker in Lilongwe Central Market, enclosed portion
- . Sorijala, Mr. metalworker in Dedza market
- . Zalira, Mr. J.D., Tinsmith, Inoronde metalwork market

Other businesses

- . Ahela, Lison, Dedza market kiosk employee, PO Box 76, Maliget, Dedza
- . Chibalanga, Mr., Financial Controller, TBCA
- . Chikhawo, D.J., Exec Chairman, ABA, PO Box 777, Lilongwe tel 720764, former director PFP for 8 years
- . Chimbende, exec treasurer, African Businessmen's Assoc (ABA) tel 720383
- . Chiranga, Bruno Yohan, electrician and specialist in motor rewinding, Biwi Triangle, Lilongwe
- . Chisa, Mr., Treasurer, Tithandizane Bwaila Carpenters Assoc (TBCA), Lilongwe Central Market
- . Chisala, Mrs. Veronica, catering, Box 30618, Blantyre 3, tel 652364
- . Kalulu, Regional Chairman, ABA
- . Kokobwe, Jacob Mr., Secretary, TBCA
- . Kuchuwe, O.W., retailer, Dedza market
- . Manguluti, Mrs. R. Import and Export, Box 1759, Blantyre
- . Mgwira, Mrs. Joyce, Roberts Stationery, tel 635540, 636175
- . Mselu, Vincent, Engineering contractor, Kanengo, Lilongwe
- . Mwamadi, Mrs., Zomba market, seller of chicken feed

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- . Nhlema, Mrs. Rosemerry, Erukweni Enterprises (maize mill, retail), PO box 30593, tel 670542, 630356, Ndirande, Blantyre
- . Njidi, Jameson, Electrician, Biwi Triangle, Lilongwe
- . Nyonin, Martin, independent motor mechanic, Biwi Triangle
- . Somanje, Miss Molly M., restaurant and catering, PO Box 2430, Blantyre, tel 670542, 630423

Institutions

- . Allen, Ken, Agro-Industry Advisor, DEMATT, PO Box 1540, Blantyre, tel 635-466
- . Banner, Laurin L., Africare, Old Town Hall, PO Box 2361, Blantyre, tel 620379
- . Beza, Louis, Loans manager, SEDOM, PO Box 525, Blantyre
- . Chalamanda, Francis, Loans Officer, SEDOM
- . Chipeta, John, Sr. Bus. Consultant, DEMATT, Ntcheu
- . Chirwa, Mrs. Judy, consultant, DEMATT, Blantyre
- . Chokani, Ron, Regional Mgr., DEMATT, Ntcheu
- . Chombo, Joseph, READI, Lilongwe
- . Henry, Don, Project Director, READI Project, Lilongwe
- . Inos, Joe, Africare, Lilongwe, conducting training for MUSCCO clients
- . Kankwende, Fletcher, Price Waterhouse, Blantyre
- . Kanyika, Newton, Credit and Central Banking Services Manager, MUSCCO, Lilongwe
- . Katapola, Douglas, Agro-industry consultant, DEMATT, Ntcheu
- . Konanza, Peter, DEMATT, PO Box 1540, Blantyre
- . Magonga, Dick, Gen. Mgr., DEMATT, Blantyre
- . Mahoney, Roberta, USAID
- . Mang'ganda, Mrs. Thandiwe, Asst. Proj Analyst, SEDOM
- . McLain, Doug, Advisor, DEMATT, Blantyre
- . Msewa, Filbert, Gen. Mgr., MUSCCO, Lilongwe

pendix III: Informants

- . Muller, Lynn, Advisor, DEMATT, Blantyre
- . Ndala, Cullen, BPC, DEMATT, Ntcheu
- . Norton, Steve, USAID
- . Ntambo, Alan, Agricultural Field Services Manager, DEMATT, Blantyre
- . Nyrindo, Margaret, Scheme Administrator, Mudsy Fund, need to see her
- . Ouelette, Richard, Peace Corps Volunteer, DEMATT, Lilongwe
- . Peasley, Carol, USAID
- . Stevens, Carl, World Bank Consultant, Lilongwe
- . Tauzi, Barnabas, Agribusiness consultant, DEMATT, PO Box 555, Lilongwe

APPENDIX IV
READI SUBSECTORS

- 1 AGRICULTURE, FORESTRY, AND FISHING
- 2 MINING AND QUARRYING AND ROCK CRUSHING - salt
- 3 MEAT AND POULTRY SLAUGHTERING, PREPARING, PRESERVING
- 4 GRAIN MILL - maize
- 5 BAKERY
- 6 BEER, WINE, ALCOHOLIC DRINKS - chibuka
- 7 OTHER FOOD, BEVERAGES AND TOBACCO
- 8 SPINNING, WEAVING, KNITTING
- 9 CARPETS, RUGS AND BASKETS (FIBRE MATS, ETC.)
- 10 CLOTHING (TAILORING)
- 11 OTHER TEXTILE AND LEATHER
- 12 SAWMILL, PLANING AND WOOD MILLING
- 13 WOOD BOXES, CHESTS AND CANE PRODUCTS
- 14 WOOD FURNITURE, CABINETS, AND SUCH CARPENTRY
- 15 FIREWOOD, CHARCOAL MAKING
- 16 OTHER WOOD PRODUCTS
- 17 PAPER, PAPER PRODUCTS, PRINTING, PUBLISHING
- 18 CHEMICALS, CHEMICAL, PETROLEUM, COAL, RUBBER, PLASTIC PRODS
- 19 POTTERY
- 20 BRICKS OF CLAY, CEMENT BLOCKS
- 21 OTHER NON-METALLIC PRODUCTS
- 22 CUTLERY, HAND TOOLS (BLACKSMITHING, ETC.)
- 23 FABRICATED SHEET METAL PRODUCTS (TINSMITHING, ETC.)
- 24 TRANSPORT EQUIPMENT NEC (MANUFACTURE OF OX CARTS, ETC.)
- 25 OTHER FABRICATED METAL PRODUCTS AND MACHINERY
- 26 ELECTRICITY, GAS and WATER
- 27 CONSTRUCTION
- 28 RETAIL AND WHOLESALE BUSINESSES
- 29 BAR, RESTAURANT, NIGHT CLUB
- 30 RESTHOUSE, HOTEL
- 31 TRANSPORT, STORAGE and COMMUNICATION - bicycles, cow, wood, fish.
- 32 FINANCING, INSURANCE, REAL ESTATE and BUSINESS SERVICES
- 33 REPAIR OF FOOTWEAR, LEATHERGOODS
- 34 REPAIR OF RADIOS, CASSETTE RECORDERS, ELECTRICAL ITEMS
- 35 REPAIR OF MOTOR VEHICLES, MOTORCYCLES
- 36 REPAIR OF WATCHES, CLOCKS, JEWELLERY
- 37 REPAIR OF BICYCLE, CART, CAMERA, TYPEWRITER, OTHER
- 38 BARBER, HAIR DRESSER AND BEAUTY SALONS
- 39 PHOTOGRAPHY AND PHOTO STUDIO
- 40 WOOD CARVING / IVORY CARVING / HANDICRAFTS nec
- 41 OTHER COMMUNITY, PERSONAL SERVICES (SHOE SHINE, MORTUARY)
- 42 ACTIVITIES NOT ADEQUATELY DEFINED

APPENDIX V
IDEAS TO IMPROVE EFFECTIVENESS OF
DIRECTLY TARGETED ASSISTANCE PROGRAMS TO
INFORMAL BUSINESSES

**IDEAS TO IMPROVE EFFECTIVENESS OF
DIRECTLY TARGETED ASSISTANCE PROGRAMS TO
INFORMAL BUSINESSES**

Constructive Relationship with Beneficiaries

Informal sector small entrepreneurs respond well to praise and respect. Informal producing entrepreneurs are the world's least appreciated workers:

Governments try to control them extract money from them, or put them out of business;

- Civil servants are scornful and sometimes jealous and envious;
- Customers complain about quality and price.

Consequently, programs designed to assist informal entrepreneurs should train personnel to show interest and respect, and to treat the beneficiary at least as an equal:

- The products you make help this community;
- Tell me about your business;
- Since my last visit, your place looks better organized, how did you manage that? and
- These buckets (dresses) you are making are better quality than the ones you made before; show me how you improved them.

Entrepreneurs automatically like anyone who is genuinely interested in what they do and who listens while they explain their work. If an entrepreneur likes the person he deals with he is more likely to accept advice and repay the loan which he perceives as coming from that person.

Improving Small Loan Repayment

Sometimes small- and medium enterprise loan repayment rates can be improved by increasing repayment motivation. Rewarding borrowers with on-time repayment records by awarding AA-1 Credit Rating certificates has been found to be effective.

The printed certificate with the borrower's name in scroll, signed by the lending institution's managing director, is awarded, already framed, to the on-time repayers halfway through their repayment period in a local group ceremony. Borrowers display their certificates. World gets around; other borrowers are told how they, too, can earn one. All borrowers feel that their relationship with the credit institution gets personal, managerial attention.

The awards, and the feelings they generate, increase repayment motivation.

Making Better Tools Available

AID has supported programs which make good quality production hand tools, usually manufactured in the United States, available, at or below cost, to African informal entrepreneurs.

These have been effective when the program purchases the tools in quantity, organizes them into sets for metalworkers, motor mechanics, carpenters, masons, electricians, and so forth.

When the beneficiaries have to organize to order the tools from the source themselves, the intervention often fails because the beneficiaries do not have the means to meet the prepayment requirements.

Tools are certain to have developmental impact. Even when they are sold by original recipients, they are sold to others who will use them. Tools can only be used for production or repair. They cannot be consumed.

Encouraging Association

Formation of associations, when possible, has improved the productivity and increased the income of Malawian informal sector entrepreneurs. Indications are that a structure, a shared building, or shared premises, may be the first step in encouraging association. When space in a common structure is rented by individual entrepreneurs, they are forced at some time to meet and make group decisions, perhaps only to agree on sharing the cost of a clean-up person or a watchman. From this step on, making group decisions gets easier.

This leads to election of leadership, appointment of committees, delegation of authority, and eventually to a cohesive group or association benefiting all members.

Those who design interventions to encourage entrepreneurial group formation in Malawi should be aware that:

- Malawian entrepreneurs are afraid of the word "cooperative," and suspicious of the word "association." Both words seem to conjure images of political control or financial domination by a few affluent members.
- Whatever form of grouping is encouraged should allow members to retain individuality and avoid forcing them to submerge their identities into the group's identity.