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Strategic Options
Paper for Malawi
Small Enterprise
Support Institutions

GEMINI Technical Report No. 65

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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Strategic Options Paper for Malawi Small Enterprise Support Institutions

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EXECUTIVE SUMMARY

This consultancy has been undertaken by a team from the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project within the context of a change in the priorities of the U.S. Agency for International Development program in Malawi. USAID has made a decision to concentrate assistance to Malawi in agriculture, education, and health. The Mission formerly had an extensive program in support of private sector development. A major part of that program provided funds to small- and medium-scale enterprise (SME) support institutions through the Rural Enterprise and Agribusiness Development Institutions (READI) and the Malawi Enterprise Development Program (MED) Projects. The READI project ended in 1991. USAID continued to provide funds to the support institutions using different funding mechanisms. USAID funding for the Development of Malawi Traders Trust (DEMATT), Indefund, and Project Officers and Entrepreneurs Training (POET) through the MED project will end on March 31, 1994. USAID officials have stated on several occasions that USAID has no plans to continue the same sort of institutional support for SME development that it has provided over the past decade.

This consultancy will be conducted in two phases. In the first phase, the GEMINI team travelled to Malawi in September-October 1993 to identify and analyze strategic options for each MED project institution and determine the feasibility, likelihood, and desirability of each option. A member of the team also conducted a field-based training needs assessment of SMEs in Malawi. This report represents team findings.

The second phase of this consultancy will take place when DEMATT, Indefund, and POET have reviewed their options and each has decided on a course of action. Consultants will be provided during the second phase to assist in the implementation of the decisions taken by each institution. It is anticipated that the second phase will take place in early 1994. The possible types of technical assistance during the second phase are reviewed in the last section of this report.

SME TRAINING NEEDS ASSESSMENT

The purpose of the field-based, SME training needs assessment was to clarify training needs of SMEs and to identify training methodologies that would contribute to the financial viability of the three organizations. This needs assessment was used to assist DEMATT to develop alternative, cost-effective, and cost-recovering service delivery methodologies and products, and as a base from which to develop a curriculum for an SME training program with POET.

The SME needs assessment drew on past assessments and analyses of constraints to SME development in Malawi, and sought to develop a fuller understanding of the exact nature of the constraints faced, how they affect the day-to-day operation of the business, and how institutions such as DEMATT, Indefund, and POET can address these constraints through training or other business support services. Of equal importance, the needs assessment stressed ways that the institutions could provide training and business advisory services in an efficient, cost-effective manner.

STRATEGIC OPTIONS ANALYSIS

DEMATT

The work with DEMATT was undertaken on the premise that the principal task of the consultants was to work closely with DEMATT staff to develop options for DEMATT's future financial and organizational viability. The loss of USAID funding at the end of March 1994 will leave DEMATT in severe financial difficulties. Therefore, it was incumbent on the consultants to find and explore ways that DEMATT staff would find acceptable to help DEMATT survive as an organization over the short term.

In addition, the consultants sought to assist DEMATT staff in looking at different ways to restructure the organization and to do things they had not considered doing before to improve the long-term viability of the organization. Thus, initial meetings with DEMATT staff were used as brainstorming sessions to identify options for both the short and the long term. Subsequent meetings helped to refine some options and to decide to reject others. The options presented in the report are not mutually exclusive. On the contrary, it is desirable that some of the cost-cutting and revenue-generating options be combined with the long-term institutional options. The options are framed to allow maximum flexibility in option mix in the final resolution of DEMATT's status.

Indefund

Based on extensive interviews with both Malawian entrepreneurs and Malawian and expatriate members of the financial, investment, and accounting communities in Malawi, the team found that venture capital would be a viable financing vehicle for SMEs in Malawi. The creation of an effective venture capital company or fund in Malawi would further the establishment of a market economy, would assist in the development of capital markets by helping to fill the capitalization gap in equity investment to SMEs, and would provide valuable managerial resources to SMEs. Further, Indefund, by virtue of its 11-year history of providing loans and value-added managerial support services to SMEs, is well positioned to establish Malawi's first venture capital vehicle.

Discussions with financial and accounting sources indicate that Indefund could create a limited liability management company and a limited liability venture capital company. The latter could be structured either as a straightforward company (in other words, existing in perpetuity), or as a self-liquidating fund. The management company would receive a management fee based on a percentage of either total or uninvested committed capital and a "carried interest" in profits, paid after shareholders had received from profits the equivalent of their contributions plus a set rate of return.

Interviews with entrepreneurs and members of the financial, investment, and accounting communities in Malawi indicate almost a complete lack of knowledge of the operations, purpose, or goals of venture capital investment. An educational campaign would greatly assist the successful development of not only an Indefund venture capital vehicle, but also the venture industry in Malawi.

POET

In June 1993 POET began a two-week strategic planning exercise, facilitated by a consultant from the Center for Development and Population Activities (CEDPA) and financed by the USAID Services for Health, Agriculture and Rural Enterprises Project.

The resulting strategic plan emphasizes increasing POET's efforts in Malawi in training nongovernmental organizations (NGOs) as well as providing training directly to SMEs. In addition, the plan explores the potential for further consulting and training of organizations supporting both NGOs and SMEs in other countries in the region.

Because of these previous efforts, the GEMINI team was able to accelerate assistance to POET. Specifically, with POET's interest in offering training to SMEs in Malawi, the GEMINI team decided to assist POET with curriculum development during Phase I of this consultancy, rather than waiting until Phase II. The development of curriculum was based on the training needs assessment. Nine course topics were identified that apply to all businesses, no matter what size. Course subtopics were delineated and discussions were held of the particular needs of different-sized businesses, the phases of business development, and gender issues.

A workshop was also held with POET training staff to review the course outlines and to work up the details on Course I -- Business Identification. The workshop brought out key issues to be considered when designing a course, such as size of business, phase of business, and gender issues, and provided a model for developing courses on the remaining topics identified.

DECISIONS TO BE MADE

Certain decisions must be made prior to Phase II of this consultancy -- decisions that will influence the types of consultants required as well as their scope of work. The decisions to be taken are as follows:

DEMATT

- DEMATT and the government must decide if DEMATT should remain a parastatal or become a private NGO.
- DEMATT and the Ministry of Trade and Industry must decide which of the cost-cutting and revenue-generating options are viable, and take steps to provide funding for DEMATT for the upcoming fiscal year.

Indefund

- Indefund staff and its board must decide if they want to take steps to establish a venture capital fund or company.

POET

- POET staff must decide if it is wise to try to market their services on a regional basis.

- POET staff should identify a local person who can be trained as a marketing specialist for POET.

FURTHER TECHNICAL ASSISTANCE NEEDS FOR PHASE II

DEMATT will need the services of an *institutional development specialist* if staff decide the organization should become an NGO. It may need long-term assistance on this as well. If so, the short-term consultant during Phase II of this consultancy can draft a scope of work for the long-term consultant and help DEMATT look for ways to finance the long-term consultant.

If Indefund decides to go through with the establishment of a venture capital fund, it will need a *venture capital specialist* to help design and execute a campaign to educate the Malawian financial and business communities about the philosophy, purpose, and goals of venture capital as a financing discipline. In addition, Indefund staff expressed interest in having USAID support a *workshop* on the principles of venture capital funds and experiences elsewhere for key private and governmental institutions in Malawi. The second phase of this consultancy could conduct such a workshop as part of its work to assist Indefund in the establishment of a venture capital fund.

POET will require the services of a *marketing specialist* with experience in marketing training or educational institutions. This marketing specialist will work with all POET staff, but particularly with the local person selected by POET to become the local marketing specialist. He or she may also provide POET with further assistance on SME curriculum development, if necessary.

PROPOSED STUDY TOURS

In addition to the consultancies described above, the team believes that study tours to other African countries with programs relevant to the institutions involved could be very instructive. Such study tours were recommended in the report last May that led to this GEMINI consultancy. The value of these study tours has not changed, and there is a need to expand them. Therefore, the GEMINI team recommends that USAID fund study tours for the three institutions.

CHAPTER ONE

INTRODUCTION

BACKGROUND

This consultancy has been undertaken by a team from the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project within the context of a change in the priorities of the U.S. Agency for International Development program in Malawi. USAID has made a decision to concentrate on assistance to Malawi in agriculture, education, and health. The Mission formerly had an extensive program in support of private sector development. A major part of that program provided funds to small- and medium-scale enterprise (SME) support institutions through the Rural Enterprise and Agribusiness Development Institutions (READI) and the Malawi Enterprise Development Program (MED) Projects. The READI project ended in 1991. USAID continued to provide funds to the support institutions using different funding mechanisms. USAID funding for Indefund, the Development of Malawi Traders Trust (DEMATT), and Project Officers and Entrepreneurs Training (POET) through the MED project will end on March 31, 1994. USAID officials have stated on several occasions that USAID has no plans to continue the same sort of institutional support for SME development that it has provided over the past decade.¹

In preparation for its cutback in funding to the SME sector, USAID arranged for a consultant team to meet with staff of DEMATT, Indefund, and POET in April 1993 to assess their status and to determine their respective needs for technical assistance. The purpose of the proposed technical assistance was to help each institution explore options for both organizational and financial viability in the years ahead. This consultancy was undertaken to provide the technical assistance requested by each institution.

This consultancy will be conducted in two phases. In the first phase, the GEMINI team travelled to Malawi in September-October 1993 to identify and analyze strategic options for each MED project institution and determine the feasibility, likelihood, and desirability of each option. A member of the team also conducted a field-based training needs assessment of SMEs in Malawi, to determine the options for the training services to be offered and methodologies employed by each institution. This report is the result of this first phase of the consultancy and presents in detail the alternatives open to each institution, with their advantages and disadvantages.

The second phase of this consultancy will take place when Indefund, DEMATT, and POET have reviewed their options and each has decided upon a course of action. Consultants will be provided during the second phase to assist in the implementation of the decisions taken by each institution. It is anticipated that the second phase will take place in early 1994. The possible types of technical assistance during the second phase are reviewed in the last section of this report.

¹ It should be noted that the focus of DEMATT and POET activity has been micro- and small-scale enterprises, while Indefund has targeted small- and medium-scale enterprises. POET is planning to expand training activities to medium-scale firms.

METHODOLOGY

The SME training needs assessment was conducted by the Business Advisory Services/Training Specialist and took place during the last two weeks in September. It involved interviews with 50 micro-, small-, and medium-scale enterprises in the three regions of the country as well as interviews with staff of training institutions and nongovernmental organizations (NGOs) in Malawi, including DEMATT and POET. A detailed explanation of the methodology used in the assessment is found in Annex B, which presents the training needs assessment in its entirety.

The SME Specialist/Strategic Planner and Finance Specialist arrived at the end of September and initial meetings were held between the three GEMINI team members and each institution, as well as with the Ministry of Trade and Industry (MTI) and USAID officials, to review the tasks to be accomplished during the consultancy and potential sources of information for research on the options for each institution. The next two weeks involved extensive consultations with the staff of each institution and interviews with parties relevant to each option explored. A midterm meeting was held with DEMATT, Indefund, and POET staff and with officials of MTI and USAID to review a discussion paper prepared by the GEMINI team. This paper assessed progress on each task and preliminary findings of the team. Guidance was received during this meeting on the options presented and on how to proceed during the second half of the month. The fifth week was spent analyzing the most viable options in depth to assess their feasibility and likelihood. This involved further meetings with staff of each institution and with other relevant parties and organizations. The sixth, and final, week of this consultancy was spent drafting the final team report and the presentation of this draft report prior to team departure.

CHAPTER TWO

CURRENT STATUS AND NEEDS OF THE MED PROJECT INSTITUTIONS

DEMATT

History and Status

DEMATT was established in 1979 as a registered trust under MTI with financial and technical support from USAID. Its trustees are appointed by the Government of Malawi (GOM). DEMATT's purpose is to provide business and technical advisory services to rural Malawian small- and medium-scale entrepreneurs. DEMATT currently has 24 district offices spread throughout Malawi; project headquarters are in Blantyre. It has three regional offices located in Blantyre, Lilongwe, and Mizuzu. DEMATT provides services to clients through two departments — the Field Services Department (Core Program) and the Special Programs Department (Non-Core Program). In addition, The Finance and Administration Department and the Personnel and Training Department provide support functions.

DEMATT is one of the primary institutions providing SME development training in six local impact areas (the six districts of Nkhata Bay, Dedza, Mchinji, Mangochi, Thyolo, and Nsanje) during the next three years under the GOM/United Nations Development Programme (UNDP) 5th Country Program. DEMATT is the implementing agency of two components: entrepreneurial development, and training skills and marketing. Discussions are also under way to make DEMATT the implementing agency of the credit component. Consequently, over the past year, DEMATT has transferred its staff and costs for operating in those six districts from its Core Program (funded by USAID and GOM) to the GOM/UNDP program.

The Core Program focuses on micro- and small-scale enterprise development through the provision of intensive one-on-one business counseling and through group training for special group needs. Although these activities have been conducted by DEMATT since its inception, different emphases have been placed on each activity during DEMATT's life. In DEMATT's initial years, a group training methodology was emphasized. After experiencing difficulties in measuring impact of the training on beneficiaries, DEMATT changed its methodology in 1986 to emphasize intensive, one-on-one business counseling, to be able to identify and track improvements resulting from the training.

DEMATT also changed its methodology to concentrate on businesses with growth potential. DEMATT began implementing a contract process with its clients. This process involves a comprehensive diagnosis of a new client's business, followed by the development of a formal contract with the business owner setting forth specific objectives, expectations, and commitments. Although DEMATT has achieved positive results with its clients, field agents have found it difficult to increase their caseload beyond 15 clients at any one time or to achieve a total of 30 clients per year. This is because of the time spent screening potential clients, the minimum time necessary to spend with each business to meet contract obligations, travel time between clients, and other duties. As a result, DEMATT has had contracts with only 500 to 600 clients per year.

DEMATT conducts group training when it is requested by organizations or when a natural grouping of entrepreneur clients is considered feasible. In a report to the trustees in March 1992,

DEMATT reported assisting 14 groups with 424 participants. Under a program to provide business advisory services for women, 296 women were trained. Another component of the Core Program is the provision of consultancy services to walk-in clients at its district offices. DEMATT reported handling 4,796 clients in 1992 under all of its Core Program components.

The Non-Core Program began in August 1990 when the Special Programs Department was established in DEMATT to develop what could be called "projectized" forms of assistance. Part of the impetus for the establishment of this department was to develop other sources of funding for DEMATT and to provide assistance that could be used to implement other donor-funded projects in Malawi requiring business-related training. Three programs were implemented under this department: the Medium-Scale Enterprise Promotion Project assisted small businesses to graduate to medium-scale businesses through help in feasibility studies, counseling, and assistance in obtaining financing either from Indefund or commercial banks; the Carpentry Program trained rural carpenters in the use of soft wood to manufacture 28,000 primary school desks valued at MK3 million to be purchased by the International Development Association (IDA) for use in rural Malawi schools; and the Transportation Industry Program conducted training for drivers in long-distance driving techniques and petroleum products handling, and provided a transport business management course for small fleet owners. Of these programs, only the Carpentry Program is still operational.

DEMATT recently received a new request to provide further training in this area under a new order for school desks financed by IDA. In addition, GOM has provided funds to DEMATT to implement the Government Preferential Purchase Program and the Bulk Procurement and Distribution of Essential Raw Materials. The objective of the programs is to assist SMEs to supply products to the Central Government Stores.

Financial Status and Urgent Need for Future Funding

Since its inception, almost all funding for DEMATT has come from USAID. DEMATT first received funding from USAID in 1980 through a grant to Partnership for Productivity International (Pfp/I). With the collapse of Pfp/I in 1986, DEMATT was funded through USAID's READI project from April 1987. At the completion of the READI project in June 1991, USAID provided additional funding to DEMATT through the MED program. Because of a reduction in the number of sectors that USAID/Malawi is able to fund, USAID support for DEMATT will officially end on March 31, 1994. It is important to note that although the Government of Malawi seems to consider that DEMATT serves a valuable role in the development of the SME sector, the government has not yet made a commitment to assume financial responsibility for all of DEMATT's funding when USAID funding comes to an end. This raises an urgent need for a financial survival plan.

DEMATT's budget for 1993/94 was slightly above MK5 million. USAID funded approximately 80 percent and GOM funded most of the rest. The balance was generated internally through special programs and client fees. Nominal fees are charged to clients, but these do not represent a significant contribution to operational costs.

The demand for services from DEMATT remains high and most sources consider the quality of DEMATT's services to be good. DEMATT is the only organization in Malawi with the outreach infrastructure to provide business training to individuals and groups throughout the country. It has been the preferred organization by donors and government to provide business advisory services at the small and microenterprise level as reflected by the programs described above.

Needs Addressed by Phase I Team

DEMATT and MTI requested that DEMATT's current mission statement be reviewed and revised as necessary during this consultancy to take into account changes in the SME environment, government policies, service delivery techniques, and financing available to support DEMATT's activities. A second mandate was to analyze the suitability of DEMATT's organizational structure to achieve its objectives and ensure future viability. An important issue in this regard is the legal structure of DEMATT. The team was also asked to look at the advantages and disadvantages of becoming an NGO.

Another concern was DEMATT's potential to reach financial sustainability through alternative funding mechanisms for its activities. These mechanisms were to include both internal cost recovery (for example, fees for services provided), and external sources of financial support such as other international donors, GOM, private sector businesses or organizations, or NGOs. A review of possible cost-cutting measures was also requested.

Assistance was also sought in determining an appropriate and viable training methodology, client group, and level of service for beneficiaries. This effort was to be closely tied to an analysis of the potential for each type of training to attract finance to meet costs. The methodology used by the Special Programs Department to develop projects was also up for review. The potential for providing training to larger businesses that could provide income to cross-subsidize SME training activities was to be investigated. And linkages with other institutions that could provide services for DEMATT or for which DEMATT could provide services on an as-needed basis were to be explored.

INDEFUND

History and Status

Indefund's purpose is to increase the productive potential of Malawi by providing finance and advisory service for the set-up, expansion, and development of SMEs owned and controlled by indigenous Malawians. Although other forms of financing are permitted, Indefund's primary function has been to provide loans to SMEs. A secondary function has been to provide business advisory services to its clients. Indefund management view business advisory services as a development function that helps its clients better manage their businesses and, consequently, enables them to better repay their loans.

Indefund was established in 1982 with funds from the Investment and Development Bank of Malawi Limited (INDEBANK) and the Netherlands Development Finance Company (FMO). In 1989, the Malawi Development Corporation (MDC) became a third shareholder of Indefund. Current shareholding percentages are INDEBANK — 35.8 percent, FMO — 34.8 percent and MDC — 29.4 percent. The Board of Directors is made up of six directors with two representatives from each shareholder.

Indefund has two offices — the headquarters and southern branch in Blantyre and the northern and central branch in Lilongwe. It has 26 persons on its staff, including both professionals and support staff.

Indefund loans range between MK30,000 and MK750,000. Indefund management stated that the average loan size was increasing both because of the devaluation of the Malawi Kwacha and a movement by Indefund to loan to more medium-scale businesses. Indefund loan policy gives preference to

enterprises that promote import substitution or exports, generate employment, use local resources, and encourage development. Funds are loaned at market rates of interest, roughly 5.5 percent above prime rate.

The total portfolio as of the end of 1992 amounted to MK16.1 million. The sector distribution of the loan portfolio over the past three years is as follows:

Sector	1990	1991	1992
Agriculture, Fishing	38.0	34.1	40.1
Manufacturing	28.6	22.4	23.3
Construction	0.0	0.8	3.2
Hotels, Tourism	17.6	18.0	11.9
Textiles	1.6	1.3	1.0
Service, Transport	10.8	19.5	17.6
Trading	3.4	3.9	2.9
Total	100.0	100.0	100.0

Seven new loans were approved in 1992, down from 19 new approvals the previous year. Consequently, although the average loan size increased by 39 percent in 1992, to MK 223,146 from 160,368 in 1991, the value of total loans advanced dropped to MK 3,554,938, a 51 percent decrease from the 1991 level of MK 7,272,529. This was caused by a decrease in forex funds available for lending during that period, and by management's effort to make fewer, higher-quality loans. Indefund received DM6.6 million in on-lending funds from German development assistance (KFW) in December 1992.

Management stated that 19 percent of the accounts were in arrears in 1991, which increased to 27 percent in 1992 because of problems with the economy as a whole. By October 30, 1993, approximately 20 percent of the accounts were in arrears. Nevertheless, management claims that Indefund has had few problems in recovering loans in default because the loan beneficiaries have generally put up sufficient collateral to cover the loans.

A report prepared by Deloitte and Touche for the READI project Final Evaluation stated that Indefund had reached breakeven in 1990, but would require more credit funds to ensure long-term viability. Indefund's financial records show that the fund has made a profit each year since 1990. The recent infusion of credit funds from KFW has significantly lessened Indefund's short-term credit funds worries.

An important long-term issue, however, is the cost of funds lent by Indefund. So far, Indefund has succeeded in obtaining funds for lending at considerably below market rates. Management stated that it requires a spread of about 11 percent over cost of funds to continue to make a profit. A study in August 1992 stated that banks in Malawi were making about a 5.5 percent spread over cost of funds. Indefund management stated that the Board of Directors had authorized loans at up to 26 percent interest rate (the prime rate is now about 21 percent) and contends that Indefund can make a profit even if it were forced to pay market rates of interest for local funds. Management believes that the additional 5.5

percent needed to make up Indefund's spread is because of the cost of providing business advisory services to its clients.

Needs Addressed by Phase I Team

Previous reports, prepared in conjunction with Indefund management, indicated a need to explore the possibilities of creating a venture capital fund, arranging a loan guarantee fund, and subcontracting Indefund's business advisory services to another organization such as DEMATT.

The GEMINI team met with Indefund at the start of the consultancy to discuss the terms of reference. At that meeting it was agreed that the team should examine primarily the feasibility of creating a venture capital fund; synergies of joining a venture capital fund to a loan guarantee program would be pursued in a subsequent consultancy; and business advisory services would be examined in the context of facilitating the establishment of a venture capital fund (in other words, as a value-added management tool).

Indefund's interest in pursuing the establishment of a venture capital vehicle stems from its high cost of lending to the SME sector. That high cost is largely a result of offering business advisory services to clients, which Indefund believes to be a necessary part of extending credit to SMEs. Because many Indefund clients lack the basic accounting and management training that would make a more passive lending relationship possible, the business advisory services increase both the number of businesses able to receive funding, and the likelihood that those businesses will service their loans adequately. The service, however, is estimated to cost Indefund an additional 5.5 percent over its cost of funds, only a fraction of which are passed on to clients in fees. Because that service is similar to the value-added management role provided by venture capitalists, Indefund is interested in pursuing such financing. As venture capital providers, Indefund's cost per investment would be similar to its already high cost as debt providers, but its return, as equity owners, could be significantly higher. In short, it can be argued that Indefund has been "giving away" equity type value-added management services for the lower price of more passive debt services.

Interviews with Malawian entrepreneurs and financial professionals indicated that a venture capital vehicle would be attractive in Malawi for two main reasons:

- Value-added management skills are scarce in Malawi, and such a service (or partnership) would be very attractive to an entrepreneur struggling to establish or expand an SME; and
- Although venture capital can ultimately be an expensive form of capital for the entrepreneur (giving away part of his company), in the near term it is free, allowing internally generated funds to be fully reinvested to grow the company.

POET

History and Status

POET was created to enhance the abilities of officers who promote micro-, small-, and medium-scale enterprises in government, parastatals, the private sector, and NGOs, as well as potential and

existing entrepreneurs. It does this through generic and tailor-made training programs, and through consultancy services to organizations involved in the promotion of SMEs.

In 1987, the READI project implementation committee established a Training Subcommittee to formulate a plan for meeting the staff development training needs of SME support organizations. In late 1987, proposals were submitted to FMO and USAID, which agreed to co-fund the Training of Trainers (TOT) Project. Offices at the Small Business Development Organization of Malawi (SEDOM) estates in Blantyre were opened in March 1988 and in June 1988 a consultant was hired to undertake a needs assessment study and to prepare the first two curriculum modules. Another consultant joined the staff in mid-1989 to prepare three more modules. H.M.S. Chunga was hired as Project Director in May 1989. In July 1991, POET was registered as an NGO. It has a staff consisting of a director and two trainers, and three support staff. Its Board of Directors was selected by POET staff. Twenty part-time adjunct resource persons are used for special training needs as required. They include specialists in law and government regulation as well as accounting, business planning, and marketing.

POET clients are the SME support organizations and NGOs in Malawi. In addition to training staff of those organizations, it has also provided training of entrepreneurs sponsored by these organizations. Since its inception, POET has trained 858 persons, of whom 501 (58 percent) were staff persons/project officers and 357 (42 percent) were entrepreneurs. Of the total trained, 317 (37 percent) were women. Since the establishment of the Services for Health, Agriculture and Rural Enterprises (SHARED) Project, NGOs and entrepreneurs supported by SHARED client NGOs have become the principal client group of POET's services.

All of POET's training is performed using a group training methodology. POET has found the optimum size of the group to be 15 persons. Most courses are full-time, run for two to three weeks, and are conducted in sites convenient to the trainees. This requires considerable travel for the POET trainers, but limits the travel necessary for the recipients.

POET has recently used the services of three expatriate consultants funded by the SHARED project to perform a needs assessment of the NGOs supported by SHARED and to design training curriculums and a marketing brochure to address this growing market.

Financial Status and Demand for Services

POET has received most of its funding from USAID, originally through the READI project and now through the MED and SHARED projects. FMO also provided funding to help establish POET and to partially cover initial operational expenses, but stopped funding in March 1991, ostensibly because of changes in POET's target client group. (POET was originally designed to provide training to the staff and clients of Indefund, another FMO-supported organization, but Indefund found the training to be inappropriate to its level of clientele.)

POET's current funding from USAID through the MED project will end as of March 1994, but the SHARED funding will continue. When POET became an NGO, it received a grant from SHARED to purchase a minibus and office equipment, including computers. SHARED has also funded the consultants to assist POET in curriculum development, as described above. In addition, SHARED provides scholarships to NGO staff and entrepreneurs to help pay for training from POET. These scholarships are currently for two-thirds of training costs, but will diminish over the next three years.

POET believes its training program should pay for itself, with clients covering the costs of the training. Current costs to POET are approximately MK300 per participant per day, including per diem costs for trainees, rental of a local facility, and POET's staff and overhead costs. POET has also received income from performing consultancies for a number of organizations, including the consultants recently working on the project design for the enterprise development component of the 5th Country Program of GOM/UNDP.

The demand for POET's services among Malawian and international NGOs continues to grow. It has successfully expanded both its client group and its staff. It is important to note that between POET's inception in 1987 and the time of the READI project Final Evaluation in May 1991, POET had trained only 258 persons, an average of 65 persons per year. In the last two years, POET has trained an additional 600 persons, an average of 300 persons per year. This graphically demonstrates the growth in demand for POET's services. POET has recently received technical assistance to develop its curriculum to better serve existing NGO clients and it is currently exploring other markets for its services, such as direct business training to SMEs.

POET's approach to keep expenses as low as possible, to limit increases in staff until they can be justified financially, and to obtain funding from a variety of sources to support its program is a sound method for reaching financial sustainability. POET staff did not express any problems with financing of their activities. Diversification of POET's sources of finance is critical to its long-term financial viability. The SHARED project is clearly the primary source of funds, both direct and indirect, at this time. However, because that funding will eventually end, POET must search for other sources of finance. Consultancies performed for other donors and organizations is one additional source of finance. POET is currently exploring participation in other programs to assist SMEs in Malawi as well as providing direct training to SMEs that can afford to pay for training without outside assistance. It is important to point out that, two years ago, POET's future existence looked questionable. Yet POET has succeeded in not only continuing its activities, but also expanding them without substantially increasing operational costs.

Needs Addressed by Phase I Team

This consultancy was designed to provide technical assistance to POET in helping to develop a curriculum to meet the needs of SMEs in Malawi. The principal product of this phase of the consultancy was to be a field-based, SME training needs assessment to be used during Phase II of this consultancy to develop a curriculum.

POET has benefitted from previous consultancies over the past year performed by the Center for Development and Population Activities (CEDPA). These consultants were financed through the SHARED project to assist POET in designing courses and curriculums to meet the training needs of the NGO community in Malawi. As a part of those consultancies, CEDPA helped POET to develop a strategic plan that covered the provision of training to both NGOs and SMEs. The GEMINI team believes that that planning exercise was thorough and well done and, consequently, little needs to be done during this consultancy on the issue of strategic planning for POET. CEDPA also helped POET put together a marketing brochure that describes the activities engaged in by POET, including SME training.

Based upon the training needs assessment and the previous work by CEDPA, the GEMINI team assisted POET to draft nine course outlines for SMEs. These outlines will form the basis for the development of POET's training courses for SMEs in Malawi. Discussions were held regarding the potential marketing of POET's SME courses, both domestically and regionally. It is anticipated that a

marketing consultant will come during the second phase of this consultancy to assist POET in further analyzing these issues and to help the organization to develop a marketing plan and materials to use in marketing its services.

CHAPTER THREE

STRATEGIC OPTIONS FOR DEMATT

APPROACH USED AND CONSIDERATIONS TAKEN INTO ACCOUNT TO DETERMINE STRATEGIC OPTIONS

This work with DEMATT was undertaken on the premise that the principal task of the consultants was to work closely with DEMATT staff to develop options for DEMATT's future financial and organizational viability. The loss of USAID funding at the end of March 1994 will leave DEMATT in severe financial difficulties. Therefore, it was incumbent upon the consultants to find and explore ways that DEMATT staff would find acceptable to help DEMATT survive as an organization over the short term. In addition, the consultants sought to assist in helping DEMATT staff to look at different ways to restructure the organization and to do things they had not considered doing before with the aim of improving the long-term viability of the organization. Thus, initial meetings with DEMATT staff were used as brainstorming sessions to identify options for both the short and long term. Subsequent meetings helped to refine some options and to decide to reject others. The options presented below are not mutually exclusive. In fact, it is desirable that some of the cost-cutting and revenue-generating options be combined with the long-term institutional options. These options have been framed in a fashion to allow maximum flexibility in option mix in the final resolution of DEMATT's status.

The basic assumption of this exercise is that DEMATT provides services that are too important to lose. All the parties who have provided financing for DEMATT in the past as well as other interested parties are in agreement with this observation. Unfortunately, the principal funder of DEMATT in the past, USAID, is no longer able or willing to finance the organization, and DEMATT's other main funder, the government, has not yet made the commitment to make up the shortfall in funds. Therefore, it is necessary to find other sources of finance if DEMATT is to continue to exist, at least in its present form.

DEMATT staff and the GEMINI team have tried to come up with other potential sources of funding. The GOM/UNDP 5th Country Program will be funding part of DEMATT's program costs in the next three years. But unless a large portion of the USAID shortfall is made up by either government or other donors, DEMATT will have to drastically cut its staff and services.

DEMATT has served the SME sector in Malawi well for over a decade. There have been criticisms of its management, of how it has delivered its services from time to time, and of its impact upon the sector. However, no one has ever disputed the need for this type of training to be provided to the SME sector. Most people agree that Malawi's SME sector must grow if the overall Malawian economy is to grow. Other organizations have provided training to the SME sector and continue to provide training. But it is doubtful that any of them could replace DEMATT's services in the foreseeable future. Thus, if DEMATT goes out of existence or drastically reduces its services, an important institution and the current services it provides for the development of the Malawian economy will no longer be there. It is extremely important that all persons who are reading this report recognize this fact and strive to the best of their abilities to prevent this from happening. Please review the options presented below in this frame of mind.

SHORT-TERM COST-CUTTING AND REVENUE-GENERATING OPTIONS

DEMATT received notice from USAID about one year ago that USAID funds would not be available when the MED project came to a close in March 1994. Although many felt that this was too short a notice for DEMATT to be able find other sources of funding to make up the shortfall, DEMATT began to reduce its operational costs. These reductions involved cutting back on staff positions through attrition and the closing of some local offices. It also involved transferring staff to the GOM/UNDP 5th Country Program when feasible. However, these cost-cutting measures have not been sufficient to cover the bulk of DEMATT's costs of operation. Therefore, the following options have been put up for consideration.

1. DEMATT moves headquarters and regional center offices to peri-urban areas near current centers to reduce costs of office rents and staff housing rents; headquarters and southern regional offices are combined in one building.

Analysis:

This option appears logical on the surface. It seem obvious that this should be done to cut costs. Rents in peri-urban areas would be considerably less than those in urban areas. It might also help to bring the regional offices closer to the areas they serve. Joining Headquarters with the Southern Regional Office also makes a lot of sense in terms of efficiency of office space.

The problem with this option is the shortage of suitable office space with telephone lines and other utilities in peri-urban areas. DEMATT staff assert that they would probably have to build offices in the peri-urban areas. This would increase the capital budget for DEMATT in the short term, but could have advantages in the long term. If DEMATT were to take out a loan to construct buildings with more space than DEMATT requires, it might be able to rent out office space to help make the repayments on the loan. In addition, because many DEMATT staff live in the urban areas near their offices, they would have to either move to houses closer to the offices in the peri-urban areas or commute greater distances than they currently do. Other staff might have trouble obtaining public transportation to get to work in a less accessible peri-urban area.

If this option is to be properly analyzed, DEMATT staff will have to look for suitable rental space or serviced lots in peri-urban areas, determine the costs for either rental or construction, assess the market for office rentals in the areas where they might construct offices, assess the availability of housing for DEMATT staff in potential areas to which they might relocate, or determine the extra transportation costs if staff remain in the housing where they now live.

2. DEMATT cuts back operations to selected districts rather than all 24 districts in the country. Assume that DEMATT will continue to operate in the six districts that are the local impact areas of the GOM/UNDP program. Run financial scenarios of operating in 6, 12, and all 18 of remaining districts, including reduction of workforce.

Analysis:

This option is under serious consideration by DEMATT staff. If government does not make up the shortfall in income because of the loss of USAID funding, this kind of cut in services will have to be made. The Financial Officer provided some preliminary estimates using these scenarios, but more refinements will have to be made in consultation with other senior staff before firm figures can be arrived

at. This option might also require that DEMATT close one or more of its regional offices as well. This would result in the loss of DEMATT's services in some areas of the country and DEMATT would no longer be providing countrywide services.

Furthermore, substantial staffing cuts would most likely be necessary under this option. The liquidation and political costs to government to implement those staffing cuts would need to be considered. DEMATT's Financial Officer came up with some figures to reflect the cost to government if staffing were cut along with these scenarios. It might make more sense for government to consider increasing funding to DEMATT in the short term along the lines mentioned below, with a decrease in funding occurring over a longer period, after DEMATT has taken some action to obtain funds from sources other than government.

3. DEMATT operates only in urban areas. DEMATT works indirectly in rural areas through training agriculture extension officers and community development assistants. Assess market for DEMATT's services in urban areas and run financial scenario with funding for urban areas only.

Analysis:

This option appeared to make sense to the GEMINI team at first blush, since most SME development programs in other parts of the world concentrate on urban areas where businesses are concentrated and where markets are close. However, on reflection, there are considerable problems with this option. First, many of the businesses in the urban areas are run by Asians who have less need for DEMATT's services. Second, it would be difficult for government to justify assisting this group since the original purpose of DEMATT was to train indigenous Malawians to take the place of Asian traders in rural areas. Third, some operational costs are higher in urban areas. Option No. 1 seems to have more promise for cutting costs than this one.

The potential for training agriculture extension officers or community development assistants to effectively promote and train SMEs in rural areas has not been tested. An assessment of the potential effectiveness of using these officers who may not have the proper experience or background to perform this training would be required.

4. DEMATT closes all district offices (except for those in the six impact areas of the GOM/UNDP program) and operates out of regional offices. DEMATT continues to have a rural focus, but its agents travel from the regional offices to the districts selected for operations each day.

Analysis:

This would obviously cut back on costs for district offices. However, the lion's share of rental and operational costs come from the headquarters and regional offices rather than the district offices. This means that this action would not substantially decrease DEMATT's costs. In fact, increased transportation costs and per diems for overnights for field workers might actually increase overall costs if this option were selected.

5. DEMATT offers its training services to large businesses to train workers in particular skills or to assist in employee relations. This training would be entirely cost-recoverable and operate on a cost/plus basis, just as the Special Projects Department of DEMATT has done over the past three years.

Analysis:

This option has some very positive revenue-generating prospects. Clearly, the larger businesses have more resources available than the SME clients DEMATT is now serving. The question is as to whether DEMATT could effectively market its services to these larger businesses. DEMATT would have to change its public image of working mainly with small-scale enterprises if it were to gain credibility with the larger businesses. DEMATT might have to bring in temporary trainers on a contract basis to get the qualified people to conduct this type of training. The GEMINI team discussed the possibility of visiting a couple of the larger businesses in Blantyre with DEMATT staff to explore this option. However, DEMATT management demurred and thought it would be better if DEMATT staff first assessed DEMATT's potential for providing this type of training.

The advantage of providing this type of training to this clientele is that they have the financial resources to be able to pay full costs for the training received, including overhead costs and profit to the training institution. However, DEMATT would have to be careful on how they position themselves in this market, because they have other competitors/institutions that have concentrated on certain types of training serving this market, such as the Malawi Institute of Management. For this option to be successful, DEMATT would have to do some niche marketing.

In summary, none of the cost-cutting or revenue-generating options are a clear winner. Further detailed analysis of cost savings and income projections will have to be made. Nevertheless, these appear to be the principal options available to DEMATT under current conditions.

LONG-TERM INSTITUTIONAL OPTIONS

Mission Statement

MTI has directed DEMATT staff to look at DEMATT's Mission Statement and to recommend to government any revisions felt necessary to adapt DEMATT to changing times and the financial situation. DEMATT staff and the consultants have done this and made some changes that appear relatively minor, but could help DEMATT to increase its ability to adapt to possible institutional changes and to help it to generate income from nontraditional sources.

According to its Trust Deed, when DEMATT was established in 1979, its mission was "to provide training to indigenous Malawian citizens to enable them to efficiently operate their trading businesses." At the birth of the Malawi Government Statement of Development Policies (DEVPOL) 1987 – 1996, DEMATT's mission was expanded to:

Cost effective, countrywide promotion and delivery of business and technical advisory services to productive micro, small and medium-scale enterprises in the manufacturing, trading and service sectors compatible with national priorities by:

- Providing business and technical advisory services;
- Promoting new business development;
- Providing targeted entrepreneurial training and assistance in areas such as Women's Programme, Transport, and other Special Programmes;
- Researching into identified situations which represent bottlenecks to enterprise development;

- Coordinating with government, Donors, and other SME institutions on policy and programmatic issues; and
- Developing and implementing suitable cost recovery and income generating schemes to enhance financial self sufficiency.

The proposed changes to the Mission Statement are as follows:

1. To provide for the anticipated reduction of operating funds in the next few years and to increase DEMATT's operational flexibility, the word "countrywide" would be deleted from the first sentence of the Mission Statement. However, DEMATT would continue to provide countrywide services as long as sufficient funding were available.
2. To be more explicit about DEMATT's purpose for existence, the words "compatible with national priorities" at the end of the first paragraph would be replaced by the words "for the purposes of alleviating poverty, creating wealth, and increasing employment."
3. To provide for the possibility that DEMATT might be converted to an NGO, the word "NGOs" would be added to paragraph six.

If government decides to adopt these proposed changes to the Mission Statement, the revised statement would read as follows:

DEMATT's mission is to provide cost-effective promotion and delivery of business and technical advisory services to productive micro-, small-, and medium-scale enterprises in the manufacturing, trading, and service sectors for the purposes of alleviating poverty, creating wealth, and increasing employment by:

- Providing business and technical advisory services;
- Promoting new business development;
- Providing targeted entrepreneurial training and assistance in areas such as Women's Programme, Transport, and other Special Programmes;
- Researching into identified situations that represent bottlenecks to enterprise development;
- Coordinating with government, NGOs, donors, and other SME institutions on policy and programmatic issues; and
- Developing and implementing suitable cost-recovery and income-generating schemes to enhance financial self-sufficiency.

Conversion to a Fully Subsidized Parastatal

This option would require a long-term commitment on the part of government to fund DEMATT's operations. This option opts for the path of least resistance, provided that government is willing and able to fund DEMATT at its current level of operations and costs. This option would not require any organizational changes. Some DEMATT staff expressed concern that this option would increase government involvement in the day-to-day decision making of DEMATT and that this would hamper DEMATT's effectiveness. A list of the advantages and disadvantages of this option are listed below.

Advantages:

- DEMATT policy decisions are consistent with government development priorities.
- Government is well placed to try to source funds from different donors.
- The liquidation of DEMATT would have political implications.

Disadvantages:

- DEMATT's Board of Trustees is appointed by government, often based on political considerations rather than DEMATT's effectiveness.
- Major decisions are referred to government and responses are hard to come by.
- Only government can negotiate funds from donors.
- Conditions of service and salary structure for staff are controlled by government. This limits DEMATT's ability to attract highly qualified and experienced persons.

Conversion to a Private NGO

This option was seriously considered two years ago when USAID was considering the establishment of an endowment fund to help to support DEMATT financially over the long term. Because of various factors, the endowment fund never materialized. However, there is still interest from many quarters in looking at this option as a means to move DEMATT out of its current financial quandary. DEMATT staff appear to view this option as an attractive alternative, provided that it helps to make DEMATT more self-sufficient and will permit it to achieve greater financial and operational independence. However, this option is not without risks. If DEMATT were to become a private NGO and still not attract donor or other private sector funds, it might be worse off than if it stays with government. Some DEMATT staff view the possibility of becoming a private NGO as more consistent with the clients it serves; that is, it would require that DEMATT take the same kinds of risks that SMEs take — services would have to justify payment and DEMATT would have to aggressively market its services to paying clients or donors. Some advantages and disadvantages to becoming a private NGO are presented below.

Advantage:

- Government could reduce its financial support to DEMATT over time as DEMATT generates more funds from fees or from other donors over time.
- It would permit DEMATT to put staff on contract basis.
- It would permit DEMATT to pay staff according to market and qualifications rather than on low government pay scales.
- It would be an advantage in dealing with private sector development if DEMATT was not directly related to government.
- It would allow DEMATT to make decisions on its direction and operations with minimal government involvement.
- It could attract funds from donors that prefer to fund services provided by NGOs rather than government agencies.
- DEMATT would have direct access to donors.
- DEMATT would have more latitude to explore other revenue-generating activities that it has not been able to pursue in the past. The Trust Deed could be changed to permit DEMATT to work with nonindigenous Malawians, if this was considered to be desirable to generate funds.

Disadvantages:

- Donor funding may be harder to come by than anticipated.
- Clients may not be willing or able to pay the full costs of training or other services.
- To move DEMATT employees to a contract basis, DEMATT might have to lay off the employees and then rehire them on a contract basis. This might require that government pay the employees some kind of severance pay. This issue requires further legal research.
- Services rendered might not be consistent with government priorities and donors might have undue influence over DEMATT's direction and activities.
- DEMATT might duplicate services being performed by other NGOs.

POTENTIAL SOURCES OF REVENUE FOR DEMATT

This section reviews sources of revenue and income for DEMATT and analyzes the potential for revenue from those sources.

Government

DEMATT submitted a paper to government in June requesting additional funding in the amount of MK3.7 million for 1994/95 above the current level of approximately MK1 million, to make up the shortfall that will be created by the ending of USAID funding in March 1994. A second option presented was to provide additional funding at a level of MK2.9 million, which would result in a reduced level of operations. According to DEMATT staff, government has not yet committed to funding DEMATT's operations beyond the current government contribution of MK1 million.

It is critical that government make a decision on DEMATT funding and submit its proposal in the budget by mid-December so that any shortfalls can be provided for in the next fiscal year beginning in April 1994. The GEMINI team recommends that government consider funding DEMATT at the level it has requested in the paper it submitted in June to give DEMATT some breathing space while it addresses its long-term viability through the following approach.

An alternative worth considering would be to have government provide decreasing levels of funding to DEMATT over the next five-year period while DEMATT moves towards diversifying its sources of finance. At the end of the five years, government responsibility for DEMATT would come to an end, unless government desired to continue funding for those services provided by DEMATT that government considers crucial to government policy. During that time, DEMATT would have converted to a private NGO and would have moved toward financial self-sufficiency by obtaining financing from various sources. These other sources of funding are discussed below.

This scenario assumes that DEMATT would take immediate steps to form itself into a private NGO, with the approval of MTI, and that its staff would convert from full-time employees to contractual employees with the NGO. As DEMATT sought funding from other sources, it could more easily reduce its staff because they would be working on a contract basis. This would permit more flexibility to respond to market pressures and DEMATT could increase or decrease staff according to demand for its services. It would also allow DEMATT to hire consultants with more experience and qualifications to conduct training courses to clients who could afford to pay the full costs of training.

Discussions with the Ministry of Finance have revealed that it is possible for government to fund an NGO through a channeling agreement or an on-lending agreement. The first is used to provide grant funds to organizations providing services considered necessary by government. The second is used to provide loans to commercial organizations that need infusions of capital from government, but that can afford to pay them back. It would appear that a channeling agreement could be drawn up that provided a government grant for certain specified services requested by government and provided by DEMATT. This financing vehicle would give DEMATT some financial breathing space and yet allow it to convert rapidly to a private NGO to generate funds elsewhere.

Donors

Donors would continue to be one source of funds for DEMATT's activities. However, DEMATT would solicit donors to provide funds for discrete training or other activities which it would provide to beneficiaries designated by the donors over a fixed period of time. This approach is similar to that used in the Special Programs Unit of DEMATT over the past three years. All staff except the Special Programs Manager were hired on a contract basis and were let go when the contracts with different donors expired.

UNDP would continue to be a major donor to DEMATT to fund DEMATT's participation in the GOM/UNDP 5th Country Program. USAID could be another possibility with funds coming either through the SHARED project or through other projects. For example, the USAID-financed Agriculture Sector Assistance Program calls for training in business management for smallholder burley clubs. DEMATT might well be a logical organization to provide that training. Also, DEMATT submitted a request to the SHARED project a few months back to fund some of its activities. SHARED was interested in this arrangement, but could not fund DEMATT because it was not a private NGO.

Other donors have been providing funding for the fledgling NGO sector in Malawi as well. Indications are that funding to Malawian NGOs will continue and even grow in the future as the Malawi political scene changes. DEMATT could be a potential recipient of some of those funds if it positions itself well.

SME Client Fees

SME client fees have been a minor, but growing, source of funds to DEMATT over the past years. DEMATT has designed a methodology to increase the fees paid in the months ahead, based upon the premise that clients will pay for services rendered that they feel are worthwhile and well performed. The field research for the training needs assessment performed as part of this consultancy confirmed this premise.

In addition, DEMATT's new methodology calls for the provision of single task consultancies that would provide specific business services, such as bookkeeping, to clients for a market-based fee. This type of consultancy could become a lucrative source of income for DEMATT in the future if it is marketed properly.

Meetings between DEMATT and Indefund have revealed three areas where there could be some cooperation. For example, Indefund clients sometimes require the services of an accountant to set up and keep financial records as part of their loan responsibilities. Indefund has agreed to provide their names

to DEMATT. It is up to DEMATT to then convince the entrepreneurs that DEMATT can provide the services required. The transaction would be entirely between DEMATT and the Indefund client and payment would be made by the entrepreneur to DEMATT for services rendered. A second area of cooperation would be those instances when Indefund clients require a specific technical expertise, such as a chicken hatchery specialist. If DEMATT had staff capable of performing the consultancy, Indefund would pay them for it. A third potential area of cooperation involves the preparation of a business plan for Indefund loan applicants. Indefund provides this service from time to time; however, it is difficult to appraise a loan application objectively if you are involved in the preparation of the business plan. In this case, Indefund would refer applicants to DEMATT for this service and it would be up to DEMATT staff to convince those applicants that DEMATT could provide them with this service.

Other Clients

The GEMINI team met with the recently appointed new Executive Director of the Malawi Chamber of Commerce. Although this organization has been seen in the past to represent only large businesses, the Executive Director was very interested in broadening the Chamber's membership to include more SMEs. He stated that he would like to meet with DEMATT and the other SME support organizations to come up with a strategy to provide assistance to SMEs through the Chamber. This organization could provide some important linkages for DEMATT with larger private sector companies. The GEMINI team encourages DEMATT staff to take advantage of changing times, both for Malawi as a whole and for the business community in Malawi. This is the time to take advantage of changing alliances and potential openings. The Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) in Botswana started out as an association of large businesses, but has greatly increased its membership in the SME sector in the past three years. The larger businesses also provide some funds to support training of SMEs. The potential for duplicating this phenomenon in Malawi should be explored.

Larger businesses could be a market for certain types of training that could be provided by DEMATT. For example, rather than compete with other established training organizations serving this sector, DEMATT might provide training to workers in business management so that workers could understand the general management and pricing process. Certain technical skills might also be taught to workers. DEMATT might even provide assistance to both management and workers in conflict avoidance and resolution.

Another area for investigation is the development of business activities by DEMATT to break down bottlenecks in the system that work to the disadvantage of SMEs. For example, many SMEs buy their inputs at retail. There is excellent potential for DEMATT to fill the need to import items and sell them to SMEs in Malawi at less than retail price, but enough to make a reasonable profit. DEMATT already has some experience in this field through its involvement in BUPAD. Other business opportunities might also rise during the course of DEMATT's training activities. It might become necessary for DEMATT to form a profit-making subsidiary to be able to operate like a business and use the money made to subsidize its other training efforts. DEMATT could also engage in demonstration projects to show how new technologies can be used to increase production and profits to more reluctant SMEs.

CHANGES IN DEMATT'S TRAINING METHODOLOGY

DEMATT has patterned its business advisory service delivery after an extension model, establishing rural offices that provide business advisory services on a one-to-one basis. In addition to this, DEMATT provides group training, with about 70 percent of clients being reached through one-to-one services, and 30 percent reached through its group training services. Several consultancy missions have found that, despite its network of offices, DEMATT's one-to-one approach limits the number of businesses reached by DEMATT.

With an eye toward expanding service delivery, DEMATT held a meeting in March 1993 to review client methodology. After that meeting, a Special Client Methodology Committee was formed to further study client methodology. The resulting new client methodology is presented in a report issued in September 1993. In shifting emphasis from a one-to-one to a group methodology, DEMATT plans to expand its client base 57 to 72 percent (from 4,796 to 7,530-8,230 annually), reaching 70 percent through group training and 30 percent through one-to-one training.

Group training programs will be organized either by DEMATT staff, based on a DEMATT conducted needs assessment, or will be designed at the request of institutions based on the expressed need of the sponsoring agency.

Long-term advisory services will be provided to institutions on a contract basis. Short-term, one-time consultancies will also be provided to institutions. One-to-one advisory services will continue, but this methodology will not be emphasized or solicited, and will be limited to those clients who approach DEMATT for assistance.

As the Special Client Methodology Committee points out in their report, DEMATT field staff may need to improve training skills and learn group training methodologies to make the shift from individual training effectively.

The training needs assessment conducted by the Business Advisory Services/Training Advisor for this GEMINI consultancy found that owner/operators of micro- and small-scale businesses are interested in a group training format, and see group training as an opportunity to network with other business people. Entrepreneurs expressed willingness to pay more for training, but the exact amount they were willing to pay could not be determined by this study.

Current marketing strategies considered by DEMATT will also increase willingness to pay for DEMATT training, with group training itself recognized as promoting DEMATT services. Other strategies presented were a brochure currently being designed, radio, newspaper, and magazine spots, and certificates.

Some people interviewed said that, initially, they thought they would not have had the discipline to keep business records if not for DEMATT's one-to-one weekly visits. This suggests that in its shift from one-to-one to group training DEMATT may want to add a component that will motivate trainees to implement business management techniques learned. This could perhaps best be done by having a former DEMATT client, someone with a similar background or similar business, visit the class and discuss her/his experiences in implementing the new techniques and vouch for its importance.

DEMATT may want to look at the benefits of taking a sectoral approach to training. For example, a training series for tailors, and a training series for furniture makers. These should be

preceded by reviewing or conducting market studies and needs assessments that target those specific sectors. Trainees in similar or complementary sectors could be brought together to raise the level of learning as well as promote business associations and networks. DEMATT and USAID may want to investigate the possibility of obtaining the services of an organization called ACA in Senegal to help develop this sectoral approach. ACA staff were intimately involved in developing this approach in Senegal and could advise DEMATT on the feasibility of applying this approach to potential DEMATT clients and on how this approach could be designed and implemented.

Services should be provided on a cost-recovery basis, taking advantage of an apparent untapped willingness to pay for services. Possible sources include charging fees for:

- Direct 1:1 and group training to SMEs;
- Training to NGOs and Associations that work with SMEs and income-generating activities;
- Business training to government staff, such as extension agents and community development assistance;
- Training, workshops, and seminars to medium-size business on a cost-recovery basis; and
- Services and training to employees of large companies.

In addition, DEMATT could explore getting support from large companies in the private sector to provide services that, at the end of the day, will support their business, such as Whitex support of training of tailors.

CHAPTER FOUR

POTENTIAL FOR A VENTURE CAPITAL FUND FOR INDEFUND

This section of the report responds to Indefund's request to examine the possibility of its establishing a venture capital company (VCC) or venture capital fund (VCF). Currently in Malawi there are no VCCs or VCFs, and there is little knowledge of the venture capital discipline.

Given the global flexibility of the venture capital discipline and the low level of exposure to it in Malawi, this chapter establishes at the outset the benefits offered by venture capital financing generally, and a working definition of venture capital financing. Subsequently the report addresses the viability of venture capital in Malawi generally, and then as provided by Indefund in particular. Recommendations are made that Indefund must address to proceed with venture capital development in the immediate term, and the chapter concludes with further recommendations for Indefund's establishment of a pioneer Malawian VCC/VCF.

ADVANTAGES OF VENTURE CAPITAL FINANCING IN MALAWI

The advantages offered by establishing a venture capital industry in Malawi are, broadly speaking, twofold: in the near term, to develop further the capital markets by filling the capitalization gap that exists in equity financing, particularly for SMEs; and, in the longer term, to receive the benefits, both economic and social, that accrue from having an established equity investment industry predicated on long-term entrepreneurial development.

More specifically, in regard to fostering growth among SMEs, it can be argued that venture capital is a superior form of finance to lending for two reasons: it improves gearing, allowing internally generated funds to be reinvested as growth capital rather than paid out in interest payments, and it provides much needed management experience to the entrepreneur.

DESCRIPTION OF VENTURE CAPITAL FINANCING

Venture capital is a broadly defined and highly flexible mechanism of equity or equity-linked finance. It continues to evolve in various forms around the world as increasing numbers of financiers and entrepreneurs discover its multiple attributes and appropriate those most suitable to their own social, economic, and financial environment. Despite its regional variations, however, certain features of venture capital can be considered definitive. Outlined below are five necessary characteristics of a viable venture capital company.

Equity Investment in Small, High-Growth Companies

Venture capital financing is regarded as equity investment for a predetermined time period, usually two to four years, in small businesses with high growth potential. Investments can be in a wide

range of development stages, from providing seed financing for a new business concept or product to later stage developments, such as mezzanine or management buy-out financing.

Unlike lenders, venture capitalists are equity owners and do not receive any predetermined payments from the companies in which they invest. They liquidate, or exit, each investment when the investee company has matured to a point where it is established enough to be attractive to other investors; new investors will then purchase shares in the company, providing an exit for the venture investor. Such new investment may come from the public at large (through an Initial Public Offering), a third party (such as a larger company or a competitor), or the management itself.

Value-Added Management to Investee Companies

Because a venture capital investment will only be as successful as the company in which it invests, there is strong incentive for the venture capital manager to assist in the growth of the investee company in any way possible. Such value-added services are a crucial and characteristic part of venture capital, and often determine the success or failure of a struggling enterprise. Managers of both venture capital and investee companies have stated that value-added assistance is often more important than the capital itself in contributing to the success of a venture investment.

Successful venture capital managers develop an active and ongoing involvement in the strategic and operational management of their investee companies. Although this is often done through representation on the Board of Directors, it is not limited to the Board Room. Venture capital managers must be able to participate in all aspects of the businesses in which they invest, from hiring key personnel to sourcing raw materials to assisting in attracting additional forms of capital that would not otherwise be open to a small and growing company. Constructive value-added services are not only a benefit to the entrepreneur, who is often a specialist in a particular field and often weak in areas of general business development, but also an effective means by which the venture capital manager can monitor the developments of the investee companies.

Experienced, Sophisticated Shareholders

Investors in a VCC are commonly high net worth individuals and families, large corporations, pension funds, and insurance companies. As shareholders in the VCC, investors may expect representation on the Board of Directors or Investment Committee. Although typically investors must be willing to accept a passive role in the investment process, the growth of the venture capital industry has created a more dynamic investment network in which global VCCs increasingly leverage their investment scope by investing in smaller, regional VCCs. Such indirect investment provides the investor-VCC with local expertise in an economically desirable region, and provides the investee-VCC with global networking possibilities, venture capital expertise, and additional funding to grow its portfolio of investments.

Leveraged Risk-Reward Ratio

Any of the above funding sources represent sophisticated investors who understand the leveraged risk and reward scenario that defines venture capital investment. Consequently, a VCC that cannot

present a convincing argument for offering a minimum real return (that is, after inflation, as measured in a major currency) of 25-30 percent per annum to its investors will have difficulty attracting such funds.

Given the high risk inherent in venture capital investments, a high failure rate must be factored into projected returns to investors. An overall return of 30 percent per annum, then, means losing investments must be offset by disproportionately successful investments. As a rule of thumb, no investments should be made unless the target company has a convincing chance of generating returns of several times 30 percent per annum over a defined time horizon. When one considers that an investment tripling one's money over three years represents a 44 percent annual rate of return, the threshold for venture capital investment, or hurdle rate, is high.

For returns to investors, the legal structure of the VCC is also important. Generally, VCCs are formed as Limited Partnerships, allowing for self-liquidation and total profits distribution after a predetermined amount of time (the fund life). A VCC that is not formed as a Limited Partnership must address how its investors will realize their returns. If it is via a public offering, how liquid is the share market?

Comprehensive Management Skills

Venture capital investment presents its managers — and its investors — with an opportunity on the upside for unlimited gain, and on the downside for total loss of capital. It is a job that requires a unique and broad range of skills. Management and investment expertise are necessary but not sufficient criteria for success; interpersonal skills, the ability to persuade and motivate others, high personal ambition, and a reputation for trustworthiness are among the less tangible but equally important characteristics of a successful venture capitalist. In particular, a venture capital manager must be able to find or create deals that have the management ability and product/production ingenuity to offer a rate of return at or above the hurdle rate, and forge a positive and thorough working relationship with entrepreneurs who initially may be somewhat suspicious of the manager's involvement and motives.

Because the universe of people with all of these skills is small, selecting the right manager or management team is the single most important factor in determining the relative success or failure of a VCC.

EXISTING FINANCIAL ENVIRONMENT IN MALAWI

The main providers of credit in Malawi include:

- Three commercial banks: the National Bank of Malawi (NBM), Commercial Bank of Malawi (CBM), and Industrial and Development Finance Company of Malawi (INDEFINANCE);
- Four Development Finance Institutions: Malawi Development Corporation (MDC), Industrial and Development Bank of Malawi (INDEBANK), Indefund, and Small Enterprise Development Organization of Malawi;
- One leasing company: Lease and Finance Corporation (LCF); and

- Two insurance companies: National Insurance Company (NICO), and Old Mutual.

Although there are additional providers of credit in Malawi, this list includes the players most likely to be involved in, or interested in being involved in, higher risk business such as venture capital. Of these institutions, only INDEBANK, MDC, and the two insurance companies engage in equity investment to a notable degree. In all these cases, however, such investment is proscribed to established concerns with acceptable gearing and proven management expertise; and, with the exception of MDC, the equity portfolios of these institutions represent a small fraction of their overall business.

Also, this practice is often oriented more to improving balance sheet ratios of the investee company than to producing future earnings; does not offer the benefit of proactive, value-added managerial support; and is highly limited in scope.

Institutions in Malawi that do not typically provide credit, but that are key players in equity financing, include:

- One private conglomerate: the Press Corporation; and
- One U.K. developmental investment institution: the Commonwealth Development Corporation (CDC).

Like the institutions in the credit providing group, however, the Press Corporation and CDC do not have a history of taking equity positions in SMEs directly (although CDC has indirect exposure to a small number of such investments via its 22.2 percent shareholding in INDEBANK). The reason given for this involves economies of scale: it is not cost-efficient to establish the broad network of services necessary to analyze and monitor a large number of small, relatively high-cost investments. Consequently, both the Press Corp. and CDC tend to take larger positions in a smaller number of established businesses; because the investee companies are more stable than SMEs, the investments are more passive and more cost-effective.

Capitalization Gap

It follows, then, that a capitalization gap exists in equity financing, particularly to smaller ventures, and to managers — or management teams — without proven track records. Providing equity investment to new and existing SMEs and entrepreneurs would contribute greatly to filling this gap.

Associated Risks

As equity investment represents increased leverage in the risk/reward ratio (in other words, it allows for unlimited upside gain, but also for a complete loss of investment capital), its practice requires a materially different methodology from that of debt investment. The definitive criteria of that methodology are outlined above.

EXISTING SKILLS BASE FOR VENTURE CAPITAL INVESTMENT IN MALAWI

Equity investment in unproven enterprises differs significantly from the type of peripheral equity investment in established concerns that is currently practiced by certain financial institutions in Malawi. Nonetheless, skills that are necessary, if not sufficient, for venture capital investment do exist in some supply in the Malawian financial industry.

In particular, the financial industry in Malawi, although lacking developed capital markets, offers a broad range of financing facilities and instruments from secured microenterprise loans (SEDOM) to majority-owned equity positions in mature companies such as Malawi Development Corporation (MDC). There is, then, an established familiarity with the professional culture and indigenous businesspeople are inclined to institutional financing.

Secondly, through the combined efforts of SME support institutions (such as DEMATT, Indefund, POET, and SEDOM), a knowledge base exists in regard to the professional financing risks that can be associated with the SME sector. Because that sector is arguably the least attractive market to commercial providers of finance, and the most in need of such financing under the current structure of the Malawian financial industry, such knowledge is imperative to the formation of an equity investment vehicle that hopes or expects to include SMEs. The proper use of such knowledge can assist in minimizing the risks and maximizing the rewards of providing equity to businesspeople whose actions, comparably speaking, have historically proven to be volatile.

As equity holders, venture capital investors are part owners of those companies in which they invest and retain no claim to assets whatsoever should their investment fail to be repaid in whole or part. This condition underscores the venture capital investor's role as co-manager, because his or her interests are identical to those of the entrepreneur. A relationship of trust between the investor and businessperson, based on the understanding and acceptance of a common goal, is imperative if a venture capital investment is to succeed. Thus, because not all clients acceptable to lenders will be acceptable to equity investors, the ability to identify suitable and trustworthy business managers (apart from the businesses they propose) is a requirement for viable venture capital. It is this ability, through its 11-year history of SME financing, that Indefund is positioned to offer.

Finally, while a traditional methodological difference between lenders and venture capitalists has been the latter's role of value-added co-managers to entrepreneurs, that difference is mitigated, though not removed, in the case of Indefund. Through its Business Advisory Services Group, and, more generally, its loan monitoring operations, Indefund has a history of providing, and continues to provide, hands-on financial and operations advice to clients. The ability to draw on such experience would provide Indefund with a material advantage, particularly in its earlier stages of development.

VIABILITY OF INDEFUND AS A VENTURE CAPITAL PROVIDER

Indefund's strengths as a possible provider of venture capital are optimal if that capital is supplied mainly, if not wholly, to the SME sector. Indefund is considerably less competitive as a potential venture capital provider if its market is assumed to lie beyond SMEs.

The disadvantage to Indefund, given this situation, is the greater level of difficulty in attracting private funds to equity investment in SMEs, because it is more difficult to convince such investors that

they would receive a rate of return commensurate to the level of risk perceived in such investment. The advantage, however, is that Indefund has little or no competition in servicing the SME market, and if appropriate investors can be found Indefund will possess a virtual monopoly on SME venture capital.

Investment Goals and Rewards

Because venture capital in any market sector is an untried discipline in Malawi, Indefund must have a particularly clear sense of the goals and rewards it expects to achieve in embarking on a venture capital effort aimed at SMEs. For instance, is the scheme expected to be viable wholly on a commercial basis in the near term? If so, Indefund must be prepared to convince potential investors that their capital will earn a per annum return of no less than 30 percent.

If the scheme is not expected to be viable wholly on a commercial basis in the near term (for example, it will better or more thoroughly achieve Indefund's existing developmental goals), then Indefund must be prepared to convince potential investors of the rewards earned by those somewhat less tangible, and less immediate, goals. Such rewards could include the broader establishment of a market economy and further development of the capital markets, and as such have a significant and positive impact on all players in the Malawian economy, even exclusively commercial investors should be aggressively pursued.

Investment Purpose

To identify the purpose of a venture capital investment scheme, Indefund must address the following concerns:

- What (or who) is the market for its capital? The concern here will be that Indefund's past performance, while admirable for its sector, does not provide confidence of success in the increased risk environment of equity investment. It will be argued, for example, that too many Malawian entrepreneurs do not understand or appreciate the governing economic paradigms of professional finance.

One response to this criticism is that Indefund understands better than anyone the real market for SME equity investment. Initial investments, and perhaps all investments, will be made only to pre-existing Indefund debt clients who have proven merit with Indefund.

Although this is actually the perfect opposite of traditional venture capital (in which investees require venture capital because their projects are too risky for debt funding), it would seem to fit the context of Malawi's financial structure.

- What type of return does Indefund expect to earn on its funds? Although further research is necessary to answer this question satisfactorily, it is likely safe to assume that SME yields would be significantly lower than those of venture capital funds targeting larger (and more established) concerns. This underscores the leveraged point at which an Indefund venture capital effort would be on the risk/reward scale. One or two early successes, however, could very well shift potential investors' focus to the rewards offered by such leverage, rather than just the risks.

Because this question has direct relevance for the market for potential investors, that universe should not be limited to private institutions.

Investment Guidelines

Given the high risk nature of venture capital investment, compounded by a lack of knowledge in Malawi regarding the venture capital discipline, Indefund must satisfy investors (and itself) that appropriate and sufficient measures will be taken to minimize the risk of both capital loss and sub-par returns. In that regard, the following concerns will need to be addressed:

- What assurances can be given that investment funds will not be squandered or simply misspent by the investee manager?

Although no VCC can provide such assurances, Indefund has the advantage of several years' experience in dealing with a specialized market. More importantly, poor or untrustworthy management is a pitfall more effectively avoided than cured. By investing only in known managers (in either new or expanding enterprises), Indefund will minimize investee misfeasance.

- Will the VCC/VCF take on debt?

It may be desirable to leverage the VCC/VCF with bank debt. Incurring such liabilities, however, is risky, and many VCCs are restricted from doing so in their Articles of Association. It is not uncommon, however, to allow borrowing for bridge financing, a short-term loan that facilitates the sale of an investment to its management or a third party.

- How does Indefund foresee exiting its investments? All investments should be made with a prearranged exit for Indefund, effective within a time period of its choosing. The most likely exit would be by management buy-back, with share-value determined by an independent, authorized accounting firm. A right of first refusal is also common, by which Indefund can sell the shares to a third party if investee management elects not to repurchase.

Investors

Although private institutions generally make such decisions wholly on the criterion of expected return on capital invested, their participation should not be ruled out. Because the fund would likely start off rather small, even an investment considered negligible by, say, NICO, would have a large impact on the project's viability. Further, if the fund were presented as having a beneficial development role (although by strict, market-oriented means), other possibilities may exist, such as government/private voluntary organization guarantees to private shareholders. Government and quasi-government funds could also be pursued, according to the fund's marketing strategy.

Performance-Linked Management Incentives

Because the success of venture capital funds is largely dependent on the committed, cooperative efforts of both venture capital and investee managements, the personal success of both parties should be

tied to that of the company for whose future growth they are responsible. Linking compensation to investee-company growth is a crucial dynamic for successful venture capital.

This may seem unusual, unwarranted, or even threatening to professionals operating in business cultures that do not customarily link actual results to compensation. It must be understood from the outset, however, that venture capital managers are part owners of the companies in which they invest, and as such must share the entrepreneurial risks and rewards. Typically, a moderate base salary is paid, with significant upside potential linked to the performance of the portfolio.

Other Factors Affecting Performance

Management Experience

The lack of practical managerial experience may be a more direct hindrance to performance. Given the highly demanding and eclectic nature of the task, effective performance is difficult to achieve even in developed economies in which the business culture, capital markets, and available research information are conducive to such a discipline. These challenges, then, are compounded in the case of the venture capital manager in Malawi, and, if not adequately addressed, may cause negative scenarios to develop in the future. Two such scenarios, relatively common among new VCCs, are summarized below.

- Investing in too conservative a portfolio:

Given the rarity of promising, imaginative ventures coupled to well-qualified management, and the riskiness of participating in an unproven enterprise, new venture capital managers often overcompensate for the risk element by investing in relatively conservative, safe deals. This may be compounded in Indefund's case by its history as a provider of debt, which requires a more conservative form of financial analysis. An overly conservative venture capital portfolio will contain the same downside risk as any equity investment, still absorb the venture capital manager's time, and fail to generate returns suitable to the risk incurred. Ultimately such investment will inhibit the development of the VCC/VCF and, consequently, the venture industry in Malawi generally.

- Passive or insufficient value-added:

Given the Malawian business culture, in which entrepreneurs are particularly suspicious of outside involvement in management, venture capital managers who do not assert their role as equity owners aggressively and gain the complete trust of the entrepreneur will see their investments jeopardized. If the history of the venture capital industry is a guide, their investments likely will be subject to the misplaced confidence and managerial shortcomings of the entrepreneur.

**ACTIONS REQUIRED FOR INDEFUND TO INITIATE
A VENTURE CAPITAL COMPANY OR FUND**

Equity Participation in the Near Term

Indefund's existing mandate is to increase the productive potential of Malawi by providing finance and advisory service for the set-up, expansion and development of SMEs owned and controlled by indigenous Malawians. Equity investment is specifically stated to be an allowable form of financing for Indefund.

MTI defines the SME sector as companies falling into any two of the following three categories:

	SMALL	MEDIUM
Capital Investment (MK)	Up to 200,000	Up to 500,000
Number of Employees	5-20	21-100
Turnover (MK)	Up to 400,000	Up to 1,000,000

Indefund, then, would seem to have a significant amount of latitude in making equity investments within the scope of its SME mandate. Although it would be outside Indefund's role to make a significant commitment to such investments, it should seriously consider taking a limited number of equity stakes in some of its most promising existing clients. This would provide Indefund with a quasi-venture-capital track record in the future, which would be both a trial period for its management, and a performance indicator for future potential investors in an Indefund VCC/VCF.

Also, it is noteworthy that Indefund's mandate limits its investment scope to SMEs "owned by indigenous Malawians." Given the inherent difficulty of financing the SME sector, it would seem advantageous to permit Indefund to support the growth and development of any SME.

Information Memorandum

The first step in establishing a viable VCC/VCF is the creation of an Information Memorandum. Initially the Information Memorandum is in the form of a working draft, sometimes called a "red herring." It is continuously revised as investors and potential investors make their comments. Once in its finished form, it is circulated privately to investors as an official representation of the proposal on offer.

Under the Companies Act of Malawi, a private company may not circulate a proposal for funds to more than 15 bodies corporate.

The Information Memorandum is a complete and official description of the VCC/VCF offer. Its main points are as follows:

- A description of the offer. This will provide information such as the name of the VCC/VCF, what type of legal entity it is, how many shares are on offer and their price;

- A definitive statement of the VCC's investment philosophy, guidelines, and restrictions;
- A statement regarding the method and timing of investment liquidations; and
- A description of how disbursements will be used (either reinvested or distributed to shareholders), what interest the venture capital management will have in profits, and a proposed per annum rate of return to investors.

These issues should be determined with a clear idea of the investment purposes and needs of the fund's prospective shareholders. For instance, while many private investors (whether individuals or institutions) require a minimum return of 30 percent per annum for risk capital, governmental and quasi-governmental institutions may be more influenced by a fund's investment philosophy and developmental goals than by its proposed rate of return; consequently, they may set their hurdle rates significantly lower.

Fund Raising

Once the VCC/VCF's basic operating parameters have been determined, the management team presents its proposal to investors. These presentations, called road-shows, are management's opportunity to sell its idea to investors. Because the relative success of such meetings can determine whether the venture capital endeavor will succeed or fail, a great deal of background work is necessary. Road-shows must try to anticipate and answer any investor question about the proposed investment enterprise. It is often a good idea to have one or two entrepreneurs, familiar with the venture capital management team, to say a few words as well. Such presentations add credibility to management's claims that it will be successful in cooperating with entrepreneurs as joint-owners.

LEGAL STRUCTURE OF A MALAWIAN VCC/VCF

Based on discussions with members of the financial and accounting industries in Malawi, a Malawian venture capital vehicle would likely require the formation of two companies, joined by a Management Agreement. The actual arrangement would depend on whether the vehicle were a VCC or a VCF; in either case, however, the VCC/VCF would be joined to a Management Company. The significance of these entities is outlined below.

A Management Company

This is a private, limited liability company, the assets of which would be almost wholly the venture capital management team. Typically the Management Company will have a "carried interest" in the venture capital company or fund, in which management will receive a portion of the venture capital profits (for example, 20 percent of all profits after shareholders have received the equivalent of their investment plus a certain return).

Because profits would not begin to appear for as much as four or five years, the Management Company would also charge the VCC/VCF a Management Fee to recoup its overhead expenses (for example, 2 percent of committed capital per annum, paid quarterly).

A Venture Capital Company

This entity would contain the investment capital and any liabilities incurred. Its Board of Directors would be made up of its shareholders, although it would not necessarily have a voice in the approval of investments, which is often reserved for the discretion of the Management Company. The VCC would also be a limited liability company, and as such would exist in perpetuity. Because share capital in such companies cannot be reduced without court approval, investors could only redeem their initial investment via sale to a third party.

Under the VCC scenario, profits could be either reinvested or distributed to shareholders as dividend payments. Share capital could not be distributed, however, without a relatively cumbersome legal liquidation process. Capital redemption could occur, however, via an initial public offering of the VCC or by private placement to a new investor.

An advantage of the limited liability VCC structure is the ability to leverage investor return via a public offering of the company. In such cases, the VCC will have acquired a certain amount of goodwill, usually by a successful track record, the benefits of which accrue to shareholders through a strong price/earnings ratio at floatation.

A Venture Capital Fund

Like the VCC, the VCF would contain the investment capital and any liabilities incurred. Unlike a VCC, however, the VCF would be a limited life fund, designed to self-liquidate after a predetermined time period (the fund-life).

VCFs are commonly formed as Limited Partnerships, a structure that allows share capital to be liquidated and paid back to shareholders. Although the Limited Partnership structure does not currently exist in Malawi, its self-liquidation feature could be simulated in a limited liability company with the use of Income Notes. In such a case, actual paid-in share capital would be a nominal amount, its main purpose to provide voting rights and profit distributions to shareholders. The bulk of the Fund's investment capital would be injected in the form of Income Notes, a flexible debt instrument with a set maturity date and a coupon linked to earnings.

Under the VCF scenario, as in the VCC scenario, profits could be distributed to shareholders as dividend payments or reinvested in new ventures. Unlike the VCC scenario, however, investors would be able to redeem their initial investment (save the nominal amount of actual share capital) at the maturity date of the Income Notes, set to coincide with the desired end of fund-life. At that point the VCF would be, for all intents and purposes, liquidated. As the share capital, and legal entity, would remain, however, a new fund could be established with the injection of fresh Income Notes.

An advantage of the VCF structure is the liquidity with which it provides shareholders. Because a fund will dissolve at a predetermined point (for example, seven years after inception), all investment capital is returned to shareholders. That may compare favorably to the VCC structure, in which share capital cannot be reduced once paid in.

Although other criteria may influence the desired venture capital structure, the differences outlined above would seem to suggest that a VCF would be more attractive to Malawian investors. Because no secondary share market exists in Malawi at present, investors in a limited liability VCC would have no certainty, and perhaps little likelihood, of redeeming their initial investment in the foreseeable

future, significantly reducing the net return on capital invested. The VCF structure, on the other hand, would allow the Fund to disburse both profits and share capital directly to investors, resulting in a higher return on capital to investors.

CHAPTER FIVE

DIRECTIONS FOR FUTURE GROWTH FOR POET

STRATEGIC PLAN

In June 1993 POET began a two-week strategic planning exercise, facilitated by a consultant from the Center for Development and Population Activities (CEDPA) financed by the USAID SHARED project. The resulting strategic plan focuses on the following issues:

- Service expansion within Malawi and penetration into the Southeastern African region;
- Marketing of POET services to develop the organization's client network;
- Sustainability to enable POET to grow and mature with a satisfactory degree of independence;
- Infrastructure for POET to function effectively;
- Adequate staffing and management systems and approaches that will effectively facilitate a process for providing quality services.

In conjunction with this strategic plan, POET has identified future plans to:

- Develop more generic training programs for institutions in government, private sector, nongovernmental organizations, as well as potential and existing entrepreneurs;
- Develop an information center for the micro-, small-, and medium-scale enterprise sector;
- Liaise with institutions for the development and delivery of tailor-made training programs
- Conduct regular workshops for policy makers in government, parastatals, and private sector for the promotion of small enterprises;
- Offer consultancy services to micro-, small-, and medium-scale institutions;
- Broaden the range of publications for the benefit of this sector.

Because of these previous efforts, the GEMINI team was able to accelerate assistance to POET. Specifically, with POET's interest in offering training to SMEs in Malawi, the GEMINI team decided to assist POET with curriculum development during Phase I of this consultancy, rather than waiting until Phase II. The development of these curricula was based on the training needs assessment conducted as a part of the first phase of this consultancy.

CURRICULUM DEVELOPMENT

POET identified its target group of entrepreneurs for business-related training as SMEs; small enterprises were identified as enterprises with turnover between MK30,000 - 250,000 and having 5 to 20 employees, and medium enterprises defined as those enterprises with a turnover between MK250,000 and MK500,000 and having 21 to 50 employees. POET is particularly interested in fostering business startups.

Nine course topics were identified that apply to all businesses, no matter which size. Course subtopics were delineated and discussions of the particular needs of different sizes of business, the phases of development of business, and gender issues were held. The recommended courses were as follows:

- 1) Business Identification
- 2) Business Plan Development
- 3) Financial Management
- 4) Production
- 5) Marketing
- 6) Human Resources
- 7) Government Relations
- 8) Business Associations
- 9) Sector-specific training

Two factors were identified that are key to the success of training. The first is that training be relevant to the participants and that they have an immediate opportunity to apply the training to a real situation in their enterprise. The second is that participants be well screened for the training and have made some gesture of interest in business development before coming to training (such as refining a business idea and having at least crude information on market demand).

Special considerations must be taken into account when developing training components in any of the nine areas. Training needs of enterprises vary depending upon the size of an enterprise and the phase of business development.

Three stages of a business have been defined by GEMINI studies:

- Formation Start-ups, either with or without previous business experience in the same activity;
- Expansion - Growth or expansion of a businesses, through increased production, sales, profits, employees or assets;
- Transformation - Graduation from a one size of enterprise to another, such as micro to a small or small to medium scale;

Gender considerations must also to be taken into account. For example, women generally allocate more of their time and money to household demands, and consequently, are more challenged when it comes to allocating time and money to a business. In addition, women tend to have less access to finance with which to start a business and often require the signature of their husband in order to gain access to formal credit.

A workshop was held with POET training staff the morning of October 21 to review the course outlines and to work up the details on Course I - Business Identification. The workshop brought out key issues to be considered when designing a course, such as size of business, phase of business, and gender issues, and provided a model for developing curricula for the remaining topics identified.

POET staff suggested that they could conduct a workshop that would use the expertise of local business people to further develop the curricula. Such a process has been used by DEMATT in the past. In August 1993, POET organized a similar training development workshop which drew on the expertise and input of senior personnel from NGOs to develop and amend curricula for the NGO community.

The course outlines for the nine SME courses recommended by the GEMINI team are included in Annex C. Because of time constraints, only Courses I and II have detailed outlines including explanations of topics and review issues relative to size concerns and gender issues. However, POET staff should be able to fill in the details for the other seven courses, based on the workshop held with them and their own background in both the subject matter and teaching methodologies. If further assistance is desired on this matter, it could be arranged during Phase II of this consultancy.

MARKETING OF SERVICES

Domestic

POET is not well-known outside of the government and the NGO community in Malawi. Therefore, if POET is interested in providing training directly to entrepreneurs it will have to advertise itself to this group.

POET's interest in broadening the range of publications for the benefit of the SME sector complements the organization's need to make itself known to the SME community. Radio spots, a newspaper column, or a newsletter each could be used to increase awareness of POET. A brochure, whose contents have already been drafted, will increase awareness in the government and NGO community, and will communicate POET's interest in broadening its involvement with the SME community.

International

POET is interested in providing training on a regional basis, targeting nearby countries such as Zambia, Zimbabwe, and Botswana. POET has already provided consulting services to an SME support organization in Swaziland.

Before the actual marketing of its services to a regional market, POET is advised to conduct a market analysis through study tours to countries in which it is considering providing training and technical assistance. At each study tour site, POET staff should identify:

- Organizations and institutions providing training;
- Unmet training and service needs;
- Ability to pay for training and services; and
- Vehicles for POET to advertise/market training and technical services.

At the end of the study tour POET staff should have identified a topic upon which to focus its first regional seminar. This seminar would then serve as a test of the feasibility of providing training on a regional level. The team recommends that POET receive assistance in marketing from a consultant during the second phase of this GEMINI consultancy.

CHAPTER SIX

NEXT STEPS

KEY DECISIONS TO BE MADE

DEMATT

- DEMATT and the government must decide if DEMATT should remain a parastatal or become a private NGO.
- DEMATT and the Ministry of Trade and Industry must decide which of the cost-cutting and revenue-generating options are viable and take steps to provide funding for DEMATT for the upcoming fiscal year.

Indefund

- Indefund staff and its board must decide if they want to take steps to establish a venture capital fund or company.

POET

- POET staff must decide if it is wise to try to market their services on a regional basis.
- POET staff should identify a local person who can be trained as a marketing specialist for POET.

TECHNICAL ASSISTANCE NEEDS FOR PHASE II OF THIS CONSULTANCY

DEMATT will need the services of an *institutional development specialist* if they decide to become an NGO. They may need long-term assistance on this as well. If so, the short-term consultant during Phase II of this consultancy can draft a scope of work for the long-term consultant and help DEMATT to look for possible ways to finance the long-term consultant.

If Indefund decides to go through with the establishment of a venture capital fund, it will need a *venture capital specialist* to help them to design and execute a campaign to educate the Malawian financial and business communities about the philosophy, purpose, and goals of venture capital as a financing discipline. In addition, interest was expressed in having USAID support a *workshop* on the principles of venture capital funds and experiences elsewhere for key private and governmental institutions in Malawi. The second phase of this consultancy could conduct such a workshop as part of its work to assist Indefund in the establishment of a venture capital fund.

POET will require the services of a *marketing specialist* with experience in marketing training or educational institutions. This marketing specialist will work with all POET staff, but particularly with

the local person selected by POET to become the local marketing specialist. He or she may also provide POET with further assistance on SME curriculum development, if necessary.

STUDY TOURS

In addition to the consultancies described above, the team believes that study tours to other African countries with programs which are relevant to the institutions involved could be very instructive. These study tours were recommended in the report last May which led to this GEMINI consultancy. It is unfortunate that these study tours did not occur before the GEMINI team arrived, because the exposure to other programs in other, neighboring countries would have provided some helpful background information and experience.

Nevertheless, the value of these study tours has not changed. In fact there is a need to expand them to some extent. Therefore the GEMINI team recommends that USAID fund the following study tours for the three institutions.

DEMATT: A visit by senior staff and board members of DEMATT to the Botswana Confederation of Commerce, Industry and Manpower is recommended. It may be helpful to invite representatives from MTI and the Ministry of Finance as well. BOCCIM is a Chamber of Commerce-type of organization and has received support from USAID for a number of years. It is a private sector NGO and receives funds from its membership, its clients, and international donors. It would be helpful for DEMATT staff to view two aspects of BOCCIM's activities, namely:

- BOCCIM's tie-in with larger, private companies and its support base, financial and otherwise; and
- BOCCIM's role as a training coordinator rather than as a provider of training for its own staff.

We also suggest that DEMATT staff visit the USAID-financed, Small Business Growth Foundation Project in Swaziland during the same trip because DEMATT's current and future work under the GOM/UNDP 5th Country Program has similarities to that project. Furthermore, the director of SBGF was the director of the Project Coordination Unit under the READI project and has an excellent understanding of DEMATT and SMEs in Malawi; his experience would make this trip to Swaziland particularly relevant.

Indefund: A study tour to Zimbabwe is recommended for senior staff of Indefund to meet representatives of the following organizations:

- The Commonwealth Development Corporation's (CDC) office for southern Africa and the Venture Capital Company of Zimbabwe (VCCZ) to discuss their experience with the establishment of venture capital funds and how these funds can be utilized to provide equity for small- and medium-scale enterprises; and
- The Economic Development for Equatorial and Southern Africa (EDESA) Group to explore their experience as a private development finance institution utilizing regional

private funds and support from a Swiss donor organization to develop venture capital funds in the region.

A study tour to South Africa is also recommended to meet representatives of the following organizations:

- The Independent Development Trust - Finance Corporation (IDT-FC) to ascertain how they have used a government guaranty to float commercial paper in local financial markets and to on-lend these funds to retailers of credit for micro- and small-scale enterprise development and housing;
- The Community Banking Services Division of Standard Bank to view how they have adapted their lending procedures to meet the needs of SMEs; and
- The Group Credit Company (GCC) in Capetown and the Independent Business Enrichment Corporation (IBEC) in East London to view their lending operations to determine what elements of their program might be adapted to conditions in Malawi.

POET: Study tours to Zambia, Zimbabwe, and Mozambique are recommended to meet with officials of government agencies and other institutions responsible for support to SMEs, including NGOs. The purpose of these visits would be to assess the need for training in those institutions and to determine if POET can provide training programs that could assist them. At the same time, POET could make linkages with local organizations and institutions in the countries visited that could help to promote POET's programs in their respective countries.

ANNEX A
SCHEDULE OF MEETINGS HELD

**SCHEDULE OF MEETINGS HELD
AND PERSONS/ORGANIZATIONS CONTACTED/INTERVIEWED**

- 9/16 - Annica Jansen arrives in Malawi. Meeting with Bill Brands, USAID PDO.
- 9/17 - A. Jansen travels to Blantyre and is introduced by Macdonald Nhlane, USAID, to key people in the three institutions involved in consultancy: H.M.S. Chunga, Director, and John Chipeta, Head Trainer, POET; Leonard K. Mangulama, General Manager, and Anthony D.G. Masanza, Personnel Officer, DEMATT; and Ezekiel Phiri, Operations Manager, Indefund.
- 9/18 - Review background materials and informal interview with collective of 7 batik artisans.
- 9/19 - Travel to Mangochi with POET staff and clients to Mangochi for POET workshop.
- 9/20 - Attend POET workshop for training Board of Director members of NGOs. Interview staff of POET and MEDI, and board members of Malawi Association of Spices and Herbs, and Malawi Limemakers Association.
- 9/21 - Continued attendance at POET workshop. Interview board members or staff of Save the Children-Malawi, Women's World Banking, and Habitat for Humanity.
- 9/22 - Return to Blantyre with POET staff. Meeting with L. Mangulama, GM, Dauphin Makako, Deputy GM, and Jack Sonani, Acting Manager, Southern Region, DEMATT.
- Formal interviews with entrepreneurs commence. Interview tinsmith.
- 9/23 - Meeting with E. Phiri, Indefund, for more background and to obtain names of joint DEMATT/Indefund clients.
- Meeting with Mrs. Flora Kaluwile, Executive Secretary, National Association of Business Women (NABW).
- Entrepreneur interviews: farmer who is building a private boarding secondary school and metalworker.
- 9/24 - Entrepreneur interviews: motor cycle repair and resale, private clinic, grocery and bottle store, restaurant owner/operator, sewing industrial crop covers (bags for cotton), small kiosk and take-away restaurant business.
- 9/25 - Write up week's interviews and read background documents. Meeting with D. Makako to discuss week's interviews.
- 9/26 - OFF

- 9/27 - Entrepreneur interviews: woman tailor/truck owner, interview with a male truck owner.
- Travel to Lilongwe with D. Makako.
- 9/28 - Meeting with DEMATT staff of central region, including Frazer Kumwenda, Central Regional Manager, George Mpagaja and Ken Mkwinda, Business Promotion Consultants, and Benda Chipezaani, Acting Senior Business Consultant and subregional manager.
- Entrepreneur interviews: carpenter shop owner, radio repairman, metal worker. Visited vegetable farm/ fish pond, but owner was gone.
- 9/29 - Entrepreneur interviews: 2 furniture makers, 2 metal workers, welder, timber sawer, poultry farmer.
- 9/30 - Entrepreneur interviews: 2 women bakery owners, bottle store
- Steve Silcox & Mark Baughan arrive in Malawi
- Team briefing with Bill Brands & McDonald Nhlane at USAID
- 10/1 - Team travels to Blantyre
- First team meeting with DEMATT, Indefund & POET
- 10/2 - A. Jansen travels to Mzuzu
- A. Jansen begins entrepreneur interviews in Northern region: 2 grocers in market, woman who mills and sells flour, carpenter/furniture maker, woodcarver, tailor shop owner
- Silcox & Braughan review documents in Blantyre & discuss workplan
- 10/3 - OFF
- Informal interview with tailor/used clothing vendor, salaried woman who would like to start restaurant
- 10/4 - Meeting at Indefund to discuss plan of action and potential sources of information
- Meeting at DEMATT to discuss plan of action
- Meeting at POET to discuss plan of action
- Entrepreneur interviews: sheetmetal/garage, tailoring shop, poultry/vegetable farm, bicycle repairman in market, electrical contractor/welder, 2 furniture makers, paraffin seller, small cakes baker
- 10/5 - Meeting at DEMATT to come up with various potential options to analyze and discuss
- Meeting at Indefund to arrange for interviews
- Entrepreneur interviews: private clinic, interview with Miss Gertrude Mughandira, Community Development Assistant, trained by DEMATT, and two women from groups she started, a small cake baker, and a dried fish vendor. Interview with a leader of a group hammermill project. Visit to tile factory and interview of tile factory worker.

- 10/6
- Meeting at DEMATT with L. Mangulama, General Manager to discuss progress to date and potential options/issues to analyze and discuss
 - Entrepreneur interviews: owner of tile factory visited yesterday
 - Wrap-up meeting with Mr. P. Kananza, Mzuzu Regional Manager, DEMATT
 - A. Jansen returns to Blantyre
 - Meeting with M. Katsonga-Phiri, Managing Director, Candalex
 - Meeting with A. Khoromana, Managing Director, Nali, Ltd.
 - Team meeting
- 10/7
- Meeting with D. B. Mawindo, Company Secretary, Malawi Development Corporation
 - Meeting with M. J. Taylor, General Manager, Leasing and Finance Company
 - Meeting with M. Magola, Manager, Commercial Bank of Malawi and member of Board of Directors, Indefund
 - Write up of entrepreneur interviews
- 10/8
- Meetings with GM & Deputy GM of DEMATT to discuss options and other issues
 - Meeting with C. Mphande, Managing Director, INDEBANK, and nominated Chairman of Indefund
 - Travel to Zomba
- 10/9
- Team Meeting to discuss progress in achieving tasks and ideas for potential directions
 - Type up interview notes and draft needs assessment report
- 10/10
- OFF
 - Travel to Blantyre
- 10/11
- Meeting with POET
 - Meeting with C. Mphande, INDEBANK
 - Meeting with E. Kazembe, Manager, and S. Malata, Financial Analyst, ADMARC Investment Holdings
- 10/12
- Meetings with V. Wittman, General Manager, and E. Phiri, Operations Manager, Indefund
- 10/13
- Travel to Lilongwe
 - Meeting with R. Chilingulo, MTI
 - Meeting with J. M. Mhango, Ministry of Finance
 - Meeting with M. Nhlane, USAID
 - Dinner meeting with senior DEMATT staff and McDonald Nhlane, USAID
- 10/14
- Submit discussion paper to all parties in Lilongwe
 - Meeting with M. Antoine, General Manager, Nu-Tread, Ltd.
 - Meeting with J. M. W. Bowles, General Manager, National Insurance Company
 - Meeting with M. C. Kindinger, Group Financial Controller and J. H. M. Carter, Director of Development, Press Corporation, Ltd.

- 10/15 - Meeting with MTI, USAID and senior staff of DEMATT and POET to review discussion paper with preliminary findings of GEMINI Team and to get feedback on options to explore and analyze.
- Travel to Mangochi
- 10/16 - Team Meeting
- Draft workplan for next two weeks
- Revise needs assessment and related documents
- 10/17 - OFF
- 10/18 - Team Meeting to finalize workplan for rest of consultancy
- Travel to Blantyre
- Draft final report outline
- 10/19 - Meeting with POET on curriculum development
- Meeting with DEMATT re schedule for week, meetings, information needed for analysis, assignment of tasks and options to be analyzed
- Meeting with J. Slater and J. M. O'Neill, Partners, Deloitte & Touche
- Team meeting to discuss final report outline
- Dinner meeting with POET staff
- 10/20 - Meeting with G. G. Chipungu, Chairman, Board of Trustees, and L. Mangulama, GM, DEMATT
- Telephone interview with R. Carter, Commonwealth Development Corporation
- Meeting with Indefund staff to discuss paper on Venture Capital - Preliminary Findings and receive their comments
- Meeting with Dr. J. A. Jana, Executive Director, Malawi Chamber of Commerce
- 10/21 - Workshop with POET staff to review SME course outlines and to discuss how to adapt course curriculum to address size and phase of business and gender issues
- Lunch with Indefund staff
- Meeting with DEMATT and Indefund staff to discuss potential areas of cooperation
- 10/22 - Meeting with DEMATT staff to review mission statement, options to be considered/analyzed, structure and content of final report, and strategic planning considerations
- Meeting with Jovita Culaton Viray, UNDP 5th Country Program Advisor, Judy Chirwa, BAS/W, and Eunice Changomo, POET trainer, to discuss DEMATT's services to women and gender issues
- Team meeting to discuss drafting of final report
- 10/23 - Drafting of final report
- 10/24 - Drafting of final report

- 10/25 - Completion of draft final report
- 10/26 - Submission of draft final report to DEMATT, Indefund and POET in Blantyre
- Travel to Lilongwe
- Submission of draft final report to MTI and USAID
- 10/27 - Final debriefing and presentation of draft final report to all parties
- 10/28 - GEMINI Team departs Malawi

ANNEX B
TRAINING NEEDS ASSESSMENT

TRAINING NEEDS ASSESSMENT

MICRO-, SMALL- AND MEDIUM-SCALE ENTERPRISES IN MALAWI

INTRODUCTION

Purpose and Context of Needs Assessment

In April 1993, a Labat-Anderson consultancy to USAID/Malawi conducted an initial training needs assessment of small- and medium-size enterprises (SMEs) in Malawi to determine technical assistance needs of Indefund, DEMATT, and POET, and to prepare, with the collaboration of the three institutions, scopes of work to build their technical assistance needs (Silcox & Berry, 1993).

That consultancy identified areas of training need of SMEs in Malawi as well as certain needs and issues relevant to the three institutions. Of particular concern was the issue of financial sustainability. The shift in USAID/Malawi priorities from SMEs to agriculture, education and health, means USAID funding through the MED project for Indefund, DEMATT, and POET will end as of March 31, 1994.

A field-based, SME Training Needs Assessment was called for which would not only clarify training needs of SMEs, but also identify training methodologies which would contribute to the financial viability of the three organizations. This needs assessment would be used to assist DEMATT to develop alternative, cost effective and cost recovering service delivery methodologies and products, and as a base from which to develop with POET curriculum for a training program for SMEs.

Findings from Previous Studies

Several studies of Malawi's small enterprise sector have been completed in recent years, revealing much about the nature and needs of Malawi's enterprises. According to previous studies, the SME sector is primarily composed of trading firms (52%, mainly in retail trade) with a strong share of manufacturing firms (43%, mainly in food, beverage, and tobacco production). There are few backward or forward linkages among SMEs, with 98% of the firms surveyed selling their product directly to the final consumer. The average size of a Malawian SME is 1.8 workers, including the owner. More than 60% of these enterprises are operated solely by their owner.

The employment growth rate in the SME sector is 23%, with 75% of all firms not growing at all and 3% contracting. The greatest growth rates are among one-person firms, with the amount of new employment created decreasing as firm size increases. Growth in the SME sector is based as much on the creation of new firms as on the expansion of existing firms. The creation and failure rates for SMEs are both high, with more than 35% of all firms being one year old or less and a failure rate of up to 32% in some subsectors. ("Results of a Nationwide Survey on Micro, Small, and Medium Enterprises in Malawi." Lisa Daniels and Austin Ngwira. GEMINI Technical Report No. 53. January 1993.)

Much is already known about the factors that limit growth or cause the failure of small enterprises in Malawi. Previous studies have found that the most frequently cited constraints are working capital (i.e., credit and finance), input problems, and marketing problems. Other identified constraints are the need for more technical training, government regulations and transport.

4/9

Previous studies have found that while entrepreneurs recognize their business problems, they may not understand how their management contributes to the problem. For example, while competition and markets are frequently noted problems, cited by 25% of interviewed entrepreneurs in the GEMINI Technical Report, business operators did not fully explore their market, their competition, or even their customer base before starting the business.

Similarly, entrepreneur-identified constraints such as lack of operating funds can often be tied to poor cash flow management, poor bookkeeping, and poor inventory control.

This study attempts to develop a fuller understanding of the exact nature of the constraints faced, how they impact on the day-to-day operation of the business and how institutions such as DEMATT, Indefund and POET can, through training or other business support services, loosen these constraints.

Of equal importance, especially given the end of support for current programs, an attempt has been made to determine how institutions can provide training and business advisory services in an efficient, cost-effective manner.

METHODOLOGY

Framing of the Assessment Questions

Before beginning the needs assessment, the staff of DEMATT, POET and Indefund were consulted in order to best select and frame interview questions, basing interviews on both the perceived problems of micro and small enterprises and the direction that each organization would like to take. Initially DEMATT staff expressed the strongest desire to maintain program delivery in its current form, arguing that they are the only organization providing one-on-one business assistance, particularly in the rural areas. DEMATT identified their client base as people with at least a primary school, Standard 8, education, and having a business with working capital of at least MK500.

DEMATT emphasized the benefits of one-to-one training, saying that it protected the business secrets of its clients, and that because changes in profit, and changes in number of employees could be directly tracked, one-to-one training provided an easier mechanism for measuring DEMATT's impact.

Indefund expressed a willingness to broaden its involvement with DEMATT, e.g., have DEMATT provide technical assistance to its clients, if DEMATT would more clearly identify its technical expertise. Indefund also identified clients it currently shares with DEMATT, and two of these clients were selected for interview.

POET staff restated their desire to provide direct training to SMEs and to expand their program into the Northern region. The BAS/Training Specialist was invited to a 2-day workshop in order to experience first hand POET's group training methodology.

Input from the three organizations, along with information gained from previous studies, was used to formulate the needs assessment. In particular, the needs assessment was designed to identify and clarify:

- how constraints, such as low levels of foreign exchange, impact a business on a day-to-day basis;

- how business practices exacerbate the effects of these constraints (e.g, high reliance on imports);
- how training could change behavior;
- what training methodologies would be effective and financially viable; and, finally
- whether any new services, outside of the one-to-one and group training currently provided, could be provided on a cost recovery basis by any of the three organizations.

Based on these meetings and a review of previous studies, an open-ended format was selected in which entrepreneurs would be encouraged to describe their business and then identify business problems which would be further explored by probe questions. Entrepreneurs were also questioned about training style and willingness to pay for training.

Overview of Enterprises Interviewed

Over 50 enterprises and NGO representatives in various sectors were interviewed. Enterprises and NGO activities were both urban and rural, and were drawn from Malawi's Southern, Central and Northern regions. Enterprises ranged in size from a woman who sells paraffin in the Ekwendi market (Northern Region) who began with working capital of 20 Malawi Kwacha (MK) to a farmer north of Blantyre who is investing 3 million Malawi Kwacha in a private secondary school.

In addition, board members of NGOs working with small-scale entrepreneurs were interviewed during the two-day workshop sponsored by POET. These NGOs included Women's World Banking, Malawi Association of Spices and Herbs (MASH), Save the Children-Malawi (which had a vegetable gardening project for Mozambique refugees), and The Limemakers Association of Malawi. A community development assistant, trained by DEMATT and working with a GDZ-supported women's development group project, and the Executive Secretary of the National Association of Business Women were also interviewed. Information was also gathered informally through conversations with a member of a batik cooperative, a tailor/second-hand clothing salesman, a truck owner and a salaried worker wanting to start a small restaurant.

Table 1 classifies the 48 enterprises interviewed by size (micro being 1 to 5 employees and small 6 to 20 employees), gender and region. People were chosen to represent a broad range of business activities as well as a wide range of business sizes. Table 2 shows the type of enterprises interviewed by size and region.

TABLE 1

NUMBER OF INTERVIEWS BY REGION, GENDER AND SIZE OF ENTERPRISE*

	Southern Region	Central Region	Northern Region	
Micro - Female	0	0	9 (3)	9
Micro - Male	6 (3)	5 (2)	5 (3)	16
Micro Subtotal	6	5	14	25
Small - Female	1	2 (2)	3 (2)	6
Small - Male	5 (5)	6 (5)	6 (4)	17
Small Subtotal	6	8	9	23
TOTAL	12 (8)	13 (9)	23 (12)	48(29)

* Number of interviewed that are current or former DEMATT clients

Owners/operators of micro and small enterprises were interviewed in the field at their business sites. The enterprises visited were chosen by DEMATT from client lists. These interviews were buttressed by interviews with randomly selected enterprises found in areas near the selected enterprises. Two-thirds of all interviews were of current or former DEMATT clients.

Just over one-third of the enterprises selected were operated by women. The number of enterprises was nearly evenly distributed between micro and small enterprises. Nearly half of the interviews were conducted in the Northern region. It was possible to interview a larger number of people in the Northern Region than the first two regions because more time was spent in market areas where entrepreneurs were clustered, and because staff from the Northern region made a special effort to ensure a large number of people were met.

The Interview Process and Questionnaire

In an introduction DEMATT staff or interviewer would explain that the interview was to gather information on what it is like to do business in Malawi and the special needs that businesses have, and that the information would be used to design programs that will be implemented by DEMATT, POET or other organizations to assist businesses. If the interviewed was a DEMATT client, it would be added that DEMATT is using this information to develop long range plans for its organization. In those cases DEMATT staff made introductions, emphasizing that the client should be open and, after the first few interviews in the Southern region, DEMATT staff moved out of hearing range. When the interviewed did not speak English DEMATT staff, or a DEMATT hired driver/translator (as was the case in the Central region) translated.

TABLE 2

TYPES OF ENTERPRISES BY REGION, GENDER, AND SIZE

	Southern Region	Central Region	Northern Region
Micro - Female	n/a	n/a	grocery flour vendor tailor shop clerk/ restaurant bakery vendor (2) baker/vendor (2)
Micro - Male	private clinic grocery restaurant petty hawker tailor shop truck owner	radio repair poultry farm metalworker welder restaurant	grocery tailor/ vendor bicycle repair furniture making private clinic
Small - Female	upholstery	bakery (2)	tailor shop hammermill tileworks
Small - Male	tinsmith private school metal works motorcycle repair & resale crop covers	carpenter shop metal works (2) vegetable farm furniture making timber sawing	poultry farm electric service/welding furniture making (2) woodcarver metal works/garage

In the Southern and Central regions three fourths of all interviewed were DEMATT clients. In the Northern region, using a cluster sampling approach, just over one-half of people interviewed were DEMATT clients. In addition three women in the Northern Region were interviewed who participate in groups indirectly supported by DEMATT through DEMATT's training of a Community Development Assistant and involvement with the National Association of Business Women.

Limitations of Study

The general process was that DEMATT clients were selected for interview by DEMATT staff, and then other entrepreneurs working in the area of these entrepreneurs were also interviewed. This process affected the nature of the sample, because DEMATT tends to look for entrepreneurs with some degree of employment/entrepreneurial history. Also because of the nature of interviewee selection, no closed or ambulant (without a fixed location) businesses were studied. DEMATT staff were reluctant to talk with petty entrepreneurs because staff do not see what they described as "mini" enterprises (those with fewer than five employees and requiring less than 500 kwacha start-up capital) as part of their target group.

Because of the need to conduct the interviews within a two-week timeframe, DEMATT staff were heavily relied upon to identify enterprises, provide transportation and, as necessary, translate. Given the funding circumstances, it was perhaps difficult for DEMATT to see this exercise as a needs assessment rather than an evaluation of their performance. This issue was repeatedly discussed with DEMATT headquarter and field staff, but despite this, enterprises were probably to some extent selected to illustrate DEMATT's necessity and effectiveness. The fact that this was not an evaluation may have been more understood by the staff of the Northern Region, and this may be a factor contributing to the broader range and larger number of people interviewed in the North. In addition, the Deputy General Manager, to whom regional managers directly report, accompanied staff on the interviews in the Southern and on several interviews in the Central region.

The sample was not randomly drawn. However, because business patterns were repeated, and these patterns and attitudes were confirmed by previous studies, development officers, DEMATT staff, and members active in business associations, it is believed that the business needs of the sampled group fairly represent those of other businesses in Malawi.

FINDINGS

Business Problems Identified

The interviews provide insight into the needs of businesses, as well as some understanding of how business operators deal with these problems. Of the six constraint areas identified in earlier studies (credit/finance, raw materials/inputs, government policies and taxation, regulations, transport, and training and technical assistance), credit/finance and procurement of raw materials/inputs continue to be a major problem. In addition training and technical assistance for both the owner/operator and employees was identified as a training need. Finally, competition and lack of large or regular orders was frequently cited as a major business problem, especially by manufacturers. Transportation costs and availability were also cited as problems, especially by traders. Government policies and taxation and regulations were not often cited as problems, except with respect to importing, that is, foreign exchange limits and duty fees and surtax.

Credit/Finance

Obtaining Credit. High interest rates, in addition to credit availability, continue to be a major constraint to business. As start-up capital, people interviewed report using savings, pensions and gratuity (one-time separation pay), and loans from relatives.

Many entrepreneurs interviewed were adamant about not wanting to take out loans because of the high interest rates charged, others were discouraged by the slow rate at which loans were issued.

Some interviewed relied on overdraft accounts to fill this credit gap. Those using overdraft accounts did not seem to view them as loans and seemed to appreciate the flexibility and instant credit that these accounts give them. SMEs can arrange for an overdraft in advance, making these accounts, in effect, loans.

At least two people interviewed said that it is rumored that people are only able to get loans when they are known to the lender, and it was felt that the drawn out application process was a deliberate attempt to discourage borrowers. One Indefund client interviewed directly credited DEMATT for his getting an Indefund loan, feeling it was DEMATT's involvement with the loan process (to buy a timber saw) that ensured he got the loan.

Lack of Working Capital. The demand for credit by small business is due, at least in part, to maintaining a low ratio of working capital/fixed assets and investing business proceeds on nonproductive, domestic assets. For example, a wood carver said he would like to borrow MK1500 to buy a large piece of ebony, rather than small pieces as he currently buys. At the same time, he said he had recently saved MK5000 in 6 months from his wood carving business for building a second home. When asked why he could not save money to buy a large piece of ebony, since he is obviously has the revenue and is a good saver, he said, he did not want to wait.

The practice of selling goods, and providing services on credit appears to severely reduce the liquidity of some of the enterprises interviewed. Small scale manufacturers, e.g., furniture makers, begin work on a project with deposits based on the cost of materials or 25% of the total price. Customers are able to take away the merchandise having paid anywhere from 50 to 100% of the purchase price. One furniture maker interviewed was owed MK1800, and estimated he would probably only collect MK800 of this. A metalworks/garage enterprise, which needs MK15,000 to complete a workshop expansion, is owed a total of MK23000 in amounts ranging from MK20 to MK2618. Because he does not have transportation and because most of his customers are tobacco farmers in remote areas he waits for customers to come to him to make payments. At the month's end, SMEs attempt to collect money owed them, and collect payments sometimes as small as MK10. None of the SMEs interviewed had separate price scales for cash and credit customers, leaving little incentive for customers to pay in a timely manner.

The lack of working capital leads to situations where SMEs cannot make goods to have an hand, or as one person put it "to be ahead of the customer." For example, a furniture maker will use the customer's deposit to buy materials, and then proceed to make the furniture. Two of the furniture makers interviewed volunteered that they had lost sales because they did not have furniture in stock, saying that tobacco farmers prefer to get their furniture immediately. In addition, most small manufacturers, furniture makers, tinsmiths, etc. said that they did not have enough room to make products "ahead of the customers."

Low working capital is also the result of ignorance about pricing and/or a lack of desire to pass on increased input costs to customers. For example, the wife of a husband-wife poultry business wants to respond to increased feed costs by decreasing the number of chicks purchased.

Misinformation may also contribute to low profits, and therefore low levels of working capital. Take for example two grocers in the Mzuzu market: One said that in response to increased wholesale prices she has increased the price charged for noncontrolled products. The second grocer said he could not raise

prices because products are price-controlled. DEMATT staff consulted on this said they think the second grocer is confusing manufacturer's "suggested retail price" with government determined prices.

Input Problems

Many businesses interviewed relied to some degree on imports. In some cases reliance on imports seems unavoidable, for example spare parts. Reliance on imports, however, causes problems for business because of the need to access foreign exchange, and because it can take several months to get imports, causing delays in production.

Businesses report that it is difficult to get permission to get foreign currency in order to directly import spare parts or new materials such as sheet metal, certain fabrics (upholstery fabrics), and simple hand tools such as a circular saw.

In addition, people interviewed said that importing can take an estimated 2 to 6 months. The process requires that the entrepreneur identify a source for a material, the source completes a pro forma invoice, the entrepreneur takes the invoice to a Malawi bank, the bank passes on the request to the Reserve Bank, and the Reserve bank determines whether or not foreign exchange is available. I was told by a business person interviewed that the current limit is MK2000/month, subject to availability.

If the business is allowed to get foreign exchange they will then have to pay duty on goods imported. According to shop owners, duty recently increased to 35% on clothing, it is 25% on textiles. Two entrepreneurs (motor cycle repair and steel works) interviewed did not know they were eligible for special duty rates because they were in an assembly/manufacturing type business.

Despite duty, businesses want to import, because either the materials are not available locally, or the quality of locally made materials is inferior. Shopkeepers sell fabric from China because they say it is cheaper and yields a better profit margin than domestic fabric. Imported home decor fabric is more expensive than domestic fabric, but it is more popular and yields a higher profit. For example, a home decor shop in Blantyre can import curtain fabric at MK18 per meter, pay 125% duty plus 25% surtax, bringing cost to MK27 per meter and sell the fabric at MK65 per meter, a profit of MK38 per meter. The same shop pays MK20 per meter for domestic curtain fabric and cannot sell it for more than MK26.95 because outlet store sells it at that price. Domestically produced fabric, according to one SME interviewed, may be dirty or damaged and thus reduces profits. Damage may not be noticed until after some construction has occurred, so there is lost profits in terms of labor costs. In addition, domestic home decor fabric is generally not available in the preferred wider width.

Lack of cooperation contributes to input problems. Businesses work independently resulting in overpayment for inputs and business services, as well as operating below capacity. For example, sheet metal workers in Northern Region pay a fee to use machines at a large business. There is not set amount for use of the machines, according to one person interviewed, and the amount charged changes without notice.

Two bakers interviewed in the Central region had made an arrangement through DEMATT to purchase a preservative, used only in small amounts, from a large bakery. However, after having established a pattern with that baker, the baker then said he would only sell the preservative in large quantities. Unable to dissuade him, the two bakers sent a worker from Lilongwe to Blantyre to purchase small amounts of the preservative from another baker. In addition, carpenters, metal workers, tailors interviewed all independently bought materials in small quantities at retail prices.

A furniture maker interviewed said he lost an order for 18 book shelves from Banda College because he could not produce them in the required time. He said he would have been willing to share this order with other furniture makers, but it did not occur to him to do so. He also said he could have filled the order if he had electric tools (he has an electric hook-up), but he cannot afford simple tools like a circular saw or electric drill, and it has not occurred to him to get involved in a group purchasing scheme. He was operating within meters of two other furniture makers so transportation-wise joint production and joint purchasing would be possible.

Market Problems

As identified in previous studies, and readily apparent on any walk through the market, there is extensive "copy-cat" production. That is, people tend to emulate what they have seen when they set up a business without conducting simple market research on the need for that business. Along with this, there is a lack of product differentiation, with furniture, clothing, curios, tin pails, etc. all looking remarkably similar.

Most people interviewed, when asked about plans for their business, stated expansion, that is increase of the same activities, or increased space, without any apparent research on whether there is unmet demand for their product. At the same time, some entrepreneurs have ideas for expansion of their business into unrelated/noncomplementary activities. The positive aspect of this second type of expansion is that diverse activities provide a hedge against market instability. The negative aspect of this is that this dispersion of energy keeps people from developing their business. The most extreme example of dispersion was an electric contractor who also has a restaurant and a car repair service, all activities which he was supervising, and he simultaneously wanted to expand.

Entrepreneurs are operating in an individualistic manner in isolation from each other. Consequently, furniture makers, carpenters, tailors are all buying wood, fabric, etc. at retail prices. Competition means someone doing the same thing near them, but because of lack of product differentiation this competition does not lead to improved products. Businesses in general do not appear to respond to competition by improving quality or providing variety, or attempting to reduce production costs in order to offer products at lower price. Some of the SMEs interviewed said they want to improve the quality of their product, or create a different product, but they did not have the capital to invest in appropriate equipment.

Technical Training Problems

Entrepreneurs developed technical skills by attending formal programs, such as MEDI, apprenticeships or copying products. The last two methods of learning contribute to over crowded markets and undifferentiated products.

Some entrepreneurs expressed interest in technical training. A sheet metal worker, for example, said that he received his training several years ago in a rural area. He said he was very interested in updating his skills through evening classes, in which he would be introduced to technological changes since he had received his formal training.

Subsector training to metal workers, furniture makers, etc. in which they are taught how to design new products will increase the competitiveness of entrepreneurs by helping them produce a better, more differentiated products.

Cross-sector training may also be used to introduce the concept of "flexible manufacturing networks (FMN)." Flexible manufacturing networks are small firms that work together to produce a product involving two or more subsectors, e.g., metal working, woodworking and electrical wiring, in order to make a product none would be able to produce individually. The network is united through a contract to manufacture a product for a single buyer, e.g., government. After the contract is fulfilled another product could be determined using the same or a different combination of subsectors. FMNs allow firms to produce a more sophisticated, differentiated, perhaps higher value, product than any of the firms could produce individually. This concept has received considerable attention in developed economies in recent years. Its applicability to Malawi would have to be tested.

Addressing Business Problems with Training

As pointed out in previous needs assessments, many problems faced by business are a result of poor business management, which can be addressed by training. Table 3 outlines the linkage between business problems and training that could be provided to help alleviate that problem.

Training Format

Training can be provided in a cost-effective manner through group training. The added benefit of group training is that, if properly orchestrated, it can be the avenue through which linkages between entrepreneurs can be created. Several entrepreneurs interviewed expressed strong interest in one-day and residential programs that would link them to other people in the same business, or other people in a complementary business.

DEMATT clients interviewed said they were willing to cover the same material in a group setting, which would bring entrepreneurs together to share ideas, discuss business problems and form business alliances (e.g., a tile maker meeting a building contractor).

Microenterprise operators with less than 5 employees and less than MK500 capital investment also have an interest in learning about business management, improving quality of product, etc. that cannot be provided cost-effectively on a one-to-one basis. While group training may be more cost effective than 1:1 training, certain forms can also be expensive. This is especially true when staff are sent to rural areas, and training costs include staff per diem and transportation costs. For example DEMATT staff estimate that up-coming to training for 15 people will cost MK30000, at a cost of MK2000 per participant. In rural areas training may be more cost-effective if given to extension and community development staff who already work in the field.

People interviewed said that the one-to-one attention given by DEMATT staff provided incentive to follow sound business practices, especially at the beginning of training. This incentive might be lost when moving to the group setting, but it may be replaced by peer pressure and new motivation stemming from the group activities.

TABLE 3

LINKING BUSINESS PROBLEM WITH TRAINING NEEDS

BUSINESS PROBLEM	TRAINING TOPIC
Credit and Finance	
Debt	Record Keeping Balance Sheets Cash Flow Statements Negotiating with creditors
Customers not paying debts, customers in remote rural areas	Marketing Customer relations Effective pricing, e.g., cash/credit prices
Low cash reserve	Establishing an overdraft account Buying on credit Balancing domestic and business demands on finances
Raw materials and Inputs	
Lack of storage space and/or buying inputs in small quantities at retail	Inventory management Group purchasing
Increased input costs, low profit margin	Inflation Passing on costs to customers Group purchasing
Marketing	
Want large / bulk orders	Marketing to large buyers
Too much competition/too few customers	Market analysis Marketing Trademarks and labels Quality control Business identification Product differentiation
Technical Training	
Lack technical skills to make differentiated or new product	Sub-sector training Becoming an apprentice Flexible Manufacturing Networks
Untrained workers waste materials and are injured on the job	Safety regulations Safety equipment Training employees

Willingness to Pay and Cost Recovery

It is perhaps not possible to determine a willingness to pay for a hypothetical service, but some attempt was made to estimate a value range for willingness to pay. Among operators of microenterprises, figures

given were MK10 to MK50 for training in how to set up account books, manage inventory, etc. Even operators of the smallest of business, e.g. selling cakes in the market and repairing bicycles, were willing to pay some amount for training.

For a combination of training and business services, entrepreneurs of microenterprises stated a willingness to pay ranging from MK30 per month, MK50 per month up to MK150. Almost all DEMATT clients interviewed expressed willingness to pay more than they were charged for DEMATT services.

Some operators of small enterprises pay MK1000 to MK2000 per year for business services, such as auditing, and as much as MK300 per month for accounting services. While these values cannot be directly interpreted as willingness to pay for training, they do indicate an ability to pay, and a willingness to pay for services which contribute to better business operation.

The potential for large businesses in the private sector to fund training should not be overlooked. For example, Whitex could be approached to provide funding and materials for group training of tailors, and perhaps backing loans to buy industrial (overlock) sewing machines, which would improve the quality of clothing made in the country and increase the demand for Whitex fabric.

Marketing strategies, such as a newspaper "Question and Answer" column, radio spots and certificates clearly displaying the training institution could be used to increase demand/willingness to pay for training.

In addition, based on comments made during interviews, it is probable that demand/willingness to pay for training, workshops and seminars, especially among small entrepreneurs (those having 5-20 workers) would increase by involving successful business people in the training process, e.g. as guest speakers, panel members, etc.

TABLE 4

NONTRAINING BUSINESS NEEDS AND POSSIBLE APPROACHES

BUSINESS NEED	APPROACH
Imported equipment, spares and other materials.	Import items in demand, e.g., steel, electric hand tools, spares and materials.
Not enough space for inventory, buying retail	Establish a warehouse for wood, steel, etc.
Customers not paying debt	Offer a collection service
Transport of inventory	Purchase a truck and provide delivery service for small enterprises
Want large orders	Broker orders with large businesses and government
Lack technical skills, risk averse vis-a-vis starting a new business	Establish demonstration projects and selling products at market rates.
Cannot meet order demands or have poor quality products because lack proper tools	Establish a workshop and rent out equipment/space

Nontraining Issues/Needs Identified

The interviews also revealed a variety of business needs that could not be addressed directly by training. However, there may be some potential for an NGO to provide these services on a profit-making basis, with these profits then used to subsidize training. Table 4 presents these needs and suggest income-generating approaches for addressing them.

Gender Issues

Less than one-third of the entrepreneurs interviewed were women, reflecting perhaps DEMATT's client base as well as the fact that women's enterprises tend to be smaller and home-based or mobile. In order to get a better understanding of women's needs, a meeting was set up bringing together key personnel: Judy Chirwa, DEMATT; Jovita Culaton Viray, UNDP 5th Country Program; Eunice Chamgomo, POET; and the author. Through interviews and discussions four gender issues were identified: family support, start-up capital, education and time constraints.

Family Support

Chirwa and Viray identified family support as the single most important ingredient in successful women-operated businesses. They argue that in Malawi there is no such thing as a woman-owned business, rather, women-operated businesses are, in effect, a family business. Ownership in a woman-operated business, they continued, tends to get blurred which may result in the woman taking less responsibility for her business. On the other hand, they noted that if a woman becomes too possessive of her business, family friction can result.

In order to enlist family support, UNDP and GDZ programs supporting women entrepreneurs have begun including meetings and training modules that bring together husbands and wives to discuss the benefits of the woman's business and the need for family support.

Start-Up Capital

Women tend to have less start-up capital than men. Because women are under-represented in the formal economy, they have less access to formal credit and large lump sum payments like gratuities, which men have used to start up businesses. Some micro and small business operators interviewed began their businesses with money earned from such income generating activities as reselling fish or selling small cakes. Saving the profits from these activities, women were able to start a grocery or buy a sewing machine.

While women are in need of start-up capital, money alone does not ensure business success. A National Association of Business Women truck project nearly failed because the women were given trucks to manage without having sufficient business management skills. According to NABW, once given the trucks to manage, the women did not pay close attention to mileage and repairs and spare tires. Women in the group milling project interviewed were resentful about paying back their loan, because they were aware that the mill had been donated to NABW, and they felt the repayment schedule should be more lenient.

Since studies elsewhere have shown that women tend to be better savers and generally better at repayment than men, this information raises a question for further evaluation. That is, how does the source of start-up funds contribute to the success of women-owned/operated business. It may be that when start up funds are received through a donor or spouse, women have less of a sense of ownership of the business, or in the case of spouse-financing, the husband may not relinquish responsibility to the wife. Among the small sample interviewed, single women seem to take more control of business, are more aggressive and accountable to the business, and had firmer plans for improving their business.

Education

Women's groups, that is the women's mill project and the community development groups, bring together women with varying education levels. As a result, women are put in positions they cannot handle, e.g., illiterate person as treasurer. The community development assistant I met with said that she is encouraging these women to go to the "Kwacha" (adult functional literacy) schools. And she said that it would be helpful to these women to have topics related to business development in the literacy texts used.

Time Constraints

Women also have greater demands on their time. Two of the married women to be interviewed for this study were not available. One was a baker who was at home because the bakery had run out of flour, and one woman, who ran a tailor shop, had taken her daughter to the hospital. In both cases, the husbands had provided the start-up capital for the business and it was unclear who the business really belonged to.

The successful businesswomen I talked with, who are also DEMATT clients, are heavily involved in the National Association for Business Women and seem to get a certain amount of business, if not psychological, support from that association.

Because of time constraints and low start-up capital, many women-operated enterprises will require inexpensive, or even free (e.g., grass for weaving mats) inputs. Women may require an establishment of an enterprise close to home to accommodate competing demands on time, but transportation costs in terms of time and money, will have to remain low.

Special Concerns Given Business Size and Stage of Development

Business needs will vary depending on the size of business and the stage of its development, that is whether formation, expansion or transformation. These stages have been defined by previous GEMINI studies as:

- | | | |
|-----------|---|--|
| Formation | - | Start-ups, either with or without previous business experience in the same activity |
| Expansion | - | Growth or expansion of a businesses, through increased production, sales, profits, employees or assets |

Transformation - Graduation from a one size of enterprise to another, e.g., micro to a small or small to medium

These studies have helped to identify the particular needs of a transforming enterprise, with training needs becoming more sophisticated moving from formation to transformation of a business.

Working Capital

A transforming enterprise will have particular finance management needs. The accompanying shift to more reliance on processed and purchased raw materials will result in an increasing need for working capital credit. In addition, the need for new and/or more specialized tools and equipment will increase the need for fixed asset credits. The increasing capital needs within the business means that the entrepreneur will have to make a clear distinction between business and household funds.

Technology

An enterprise that is transforming will be changing its production technique in order to increase productivity. Special topics to address in training are how to maintain stable production levels, how to maintain a steady supply of inputs, and how to maintain and improve product quality.

Marketing

Marketing is especially important for a transforming enterprise. Because of increased costs due to change in technology, and debt resulting from buying new equipment, a transforming enterprise will want to identify a secure stable or growing market.

Labor Relations

Labor relations may be a particular need for transforming enterprises. For example, an enterprise that is transforming may be moving from family to hired labor, and when both family and hired labor are in a business there may be need to clarify roles. As production levels increase, an employer will demand more output and higher quality from employees. These increasing demands may change the relationship between the business owner and employees. When hired labor with special skills begin to replace family labor with unspecialized skills, there may also be increased tension in the family.

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ANNEX C

SME COURSE OUTLINES FOR POET

OUTLINE - COURSE I

BUSINESS OPPORTUNITY IDENTIFICATION

DURATION: 2 full days (including lunch)

FOCUS: How to identify business opportunities.

PARTICIPANTS:

Persons who want to start a business.

Existing entrepreneurs who want to diversify.

(There is a need to screen applicants to assure that all participants are compatible from an experience, knowledge and peer group standpoint, particularly when course fees are subsidized. Full or substantial payment of course fees can be a form of screening.)

OVERALL WORKSHOP OBJECTIVES:

At the end of the workshop the participants will be able to answer the questions:

1. Should I start a business?
2. What kind of business should I start?
3. What are the basic aspects of running a business?

TOPICS:

(The descriptions in parentheses after each topic refer to special considerations in designing the course which relate to size of business, phase of business, or gender.)

Self analysis/skills inventory/knowledge base/attitude/family & peer support (gender)

Business environment in Malawi (size/gender)

Needs in market/niche

Product/service identification, and expertise required

Experience/expertise in particular products/services (size/gender)

Interest/motivation in particular product/services (size/gender)

Sources of information and support (size/gender)

Importance of a business plan

Overview of all steps/components/aspects in starting a business: production/service delivery/marketing/human resources/finance/laws & regulations/cultural aspects. (size/gender)

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SPECIAL CONSIDERATIONS:

Size of Enterprise:

Business environment/Government regulations and import/export considerations - these factors tend to favor larger businesses.

Experience/expertise and interest/motivation - For a medium-scale business, the owner/operator may not need to have technical skills themselves, rather they need to be able to identify skills in others and have the management skills necessary to make the most of the skills of the people they hire. Likewise, some people prefer running a small business rather than a medium-scale business, and vice-versa.

Sources of information and support - The types of business information required and source of the information depend upon the size of the business. Similarly, the support for different sizes of businesses often comes from different institutions and organizations.

Overview of business operations - Input constraints, type of equipment and financial considerations will vary by subsector and size of business, marketing methods and size of market will also vary according to size.

Gender Issues:

Business environment/cultural factors - culturally women may feel restricted from engaging in certain business activities or may feel resistance from people who are not used to women in those businesses.

Self-analysis - women tend to underrate their abilities/lack self-confidence.

Cultural factors - women will need additional component that deals with how to enlist the support of family and spouse, especially how to get support of husband, while making woman's ownership and responsibility for business clear.

Sources of information - Some women, particularly uneducated women, might not feel comfortable approaching certain persons/organizations who provide information and support to businesses. The course material must assist them in establishing sufficient self-esteem and give them some tools to approach those persons/organizations.

OUTLINE - COURSE II

BUSINESS PLAN DEVELOPMENT

DURATION: 5 full-days, one day each week for 5 weeks or each day for one week

FOCUS: Developing a business plan.

PARTICIPANTS:

People who have attended the business identification course, or those who satisfactorily complete a questionnaire in which they identify knowledge, skills, a source of capital, a clearly defined business idea, and evidence of some background research into their idea (e.g, crude market study).

OVERALL WORKSHOP OBJECTIVES:

1. To acquire the skills and information necessary to complete a business plan.

TOPICS:

Sources of information - Review various sources of information for putting together the business plan. Assist the participants to identify the information they will need and where they will get it. Provide them with advice on how to approach individuals or organizations to obtain the information. (size/gender)

Production/Services Provided - Define the product or service you will provide and how it would be produced/provided. Determine the location of the factory/office where the product/service will be made/provided, equipment needs, labor, raw materials and other inputs. Determine which inputs will need to be imported and how you will go about obtaining those inputs. (size/gender)

Market Research - Assess the market for the product/service provided and why the market needs more of the product/service or why the product/service you will provide is different from existing products/services on the market. Assess the strength of your competitors. Determine how you will advertise your product/service. Will you export any of your product/services? (size)

Marketing & Distribution system - How will your product/service be sold? Will you sell your product to wholesalers, retailers or direct to end-users? How will you transport your product/service and what kind of equipment/transport arrangements will be necessary, including packaging? (size)

Human Relations - How will you structure your management of the enterprise? What will be the lines of authority? What kinds of incentives (financial, status, recognition, benefits, etc.) will you provide to your management and workers. (size/gender)

Finance - Present a three year budget for the proposed enterprise. Describe the source(s) of finance for the enterprise, both your own and other actual or potential sources. Review your potential cash flows and how loan repayments could be made if a loan is needed to start the business. (size/gender)

Legal organization/Government licensing and regulations - Determine how your business will be legally organized. What licenses and registrations are required? How much will they cost? What will need to be done to import raw materials? If relevant, what are the barriers to exports? What laws must be

followed regarding your employees? (size)

Workshop Features

- Presentation by successful entrepreneur similar to participants (by gender, region, age, etc.) on how they started their business and lessons learned.
- Distribution of reprint of Malawi's Entrepreneur's Handbook: A Small Business Reference Manual. Malawi/USAID READI Project Volume 1. December 1990.

SPECIAL CONSIDERATIONS:

Size of business - Differences in course content and in the sophistication of the participants must be determined prior to the course. If the participant already has a business and is setting up another new business, the approach used will be different from a participant who has never run a business before. It may be better to group participants according to level of sophistication in business matters. Likewise, the types of analysis required of a medium-scale business will generally be more detailed and sophisticated than those performed for small-scale businesses. Course content and teaching techniques must take these factors into account.

Gender - Gender issues impact upon various of the topics covered. Obtaining information to put together the business plan will require that women receive some training on how to approach individuals and organizations. Women may need to obtain their husband's signature for any loan they take out. The consequences of that must be discussed. Women will need an understanding of how both customers and competitors will react to their opening a new business in which women have not been active before. How can they work to overcome any obstacles in this regard? How should employee relations, supervision and incentive plans take any particular needs of women into consideration?

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OUTLINE - COURSE III
FINANCIAL MANAGEMENT

DURATION: Three 2-hour sessions

FOCUS: Financing an enterprise

PARTICIPANTS:

Owners/Managers/Accountants of small and medium-scale enterprises.

OVERALL WORKSHOP OBJECTIVES:

1. To take participants step-by-step through process necessary to set up bookkeeping system.
2. To take participants step-by-step through process necessary to understand cash flow management.
3. To know when credit should be sought and where and how to obtain it.

TOPICS:

Cashflow management

Credit & Savings

Financial ratios

How to respond to an inflationary economy

How to hire an accountant/auditor

OUTLINE - COURSE IV

PRODUCTION

DURATION: 5 Half-day sessions

FOCUS: Managing and improving the production process

PARTICIPANTS:

Production managers of SMEs - may want to group participants by sector or subsector

OVERALL WORKSHOP OBJECTIVES:

1. Understanding the various aspects of the production process
2. Evaluating changes in production methods
3. How to translate product improvement into changes in production

TOPICS:

Forward/backward linkages

Output vs. capacity

Leasing vs. purchasing equipment

Product modification

Manufacturing networks (linking with other producers)

Technological improvement

Importing

Product differentiation and protection

Packaging

Storage and inventory control

OUTLINE - COURSE V

MARKETING

DURATION: 3 Half-day sessions

FOCUS: To identify and implement effective marketing strategies

PARTICIPANTS:
Owners and salespersons of SMEs

OVERALL WORKSHOP OBJECTIVES:

1. Understanding how to assess the market for a product or service
2. Adapting a product or service to the market
3. Attracting and keeping customers

TOPICS:

Sales vs. Marketing

Market research

Know your competition

Customer relations

Costing and Pricing

Finding your niche

Advertising and promotion

OUTLINE - COURSE VI

HUMAN RESOURCES

DURATION: 3 Half-day sessions

FOCUS: How to hire and keep good employees

PARTICIPANTS:
Owners, managers and personnel directors of SMEs

OVERALL WORKSHOP OBJECTIVES:

1. How to keep employees interested in the jobs and productivity up
2. Learning how to read the signs of potential labor unrest

TOPICS:

Recruiting

Employee relations

Employee incentives/motivation

Training

Managing employee productivity

Allocating/delegating responsibility

On-the-job safety

Labor laws

OUTLINE - COURSE VII

GOVERNMENT LICENSING & REGULATIONS

DURATION: 3 Half-day sessions

FOCUS: How to handle legal aspects of a business

PARTICIPANTS:
Owners, managers and accountants of SMEs

OVERALL WORKSHOP OBJECTIVES:

1. How to register a business
2. Understanding laws and regulations on importing/exporting and tariffs
3. How to obtain foreign exchange

TOPICS:

Licensing, permits and registration

Taxation

Product regulation

Import/export controls/procedures

How to hire and manage an attorney

OUTLINE - COURSE VIII
BUSINESS ASSOCIATIONS

DURATION: 1 Half-day session

FOCUS: The role of business associations

PARTICIPANTS: SME Managers

OVERALL WORKSHOP OBJECTIVES:

1. Learning how to form and operate a business association

TOPICS:

How a business association can help you

Networking, formal organizations and targeted alliances (e.g., group purchasing)

Forming and registering an association

Keeping members interested/membership services

How to plan and run an association meeting

Workshop Features

- Highly interactive format, allowing for the building of alliances among participants

OUTLINE - COURSE IX
SUBSECTOR SPECIFIC TRAINING

DURATION: Depends upon subsector and program designed

FOCUS: Understanding specific aspects of a subsector

PARTICIPANTS:

Employees or operators of SMEs from the same or complementary businesses (e.g., tailors, bakers, contractors, etc.)

OVERALL WORKSHOP OBJECTIVES:

1. Learning how to operate a business within a particular subsector

TOPICS:

Inputs/Raw materials

Skills

New Technology

Marketing

Government regulations/policies

Apprenticeships and mentoring

Business alliances, networks, associations

Workshop Features

Highly interactive format, allowing for the building of alliances among participants



ANNEX D
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DOCUMENTS CONSULTED

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- *2. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990. \$5.50
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