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RURAL ENTERPRISES AND AGROBUSINESS DEVELOPMENT INSTITUTIONS
(R.E.A.D.I.) PROJECT

NEW DIRECTIONS FOR PROMOTING SMALL AND MEDIUM SCALE ENTERPRISES IN MALAWI: CONSTRAINTS AND PROSPECTS FOR GROWTH

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EXECUTIVE SUMMARY

Introduction

This report presents the results of a nationwide survey of small- and medium-scale enterprises (SMEs) in Malawi conducted during 1986. The study was sponsored by the Malawi Government and funding was provided by USAID under the Rural Enterprises and Agrobusiness Development Institutions (READI) Project. The main findings and recommendations of the study are summarised below.

Characteristics of the SME Sector in Malawi

More than 96% of the sampled entrepreneurs are sole owners of their businesses. Most of the businesses are in:

(a) trading activities - retail and wholesale trade (42%);

(b) service activities on a small scale - repair of shoes, radios, watches, and motor vehicles; restaurants, bars, rest-houses and hotels (26%); and

(c) a few common manufacturing activities - clothing, carpentry, food processing, sheet metal products, and agricultural hand tools such as hoes (30%).

The enterprises are generally small. Three-quarters of the businesses in the survey were started with less than K1,000, while less than 5% started with more than K10,000. The largest initial investments are placed in the Southern Region and the smallest in the Northern Region. Capital investment put into starting up businesses in the sector has grown at 5% a year over the past two decades (1965-1985). The fastest growing business investments have been in manufacturing, specifically in food and beverage production, tinsmithing, and tailoring.

The overwhelming majority of small- and medium-scale entrepreneurs (91%) started business with their own savings, the major sources of savings being wage income (34%), business income (28%), and farm income (20%). Of the total number of entrepreneurs interviewed, only 16% had applied for any loan during the previous two years. Almost half (49%) of those who applied for loans approached SEDOM and only 12% approached INDEFUND. The main reason for approaching these institutions was that they were the only financial institutions known to provide loans to SMEs.

There were approximately 3,000 people employed in the businesses in the survey, giving a mean number of 2.5 employees per enterprise. Overall, employees are unevenly distributed among regions, types and locations of enterprise. The Southern Region urban enterprises have the highest mean number of workers

(4.6) while rural businesses in the Northern Region have the lowest average number (1.1) of employees. Of the total number of employees in the sample, 78% are working in rural-based enterprises while 22% are working in urban-based enterprises.

Based on the estimated levels of SME investment projected to 1990 and the estimated investment cost of creating a job, a total of 29,000 new jobs in the SME sector could be realised between 1986 and 1990.

Profile of the Malawian Entrepreneur

The majority (56%) of Malawian entrepreneurs are middle-aged (30-49 years) persons. For the most part they are married (91%) and the majority have six to ten dependents (more than 50% of the sample). Usually they are educated persons, albeit to modest levels. Only 11% have not attended school at all.

The Malawian entrepreneur does not come from any particular region or religious or ethnic group. A large number of entrepreneurs in the sector are mobile and responsive to economic incentives and opportunities. Thirty-three percent of the entrepreneurs have worked outside Malawi for a period of time exceeding nine months.

Eighty percent of the sampled entrepreneurs are full time business persons. Irrespective of age of the entrepreneur and number of employees, over three-quarters of the entrepreneurs in the sample spend all their working time on their businesses.

Government Policy and Strategy

The government's long-term policies as laid down in DEVPOL have recognised the complementary role of SMEs and the creation of a climate where large-scale as well as small-scale enterprises flourish side by side. However, beyond the provision of credit and business and technical advisory services there are no special incentives for the promotion of SME development.

Government has not developed a comprehensive strategy for promoting the development of the SME sector similar to that provided for large-scale enterprise development. The overall policy environment has provided little central direction or coordination to the type, quantity, quality and location of SME services. These factors have resulted in the current search for a coordinated strategy and need to establish a common understanding of the goals and objectives, problems and issues facing each institution and the sector as a whole.

The major policy recommendation for SME development in Malawi is for government to establish a set of incentives which take into account the needs and constraints of the SME sector, and a development strategy for the sector which would guide the operations of SME development institutions. This study has provided the basic information to enable the Ministry of Trade, Industry and Tourism to begin developing a strategy for promoting and developing the SME sector. In view of the changes taking place in the economy, we recommend the establishment of a regularly updated statistical data bank for planning at both the lead ministry and SME support organisations levels.

SME Development and Support Institutions

The government policy and strategy for SME development is primarily developed and implemented by the Ministry of Trade, Industry and Tourism. Other government, parastatal and private sector agencies provide complementary services in the areas of entrepreneurial training, business and technical advisory services and finance.

Apart from three regional offices, the ministry does not have the field infrastructure to effectively perform its regulatory functions, let alone to promote activities that would assist SMEs. Despite the scaling-down of some of the ministry's regulatory functions, such as price control, the ministry has not yet oriented itself to promotional activities. The manpower establishments of both the Trade and Industry Departments do not have personnel with the requisite qualifications and experience for developing and promoting the SME sector.

Overall the major constraint facing SME development at the lead ministry level concerns planning and extension. There is no evidence of active planning for the development of the SME sector or the provision of extension services at the Ministry of Trade, Industry and Tourism. The only extension services are the limited advisory services provided by DEMATT which were originally planned for rural traders.

The focus of the Ministry of Trade, Industry and Tourism requires redirection. A shift in ministry priorities from regulatory activities to promotional activities is recommended, particularly in view of the price decontrol that has taken place during the last two years. The vacant posts in the Ministry need to be filled and training will be required to upgrade existing and new personnel to facilitate the guidance of the participating SME sector ministries and implementation institutions. In particular the Ministry's Small-Scale Industrial Unit will need resources and support to adequately carry out the following roles:

(a) establishing a dynamic SME industrial policy and reviewing it periodically to reflect economic changes and government priority;

(b) coordinating SME industrial policy for all secondary production of primary products;

(c) promoting SME industrial activities by establishing fiscal incentives relevant to the SME sector and other incentives such as the provision of credit, advisory services, research and infrastructure; and

(d) promoting the development of SME entrepreneurs by identifying priority SME training areas and supporting entrepreneurial and on-the-job training programmes of MEDI, RTS, and the expanded DEMATT.

An SME inter-ministerial policy-coordinating committee chaired by the Department of Economic Planning and Development is recommended to be responsible for the coordination of SME policies.

In the field of extension services we recommend that the present functions of DEMATT be improved and expanded to provide the SME sector with a wider range of business and technical advisory services. The proposed structure and coverage of the expanded DEMATT is discussed in section 6.4 of the report.

SME promotion and support institutions are geared to providing unique assistance with very little overlap. Credit is provided by SEDOM and INDEFUND, being separated by loan size; to a limited extent MEDI and RTS provide start-up credit to their graduates. Business and technical advisory services and training are provided by DEMATT, RTS and MEDI where the division falls along a line between entrepreneurial and skill training at MEDI and RTS and on-the-job business and technical advisory services by DEMATT, although DEMATT has so far been giving most of its attention to traders.

Clearly, there are gaps in the institutional framework for the provision of financial, business and technical advisory services and entrepreneurial training to the SME sector. The results of the study indicate that less than 5% of the entrepreneurs in the sample have made use of the services offered by SEDOM, DEMATT, INDEFUND, MUSCCO and MEDI.

In the case of financial services there is no institution providing working capital credit. The commercial banks are not opposed to the idea of financing the working capital needs of the SME sector, particularly those entrepreneurs whose start-up capital needs are financed by SEDOM, INDEFUND, MEDI and RTS, provided a guarantee scheme can be worked out and the monitoring

of the projects can be undertaken by SEDOM and INDEFUND or the proposed expanded and reconstituted DEMATT. We recommend that government should study the feasibility of setting up a guarantee scheme to secure the cooperation of the two commercial banks to establish a working capital facility for SEDOM and INDEFUND term-loan clients and MEDI and RTS graduates, so that the resources of the these institutions can be devoted to SME fixed capital formation.

At present most of the demand for investment capital is not met by financial intermediaries because of a number of reasons, including the following:

(a) limited financial resources for on-lending to the sector; and

(b) restrictive lending policies of SME financial intermediaries and commercial banks which limit lending to the sector and/or specific types of businesses.

During the coming five years there is going to be a growing gap between the projected SME gross fixed investment and savings, which will be difficult to close using current projections of credit. There will be need to find additional resources through raising the savings ability of SME entrepreneurs, improving savings mobilisation and delivery of loans by financial intermediaries, and allocating additional funds to credit institutions for on-lending to SMEs.

The role of the SME development financial institutions should be to help overcome the financial constraints and barriers facing the sector. However, the concern with financial self-sufficiency to achieve operating cost recovery for SEDOM and INDEFUND, by both donors and government, conflicts directly with development objectives of stimulating desirable sub-sectors of SME or types of businesses. Cost recovery objectives favour funding more urban and simpler, less risky mini- and term-loans and this is a constraint in expanding into rural and high risk diversified project term-lending portfolios.

In view of the high cost of delivering credit, the SME financial intermediaries will make credit readily available to the SME sector without assistance in financing the cost of delivering credit. If credit is to be made readily available throughout the country, particularly the rural areas, the cost of delivering credit may have to be financed in the same way small-holder agriculture credit is financed.

An alternative way of financing the cost of delivering credit is to provide the SME financial institutions with a large spread in the interests at which they raise money and lend to

SMEs. Both SEDOM and MUSCCO have been given the maximum possible spread by government; INDEFUND has not.

In the initial start-up period INDEFUND and SEDOM were largely unaffected by the limited government strategy for developing the sector and lack of adequate information on the sub-sector for planning purposes. Both institutions were occupied with establishing an institutional capacity to extend credit. Credit disbursement has so far been limited while staff were being trained and systems established. For training and supervision reasons the portfolios of INDEFUND and SEDOM are concentrated in the south, particularly around the city of Blantyre. However, it appears that the concentration of SEDOM and INDEFUND loans in the Southern Region is also due to the lack of government guidance regarding the distribution of credit so as to ensure that it conforms with the development strategy of the country as a whole (see recommendation in section 1.1).

Credit should be available at commercial rates for any entrepreneur who requires it, but because development can be faster in certain sectors than others credit could be used to promote the desirable sectors while being withheld from over-crowded sectors. The recommended basis for business promotion through credit facilities could be to make credit available for activities which are likely to generate a high rate of employment or use local materials or/and set up backward and forward linkages.

In the area of business and technical advisory services, financial intermediaries' services are mostly geared for their borrowers. DEMATT requires broadening of its functions, beyond advice to rural traders, to include a full range of business and technical advisory services. The advisory services of MEDI and RTS have so far been confined to their graduates due to lack of resources. In addition, none of the institutions have adequate manpower with the experience to provide the business and technical advisory services deemed necessary.

Fewer than 5% of the sample have made use of the services offered by SEDOM, DEMATT, INDEFUND, MUSCCO and MEDI. Business and technical advisory extension services have been limited to the trading sector, although the overall strategy has been to develop the productive sector. Credit access has been limited by both availability of funds and the lack of resources to administer an extensive credit network. Other essential incentive programmes are either lacking or not comprehensive enough to have an impact on development of small- and medium-scale Malawian entrepreneurs. Overall, the SME support institutions face constraints in project identification, appraisal, implementation and monitoring.

The institutional survey revealed that SEDOM and to some extent INDEFUND and MUSCCO face internal organisational constraints due to lack of institutional plans to guide their operations. We were unable to obtain programmatic plans for SEDOM. INDEFUND and MUSCCO have prepared institutional development plans and annual work-plans which are required by USAID for evaluating the READI Project's success. However, the plans do not seem to be used in the day to day running of INDEFUND and MUSCCO.

We recommend the preparation of comprehensive institutional work-plans for SEDOM, INDEFUND, DEMATT, MUSCCO and MEDI which should be used for planning and monitoring their day-to-day operations.

Constraints to SME Development

The entrepreneurs face a number of major constraints in starting, running and expanding their enterprises. The magnitude of the constraints facing the sector is demonstrated by the entrepreneurs' perceptions of the greatest problems during the three phases of initial investment, current operations and expansion or improvement of businesses.

More than half of the respondents to the survey recalled that obtaining funds for their capital investment was the biggest problem in starting their businesses, while as many as 31% were confronted with other barriers while trying to start up their businesses. These included: attracting customers (9%), acquiring goods and raw materials (6%), equipment and parts supply (5%), premises and land (4%). Transport was a main barrier for 3% of the entrepreneurs and the installation of equipment and machinery for 2%.

Roughly the same barriers or problems were mentioned for the current day-to-day running of the business as were mentioned for the period of making the initial investment and getting the business started. Customer problems occur more frequently (14%) as the biggest barrier to running the business compared to getting it started (9%). The supply of goods and materials becomes a more prevalent barrier, increasing from 6% to 10% of the cited biggest problems.

Despite intentions for expansion and improvement, a major problem in carrying out most plans is a matter of money in at least 80% of the enterprises. More than half of interviewed entrepreneurs (54%) mentioned that the purchase of additional equipment would be the most difficult problem, while 27% say the same about providing new products or services. Only with regard to the intention to employ more skilled workers is the problem explained as one of short supply rather than money.

Business and technical advisory services are needed to help SMEs overcome many of the constraints facing the sector. The areas of need can be broadly summarised as: marketing, raw material assessment, transport assessment, technology choice, training assessment, credit supply and in particular project planning, appraisal and monitoring.

In the area of entrepreneurship training the obvious gap is the lack of an institution for the training of trainers or business and technical advisory service extension agents. About 78% of the entrepreneurs who were interviewed have had no training in the field of their businesses. A high proportion of entrepreneurs in all regions say that their work or businesses could be easier or could be improved if they themselves had additional knowledge or skills. Neither MEDI nor RTS train trainers of entrepreneurs. Both institutions train entrepreneurs wanting to set up their own businesses after training.

It is recommended that the existing institutions remain unchanged, and that the present functions of DEMATT be improved and expanded to provide a wider range of business and technical advisory services to help SME entrepreneurs become aware of their needs and overcome their problems (specific proposals are detailed in Chapter 6). The financial intermediaries, INDEFUND, SEDOM and MUSCCO, should be encouraged to develop their own capabilities in project planning, appraisal and monitoring, calling upon DEMATT for inputs on market, raw material and transport information, and to provide the necessary business training needs as identified in the planning stage. For small loans, SEDOM and MUSCCO could be encouraged to use DEMATT's field extension staff to assist with the identification of potential clients and monitoring of the loans. For the training of trainers we recommend studying the feasibility of mounting the training at MEDI.

Provision of SME Site and Service Enterprise Centres

The results of the READI Survey show that 49% of the entrepreneurs indicated that they would move their businesses to a market place or workshop if government were to build such a place and charge rent. From the point of view of entrepreneurs in the manufacturing sector, an enterprise centre is most likely to succeed if it is planned to meet the requirements of specific types of businesses and is affordable.

Renewed consideration of planning and building SME enterprise centres is recommended. Bearing in mind the problems that have been experienced in utilising the SME enterprise centres that have been built so far, we recommend a change in emphasis, from industrial complexes such as the Biwi Triangle in Lilongwe

or the SEDOM Industrial Estate in Blantyre, to the provision of rural enterprise serviced plots.

Market Problems

The problem of output markets (customers) was the next most frequently mentioned problem by entrepreneurs in all stages of SME investment. This is a general economic problem, due to the structure of markets which are dominated by a few major holding companies and their commercial businesses. It is recommended that government formulate a general set of policies for procurement which would favour businesses in the SME sector.

In addition, small businesses could be greatly assisted by means of policies to induce businesses in the LSE sector to contract as much of their work to small businesses as would be economically feasible. This should benefit both the large firm which would contract out the work and the small business which renders the work.

Donor Support

Donors are not new to the pressing issues confronting the SME sector in Malawi. All the major SME development institutions have been initiated with the financial and technical support of donors. The continued support of donors is vital to the promotional efforts being planned for the sector.

We recommend increased financial and technical assistance for all SME development institutions in Malawi so that they can effectively perform their promotional roles in the development of the sector.

The push by some donors on SME development institutions to attain financial self-sufficiency appears to force SME institutions to curtail their services in rural and remote areas where the cost of delivering services is highest (see Sections 4.4, 4.4.6 and 4.4.7.1).

We recommend that the self-sufficiency strategy be applied on selective basis. The institutions could be required to attain financial self-sufficiency in the their operations in more developed and urban areas.

CHAPTER ONE

INTRODUCTION

1.1 Background and Justification

Malawi is a land-locked country, some 900 kilometres long, varying in width from 80 to 160 kilometres and covering an area of 118,000 square kilometres. The population in the 1977 census was 5,547,460. The population is unevenly distributed, reflecting the topography and history of the country and regional variations in the stage of economic development.

Before independence in 1964 the country was a mono-economy almost entirely dependent on agriculture. Soon after independence, diversification of the economy was initiated by emphasizing also the manufacturing and service sectors. However, the government promotion effort was concentrated on the modern and large-scale parastatal and private sectors and not on the small- and medium-scale informal sector.

Until the end of the 1970s large-scale enterprises contributed considerably to the growth of the entrepreneurial sector and the economy as a whole. But of late, the growth of the sector has slackened. The inability of the large-scale sector to solve the emerging problems of off-farm employment and income generation was becoming obvious early in the mid 1970s.[1] As a result, government began re-orienting its emphasis from large-scale enterprises to small- and medium-scale (non-farm) enterprises (SMEs) during the second half of the 1970s.

In general, the main virtue of SMEs is their creation of employment at far lower cost than large-scale capital-intensive operations. Furthermore, SMEs use more indigenous skills, materials and technologies and, to the extent that the bulk of SMEs are usually found in the countryside, they help raise rural incomes, thereby arresting migration to urban centres.

As beneficial as SMEs are to the economy there have so far been mixed results in attempts to promote them. These enterprises seem to be fraught with three major problems. First, governments of many developing countries have only the vaguest idea of how SMEs are managed and operated, fit into a coherent development strategy, and can be promoted and developed to make the best contribution to the development efforts of an economy. Second, while their principal need is for credit and business and technical advisory services, these have not been readily

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[1] World Bank, Malawi - Basic Economic Report, Washington, D.C., 1982

available to them. Third, where the services that are most needed by these enterprises are available, they are often not effectively delivered. Government ministries and departments are generally neither well placed nor do they have the capacities and capabilities to deal with small business problems which, by their nature, are diverse and localised. Similarly, non-governmental institutions have not had a clear idea of how to go about rendering financial, business or technical assistance. However, there is an overwhelming agreement among policy makers, aid donors and economists that the effort is worthwhile and that what is needed is to give the SME sector the necessary push and infrastructure for it to effectively contribute to economic development efforts.

In order to facilitate the development of SMEs in Malawi, a number of institutions have been established during the past eight years, specifically to provide finance, business and technical advisory services and entrepreneurial training. These are the Investment and Development Fund (INDEFUND), the Small Enterprise Development Organisation of Malawi (SEDOM), the Development of Malawian Traders Trust (DEMATT), the Malawi Union of Savings and Credit Co-operatives (MUSCCO) and the Malawian Entrepreneurs Development Institute (MEDI). Financial services are also available from institutions which have been in existence much longer, such as the National Bank of Malawi, the Commercial Bank of Malawi, the Post Office Savings Bank, the New Building Society, the Investment and Development Bank and the Government Loans Board.

Despite the numerous institutions that have been created to serve the needs of entrepreneurs in the SME sector, there is lack of information about the small- and medium-scale enterprise sector in Malawi. For detailed planning, accurate monitoring and evaluation of small- and medium-scale enterprise projects and programmes, and indeed for a comprehensive understanding of the sector and its potential and problems, accurate information must be available to the institutions (such as government, banks, SME development financial and service organisations and donors) that deal with the sector. In view of this, the government requested USAID to undertake this study, under the READI Project.

1.2 Description of the Study and its Objectives

The study deals with policies and programmes necessary to promote the growth of the small- and medium-scale enterprise sector in Malawi. The major objective is to provide a framework for promoting the sector through:

(a) an analysis of information on the current state and needs of small- and medium-scale Malawian entrepreneurs; and

(b) a shared understanding of the objectives, issues, constraints and prospects for growth of the sector among SME support organisations.

The study involves a critical review of significant constraints and barriers which impede the development of small- and medium-scale enterprise in Malawi. The major effort of the review is directed toward an analysis of the impact of the strongest barriers to rural-based enterprises and agrobusinesses.

After demonstrating the critical aspects of the constraints and barriers and their economic effects, the study will apply the evidence to an exploration of the area for improvements in policy implementation, including recommendations for new or reformulated policies and development programmes. The analysis and corresponding recommendations arise from a view that is committed to the promotion and growth of the rural and agrobusiness enterprise sector, while being consistent with the development strategy of the whole economy.

The critical review of the significant constraints and barriers impeding the development of the SME sector focuses on the following core areas:

(a) barriers to entry into, and constraints impeding the development of, small- and medium-scale enterprise;

(b) impact of government laws and regulations on SME development;

(c) profiles of Malawian SME entrepreneurs;

(d) demand for credit by small- and medium-scale entrepreneurs;

(e) SME savings capacity and sources of credit;

(f) demand for and supply of business and technical advisory services; and

(g) institutional analysis of SME policy, savings and credit institutions.

1.3 Research Methodology

1.3.1 Introduction

The study started in January, 1986 with the recruitment of librarians who undertook a survey of studies (SOS) on small- and medium-scale enterprise development in Malawi and elsewhere. Following the SOS, a desk unit study team (DUST) composed of a team leader, an economist, a statistician, a sociologist and a

businessman, was contracted to carry out an SME-needs assessment, involving government, financial institutions, donors and SME representatives, and to design the study. DUST identified the seven core-study areas for further investigation and analysis.

Seven principal investigators, one for each core-study area, and a study team leader were engaged in mid April to carry out the study. Their first task was to further research the literature, and it was soon apparent that there was real need for a more detailed national survey of SME-activity.

1.3.2 Survey Design

With the proposal to survey agreed upon, each principal investigator was given the task of drafting outcome statements that would summerise their conjecture, together with skeleton table requirements for subsequent analysis of the eventual survey results. These materials formed the basis for constructing a field questionnaire.

Next came the problem of how to sample SMEs active owners, or partners in SMEs. To a large extent the choice of methodology was prescribed by constraints in budget, the skills available and, most critical, timing; results were required within months rather than years and skills were available only from July to September, 1986.

A major problem was that there is no explicit population of SMEs from which to sample. SEDOM, DEMATT, INDEFUND and business licensing authorities provided lists of businesses known to them, but these in no way cover all SMEs.

An area probability-sampling scheme was considered but was rejected for reasons of logistics and cost. Such a scheme would have been statistically more desirable but would have involved:

(a) a division into smaller areas, such as the enumeration areas (EAs) used by the National Statistics Office;

(b) selection of a probability sample of EAs; and

(c) pre-surveys of each of the selected EAs to establish the population of business-types within those selected EAs.

Only then would it be possible to draw a genuine probability sample of SMEs and then there would have been the much greater practical problems of accommodating and moving teams both within and between EAs. In summary, there was not enough time, resources nor expertise to do all this.

The scheme finally adopted was business-type quota based, and strictly speaking was not a quota sample, for the numbers of entrepreneurs within each business type are also unknown. Nonetheless, the survey did make every attempt to represent all major business types throughout the country, and provides considerable information for any future surveys that can afford a more rigorous sampling scheme.

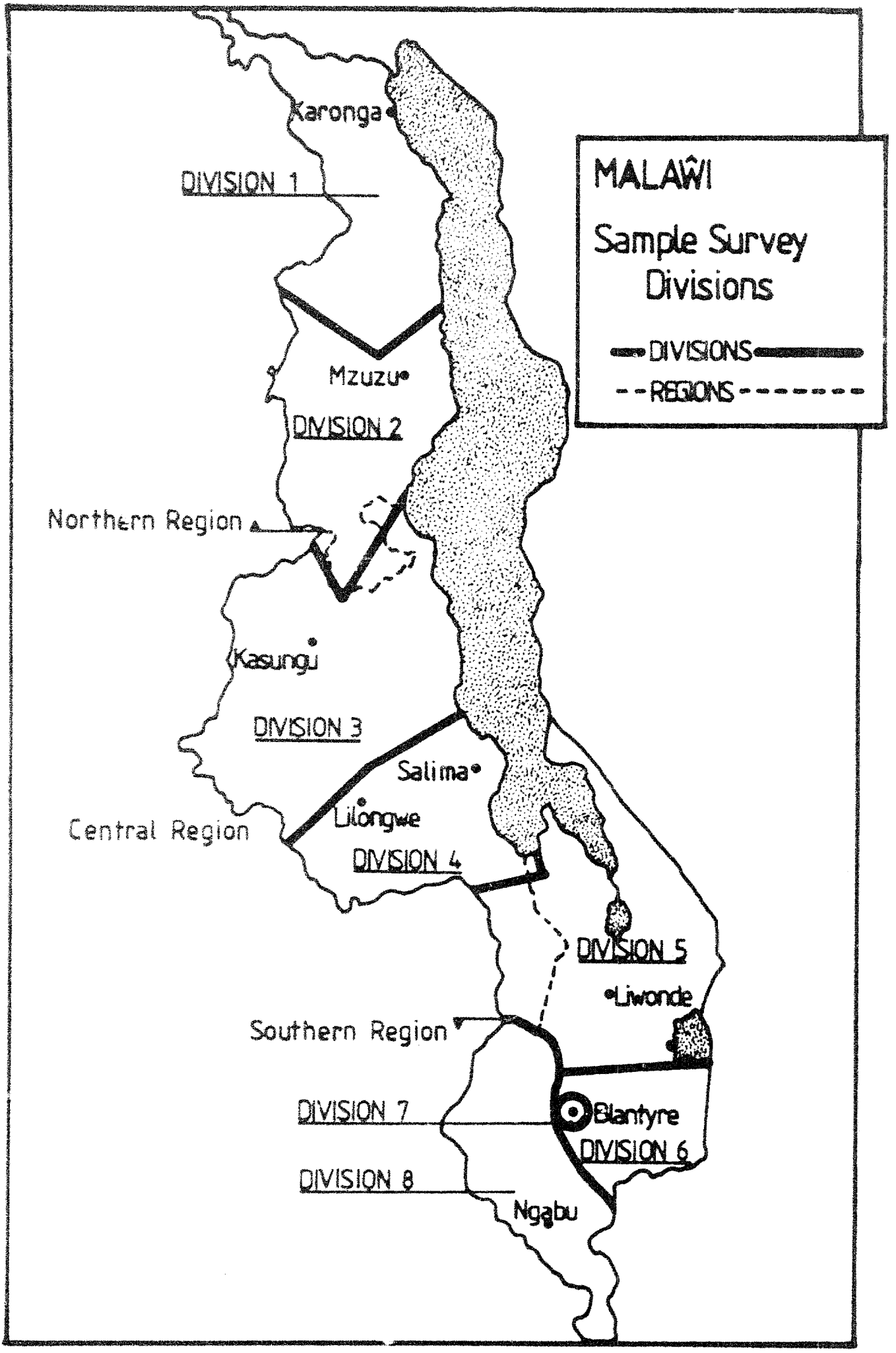
Thus, because this was not a probability sample, we are unable to estimate the absolute distribution of business types in the country. When quantitative information on the distribution of SMEs does emerge, as it will from the 1987 Census of Population and Housing, the results of the survey can be better generalised. Meanwhile, since the main objective was to investigate the problems that face SMEs, this survey can reveal and has revealed differences between sub-populations.

1.3.3 Survey Organisation

The country was divided into eight non-overlapping and exhaustive zones (see map on page 6). Each zone was assigned a team of five persons: four enumerators and one supervisor, with a vehicle, to cover that zone. Each team was to conduct interviews with SMEs in and around pre-determined trading centres in their zone. The four-week period from July 28 to August 23 1986 (22 working days) was allocated for field work.

Enumerators were recruited from the undergraduate student population at the University of Malawi. Supervisors were selected from applicants for the positions. These people were not undergraduates, but older persons chosen for their organisational skills and initiative. All field staff underwent one-week intensive training in the purpose of the survey, interviewing techniques, the questionnaire itself and its translations into Chichewa and Tumbuka, and the field-procedures to be followed. All staff also conducted a series of mock and practice interviews at and around the training centre (Bunda College of Agriculture) and some parts of the city of Lilongwe before going into the field.

The supervisors' main tasks were: to arrange interviews for their enumerators on a day-to-day basis, to check their work, to make regular twice-weekly returns of batches of questionnaires to headquarters in Lilongwe, and to keep the team on its pre-determined itinerary. Businesses were not selected at random; rather, supervisors were instructed to use listings of businesses which had been provided by SEDOM, INDEFUND, DEMATT and business licensing authorities, together with local inquiries they themselves would make, to achieve a reasonable balance in the business types in their zone.


MALAWI
Sample Survey Divisions
DIVISIONS
REGIONS
Karonga
DIVISION 1
Mzuzu
DIVISION 2
Northern Region
Kasungu
DIVISION 3
Salima
Lilongwe
Central Region
DIVISION 4
DIVISION 5
Liwonde
Southern Region
DIVISION 7
Blantyre
DIVISION 6
DIVISION 8
Ngabu

Together the survey teams realised 1,383 usable returns. Using an estimate of 182,000 SME businesses derived from Ettema's study[1] for the total SME population, the overall sampling fraction is then about three-quarters of one percent. This fraction is to some extent immaterial, for it is the absolute sample size in the sub-populations to be contrasted, and their coverage, that really matter.

1.2.1 Coverage

The objective was to achieve adequate representation of small- and medium-scale business types that exist in the country. Table 1.1 shows the range and number of business activities that were covered in the survey grouped into an eight-fold classification based on the International Standard Industrial Classification (I.S.I.C.) by region.

TABLE 1.1 COMPOSITION OF TYPES OF BUSINESSES CONTAINED IN THE SAMPLE BY REGION (%)

Type of business	REGION			Row	Sample
	Northern	Central	Southern	total	size
Food processing	33	22	45	5	69
Clothing	39	23	38	9	124
Wood products	28	35	37	8	110
Other manufactures	27	27	46	9	120
Trade	26	35	39	41	576
Hotels, restaurants, bars	17	38	45	11	154
Services	30	28	42	15	203
Other	7	15	78	2	27
All businesses	27	32	41	100	1383

In the foregoing categorisation a few points of clarification are necessary: "food products" is largely grain-milling and bakeries; "clothing" is mainly tailoring; "wood products" are largely those of carpenters, furniture-makers, etc.; "other manufactures" is a category that consists mainly of such activities pursued by tinsmiths, potters, brick makers, etc; "trade" largely refers to retail and wholesale enterprises; "services" mainly encompass repair activities together with personal services such as those that barbers and photographers provide. "hotels, restaurants and bars" is self-explanatory; while "other" deals with miscellaneous activities that cannot easily be categorised within the other seven groups.

[1] Ettema excluded entrepreneurs with estimated value of capital investment greater than K25,000 while such entrepreneurs were included in the READI survey. See Ettema, W. Small-Scale Industry in Malawi, The Journal of Modern African Studies, 22, 3 (1984), pp.487-510.

The proportions of the different types of activities appear to be in line with those of earlier studies of Malawian productive enterprises. In 1977 the World Bank looked at small-scale enterprises. The report stated that there were large numbers of units in maize milling, carpentry, tailoring, tinsmithing, service and repairs and few units in food processing other than maize milling, leather-working, and metal-working other than tinsmithing. Ettema tried to do a complete survey of all small scale businesses in representative districts. This latter survey reported only on businesses with an estimated capital investment of less than K25,000 in 1983 and entirely excluded the trading sector. Tailoring was the predominant activity in the survey. Making an adjustment for the fact that only one out of three tailors were actually interviewed, tailoring accounts for nearly half of the sector. Tailoring makes up about one-sixth of the enterprises, excluding trading and primary production, in the survey of this present study. On the same basis, grain milling was 2.3% of the sector, carpentry was 6.0%, brick making was 0.2%, tinsmithing was 4.2%, and repairing was 14.5%. These proportions are not much different from the present survey.

1.1 Other Surveys

In addition to the main survey, which will be referred to as the BEAMI survey, there were other smaller surveys. These were:

- a sample survey of senior civil servants whose purpose was to gauge latent demand for credit;

- an institutional survey of SEDOM, INDEFUND and government departments concerned with the development of the SME sector. The results of the survey formed the basis for the institutional analysis of SME policy, savings and credit institutions, and

- a sample survey of SEDOM and INDEFUND clients based on records held by SEDOM and INDEFUND. The results were used for an analysis of the two institutions and their clients which was contrasted with the results of the main survey (BEAMI survey).

1.2 Data Processing

The data were processed using the BEAMI Project IBM XT micro computer with dBase III to create and maintain the data and SPSS PC+ to analyse it. As with all surveys the data had to go through several stages, namely, coding, editing, assembly, transformation, tabulation and other analyses.

CHAPTER TWO

SOCIO-ECONOMIC BACKGROUND TO SME DEVELOPMENT IN MALAWI

2.1 Introduction

At independence in 1964 Malawi had few indigenous entrepreneurs. It had no economically exploitable mineral resources and attracted little outside interest beyond being a source of cheap labour for Northern and Southern Rhodesia and South Africa. Apart from the foreign-owned tea and tobacco estates in the Southern Region, Malawi was largely a subsistence economy with non-monetary output accounting for almost one-half of gross domestic product.

As a consequence of the historical developments during the colonial rule, the country had seen little development except for a few trading companies, primarily set up to serve the expatriate community in procuring imported goods, and owned by either Asians or Europeans. The infrastructure that did exist was in the Southern Region, and the country relied heavily on external capital and manpower. Domestic savings were almost non-existent and most of the capital formation was foreign-financed.

Because the colonial administration neglected the education and development of human skills among the indigenous population, expatriates dominated the skilled job market. The few Malawians who went to work in South Africa, Northern and Southern Rhodesia did acquire some business and technical skills through informal on-the-job training; however, they were not encouraged to enter the private enterprise sector.

Having attained independence in 1964, the government decided to take full control of the economy through development plans whose aim was to correct the imbalance that had occurred during the colonial period. This was reflected in the first plan[1] following independence, whose main objective was to accelerate the pace of development with special emphasis on:

(a) expansion of agricultural production and exports;

(b) improvement of internal communications with a view to reducing transport costs and thus increasing the competitiveness of agricultural exports;

(c) expansion of facilities for secondary and post secondary education to provide skilled manpower essential for development, both in the civil service and in the private sector; and

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[1] Malawi Government, Development Plan for 1965-1969, Zomba.

(d) stimulation of the private sector, particularly of industrial development.[1]

2.2 Government Policy and Strategy

The current Malawi government development policies and strategies are laid down in the Statement of Development Policies 1971-1980 (DEVPOL).[2] The overall development policy and strategy has largely focused on large-scale enterprises in the agriculture, transport and manufacturing sectors with little attention being given to the promotion and development of small- and medium-scale enterprise. The exception has been in the field of smallholder agriculture where emphasis has been on the provision of agricultural extension services and farm input credit within the framework of the National Rural Development Programme (NRDP) and agriculture development projects prior to NRDP. The basic philosophy behind this approach has been to foster self-sufficiency in food production whose surplus, after domestic consumption has been satisfied, can be marketed. Government policies and strategies have not gone beyond small-scale primary production of agricultural produce whose production enters the domestic market either through informal and often unorganized channels or the Agricultural Development and Marketing Corporation network. Any processing of the agricultural produce into semi finished or finished form is either done by large privately owned foreign firms or parastatal bodies.

The economy is basically committed to a free enterprise system in which government keeps a relatively low profile, while exercising considerable regulatory functions through the Ministry of Trade, Industry and Tourism.

2.2.1 Industrial Policy

In the industrial sector, the government's long-term policies and strategies, as laid down in DEVPOL and with some subsequent amendments, form the official industrial policy whose [illegible]

[illegible] Government, Ministry of Finance & Economic Planning Division, International Conference of Partners in Development: Past Performance and Prospects for [illegible], 1983.

[illegible] GPE, Economic Planning Division, Statement of Development Policies 1971-1980, Zomba, 1971

(a) encouragement and promotion of private investment;

(b) growth of an export-oriented industrial base, as opportunities for import-substitution diminish;

(c) development of an indigenous Malawian entrepreneurial class;

(d) a more balanced regional distribution of industrial activity;

(e) an increase in industrial efficiency; and

(f) coordination of industrial planning and a clearer demarcation of responsibilities between individual government agencies

The government's role in the industrial sector is of a supportive nature, giving necessary incentives and infrastructure where required. This supportive role is exercised through incentives for industrial development. The following sections describe the more important of these industrial incentives and controls.

(a) Forms of Business Organisations

The law provides three ways of organising a business to cater to the resource endowment and preferences of entrepreneurs. These are:

(i) incorporation under the Companies Act, in which the business entity attains separate legal personality from that of the individuals setting the business up. The main advantage of the company is that it has power to own real or personal property and through this ownership can raise loans or mortgages and debentures;

(ii) partnership under the Partnerships Act, whose main advantage is that two or more persons are able to pool their resources; and

(iii) sole ownership, where an individual operates the business on his own and is liable for all the activities of the business.

(b) Licensing of Industries

The Industrial Development Act (1988) provides for the licensing of industries. The stated purpose of the act is to encourage and control the orderly promotion and development of industry. The act in general applies to industries which either employ two or more persons, or irrespective of the number of

persons employed, use machinery that provides mechanical power of not less than twenty-five horse-power (hp). With regard to clothing industries, the Act applies to any industry which employs five or more persons or uses machinery of five hp. For miscellaneous small industries, the act applies to industries employing three or more persons or using machinery of up to five hp. These small industries include metal furniture, confectionery products, pulp and paper products, baking, wooden furniture and other wood products and construction.

When it is deemed that additional incentive is needed in order to establish enterprises of national importance, provision is made for a licence to be granted providing exclusive production for a maximum period of five years. However, none are in force today.

(c) Industrial Incentives

Among the many industrial incentives provided to the private sector, the following are some of the important ones which may have a bearing on SME development:

(i) for infant industry, special protection for the local producer against imported products;

(ii) general rebates on import duties which effectively reduce tariff rates or remove the payment of duty; and

(iii) special duty drawbacks through which local manufacturers can claim reimbursement of tariff duties paid on imported raw materials which have been used in the manufacture of exported articles.

(d) Price Policy

Until recently, price control was exercised on a wide variety of locally manufactured and imported goods as a means of keeping down cost of living for lower income groups and at the same time providing sufficient incentive for entrepreneurs. The control mechanism ranged from a formal system backed by published laws, decrees and regulations to an informal understanding between government and the private sector, based on informal agreements.

Officially, most of the price controls, particularly in the informal system, have been dropped during the last two years through notices in the Government Gazette. The results of the READI survey and information obtained from discussions with officials at the Ministry of Trade, Industry and Tourism indicate the existence of other forms of price control exercised through wholesalers and local authorities.

(e) Tax Incentives

Industrial tax incentives consist mainly of special depreciation allowances and special write-offs for expenditures incurred before and during start-up. There are no tax holidays for new enterprises.

When DEVPOL was drawn-up it was recognised that the industrial tax incentives tended to favour more capital-intensive types of operations, thereby defeating the government desire to maximise domestic value-added and employment opportunities. It was hoped that the question of investment incentives would be reviewed early in the last decade.[1] Unfortunately, the review has not taken place.

(f) Provision of Industrial Infrastructure

Under this scheme the government provides industrial sites on which an entrepreneur can construct a factory without incurring too much expense by way of clearing land, and services such as electricity, water, telecommunications, etc. So far, serviced industrial sites have been provided in Blantyre, Lilongwe, Mzuzu and Liwonde. In addition, industrial estates for small- and medium-scale Malawian entrepreneurs have been developed in Blantyre, Lilongwe and at Liwonde.

2.2.2 Internal Trade Policy

The objective of Malawi's internal trade policy is to ensure efficient distribution of goods and services and the maintenance of price stability. For the marketing of agricultural produce there are two parallel systems, one for estate crops, the other for smallholder crops. The estate crop marketing is handled by large-scale enterprises while smallholder crops are handled by ADMARC and specialised smallholder crop authorities. ADMARC is also responsible for the supply of the major inputs for smallholder agriculture. In areas where ADMARC is unable to purchase crops and sell farm inputs, licensed buyers and sellers are engaged. In the recent past, licenced buyers and sellers have not been used on a large scale although the potential is there, particularly in the remote areas of the country.

In the area of merchandise trade, a small number of European and Asian agents, wholesalers and retailers dominated retail trade during the colonial period. In pursuance of its economic development goal of increasing the degree of local participation in business ventures, government started to restrict rural trading to Malawians, right from independence in 1964.

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[1] OPC, Economic Planning Division, Statement of Development Policies 1971 - 1980, Zomba, 1971, p.76

Meanwhile, in 1967 the Mandala chain of retail outlets closed its rural operations, leaving mostly Asian-owned shops in the rural areas. To facilitate the rapid participation of Malawians in retail business, the government established the Import and Export Company under the Malawi Development Corporation (a wholly government-owned development corporation) with the aim of improving distribution services in the rural areas and providing wholesale facilities. In addition, government set up the Development of Malawian Traders Trust in 1977 to provide technical assistance to small-scale traders who until now have been prevented from taking advantage of opportunities opened up for them in the field of rural trade by the government policy of restricting rural trade to Malawians only.

2.7 National Physical Development Plan[3]

The physical and economic structures of Malawi call for economic services which are well spread in order to serve the needs of the economy at minimal cost. Instead of spreading the services over many isolated rural locations it is necessary to group them at central places such as regional, district or trading centres in order to minimise travel costs, encourage the use of other services/facilities and create a market within reach of entrepreneurs in the surrounding areas.

The National Physical Development Plan deals with the spatial development aspects of national socio-economic development. It provides spatial, geographical and physical planning aspects of development. The plan is the basic instrument for providing both comprehensive spatial framework for the coordination and implementation of national development policy, and the optimum location of development projects of government ministries, departments, statutory organisations and the private sector. The plan follows the established concept of hierarchy of service centres whereby the highest level centres provide those services with the largest influence areas, and the low level centres cater to those local services which are needed almost daily.[4]

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[3] OPC. Department of Town and Country Planning, National Physical Development Plan, (Draft), April 1986.

[4] Ibid. p69

The recommended system of service centres consists of:

2 national centres
1 regional centre
7 sub-regional centres
15 district and/or main market centres
84 rural market centres
village centres (number of centres will be determined at district planning level)

Blantyre and Lilongwe have been designated as national centres due to the concentration of commercial functions and government functions respectively. They contain functions and services which have a nationwide influence area. Typical service facilities include central government functions, specialised health care, tertiary education, business, professional and personal services; international transport and telecommunication links.

Regional centres have an influence area which extends over five or more districts and their facilities include large-scale wholesale distribution and warehousing, regional ADMARC office, specialised retail shops, etc. Apart from Mzuzu in the north, the two national centres, Blantyre and Lilongwe, are also expected to provide functions of regional centres and all lower level functions.

Sub-regional centres have an influence area extending over two to six districts. Their functions include manufacturing, agro-processing, some commercial, business, professional and personal services, vocational training establishments and community services. The seven centres which have been designated as sub-regional centres are Karonga, Kasungu, Salima, Mangochi, Liwonde, Dedza and Bangula.

District and/or main market centres extend over an influence area the size of at least one district. Twenty five locations have been designated as district and/or main market centres and their facilities include industrial infrastructure, some banking facilities, agro-input warehousing, specialised retailing and wholesaling. Ten are centres of a higher hierarchical level (Blantyre, Lilongwe, Mzuzu, Karonga, Kasungu, Salima, Mangochi, Liwonde, Dedza and Bangula), while another ten are district administrative centres. The other five centres are urban places which have developed commercial functions on a reasonable scale and which are located in strategically good positions. These five centres are Euthini, Mponela, Monkey Bay, Ntaja and Phalombe.

Rural market centres are the hub of basic economic activities where rural inhabitants sell their agricultural produce and buy the goods and services they need. Their services include small retail shops, post office, health centre, mobile bank services, multi-purpose community halls, ADMARC facilities for agricultural input and output marketing, etc. A total of 84 rural market centres, 21 in the Northern Region, 33 in the Central Region and 30 in the Southern Region, have been designated by the National Physical Plan. Rural market centres are the lowest level that SEDOM, INDEFUND and DEMATT (or the expanded DEMATT) are intended to serve.[1]

The above hierarchical settlement structure is already being promoted and developed by government through two ongoing projects the Secondary Centres Development Project and the National Rural Centres Programme. The Secondary Centres Development Project concentrates on the development of regional, sub- regional, district and/or main market centres in the hierarchy while the National Rural Centres Programme is restricted to developing and improving rural market centres.

2.4 Structure of the Economy and Role of the SME Sector

2.4.1 Structure of the Economy

The structure of the economy of Malawi reflects the balance of resource endowment. The country is better endowed with arable land, favourable climate and unskilled labour than with minerals, capital and technical skills. Agriculture provides livelihood for close to 90% of the population, contributes just under 40% to the country's gross domestic product, provides 88% of its exports and accounts for no less than half of recorded paid employment. Within agriculture, smallholder agriculture, mostly subsistence, exceeds estate agriculture as a producer of foodstuffs, but not as a producer of export crops.

The other significant sectors are manufacturing and distribution which produce and sell the secondary products for which demand is stimulated by incomes originating in the agricultural sector. Public and other services also constitute a significant sector in the economy.

There have been major structural changes in the economy between 1967 and 1985. The share of agriculture has fallen from 51% to 38% as rising incomes and demand have stimulated rapid expansion of the secondary and tertiary sectors. In addition, agriculture has lost ground as a result of the slow rate of expansion of output in subsistence agriculture. This is evidenced by the decline in the share of subsistence agriculture in GDP

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[1] Ibid. table 3.6, pp.71-75.

from 36% in 1967 to 25% in 1980 (Table 2.1). The other components of GDP remained fairly constant during this period.

TABLE 2.1: SELECTED SECTORAL SHARES IN GDP

	1967	1973	1980	1985
Agriculture	51.1	44.9	39.4	37.7
(Monetary	14.7	13.9	14.5	8.2)
(Subsistence	36.4	31.0	24.9	29.5)
Manufacturing	10.9	11.2	12.0	12.5
Construction	4.0	4.5	4.8	4.3
Transport	4.9	5.1	5.0	5.7
Services	13.0	10.5	11.1	10.8
Other	16.1	23.8	27.7	29.0
Total GDP	100.0	100.0	100.0	100.0

Source: Department of Economic Planning and Development

2.4.2 SME Capital Formation and its Financing

Not much has been written about the size and significance of the SME sector in Malawi. From the little that has been written, it is not possible to establish the size and structure of investment in the SME sector. The level of monetary investment alone is probably small, but taking both monetary and non-monetary components into account, the magnitude of SME investment is sizeable.[1]

Similarly, the literature has little information on the size and significance of SME savings. The available information on the probable average savings rate of the sector i dicates that it is fairly low. Domestic saving rates for the economy have averaged 3-5% in the recent past, reflecting high inflation rates, relatively low rates of economic growth and the unsatisfactory performance of the economy.[2]

In order to have an idea of SME capital formation and its financing, attempts have been made using the national accounts figures produced by government to estimate the size of SME investment and its financing during the last few years. The method used was to estimate SME investment and savings using 1978 national accounts figures.[3]

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[1] Chipeta, C. (1981) Indigenous Economics (New York: Exposition Press)

[2] World Bank, Malawi - Economic Recovery: Resource and Policy Needs, An Economic Memorandum, 1985

[3] Estimates of gross fixed capital formation, broken down into large-, medium- and small-scale components, were last published for the year 1978 by the National Statistical Office.

For medium-scale fixed investment it is assumed that all of it forms part of SME investment. However, for small-scale fixed investment further adjustments have been made to the data because the indicator for small-scale investment is construction consisting of both dwelling units and business property. In the absence of information on small-scale fixed investment in dwelling and business construction, estimates have been made on the basis that construction of houses accounts for a higher proportion, probably 60%, than the construction associated with SME businesses (a ratio of 3:2)[1]. The size of SME investment in 1978 is, therefore, estimated at about K4.7 million (i.e. 2/3 small-scale plus all medium-scale investment). Applying the average growth rate of 13.5% per annum for small-scale investment for the period 1978 to 1986, the current (1986) size of investment is estimated at K12.9 million.

TABLE 2.2: GROSS FIXED INVESTMENT AND ESTIMATE SME INVESTMENT, 1978 AND 1986 (K MILLION)

	1978	1986
Gross fixed investment	247.1	307.8
Public	149.0	196.2
Private:	98.1	111.6
Large-scale	87.8	85.9
Medium-scale	1.0	N/A
Small-scale	9.3	25.7
Estimated SME investment	4.7	12.9

Source: Department of Economic Planning and Development, and estimates derived from government figures

The technique for estimating SME savings involves applying an average savings rate of 3%[2] to small- and medium-scale sector GDP at current market prices. Assuming that business savings are

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[1] The 3:2 ratio was obtained by expressing business income as a percentage of total income, excluding wages and transfers using information contained in National Statistical Office, National Sample Survey of Agriculture, 1980/1981, Zomba, 1984. The survey was limited to rural areas, but given the low degree of urbanisation, the proportions are fairly representative. The ratio of farm to business expenditure was also 3:2.

[2] World Bank, Malawi - Economic Recovery: Resource and Policy Needs, An Economic Memorundum, 1985, p.40.

proportional to the share of business income in total sector income, SME savings were calculated as 2/5 of total savings.[1]

TABLE 2.3: SME SAVINGS ESTIMATES, 1983-1986 (K MILLION)

	1978	1982	1983	1984	1985	1986
SME sector GDP at current market prices	404.4	586.3	674.9	797.1	931.8	1064.2
Savings (3 per cent of sector GDP)	12.1	617.6	20.2	23.9	27.9	31.9
SME business savings (Two-fifth of total)	4.9	7.0	8.1	9.6	11.2	12.8

Source: Department of Economic Planning and Development and our estimates

Until recently, SMEs have had little access to formal credit for starting up and expanding businesses. Information on commercial bank lending to SMEs is not available. In any case the number of advances from commercial banks going into SME investment is perhaps negligible as commercial banks do not lend for start-up capital nor to persons without banking track records, such as many small- and medium-scale Malawian entrepreneurs.

SME investment has, therefore, been funded largely by savings during the past years, as confirmed by the large proportion of entrepreneurs in the READI survey who started their businesses with their own savings from wages, farming and other businesses. Formal credit, of a limited size for SME investment, has only been available from 1982 to date (with the exception of the period 1978/1979 when the Investment and Development Bank made available K0.5 million through commercial banks).

Table 2.4 gives information on the financing of SME investment during the period 1978-1986. Clearly, even with the establishment of SME development financial intermediaries, the sector has continued to finance most of the capital formation from internally-generated savings. These results are also consistent with the finding of the World Bank that the household sector under which most of the SMEs fall "has been

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[1] SME savings are estimated as 2/5 of total SME savings, based on the proportion of business cash income out of total cash income derived from National Sample Survey of Agricultrue, 1980/81 report.

the only one to show a consistent surplus (savings greater than investments)".[1]

TABLE 2.4: SME SAVINGS, INVESTMENT AND CREDIT (K MILLION)

	1978	1982	1983	1984	1985	1986
Est. SME investment	4.7	7.8	8.9	10.1	11.5	12.9
Est. SME savings	4.9	7.0	8.1	9.6	11.2	12.8
surplus/(shortfall)	0.2	(0.8)	(0.1)	(0.5)	(0.3)	(0.1)
SME credit (INDEFUND and SEDOM)*	0.5	0.8	0.5	1.1	1.6	2.5
Balance	0.7	0.0	0.4	0.6	1.3	2.4

Sources: Study estimates, SEDOM & INDEFUND

* For SEDOM only term loans of K3,000 and above have been include.

2.5 Institutional Framework for SME Development

A number of government ministries, statutory bodies and private sector institutions play an important role in the promotion and regulation of the private enterprise sector in Malawi. Trade, Industry and Tourism, Agriculture, Forestry and Natural Resources are examples of ministries which directly influence the sector through promotional programmes of research, credit/financing and the provision of investment incentives. Others such as the Ministry of Finance and the Office of the President and Cabinet (Department of Economic Planning and Development) influence the sector through the setting of national economic policies and strategies. SME support institutions, such as INDEFUND, SEDOM, DEMATT, MEDI, RTS, Rural Growth Centres Project and MUSCCO, are responsible for implementing some of the government SME development programmes, while some large-scale enterprises (both private and public, such as MDC, Press Corporation Limited, SUCOMA, ADMARC, etc.) could and do play a part in promoting SME development.

2.5.1 Ministry of Trade, Industry and Tourism

The Ministry of Trade, Industry and Tourism is the government agency most intimately involved with small- and mediumscale enterprise sector, mainly because it is responsible for implementing government industrial and commercial policies. For operational purposes the ministry is divided into three functional departments; trade, industry and tourism. Given the terms of reference of the study, the focus will be on the trade and industrial departments.

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[1] World Bank, 1985 p38

The Trade Department

The Trade Department is responsible for the promotion and regulation of internal and external trade. In this regard, the department is responsible for:

(a) monitoring multilateral obligations pertaining to international commodity agreements and within the context of Malawi's membership in several international organisations;

(b) liaising with all institutions which are connected with commercial activities, such as the Malawi Export Promotion Council, DEMATT, SEDOM, the Import and Export Company of Malawi, the African Businessmen Association (ABA), the Registrar of Companies, District Commissioners for the promotion and administration of internal trade; and

(c) issuing import and export licenses.

The department has statutory responsibilities over incorporation and registration of trading companies, trading licenses, acquisition of land for trading purposes, regulation and supervision of co-operative societies, price investigation and inspection and assessing of weights and measures used in trading operations throughout the country.

As far as SMEs are concerned there are no clear policies or programmes in which the Trade Department is involved, apart from issuing trading licenses, which in most cases has been delegated to District Commissioners. The field infrastructure of the department, three regional trade officers stationed in Mzuzu, Blantyre and Lilongwe, is inadequate for effective performance of activities that would assist the Malawian SME trade sector.

The Industrial Department

The duties and responsibilities of the Industrial Department are geared towards the promotion and development of manufacturing industries. The department is primarily involved in those activities that flow from the Industrial Development Act, 1966, including:

(a) promoting the expansion of existing industries and the establishment of new ones which are both import-substitution and export-oriented;

(b) encouraging and promoting the development of Malawian entrepreneurship in the area of small- and medium-scale industry;

(c) undertaking analysis of industrial investments;

(d) assessing and reviewing industrial incentives such as tax rebates, exclusive protection and tariff protection;

(e) incorporation and registration of industrial firms; and

(f) licencing of industrial firms.

The department has a Small-Scale Industry Unit which was primarily created to:

(a) formulate and enforce government policies in order to create a climate favorable to SME development;

(b) promote small-scale industries;

(c) collect data and disseminate information pertaining to the development of small-scale industries; and

(d) advise small- and medium-scale Malawian entrepreneurs on licencing requirements, raw material procurement, marketing and financial assistance programmes.

The planned establishment for the unit was four officers: one senior industrial development officer, one economist, one industrial officer and one senior assistant industrial development officer. The unit is currently staffed by only two people and is therefore unable to deal affectively with problems facing small- and medium-scale enterprises.

2.5.2 SME Development Institutions

Investment and Development Fund (INDEFUND)

INDEFUND was set up under the auspices of the Investment and Development Bank in December 1981 and began its operations in early 1982 with the aim of providing medium-size loans (K20,000 to K100,000 initially and currently K30,000 to K150,000) to Malawian entrepreneurs who could not otherwise obtain funds for projects from INDEBANK or SEDOM due to loan size limits. Its priority funding is for projects that would promote exports, reduce imports, use domestically available raw materials, develop Malawian skills, increase the general production and productivity of the economy and contribute to creation of employment. Emphasis was to be upon productive projects rather than those in the trading and service sectors. However, since its inception INDEFUND has financed projects in such areas as manufacturing, services, tourism, agriculture, agro-industry,

fishing, trading and construction. INDEFUND's lending operations during the first plan period, 1982-1985 are given in Table 2.5.

TABLE 2.5: LOAN APPLICATIONS TO INDEFUND AND APPROVALS

	1982	1983	1984	1985
Loan applications received	320	203	315	190
Loans applications approved	16	7	22	26
Value of approved loans (K,000)	800	215	736	1,059
Funds disbursed (K,000)	176	423	1,149	1,787
Average loan size (K,000)	29	42	42	54
Annual rejection rate (%)	95	97	93	87
Rate of arrears (%)[1]	-	48	64	40

Source: INDEFUND

Apart from operating as a lending institution, INDEFUND is allowed by its charter to take up equity capital in projects. However, this has not been done yet, due to INDEFUND's capital structure which is predominantly made up of loan capital obtained through the Malawi government from outside organizations. In 1984 INDEFUND started to operate a business advisory service as an integral part of its development objectives, with a view to developing sound entrepreneurship and management skills for both clients and personnel.

INDEFUND currently charges interest of 16.5% on loans, the duration of the loan being two to 12 years with a maximum grace period of four years. Borrowers are required to make a contribution of at least 10% of the total cost of the project. They must also provide security in the form of debentures, mortgages or bills of sale, and life insurance.

INDEFUND is now implementing its second plan (1986-1988). The focus of the plan is to improve financial performance and to make INDEFUND self-sufficient as a development bank by: (a) securing adequate finance on softer terms for on-lending; (b) improving the productivity and efficiency of operations of its main branches - investigations, monitoring and business and technical advisory services; and (c) increasing income from projects through reducing the rate of arrears and bad debts.

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[1] Ratio of amount of money due for repayment but not paid at the end of the year and total repayment due at the end of each year.

At the time of data collection for this study, INDEFUND had 68 clients and their distribution by industry is shown in Table 2.6.

TABLE 2.6: DISTRIBUTION OF INDEFUND CLIENTS BY INDUSTRY

	Projects		Amount	
Industry	No.	%	Value (K)	%
Food Products	19	27.94	640,205	19.75
Textile Goods	9	13.24	542,800	16.75
Other Manufacturing	4	5.88	176,000	5.43
Agriculture and Forestry	10	14.71	579,000	17.87
Trade, Restaurant, and Services	21	30.88	969,749	29.93
Other (Quarrying and Construction)	5	7.35	332,800	10.27
Total	68	100.00	3,240,554	100.00

Unlike SEDOM, where the emphasis is in promoting manufacturing (the first three industries in Table 2.3 above), INDEFUND provides funds to all business sectors. Manufacturing accounts for 47% of projects and 42% of loan amount. Food processing accounts for 28% of all projects, but only 20% of loan amount.

Nine v three per cent of all projects, and the same proportion of loans, are controlled by male clients. There are only five female clients, with an average loan size of K44,160, compared with the 63 male counterparts with an average loan size of K47,932.

In terms of regional distribution, the south has 60%, center 22% and the north 18% of the projects funded by INDEFUND. The regional distribution of the projects may be a reflection of population distribution which is denser in the south, providing a ready market for products without incurring haulage costs. However, the distribution of projects is likely also to be a result of the location of INDEFUND offices in the Southern Region.

The 68 projects had created 1,232 jobs. Agriculture, trade and other industries (quarrying and construction) employ a higher proportion of the labour force than manufacturing. Looking at the average number of employees per project in each industry, construction and quarrying employ the largest number of people, followed by agriculture; food processing is the lowest. In terms of amount of loan it takes to create/save one job, again the same industries which have the largest average employment figures have the lowest loan/job ratio.

The Small Enterprise Development Organization of Malawi (SEDOM)

The Small Enterprise Development Organization of Malawi (SEDOM) was formed by the Malawi Government, with the assistance of the European Economic Community, in 1982. The purpose was to create an institution which would assist Malawian entrepreneurs who could not otherwise obtain financial assistance from the commercial banks and other financial intermediaries either because of the nature of the enterprise being proposed or the conditions and requirements of the lending institutions. SEDOM's trust deed empowers it to carry out, among others, the following functions:

(a) to provide loans to Malawian entrepreneurs;

(b) to acquire and improve land intended for rental or sale to Malawian entrepreneurs engaged in industrial ventures and to construct premises which Malawian entrepreneurs can rent or buy;

(c) to establish and operate schemes which can facilitate the purchase or hire of machinery, materials, parts and components; and

(d) to arrange, sponsor and co-ordinate any training activities which are related to the setting up and operation of industrial enterprises by Malawians.

SEDOM can extend a loan to the maximum amount of K50,000 at an interest rate of 16% per annum. A loan can be granted at three levels, depending on the amount. Loans up to K3,000 are approved by the General Manager, loans between K3,000 and K30,000 are approved by the Loans Committee and loans between K30,000 and K50,000 are approved by the Board of Trustees. Up to the end of August 1986, SEDOM had extended a total of 1,610 loans valued at K2,987,000. About 42% of SEDOM's clients are in rural areas. Table 2.7 below depicts the annual breakdown of loan applications received and approved, including total loan values.

TABLE 2.7: APPLICATIONS FOR LOANS FROM SEDOM AND APPROVALS

	1983	1984	1985	1986
Loan applications received	209	473	1094	1126
Loan applications approved	46	220	736	608
Funds disbursed (K1,000)	166	603	1327	891
Average loan size (K)	3600	2750	1800	1500
Annual rejection rate (%)	78	53	33	46
Rate of arrears[1]	-	2.4%	5.9%	9.4%

Source: SEDOM

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[1] Ratio of amount of money due for repayment but not paid at the end of the year and total repayment due at the end of each year.

Apart from proving the soundness of the venture for which finances are being sought, a prospective client must be prepared to meet 20% of the initial capital outlay and demonstrate that she/he has the requisite skills or experience for running the venture. Depending on the amount of the loan, a client may be required to have either life insurance or property insurance.

Four-fifths of all credit has gone into manufacturing, with very little left for the other industries. Food products and textile goods rank high in the manufacturing sector. This bias is in line with the policy of promoting either the import substitution or export sector.

Grain milling and tailoring together account for 39% of all firms granted credit. This is a large portion of credit to be going to only two types of industries.

The Northern and Central Regions have very few projects funded by SEDOM. The skewed distribution of SEDOM loans appear to be a result of the location in the Southern Region of management responsible for approving mini-loans. In recognition of the bias in the distribution of loans, SEDOM management has now devised a method whereby once a month the management reviews mini-loan applications at each of the regional offices and makes decisions right there.

There are biases within regions also. Districts further away from the regional headquarters tend to have fewer projects than the centres themselves. This is due to either lack of awareness of the existence of SEDOM, or to the distance, which makes owners unable to present their cases personally. Subject to availability of funds and competent personnel, SEDOM has drawn plans to open district offices to cater to rural communities.

Mini loans account for 90% of all projects and over 50% of all funds. Since they are many in number but small in value, they are not monitored thoroughly. However, considering the high proportion of the total loan portfolio they form, there may be need to monitor the use of the loans, maybe using DEMATT staff, who have a wider coverage of the country.

About 50% of all jobs are in the manufacture of wood, clay, and metal products, yet they represent only a fifth of all firms sampled, unlike food processing and textiles which together account for 60% of all firms but have only 26% of all jobs. Industries that produce wood, clay and metal products create more jobs and require less money to create one job than any of the other types of businesses funded by SEDOM.

SEDOM's future plans involve consolidating its current activities of providing financial, business and technical assistance. Apart from increasing its financial base, SEDOM intends to increase its manpower contingent within the next five years.

The Development of Malawian Traders' Trust (DEMATT)

DEMATT was established in 1978 with technical assistance from an American private voluntary organisation, Partnership for Productivity (PfP). The main purpose of DEMATT was to promote growth, expansion and further development of Malawi's private business sector, particularly the small- and medium-scale traders located in rural areas where Asian traders had previously been operating their businesses.

Under the pilot phase (1978-1981), DEMATT conducted a business advisory service which was designed to upgrade the entrepreneurial skills of Malawian traders and create awareness of the business opportunities offered by government. The business advisory service is mainly provided at the entrepreneurs' places of business where DEMATT business consultants assist clients on a one-to-one basis. Group training sessions are also held at convenient centres where there is a common training need shared by several business people.

DEMATT has 25 field offices, eleven in the south, six in the Centre and eight in the north, and each one of these is staffed by a business consultant. DEMATT assists a total of 2,000 clients throughout the country. Sixty per cent of these clients are in the retailing business, 30% are producers and 10% are in the services sector. The target number of clients by the end of phase II is 5,000. DEMATT hopes that the ratio will increase in favour of producers.

During phase II (1982-1988) a credit worthiness scheme, which was intended to improve the use of capital already existing in the rural areas and increase the capital flow through the provision of loans, and a mobile unit designed to provide services outside the major trading centres in the remote rural areas, were introduced. An accounting service offering sound accounting procedures to current and new clients at scheduled fees was planned but is still to be implemented.

The Malawian Entrepreneurs Development Institute (MEDI)

MEDI is Malawi's premier institution for entrepreneurship development. It is charged with the creation and expansion of the indigenous entrepreneurial community and promotion of Malawian entrepreneurship.

The objectives of the institution are achieved through numerous courses on how to start a business in manufacturing, retailing, and the service trades. The training combines both entrepreneurship and technical skill development for clients who do not have the proper background for starting a business. MEDI graduates are trained to be employers, not employees. As such MEDI hopes its graduates will assist in the creation and growth of paid employment.

The institute has been operational since 1981 under the Ministry of Labour. MEDI is a successor of what use to be called Vocational Training Institute (VTI) launched in the midi 1970s by the Ministry of Labour in the very premises now occupied by MEDI. It is jointly funded by the Malawi government and the United Nations Development Programme, and receives technical input from the International Labour Organization.

During the present phase of the programme (1986-1988), about 150 Malawians will receive training each year on or off the institute campus at Mponela, about 50 kilometers north of the Capital City, Lilongwe. So far no women have been included in the student population, but plans are under way to include women in the near future. The average cost[1] of training one graduate is currently (1986/87) around K10,800 and expected to drop to K3,600 in 1987/88 when the number of trainees nears the planned level of 150 graduates a year.

The institute currently operates a K200,000 UNCDF loan fund as seed capital for its graduates. Over K100,000 has been loaned to graduates so far. MEDI is therefore a full-fledged financial intermediary for its graduates. It also has close liaison with other funding agencies active in small- and mediumscale enterprise development in Malawi, such as SEDOM and MUSCCO.

The major constraint in the training of entrepreneurs is the limited number of entrepreneurs the institute can train in a year.

Rural Trade School (RTS)

The school was established in 1975, with West German government assistance, but now is fully Malawian run and financed. The objective of the school is the development of rural entrepreneurs as opposed to MEDI's emphasis on rural and semi-urban entrepreneurs. As such RTS and MEDI complement each other. Entry qualification is usually form II education level although some candidates with only primary school qualifications have been trained at the school.

The first year is spent in gaining familiarity with tools of their trade, and the second learning how to make products which have been identified as being needed in the rural settings where they will be placed. They are also taught basic business management, some of them eventually become DEMATT clients and receive more on-the-job training in business management. The school also provides up-grading courses during school holidays to train the graduates make new products which have been found to be needed in the rural areas.

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[1] The average cost is composed of the annual operating budget plus amortisation of capital improvements, equipment and tools.

The graduates are placed in rural areas away from their homes. Each graduate is equipped with a tool kit containing some tools and raw materials, and signs a contract for five years in return for the assistance. Presently, there are 411 graduates still under contract, but only 242 of them still require RTS extension services.

The school claims that only 20% of the graduates abscond from duty, and that many of those absconding return to sign a new contract, and in return they get a new set of tools. Most of the graduates found in the field are living on a shoe-string budget, rarely earning more than K50-K70 per month, and in the case of the metalworkers, normally relying on repair work rather than production.

In the past the school tried a revolving fund, to provide the graduates with working capital to buy raw materials. Poor repayment record led to the discontinuation of the scheme; instead a bulk warehouse facility for the graduates to buy small quantities of raw materials at large quantity discount prices has been provided. In reality the facility is not often used because of the location of the graduates in relation to the school in Salima.

The school has nine technical instructors, but is critically understaffed, with the extension officer having to do teaching as well. The business and entrepreneurship training is very limited, characterised by the lack of business planning which may have contributed to financial difficulties in which many of the graduates find themselves.

The school is still teaching the same things that were taught when the school opened, and should up-grade the product range so that it is more in tune with the needs in the rural areas. However, the school provides a valuable service to other development institutions such as the Rural Growth Centres project, by placing the graduates in the centres. The operating budget is around K300,000 per year, about K7,500 per graduate.

The Malawi Union of Savings and Credit Co-operatives (MUSCCO)

MUSCCO was officially registered as a national organization of savings and credit co-operative societies or redit unions in September 1980. MUSCCO's philosophy and operations are aimed at achieving the following:

(a) to provide savings institutions in predominantly rural areas from which the mobilised capital can be used for credit by its membership to increase productivity and raise their standard of living;

(b) to promote the organisation and development of sound, self-sufficient credit unions in the country; and

(c) to promote a source through which outside funds and technical assistance can be sought to further the development of the credit union movement.

At the inception of MUSCCO there were 26 credit unions in the country with a total membership of 7,700. Total savings stood at K400,000 while total loans outstanding were K300,000. To meet its initial and developmental costs, MUSCCO was given a five year grant by USAID. At present, there are 58 credit unions with a total membership (as of 31st December, 1985) of about 14,500. At this date, the total loans outstanding amounted to K989,755 while total shares stood at K934,414, thus making K27,570 in reserves and total assets of K1,095,571. To service these credit societies, MUSCCO has three regional offices.

Commercial Banks

The two commercial banks account for most of the financial savings in the country. At the end 1983, for example, they held a total of K154.3 million in the form of time and savings deposits. The Post Office Savings Bank held K41.4 million in savings deposits at the end of the same year, while the New Building Society had K15.5 million in fixed, investment and savings deposits.[1] Savings and credit co-operatives barely had K1.0 million in share deposits at about the same time.[2]

The dominance of the commercial banks is due to the provision of a larger range of deposit instruments (savings, shortterm and time deposits of varying maturities), and a wider network of savings infrastructure which, in 1985 stood at 27 branches, 29 static agencies and 106 mobile agencies. These facilities have grown steadily in number since 1967 when there were 10 branches, 29 static agencies and 54 mobile agencies. In 1970, the comparative numbers were 17, 32, and 76, respectively.[3]

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[1] Reserve Bank of Malawi, (1985) Financial and Economic Review, Vol. XVII, No. 2

[2] USAID, (1983) The Private Sector and the Economic Development of Malawi

[3] Harawa, R. (1985), "The Changing Physical and Financial Structures of the Commercial Banking System in Malawi 1965-1984: Some Lessons," paper presented at the Southern African Universities Social Science Conference held at Chancellor College in July.

The Post Office Savings Bank has a larger network of branches and agencies, 113 and 51 respectively, and is open more hours and days per week. Interest income on its own deposits is exempt from taxation, and it enjoys security and safety. It has lower minimum deposit balances and withdrawal is allowed at any post office. But, as its clientele consists of small savers, it does not have as much money in deposits as each of the commercial banks. The fact that it does not lend money to the general public acts as a disincentive to banking with it.

The New Building Society is open about the same length of time per week as the Post Office Savings Bank and has a low minimum deposit balance requirement as well as several deposit instruments. However, it places restrictions on the amount of each savings withdrawal and has a more limited range of branches serving only five urban centres.

Savings and credit societies (credit unions) are fairly new, relatively few in number (58), small in size and do not cover the entire country. The low dividend rate allowed on shares compares most unfavourably with interest rates paid on fixed investment, short-term and savings deposits at commercial banks. In addition, they do not offer alternative savings deposit instruments.

Informally, savings are held in the form of currency at home, through rotating savings and credit societies and through giving money to other people for safe-keeping. The amount of savings held in this form is not known and it does not earn interest. Lending at high rates of interest is done through informal money lenders. The Money Lenders Act limits the maximum interest rate to 30%. Illegally, rates above 30% are charged. This does not appear to deter borrowing, largely to finance consumption.

The two commercial banks do not provide credit to SMEs for several reasons. The following are some of the major reasons advanced by commercial banks:

(a) it is costly to deal with large numbers of SME borrowers, and given the interest rates which are fixed by government, there is a feeling that the rates do not reflect the real cost involved in providing credit to the SME sector;

(b) SMEs are considered risky borrowers and commercial banks are not in the business of lending money for start-up investments, particularly to entrepreneurs without a track record, as many of the small- and medium-scale Malawian entrepreneurs are;

(c) historically and by purpose the target group of commercial banks' customers in Malawi has excluded the

SME sector, particularly the small-scale enterprise entrepreneurs; and

(d) given the difficult liquidity position faced by the two commercial banks from time to time, the money is not there to engage in lending to the SME sector.

2.5.3 Institutional Linkages

While the Ministry of Trade, Industry and Tourism is the government agency intimately involved with commerce and industry, other ministries and specialised government agencies are involved in and consulted on specific problems and policy issues. Key among those consulted on policy issues are the Department of Economic Planning and Development in the Office of the President and Cabinet (on industrial and trade policies), the Ministry of Finance (on industrial incentives and finance), the Ministry of Agriculture (regarding agro-industrial projects) and the Malawi Export Promotion Council (MEPC), on export promotion. The areas where there appear to be minimal linkages between the Ministry of Trade, Industry and Tourism and other government ministries/departments involved in SME development are in matters pertaining to training of entrepreneurs at MEDI, Rural Trade School, the Rural Growth Centres Project, the University of Malawi and technical schools under the Ministry of Education.

A number of parastatal body SME development institutions, DEMATT, MEPC and SEDOM report to the Ministry of Trade, Industry and Tourism and the Department of Statutory Bodies in the Office of the President and Cabinet on policy and technical issues. In all the three cases the Ministry of Trade, Industry and Tourism is represented at the board level. As of now there is no formal link with INDEFUND and the commercial banks.

CHAPTER THREE

DESCRIPTION OF THE SMALL- AND MEDIUM-SCALE ENTERPRISE SECTOR AND PROFILE OF SMALL- AND MEDIUM-SCALE MALAWIAN ENTREPRENEURS.

3.1 Introduction

Although the importance and size of the agricultural sector is usually a starting point in any description or analysis of Malawi, other sectors of the economy are important as well. The development of the agricultural sector, including fishing and forestry, is a well-measured success. Other sectors, such as trade and industry, have also had impressive growth.

The contributions to the Malawian national income of the non-agricultural sectors, however, are most visible in the activities of larger enterprises. Whereas much is known about the larger firms because they are covered by regular surveys for statistical use, information about the many smaller firms is sparse, often being merely names which are kept by local authorities. Many small economic activities are operated without being fficially recorded anywhere.

Consequently, virtually nothing is known about the size and the contributions to the national economy from the sector of small- and medium-scale enterprises. Nevertheless, development economists worldwide generally consider this sector of the economy to be especially important for the economic growth and development of any country, whether large or small, wealthy or poor, but especially important to the less developed countries.

As productivity increases and agricultural production is transformed by large structural changes, rural demography is also significantly changed: rural workers become available for non--agricultural employment, thus expanding supply in the labour market, and the remaining agricultural workers have greater effective demand for goods and services due to their rising incomes and expanding demand in the goods and services market. Not only is there a growing potential market for products and services which may be supplied by small- and medium-scale enterprises, there is also a national economic priority for the development of this sector because of its impact on the economy.

In the coming decades, according to the World Bank, a fast-growing number of workers in most developing countries "will seek employment in non-farm occupations - roughly two out of every three job seekers over the next 25 years". The World Bank study goes further to say that the absorbtion of "the growing labour force in productive employment is one of the principal challenges

of development".[1] It is likely that these challenges will be met, in part, through the development of the SME sector. Many economic advisers and policy-makers, including those at the World Bank, hold this view for several related reasons:

(a) the cost per work-place in small- and medium-scale enterprises is likely to be lower than for large firms;

(b) capital should be proportionately spent on capital intensive, as well as labour intensive businesses. It is recognised that capital intensive businesses give rise to support industries which help to develop the SME sector;

(c) technology needs to be developed to promote the growth of small- and medium-scale enterprises to make effective use of scarce capital and provide jobs;

(d) SMEs are better placed to make effective use of resources and raw material found in small quantities, and better able to serve small market needs than large-scale enterprises which need both large quantities of raw materials and substantial markets to make the business viable;

(e) relatively more unskilled workers and women workers are employed in small- and medium-scale enterprises; and

(f) the distribution of national income is improved by increasing income in poor households.

A policy of developing the economy's enterprises in agro-business is complementary to the development of the agricultural sector and logically follows the achievement of national self-sufficiency in the production of food. An important approach to a continuation of the momentum of the past economic progress would be, for the reasons listed above, one of building entrepreneurship and enterprises of all kinds, especially in agro-business.

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[1] World Bank. Employment and Development of Small Enterprises, A Sector Policy Paper, Washington, DC: World Bank, 1978, p.11).

3.2 Description of the Small- and Medium-scale Enterprise Sector

The term small- and medium-scale enterprise could be defined in various ways, depending on the circumstances in which the term is being used. In this study an SME is defined as any business engaged in manufacturing, processing, assembling, provision of services, repairing or trading, owned and operated by Malawian private citizens.

Characteristics of the small- and medium-sized businesses in Malawi generally reflect the level of development of the economy. The summary of the READI survey (Table 1.1), shows that most of the businesses are in:

(a) trading activities - bars, retail and wholesale trade;
(b) service activities on a small scale - repair of shoes, radios, watches, and motor vehicles; restaurants, bars, rest-houses and hotels; and

(c) a few common manufacturing activities - clothing, carpentry, sheet metal products, and agricultural hand tools such as hoes.

These enterprises require relatively little capital t start and operate. They are typically artisan activities or small shops, dealing in commodities for basic consumption and serving small markets which are fragments of a larger economy-wide market. Accordingly, most of these businesses produce or trade in very small quantities and employ very few persons, usually only the owner of the business and perhaps, particularly in trading businesses, the spouse.

3.2.1 Structure of SME Investment

Data on the amount of money invested by SMEs in various industries is not available in the national accounts or any other published source. Thus, data generated by the READI survey was used to get some idea about the structure of SME investment.

In terms of the amount of money invested in different SME industries during the past, the most prominent industry is the wholesale and retail trade sector which accounted for 34% of total investment. Restaurants, bars and hotels accounted for 27%, other manufacturing 10%, textiles and clothing 8%, food processing 8%, and services 8%. The rest of the sectors accounted for claimed lower proportions of total investment.

With regard to the size of initial capital, three-quarters of the businesses in the READI survey were started with less than K1,000, while less than 5% started with more than K10,000 (Table 3.1).

TABLE 3.1: DISTRIBUTION OF BUSINESSES BY SIZE OF INITIAL CAPITAL

Initial Investment (K)	Businesses (%)
0 - 100	6
101 - 1,000	72
1,001 - 10,000	18
10,001 and over	4

Within business types there are large variations in the amount of initial investment. The following table shows that in most types of businesses the standard deviation in initial investment is three or four times the size of the mean amount, and as much as 15 times in the group of bars and restaurants.

TABLE 3.2: VARIATION IN INITIAL INVESTMENT (K,000)

Business type	Total	Mean	Std. Dev.
Agriculture, mining	25.1	1.3	1.5
Grain-milling	180.4	6.0	5.3
Other food & beverages	45.2	1.3	5.1
Clothing, tailoring	51.1	.5	1.6
Other tex. & leather	184.8	15.4	35.8
Wood furn. & carpentry	19.0	.2	.4
Other wood products	10.1	1.2	2.1
Brick-making	4.2	.6	.5
Tinsmithing	39.5	.8	4.2
Other manufacturing	243.4	4.1	12.5
Other industry	5.1	.8	.5
Trade	1,003.0	1.8	7.8
Bars, restaurants	347.8	2.8	25.5
Hotels & rest-houses	434.1	19.7	31.6
Repairs	39.7	.2	.7
Other personal services	173.9	4.4	23.9
Other	141.6	17.7	31.9
Total	2,949.8	2.2	12.4

In the largest group of businesses, retail and wholesale trade, the average initial investment was less than K2,000 and it was less than K3,000 in bars and restaurants. The smallest starting capital is reported by the producers of wood furniture who invested an average of K210 and the group of repair services which were started with an average of K280. Next lowest initial capital investments are in clothing and tailoring (K510) and brick-making (K600).

Among the businesses having a relatively large initial investment, bars and restaurants, with an average initial investment of K2,900, have the lowest mean starting investment. This is exceeded by other manufacturing at K4,200, other personal services at K4,500, and grain milling at K6,000. The largest average initial investment is found in hotels and rest-houses at K19,700, other businesses, (which include construction) at K17,700, and textile and leather (other than clothing and tailoring) at K15,400. The average size of investment of this latter group is heavily influenced by investment in the shoe-making industry.

The regional distribution of size of initial investment is very uneven. Clearly the largest initial investments are placed in the Southern Region and the smallest in the Northern Region, as the following table shows.

TABLE 3.3: REGIONAL DISTRIBUTION OF BUSINESSES BY SIZE OF INITIAL INVESTMENT (%)

Region	Less than K50	K51 - 200	K201 and over	Total
Northern	41	45	14	100
Central	22	60	18	100
Southern	19	52	29	100
Total	26	53	21	100

Nearly all businesses were started with the owners' own funds; 85% of all sole owners and 76% of all partnerships financed their capital investments from their own savings. Frequently the savings came from earnings or sale of other businesses. Relatives or friends were the source of loans for 6% of the sole ownership businesses and 7% of the partnership firms.

The size of investment, initially and currently, tends to be somewhat larger in the partnerships. Moreover, the size of the individual owners' own contribution to capital funds is smaller in partnerships than in firms under one owner. The largest average amount of capital funds went into starting a business in the Southern Region and the smallest average amount in the Northern Region. The pattern of size of initial investment and current value of capital among the three regions is significantly different.

In comparison with the amount of initial capital put into a business, the average present value of fixed capital investment is nearly four times greater (Table 3.4). However, the relative sizes of present value of fixed capital among the various types of businesses are about the same as for start-up investments.

Table 3.4: AVERAGE CURRENT CAPITAL INVESTMENT BY TYPE OF BUSINESS (K,000)

Business type	Total	Mean	Std. Dev.
Agriculture, mining	106.4	5.9	7.5
Grain-milling	373.5	13.3	9.1
Other food & beverages	132.6	4.1	8.1
Clothing, tailoring	411.7	3.8	9.2
Other tex. & leather	150.8	11.6	29.2
Wood furn. & carpentry	237.6	2.5	7.0
Other wood products	42.1	5.8	13.8
Brick-making	7.0	1.0	1.7
Tinsmithing	262.0	5.9	24.5
Other manufacturing	719.4	11.9	25.2
Other industry	111.5	13.9	30.2
Trade	5,255.4	9.6	21.7
Bars, restaurants	955.2	7.4	27.5
Hotels & rest houses	845.3	36.7	44.8
Repairs	660.4	4.3	15.4
Other personal services	730.7	17.4	78.3
Other	855.7	106.9	152.8
Total	11,862.9	9.0	28.3

Capital investment put into starting up businesses in the SME sector has a trend growth rate of 5% over the past two decades (1965-1985). Of the sectors for which the estimated rate of growth is statistically valid, the fastest growing business investments are in manufacturing, specifically in food and beverage production, including grain milling, tinsmithing, and tailoring. Investment in retail and wholesale trading has also increased at a fast rate. Table 3.5 shows the estimated growth rates of the total amount of investment, in current prices, in new businesses in the SME sector. The growth rates are estimated from information about currently operating businesses.

This pattern, which is not likely to change in the near future, largely reflects the structure of demand for goods and services in the economy. At the present stage of development, most of the consumer expenditure [illegible] directed to satisfying demand for goods rather than for services per se. But the pattern also reflects ease of entry into wholesale and retail trade where the amount of capital required (average from READI survey: K1,814 per enterprise), the technical and managerial skills needed and even the licencing requirements are not very critical factors.

TABLE 3.5: GROWTH RATES OF TOTAL START-UP INVESTMENT IN THE SME SECTOR, 1965-85

Industry class	Trend rate of growth (%)	Number of cases
Grain milling	7.7 **	31
Other food, beverage	10.9 *	33
Clothing, tailoring	7.1 *	98
Other textile, leather	31.6	11
Wood furniture	2.5	89
Other wood products	28.6	8
Brick-making	-19.7	6
Tinsmithing	9.5 *	43
Other manufacturing	3.3	59
Other industry	-87.4	6
Retail/wholesale	5.1 **	526
Bars, restaurants	1.4	124
Hotels, rest-houses	12.7	22
Repair services	3.6	149
Other personal services	3.4	33
Other businesses	6.9	8
Total	5.1 **	1246

* $P < 0.05$
** $P < 0.01$

3.2.2 Financing of SME Investment

The overwhelming majority of SMEs (91%) started business enterprises with their own savings. For 34% of the entrepreneurs, the source of savings was wage income, for 28% it was business income, and for 20% it was farm income. In terms of value, farming and businesses are each more important sources of savings than either employment or sales of possessions. Loans have played a relatively insignificant part in financing the start-up of new business enterprises. Hence, businesses have tended not to take up the business and technical advisory services of financial intermediaries and DEMATT.

With regard to expansion of existing businesses, the pattern of financing has been similar. Some 96% of all SMEs have funded business expansion out of business savings. Again, loans play an insignificant part in financing business expansion.

Of the total number of SMEs who were interviewed, only 16% applied for any loan during the previous two years. Almost half (49%) of those who applied for loans approached SEDOM. The other source worth noting was INDEFUND (12%). The main reason given for approaching these institutions was that they were the only financial institutions known to provide loans to SMEs.

Propensities to Save

Fifty per cent of the SMEs who were interviewed reported that they were able to save money. The distribution by region of those who were able to save was similar to the distribution of the survey sample as a whole. The implication of this is that SME entrepreneurs are able to save money and hence there are opportunities for mobilising savings in all the three regions of the country.

Ability and inability to save are related to a number of personal characteristics of the entrepreneurs. Sixty per cent of entrepreneurs with secondary school education are able to save, compared to 46% with primary education and 34% with no formal education. These differences are consistent with the finding that entrepreneurs with secondary school level education have a higher turnover than those with primary school or no education.

Marital status appears to be an important influence on the ability of entrepreneurs to save. Sixty-nine per cent of all single entrepreneurs were able to save, compared to 49% for married entrepreneurs, 20% for widowed and 37% for divorced entrepreneurs. These observations may be explained by differences in financial obligations between entrepreneurs of different marital status.

With respect to factors that have to do with the performance of the economy and the wider economic environment, adequacy of business income was mentioned by more than 51% of the entrepreneurs as the reason for their ability to save. Availability of banking facilities and the paucity of demands on incomes were mentioned by insignificant proportions of entrepreneurs. The proportion of target savers in the sample of entrepreneurs who are able to save was also small.

The percentages of entrepreneurs who were able to save exceeded 50% in tailoring, wood furniture and carpentry, retail and wholesale trade and in repair services. Other significant percentages were in bars, restaurants and night clubs, grain milling, and hotels and rest-houses.

Between urban and rural entrepreneurs, 50% of the former stated that they were able to save, as against 35% of the latter. A possible explanation of this finding is that urban entrepreneurs are more prosperous than their rural counterparts because of the larger demand for their goods and services.

The influence of changes in prices, in real income and in real interest rates on savings has been assessed by examining and analysing secondary data. In general an increase in prices lowers the ability of savers to save because it necessitates the expenditure of more resources to purchase the same basket of

goods and services than before, while a reduction in prices increases the ability to save. Thus, changes in prices and savings are inversely related. In contrast, an increase in real income raises the ability to save, while a reduction in real income has the opposite effect. Changes in real income and savings are, therefore, positively correlated. Gross national income data has been used to test both relationships.

Insofar as real rates of interest are concerned, an increase raises the opportunity cost of present consumption and so induces SMEs to save rather than to consume. This is known as the substitution effect of an increase in real interest rates, which is positive. On the other hand, an increase in real interest rates implies that the same amount of income can be earned by investing a smaller sum. This is known as the income effect of an increase in real interest rates and is negative. Where the substitution effect exceeds the income effect, more is saved, so savings grow. This is what seems to have happened in Malawi, as interest rates have been adjusted upward.

The positive association between changes in savings and in real interest rates has been confirmed by econometric testing, but the one between changes in savings and changes in real income has not been confirmed. The data to which the econometric testing has been applied and the regression results are presented in Volume II.

Modes of Saving

Commercial banks are the most popular savings institutions among small- and medium-scale entrepreneurs in all the three regions of the country, followed by the Post Office Savings Bank (Table 3.6). Hoarding of money in homes ranks third and the least popular institutions for SME savings are the New Building Society and credit unions. The commercial banks are used for savings, particularly by entrepreneurs who have had secondary schooling, while the Post Office Savings Bank is used more by entrepreneurs with little or no education, and the elderly. Hoarding appears common among entrepreneurs with little or no education.

TABLE 3.6: MODE OF SAVINGS BY REGION (PER CENT)

Mode of Saving	Northern	Central	Southern	Total
Commercial Banks	41.1	56.8	60.9	53.6
Post Office	27.1	19.7	14.8	20.2
Hiding/Hoarding	19.9	14.2	12.1	15.1
New Building Society	3.3	2.8	3.2	3.1
Credit Unions	2.0	0.0	0.0	0.6
Other	6.6	6.5	9.0	7.4
Total	100.0	100.0	100.0	100.0

Overall the deciding factors for selecting a mode of savings were: minimal withdrawal procedures (22%); closeness of savings institution or branch (15%); and security (11%). Among the reasons for saving, the following were the factors mentioned most by those who save at commercial banks: easy withdrawal procedures (16%); security (15%); number of branches (proximity to savings institution) (14%); and higher rates of interest on savings (10%).

TABLE 3.7: REASONS FOR SAVING WITH INSTITUTION BY SAVINGS INSTITUTION (%)

Reason for saving with institution	Savings institution					
	Post office	Comm. banks	Building society	Credit unions	Other*	Total
Easy withdraw procedures	24	16	28	0	36	22
Proximity to institution	31	14	3	0	2	15
Trust/security	9	15	11	0	5	11
Higher interest rate	3	10	11	0	2	7
Leverage for loan	2	3	18	83	4	4
Only institution known	7	6	0	0	1	5
Other	24	36	29	17	50	36
Total	100	100	100	100	100	100

* Includes hoarding

The single overwhelming reason for saving with a credit union by far is ability to borrow money (leverage for loan) from the credit union (83%). However, the results of the READI survey show that credit unions are used least by small- and medium-scale Malawian entrepreneurs as savings institutions. An interview conducted among employees of Chitedze Agricultural Research Station where there is a credit union revealed that low income levels and lack of knowledge of the operations of credit unions were the major reasons people do not save with the Chitedze Agricultural Research Station credit union.

3.2.3 Market Characteristics

Entrepreneurs in the SME sector appear to manage their businesses much less competitively than their large-scale counterparts. Undoubtedly the returns per kwacha spent on advertising or other forms of promotion and image-improvement are much lower for the smaller firms. Also, they stand to lose proportionally more if an outlay of funds does not reap the expected gains. The results of the study show that only 15% of the businesses sampled did any advertising.

Besides merely being cautious with regard to spending money on attracting customers, the entrepreneurs in the SME sector passively establish the prices of their goods and services. When setting the prices for what they sell, only 47% claim to heed the

prices set by other businesses and just a few more, 52%, consider what their customers are able to pay. Eighty five percent set prices relative to what they are charged by their suppliers, and as many as 73% claim that they consider government regulations, even though only a very few commodities are affected by price controls.

When asked which is the most important factor in setting prices - whether it is customers, suppliers, government regulations or prices charged by other businesses - more than two-fifths (43%) of the entrepreneurs answered government regulations, and nearly as many said suppliers. Nearly 14% give customers their first thought while setting prices and 5% think that prices charged by their competitors may be the most important consideration.

Some specific industries within the SME sector give greatest attention to their suppliers' prices. Those industries are the whole sector of textile and leather goods producers (including tailors), wooden furniture manufacturers, tinsmiths, repair services, and the groups of other manufacturing and other personal services. None of the sectors place either customers or the prices charged by other businesses as being the most important of these several price determinants. Proprietors of grain milling and brick-making businesses, however, rank customers next to government regulations in their considerations.

Looking at competitive pricing in another way, 60% indicated that they compete with big business but only a little over 10% of those compete against lower prices charged by a big business; that is, less than 8% of the surveyed entrepreneurs face effective price competition.

3.2.4 Licencing

When entrepreneurs were asked if they thought that all businesses like theirs should be licenced, a surprisingly large number, 89%, answered yes. The affirmative answers were given for reasons which reinforce the impression that the entrepreneurs in this sector are not very independent-minded. Most (41%) took a legalistic view and simply replied that licenses should be required because they are required by the government. Another quarter of them said that the requirement for businesses to obtain licenses is good because it is a source of revenue for the government. Another 21% of them think that licenses protect their businesses. In other words, a licence gives a business a legal status, again a governmental viewpoint.

In all, 94% of the yes answers were justified by a need for official compliance, hardly an entrepreneurial spirit or feeling for laissez-faire in the sense of market freedom. Barely a tenth of the entrepreneurs think that licenses should not be required for their kind of businesses. Among these, tailors tended in this direction more than others.

The main reason for not favouring the requirement of licenses for businesses of their own type is simply that the requirement imposed unnecessary inconvenience or cost; SMEs should not be put to the trouble. This position was taken by 39% of those who gave a negative response to the question of whether licenses should be required. Of those who are not in favour of the requirement for a licence, a quarter tended simply to respond that licenses should not be required because licenses are not a government requirement.

In all, 87% of SMEs gave a response, whether for or against licenses, which is in accordance with what they view are the requirements or needs of government. Only 4% expressed the opinion that licenses cause the SMEs too much inconvenience, and 9% gave various other reasons. A plausible conclusion from these results may be that this compliant attitude prevails because licenses are quick, easy and cheap to obtain.

3.2.5 Partnerships

More than 96% of the sampled entrepreneurs are sole owners of their businesses. Only 48 out of the total of 1,383 surveyed businesses are partnerships. The number of businesses which are owned by one person and the number of partnerships are shown in Table 3.8.

TABLE 3.8: SOLE-OWNERSHIP AND PARTNERSHIP BY TYPE OF BUSINESS

Business type	Number of sole-owners	Number of partnerships	Proportion of partnerships
Agriculture, mining	18	1	6
Grain-milling	32	2	6
Other food & beverages	35	1	3
Clothing, tailoring	107	4	4
Other tex. & leather	10	3	30
Wood furn. & carpentry	98	3	3
Other wood products	9	1	11
Brick-making	7	0	-
Tinsmithing	42	3	7
Other manufacturing	52	8	15
Other industry	9	0	-
Trade	566	9	2
Bars, restaurants	124	6	5
Hotels & rest-houses	24	0	-
Repairs	154	4	3
Other personal services	40	3	8
Other	8	0	-
TOTAL	1,335	48	4

Partnerships are concentrated particularly within textiles and leather (30%), other manufacturing (15%) and other wood products. Only 2% of the trade sector are partnerships, especially in retail and wholesale firms where less than 2% are owned jointly by two or more owners. Many of these businesses are small grocery and bottle stores in which the work is shared by a man and his wife, who is virtually an unnamed partner. More partnerships are found in the ownership of bars and restaurants, where 5% of the enterprises are owned by more than one person. Only 3% of the repair services are partnerships.

Women tend to be involved in partnerships more than men. Of women owners who were interviewed, 8% were in partnerships, representing 15% of all partnerships, compared with only 3% of the men. Seven per cent of all respondents to the questionnaire were women.

3.2.6 Contract Business

About 15% of the SME sector supplies goods or services on contract. About three-quarters of those enterprises supply to other businesses and half supply to government on contract. That is, 11% of the SME sector delivers on contract to other businesses and 7% to government, with 5% delivering on contract to both.

Most businesses which produce on contract are in the manufacturing sector. The kinds of businesses and their relative sizes within their specific groups in the SME sector are wood furniture 38%, tinsmithery 40%, and other manufacturing 31%. A small percentage of contract goods are supplied by food and beverage producers, tailoring firms, and all trading businesses and services.

The data shows that a greater proportion of the businesses in the Southern Region (34%) work on contract than in the Northern Region (23%) or the Central Region (17%).

A greater part of the contract work in the wood furniture and tinsmithery enterprises tends to be for the government, while firms in the group of other manufacturers tend to do the greater part of their contract work for other businesses. Businesses in the Central Region are more likely to get government contract work and to work for both government and other businesses than are the enterprises in the Northern Region.

3.2.7 Implications for the Development of the Sector

While much of the preceding discussion has focused upon descriptive characteristics of SME in Malawi, there are nevertheless a number of policy issues that are illuminated by the general patterns revealed by this sample study. There is a

pattern of concentration of businesses in a very narrow range of enterprises and therefore more consideration might be devoted to ways and means of diversifying the pattern of SME development within the country.

3.3 Profile of the Malawian Entrepreneur

3.3.1 Introduction: A Typical Malawian Entrepreneur

The preceding section of the report provided a general portrayal of the characteristics of SME within Malawi. This section of the study endeavours to distill elementary and crucial attributes of the entrepreneur into a realistic portrait. While there is astonishing variety in the characteristics of entrepreneurs, there are also many important common traits.

The Malawian entrepreneur is a middle-aged man. He is invariably married and more often than not has six to ten dependents. The typical entrepreneur is usually an educated person, albeit to modest levels. He is also often cosmopolitan to some degree, having migrated either within the country or from outside the country. The Malawian entrepreneur does not come primarily from any particular region or religious or ethnic group. Finally, the Malawian entrepreneur often has a high degree of commitment to his business activity, the last characteristic being one which should give encouragement to all those who are involved in the active promotion of the SME sector in the country.

3.3.2 Personal Characteristics of the Entrepreneur

The study demonstrates clearly that the vast majority of entrepreneurs in the sample have a strong commitment to their businesses; 80% of the sample are full time business-persons. It is also quite striking, as Table 3.9 below suggests, that this level of commitment appears to prevail irrespective of the type of business activity being considered.

TABLE 3.9: TIME DEVOTED TO BUSINESS BY TYPE OF BUSINESS (%)

Type of business	Working time devoted business			
	Half or less	More than half	All the time	Total
Food processing	21	13	66	100
Clothing	7	12	81	100
Wood products	5	11	84	100
Other manufacturing	2	11	87	100
Trade	8	13	89	100
Restaurants, bars, etc.	10	12	78	100
Services	4	7	89	100
Other	19	12	69	100

The most striking aspect of the relationship between the normal monthly turnover of income and the time devoted to the business is that the latter is uniformly high and varies little regardless of the different levels of usual monthly turnover. Thus, 80% of those business people whose enterprises make K50 or less in a normal month spend all their working time on their businesses. Out of those enterprises that have a normal monthly turnover exceeding K3,000, 81% are run by people who devote all their working time to business activity. There is, moreover, little variation between these extremes.

If, on the other hand, normal levels of monthly turnover within those groups that spend different amounts of time on their businesses are examined, then it seems that the part-timers (i.e., those who sperd less than half their working time on their businesses) do rather better in this respect, as the accompanying table demonstrates. Within this group 17% turn over K100 or less monthly while 29% turn over more than K1,000.

TABLE 3.10: TIME DEVOTED TO BUSINESS
BY NORMAL MONTHLY TURNOVER (%)

Normal monthly turnover	Working time devoted to business		
	Half or less	More than half	All the time
Less than K100	17	41	37
K100 - K1,000	54	41	41
K1,001 - K3,000	16	11	13
More than K3,000	13	7	9
Total	100	100	100

Of those that spend half their working time or more on their businesses, 41% make a monthly turnover of K100 or less while 19% make more than K1,000 monthly. For the full-timers (those who spend all their working time on their businesses) the relevant figures are 37% and 22%, respectively.

What is remarkable about the Malawian entrepreneur is the fact that commitment to business activity is undiluted by other factors that one might have supposed would lead to partial rather than total involvement in business. It would be reasonable enough to suppose that a long-established entrepreneur might spend less time on business than a recently-established businessperson; however, the data show that irrespective of the age of the business, 80% of the entrepreneurs spend all their working time on their businesses. Even in the case of businesses established in 1965 or earlier, the figure is 77%. Furthermore, one would surmise that commitment to business activity would decline with the hiring of one or more workers, but again this is not the case. The bulk of the entrepreneurs spend all their working time on business and even entrepreneurs with firms employing five or more workers are mostly full-time in the businesses themselves.

The available information on the age of business people clearly indicates that there are relatively small numbers of youthful and elderly entrepreneurs in the sample. Entrepreneurs younger than 30 years of age only constitute 18% of the total, while the proportion of those 50 years and older is 26%. Thus, the majority of our business people (i.e. 56%) fall into the middle-aged category, i.e. those who are 30-49 years old.

For almost all of the age-groups, the most commonly occurring category is the medium-sized concern that has a normal monthly turnover of K201-K1,000. The exception is the under 25 category, where the largest number of businesses turn over K50 or less monthly.

If one studies the relationship between the age of the entrepreneur and the region of business location, then some patterns emerge. There is quite a high proportion of younger entrepreneurs in the north, possibly indicating a movement outward on the part of entrepreneurs from there when they reach an age at which they can realistically contemplate entering business. Table 3.11 illustrates the point.

TABLE 3.11: REGIONAL DISTRIBUTION OF ENTREPRENEURS BY AGE-GROUPS (%)

Age	North	Centre	South	Total
0-24	35	22	43	100
25-29	29	32	39	100
30-34	30	36	34	100
35-39	21	39	40	100
40-44	27	32	41	100
45-49	24	32	44	100
50-54	27	31	42	100
55 & over	30	26	44	100

Within those groups of enterprises that turn over relatively small amounts of money, there are rather more entrepreneurs from the north than one would expect, given the proportions within the total sample of business-people from various regions. Within the group of entrepreneurs from the north, 43% turn over K100 or less in a normal month. For the business-people from the centre and the south, those whose turnover is K100 or less constitute 29% and 37%, respectively, of their groups. It is also the case that within that group of entrepreneurs who come from the centre, 27% have businesses with a normal monthly turnover of K1,000 or more. This is a rather higher figure than for the other two regions

(Table 3.12) (18% for northern business-people and 21% for those from the south).

TABLE 3.12: MONTHLY TURNOVER BY REGION (%)

Monthly turnover	North	Centre	South
Less than K100	42	29	37
K100 - 1,000	40	44	42
K1,001 - 3,000	9	18	13
K3,001 +	9	9	8
Total	100	100	100

If one considers the relationship between the origin of the person running the enterprise and the region in which the business is set up, then it is possible to gauge to some extent the volume and direction of the interregional migratory flow of entrepreneurs (Table 3.13). The natural trend is for people to establish their businesses within the region in which they were born. However, entrepreneurs are opportunists par excellence and would be expected to move in search of business possibilities and in response to changing economic circumstances. It can be stated, albeit cautiously, that movements of entrepreneurs do indeed correspond to broader socio-economic trends. This is particularly noticeable because the Central Region is becoming a progressively more significant locus of growth in the economy.

Table 3.13: REGIONAL DISTRIBUTION OF BUSINESSES BY REGION OF ORIGIN OF ENTREPRENEURS (%)

Region of origin	Region of business location		
	North	Centre	South
North	76	8	4
Centre	10	71	7
South	14	21	89
	100	100	100

The evidence in Table 3.13 shows that there is a net flow of entrepreneurs from the Southern Region into the Central Region especially, and also into the Northern Region, and a smaller net movement from the Central Region into the Northern Region.

This is interesting, since the direction of the flow is counter to the relative sizes of the potential market, considering the regional distribution and density of population, but also it is an encouraging picture of the results of efforts for an equal distribution of national economic development.

Among the possible explanations, it may be said that the direction of the net flow is the outcome of a policy to replace non-African traders outside the cities, since the migration is measured for the whole sample, which is heavily weighted by trading businesses. A closer look at the evidence on a sector-

by-sector analysis may provide the basis for a more meaningful conclusion. On the other hand, however, the results may reflect the distribution of competition, with most business competition in the Southern Region, or distribution of finance capital and level of profitability of businesses, with capital and lowest rate of return in the Southern Region, hence the movement northward. This may be evidence of a favourable spreading of business acumen or technology. Again, analysis of the data at a disaggregated level might be important. Finally, it may show that the economic conditions of the Southern Region provide the most fertile soil for the production of entrepreneurs who took advantage of the business opportunities created by the move of the capital from the south to the centre, and the whole government policy of distributing economic development to the lesser developed regions of the north and centre.

Overall, the results of the READI survey show that a fifth of the entrepreneurs are running their enterprises in a region which is not the one from which they originate, suggesting that a large number of entrepreneurs in the SME sector are mobile and responsive to economic incentives and opportunities. Entrepreneurs from the south exhibit somewhat greater mobility.

However, the analytical report of the 1977 census[1] shows that the pattern of internal migration in the country generally is far more complex than is suggested above and that our results only give a very general approximation of the movements of the entrepreneurs in our sample over a lifetime. Our results show the original place of origin of entrepreneurs but reveals little or nothing of their movements either within the country or abroad. Moreover, while there have been generally recognisable volumes of inter-regional movements, this masks the fact of inter-district movement within regions. One implication of these points is that policies to assist the sector should not be designed on the basis of an assumption that the regions are homogeneous or that they have attained different levels of development. If internal movements really are an indicator of levels of socio-economic development, then policies should be targeted at the district level or at some similarly circumscribed area, in the geographical sense.

Further research on the relationship between the pattern of internal migration of Malawi's population and the movements of entrepreneurs might focus on districts with high or low levels of out-migration within regions. In 1977, for instance, the rate of out-migration of the population (whether to other districts within the region or to destinations outside the region) in

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[1] NSO, Malawi Population Census 1977: Analytical Report, Vol. II, 1984, Zomba.

Nsanje was approximately 34% while for Mchinji the corresponding figure was 10%.

In conclusion, a limited amount of information on personal characteristics of Malawian entrepreneurs can be gleaned from various studies that have been carried out in recent years. One study[1] notes that the entrepreneurs are predominantly young, i.e., 25-35 years of age, and that they are deemed to have an entrepreneurial spirit, thought to be ambitious and to value their independence. These supposed personal characteristics are derived from an analysis of attitudes towards saving and other pecuniary habits. The more recent study[2] undertaken in Malawi notes that only 12% of those entrepreneurs interviewed were female and that they were found to participate exclusively in certain types of business activity (e.g., beer brewing). The study revealed that practically all enterprises have owners/managers who are over 20 years old and half owners or managers who are over 38. It is surmised that the general pattern is that of fairly late entry into business. With regard to marital status, it was found that 84% of small-scale entrepreneurs were married. In the READI survey only 7% of those interviewed were women. In this study the number of married entrepreneurs was even higher than in Ettema's study, i.e., 91% of the total sample.

3.3.3 Family Characteristics

The importance to the study of the issue of family background rests upon the analysis of the effects of family life, notably family size and influence of the extended family, on business activity and performance. Naturally, the importance of family characteristics will, in turn, be affected or modified by other personal attributes of the entrepreneur or features of the business.

Available literature contains little evidence for assuming that family obligations and the extended kin group in particular retard business performance by diverting scarce and vital resources away from the business.

In the study the concern was to see whether or not a large family affected the normal monthly turnover of businesses and also whether family size bore any relation to the size of the work-force of the businesses studied. It was also hoped that some light might be shed on the association between family size and specified types of economic activity.

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[1] Arbell, M., Malawi: Small Scale Enterprise Development, World Bank, Washington, D.C., 1978.

[2] Ettema, W. Small-scale Industry in Malawi. Journal of Modern African Studies, 22 (3), 1984.

For the purposes of this study the focus has been on the number of dependents rather than the number of children. Grown children may have a positive effect on the household economy, but extended kin may also be a financial burden.

An important question is obviously that of whether the number of dependents has any effect on the performance of the firm, considered in terms of normal monthly turnover. However, before this issue is addressed it is important to point out that in general the Malawian entrepreneur has a large number of dependents. A quarter of the sample had more than ten dependents while only 4% had two dependents or fewer. A little over half of the sample had six to ten dependents. Table 3.14 below demonstrates that there is a relationship between the number of dependents an entrepreneur has and the normal monthly turnover of the enterprise.

TABLE 3.14: NUMBER OF DEPENDENTS BY NORMAL MONTHLY TURNOVER OF BUSINESSES (%)

Number of dependents	Normal monthly turnover			
	Less than K100	K101-1,000	K1,001+	Total
Less than 6	45	40	15	100
6 to 10	37	41	22	100
More than 10	22	46	32	100

It can be seen from Table 3.14 that out of those entrepreneurs who have a fairly small number of dependents quite a large number (45%) are involved in businesses with modest levels of normal monthly turnover (K100 or less). However, if one studies those entrepreneurs with a large number of dependents, only a little over a fifth (22%) are engaged in enterprises that have small monthly turnover. By contrast one can see that business people with small numbers of dependents are only rarely operating substantial enterprises. Of this group only 15% run firms that have a normal monthly turnover exceeding K1,000. At the other extreme, out of those entrepreneurs with large numbers of dependents, almost a third (32%) are running concerns with a normal monthly turnover in excess of K1,000.

Care must be taken with these results in order that causal fallacies are avoided. The likelihood in this instance is that as entrepreneurs operate increasingly bigger concerns, they assume responsibility for a greater number of dependents. It is unlikely, though not impossible, that a large number of dependents has a direct and positive effect on the performance of the firm, measured in terms of normal monthly turnover.

If we turn our attention to the relationship between the number of dependents an entrepreneur has and the size of the labour force, it is also evident that there is a strong

connection. Looking at those entrepreneurs with small numbers of dependents, well over a half (55%) are running firms with no employees and only 8% are engaged in substantial operations that employ five or more people. The contrast with those entrepreneurs with large numbers of dependents is readily apparent. Almost a third (32%) are running businesses with no employees, while quite a large number (22%) are running firms which employ five or more people (Table 3.15).

TABLE 3.15: NUMBER OF DEPENDENTS BY SIZE OF LABOUR FORCE (%)

Number of dependents	Size of labour force 0	1	2	3	4	5 or more	Total
Less than 6	55	15	10	6	6	8	100
6 to 10	41	18	11	8	6	16	100
More than 10	32	13	13	12	9	21	100

It is often assumed that an entrepreneur's dependents constitute a significant component of the SME work-force. However, this study suggests that this is not the case since only 8% of the firms studied have more than one relative in the work force. It is therefore not unreasonable to suppose that the relationship between the number of dependents an entrepreneur has and the size of the labour force is not dissimilar to the relationship between turnover and number of dependents. Hence, as a firm grows in terms of the size of the work-force, the number of dependents increases progressively.

3.4 Women and SME Development in Malawi

The concern with women's participation in SME is but a small part of a broader effort to recognise fully the central role that women play in the economy and society. This heightened awareness is at least in part a result of increased consciousness about women's rights in the west which has gradually extended to the "third world". This recognition has been slow in coming, however.

In a very real sense both the daily and long-term struggles of women have been "hidden from history", as one western feminist writer has put it. This observation is no less true when we consider studies of African SME. If we look at the study carried out in the mid-1970's by Dinwiddy[1] there is no mention of women whatsoever in a book that deals expressly with the promotion of African small enterprises.

It should be pointed out that the problem of the non-participation (or limited participation) of women in small

[1] Dinwiddy, B. Promoting African enterprise, Croom Helm, London, 1974.

businesses is not necessarily a phenomenon that is ubiquitous throughout the developing world. In a recent study Liedholm and Mead[1] demonstrate that for certain selected countries (i.e. Bangladesh, Egypt, Hondurus, Jamaica and Thailand) female participation rates in the sector are fairly high. Moreover, the types of activities that women are engaged in are not, according to this study, confined to a narrow field of activity. There are a significant proportion of women entrepreneurs involved in manufacturing concerns. As the above study puts it:

> "although female proprietors tend to be concentrated in the handicraft, garment and food-related industries, they are also found with some frequency in the furniture and non-metallic mineral industries."[2]

The READI survey has shown, in quite a remarkable yet disheartening way, just how few women are actively engaged in SME in the country. Women constitute only 7% of the sample. This is understandably a matter of concern for policy-makers and SME-promotion institutions but in many ways should come as no surprise.

Evidence gathered from SEDOM suggests that women entrepreneurs fare distinctly better than men in a number of significant ways and they also represent a more equitable proportion of institutional borrowers. However, these women are a rather special case; many of them are urban entrepreneurs who are probably married to professionals or other white-collar workers or are themselves in wage employment. They therefore arguably enjoy a number of distinct advantages vis-a-vis their rural and less-educated counterparts.

If one considers the economic activity status of women in Malawi as a whole it is clear that they are almost exclusively engaged in subsistence farming (i.e. as alimi). At the time of the 1977 census 94% of women in the working age range were alimi compared with a figure of 62% for men, and only 2% were self-employed (the most important category from the point of view of this study) compared to 7% for men[3]. Thus from the perspective of the national profile of women's economic activity it becomes clear why so few women were encountered in the READI survey.

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[1] Liedholm, C. and Mead, D. Smallscale Enterprises in Developing Countries: Empirical Evidence and Policy Implications, Michigan State University, Draft, December 1986.

[2] Ibid,

[3] NSO, Analytical Report of the 1977 Census, Vol. I, Table 6.2, p.169

At any rate, in spite of the small proportion of women in the READI survey, one or two general remarks can be made about the question of women's participation in SME. In the first place, women entrepreneurs have just as strong a commitment to business activity in terms of time spent on the business as men. Fully 85% of the women entrepreneurs (compared to 80% for the whole sample) work on their businesses on a full-time basis. Moreover, while the number of women who have been trained in running businesses is low (18%), it is no lower than the corresponding figure for men.

As far as their ages are concerned, there is no noticeable difference between the proportions of women and men entrepreneurs in various age categories. This is important since it is often thought that childbearing may have an effect on women's participation in SME. Basically, only 15% of women entrepreneurs are under 30, 55% are aged between 30 and 44, and just 10% are over 55 years old. Hence women entrepreneurs are predominantly middle-aged, as are men.

The number of women who are in recently established businesses is just as remarkable, if not more so, than the number of men; 63% of women are operating businesses that have been set up since 1980. It is also quite evidently the case that there is some indication that businesses operated by women are often growing in a healthy fashion. Fifty-six percent of the businesses operated by women have seen their businesses increase since the first year of operation and 48% have increased their number of employees since the year in which the business was established. Furthermore, and this is a particularly revealing figure, 27% of women are running businesses that turn over more than R1,000 in a normal month, compared to 21% for the entire sample. Finally, women entrepreneurs are positive and forward-looking insofar as 89% of them have no intention of leaving their businesses and 44% anticipate that they will employ more people in the future.

While only a small percentage of those interviewed in the READI survey were women, a sample of 1,000 business persons who had applied for loans from SEDOM indicated that 32% were from businesswomen or prospective businesswomen. While SEDOM applicants are admittedly a special case, there is rather more in the way of suitable data for analysis as far as women entrepreneurs are concerned.

The most striking aspect of the SEDOM information, as far as the gender question is concerned, relates to the rate of approvals of loan applications for men and women. As we have already noted, 32% of the applicants were women and 68% were men. However, while 66% of the applications from men were approved, the corresponding figure for female applicants was 83%.

An examination of the relationship between gender and type of business activity reveals some quite marked differences, both for those applicants whose loans were approved and for those whose applications were turned down. In looking at the latter, it is clear that women applied for loans for businesses falling within a very narrow activity range. Slightly over half (51%) of those applications from women that were turned down by SEDOM were either in food processing or textiles. Applications from men that were not acceptable to SEDOM were spread over a somewhat broader range of business activity. If we look at the SEDOM approvals, it is apparent that there is some concentration, within a narrow range of enterprises, for both the male and the female entrepreneurs, but that this is especially pronounced for the women clients. It could be argued that there is a conservative streak in SEDOM applicants irrespective of gender (of all the applicants 30% applied for loans for food-processing enterprises and 24% sought loans for textile businesses) and also that there is a particular reluctance on the part of men and women to participate in types of activities which are perhaps seen to be traditionally male or female preserves. Hence, if we look at the category other manufacturing, which comprises such activities as carpentry, pottery etc., then only 7% of women applied for loans for such types of enterprise in contrast with 26% of the male applicants. If we look at textiles, however, 45% of all women applicants sought financial assistance for these types of business in comparison with 14% for the men. At the other extreme, a mere 3% of women applied for loans for trade and service businesses. Table 3.16 below gives a useful impression of the way in which loans granted to males and females were distributed among various kinds of business enterprises.

TABLE 3.16: DISTRIBUTION OF SEDOM CLIENTS BY TYPE OF BUSINESS (%)

	Male	Female
Food Processing	33	31
Textiles	16	49
Other Manufacture	28	5
Agriculture & Forestry	11	10
Retail Service	6	1
Other Industry	6	4
Total	100	100

What the above table suggests, in relation to the concentration of activities within a limited range, is that while SEDOM's first concern is naturally commercial viability of enterprises, there is surely great scope for greater diversification and imaginative innovation, especially among the women entrepreneurs.

An analysis of SEDOM's information pertaining to business experience demonstrates that in general men have had longer experience in business than women. Thirty-four percent of males have had six or more years of experience in business, compared

with 18% for the females. Only 9% of all SEDOM applicants, regardless of gender, had no business experience whatsoever. Curiously, very few of these inexperienced entrepreneurs had their applications turned down (only one person in the sample), which either suggests that business experience at times counts for very little or that SEDOM is very lenient and supportive in its consideration of inexperienced applicants. As far as the approvals are concerned, the general pattern seems to reinforce the point that men are relatively more experienced in business than women. Thus, 46% of female clients have one year's experience or less, while for the males only 34% are inexperienced to this degree. Conversely, 31% of male clients have six or more years of experience in contrast to 19% for the female clients.

Among those applicants that were approved, 63% were male and 37% were female. When one studies the size of firms with regard to the size of their work-forces, it is evident that, given the ratio of male to female clients, the males are somewhat over-represented among the large businesses and slightly under-represented among small establishments. Thus, of those firms that have six or more employees, 80% are being run by males. Of those firms which only have one employee, by contrast, 42% are in male hands. This tendency could be partly attributable to the type of business activities that men and women become involved in, but it is equally likely that firms run by male clients are larger due to their having had a longer span of business experience.

A paper presented at a recent workshop on the advancement of women in Malawi praised the performance of women entrepreneurs and hinted at the great potential for expanding women's participation in SME[1]. However, many practical measures need to be taken to turn this potential into a reality. This is particularly true of the rural areas, where it has been reported elsewhere that only 1.5% of women are in non-agricultural family business[2].

3.5 The Malawian Entrepreneur and International Labour Migration

The phenomenon of migration is considered in relation to some background variables, together with those variables that are related to the question of business performance.

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[1] SEDOM, "Women in Small and Medium Scale Enterprises", A paper presented at the workshop on Malawi's Forward-looking Strategies on the Advancement of Women to the Year 2000, held in Lilongwe, September, 1986.

[2] Hirschmann, D. Women, Planning and Policy in Malawi. United Nations Economic Comission for Africa. (1984)

The proportion of entrepreneurs who have worked outside Malawi for a period of time exceeding nine months constitutes 33% of the overall sample. At the national level, about 17% of the total population aged 15 and over had worked abroad at some time prior to the 1977 census and the relevant percentages for males and females were 35% and 1% respectively[1]. Since the number of female entrepreneurs in the study sample is small (7%), we can say that there is a great similarity between the picture of international labour migration at the national level and the pattern which was discerned from the study sample.

If one compares the regional distribution of returned migrants at the national level, and the distribution of entrepreneurs who have worked abroad, among businesses located in the three regions an important discrepancy emerges. In our study sample the regional distribution is very even. Out of those businesses that are located in the Southern Region, 33% are being run by entrepreneurs who have worked abroad for periods of at least nine months, and the corresponding figure for the Central and Northern Regions are 34% and 32% respectively. However, if we look at the 1977 census data it can be seen that 42% of all former labour migrants are living in the Southern Region while the Central Region has 48% of all returned labour migrants and the Northern Region a mere 10%. It can therefore be argued that a greater proportion of returned migrant workers have entered into business in the Northern Region. On the face of it, this would seem to defy the logic of market potential, but it may have something to do with competition. A possible combination of some initial capital and negligible competition might have enabled more ex-migrants to start businesses in the Northern Region than in the other two regions. Nevertheless, this is a highly speculative observation which requires further research.

In general, if one looks at the categories of those who have and have not worked abroad, the shares of the various activities are broadly similar, with the highest number in the trade sub-sector. However, in considering the situation for particular enterprise groupings, it is noticeable that the group which includes rest-houses, bars, hotels, etc. (11% of the sample) contains a large number of entrepreneurs who have worked abroad. As many as 46% of those engaged in these types of businesses have worked outside Malawi for a period of time in excess of nine months.

Generally speaking, the countries of destination are the neighboring SADCC countries, together with the Republic of South Africa. When questioned about which country they had last worked in, 44% said the Republic of South Africa, 26% said Zimbabwe, 22% Zambia, with the remainder having worked elsewhere in Africa.

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1 NSO, Malawi Population Census 1977 Analytical Report, Volume I, Zomba 1984,

Of those entrepreneurs who had worked abroad, 51% asserted that this experience has assisted them in running their businesses. When questioned further about how the experience had been of benefit, they gave the responses set out in Table 3.17.

One finding of this part of the study is the fact that, of those who worked outside Malawi, while 37% were unskilled labourers, 27% were in production and services, with a total of 26% in the category of employment embracing professional, technical, administrative and clerical occupations.

TABLE 3.17: BENEFITS OF LABOUR MIGRATION

Benefits of migration	Cases	%
Initial capital	120	51
Business experience	43	18
Trade/vocational training	21	9
On-the-job experience	20	13
Business ideas	11	5
Academic/professional training	10	4
Total	235	100

As far as policy-making is concerned, this group serves as an exemplary case of entrepreneurs who establish themselves without the benefits of official assistance. It is therefore instructive to study such a potential group of rural entrepreneurs, particularly when one considers that 94% of returned migrants are living in rural areas[1]. The analytical report of the 1977 census discusses the types of economic activities that returned migrants are engaged in. Basically, 73% were alimi (subsistence and peasant farmers), 20% were employees and 7% were self-employed (family business workers and employees together only constituted 0.3% of the total). If we contrast this with the overall distribution of the working population by economic activity status then some differences emerge. At the national level 77% of the working population are alimi, 18% are employees and 5% are self-employed. It is clear from these figures that a larger proportion (20%) of returned migrant workers are self-employed than is the case for the working population taken as a whole (18%0). This is in line with the findings of our study and reinforces the need to study the erstwhile migrant workers as potential small- and medium-scale entrepreneurs.

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[1] Ibid., p. 184

3.6 Entrepreneurship, Education and Training

The basic point of the analysis of education and training is to arrive at some idea of the degree to which its presence is a spur to business success and its absence a constraint on SME development. What emerges from the secondary literature is a consensus that education and training alone are not significant factors but that they are tied up in important ways with many other variables such as access to credit, suitable location, etc.

Though the bulk of the literature attaches importance to education, with certain reservations, the findings from Zambia and Malawi are rather dramatically contrasted. The Zambian study asserts that while educational levels for entrepreneurs were higher than the average, the correlation between education and success was low, especially when other factors were considered.[1] In contrast, the evidence from Malawi indicated that while relatively few entrepreneurs had post-primary education they were nevertheless doing very well and were not confined to any one business category[2]. Their income was much higher than the others and they were also often employers. The same author has observed a similar correspondence between vocational training and business performance.

An immediate impression gained is that two out of three of the entrepreneurs sampled (67%) have received at least a primary education. Only a small proportion, about 9%, have received upper secondary education (form three and above) while a modest number (14%) have attended secondary school up to the junior certificate level. At the other extreme, a similarly small number of entrepreneurs (11%) have not attended school at all.

The normal monthly turnover of businesses in the sample is one factor which is being treated as an indicator of business performance. It is evident from the data that there is a meaningful relationship between this facet of business success and the level of education of the entrepreneur. The trend is noticeable for all levels of education, but it is especially marked with respect to those entrepreneurs who have reached the upper levels of secondary school. Out of those entrepreneurs who have reached this level, 29% estimated that their normal monthly turnover was in excess of K3,000. By contrast only 3% of those with upper secondary education state that their normal monthly turnover is K50 or less. At the other extreme, it is equally apparent that very few of the entrepreneurs who haven't attended

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[1] A. Beveridge, A.A. and Roberschall, A.R., African Businessmen and Development in Zambia

[2] Ettema, W., Small-scale Industry in Malawi. Journal of Modern African Studies, 22(3), 1984

school are to be found in businesses that usually have a monthly turnover in excess of K3 000 (5%). Of those entrepreneurs who have not attended school, 26% are to be found in enterprises which have a normal monthly turnover of K50 or less. Table 3.18 below illustrates these trends.

TABLE 3. 8: LEVELS OF EDUCATION OF ENTREPRENEURS BY NORMAL MONTHLY TURNOVER OF BUSINESS

Level of education	Normal monthly turnover: Less than K50	K51-100	K101-200	K201-1,000	K1001-3,000	K3001+	Total
None	26	13	14	31	11	5	100
Primary	23	19	14	27	12	6	100
Jr. Secondary	11	15	13	34	16	11	100
Up. Secondary	3	4	11	28	25	29	100

The data suggest that there is also a noticeable trend towards higher levels of school attendance among recently established entrepreneurs. Once again the trend is most conspicuous with regard to secondary education. Among those entrepreneurs who have attended school up to upper secondary level, 44% are involved in businesses that were established in or after 1985. Conversely, only 2% of those who attended upper secondary school were in businesses established in 1965 or prior to that year. The picture is also similar for those entrepreneurs who have been exposed to junior levels of secondary education. Of this sub-group, 36% were in businesses established since 1985 while only 3% were those founded in 1965 or earlier. The proportion of entrepreneurs who have attended school to upper secondary level is approximately 9% for the sample as a whole. Out of those enterprises established since 1985, 16% of entrepreneurs have attained this level of education. For those businesses set up more than twenty years ago, the proportion of entrepreneurs with upper secondary schooling is a mere 2%. The relationship between level of education and the year the business was established is depicted in Table 3.19 below.

TABLE 3.19: LEVEL OF EDUCATION OF ENTREPRENEURS BY YEAR OF START OF BUSINESS

Level of education	Year business started: Before 1966	66-75	76-80	81-84	85-86	Total
None	13	29	19	16	23	100
Primary	12	21	18	28	21	100
Jr. Secondary	3	11	23	35	26	100
Up. Secondary	2	[illegible]	18	23	44	100

In this study the number of workers employed in a given enterprise is a factor that is taken to be suggestive of the success of the business. The READI survey results demonstrate some relationship between levels of education and the size of the work-force. Of those entrepreneurs with upper secondary education, about a third (34%) are engaged in enterprises that employ five or more people. Out of the same group only 17% are involved in businesses that have no employees. For those entrepreneurs who have not attended school, half are in businesses with no employees and only 9% are running businesses with five or more workers. Among the group of entrepreneurs who are running the more substantial enterprises (those with five or more employees), 41% have received secondary education, whether at a junior or senior level, and only 6% of this category have had no schooling at all. The picture is rather different for those enterprises with no employees at all. In this category, 16% have attended secondary school while 11% have received no schooling. What should be borne in mind, however, is the overall pattern whereby approximately two in every three entrepreneurs have received a primary education. This pattern is modified when we look at enterprises with labour forces of varying sizes.

We can state guardedly that higher levels of education are positively correlated with certain aspects of business performance. It is therefore worth looking at whether certain age categories within the sample are being exposed to higher levels of schooling.

In appraising the correspondence between exposure to training and levels of education, it appears that it is those with higher levels of education who are most likely to avail themselves of opportunities for training (Table 3.20). It could be the case that training experience reinforces the advantages that already accrue to those who have moderately high levels of education. This observation clearly has important policy implications.

TABLE 3.20: EXPOSURE TO TRAINING BY EDUCATION LEVELS OF ENTREPRENEURS (%)

Level of education	Exposure to training		
	Trained in business	Not trained in Business	Total
None	14	86	100
Primary	20	80	100
Jr. Secondary	27	73	100
Up. Secondary	30	70	100

Table 3.21 below shows that those with upper secondary education are less likely to spend all their working time on their businesses but that this is the case only in relative terms.

TABLE 3.21: TIME DEVOTED TO BUSINESS BY LEVEL OF EDUCATION OF ENTREPRENEURS

Level of Education	Working time devoted to business			Total
	Less than 1/2	1/2 or more	All the time	
None	5	9	86	100
Primary	7	11	82	100
Jr. Secondary	6	13	81	100
Up. Secondary	20	14	66	100

Very few entrepreneurs in the overall sample have had any training in running their businesses. In general, the relevant figure is a little above one in five (22%). Nevertheless, there are substantial variations in the number of entrepreneurs in the sample who have been trained when one looks at specific business groupings. One can generalise by stating that out of those who are involved in productive enterprises, a higher proportion have had training than for the sample as a whole. Thus, of those in clothing businesses, 43% have had some training. For wood production (furniture-making, etc.) the respective figure is 35% and for other manufacturing (potters, smiths, etc.), 41% are trained.

With regard to tertiary activities such as trade, the reverse pattern obtains. Hence, only 11% of those engaged in trade have been trained. For those entrepreneurs operating bars, rest-houses, hotels etc., the figure is a mere 9%. An exception to this general trend can be found with those activities in the services category (repairs, personal services, etc.), where 35% have had some training, in contrast to 65% who have not. Table 3.22 illustrates these patterns.

TABLE 3.22: EXPOSURE OF ENTREPRENEURS TO TRAINING BY TYPE OF BUSINESS (%)

Business type	Exposure to training		Total
	Trained in business	Not trained in business	
Food processing	6	94	100
Clothing	43	57	100
Wood products	35	65	100
Other manufacturing	35	65	100
Trade	11	89	100
Restaurants, bars, etc.	9	91	100
Services	35	65	100
Other	22	78	100

3.7 Employment Patterns in Malawian SME

3.7.1 General Features of SME Employment

Overall, there were approximately 3,000 people employed in the businesses studied in the READI survey. The mean number of employees for the businesses sampled is 2.5; however, there are marked variations in that urban enterprises in the Southern Region have a mean number of workers of 4.6, while rural businesses in the Northern Region have a mean number of employees of 1.1.

It is clear that there are some significant trends in the way that the total number of employees is distributed among various activities. The two categories that encompass trade and bars, restaurants, etc. together account for 45% of the total number of employees in the overall sample. Furthermore, there are some discrepancies in that trade (which constitutes 41% of the sample) absorbs 25% of the total number of employees whereas bars, restaurants, etc. absorb 20% of workers while only representing 11% of the sample. In most other respects, though, the number of employees absorbed by various types of business activity corresponds to their relative significance in the sample as a whole.

3.7.2 Employment and Gender in Malawi's Small Businesses

As far as gender is concerned, there is a preponderance of males within the total number of employees in small enterprise. For the sample as a whole, 81% of employees are male while 19% are female. Table 3.23 illustrates that this preponderance applies irrespective of the type of enterprise. The closest that women get to parity with men is in those activities comprising bars, rest-houses, restaurants, etc., where 48% of the employees are women. This, however, can only be considered as a minor aberration within the general pattern. It is evident that employment opportunities for women in the small-scale enterprise sector are severely circumscribed and that this has far-reaching policy implications for the medium and long term.

TABLE 3.23: GENDER OF EMPLOYEES BY TYPE OF BUSINESS (%)

Type of business	Male	Female
Food processing	82	18
Clothing, leather products	76	24
Wood furniture & products	97	3
Other manufacturing	84	16
Trade	87	13
Hotels, restaurants, bars	52	48
Repairs, services	93	7
All other	91	9

If one examines the way in which male and female employees are distributed among various business activities, then similarly striking patterns emerge from the data (Table 3.24). In the first place, whether one looks at men or women it is apparent that employees are unevenly distributed among the various types of enterprise grouping. In the second instance, again regardless of whether we are considering male or female employees, most employees are found in trade and services sub-sectors. Thirdly, the disproportionate spread of employees among various types of business activity is especially pronounced for the women workers.

TABLE 3.24: DISTRIBUTION OF MALE AND FEMALE EMPLOYEES BY TYPE OF BUSINESS (%)

Type of business	Male	Female
Food processing	5	4
Clothing, leather products	5	7
Wood furniture, wood products	9	1
Other manufacturing	13	10
Trade	27	17
Hotel, restaurants, bars	13	50
Repairs, services	8	3
All other	20	8
Total	100	100

The implications for employment policy within the SME sector appear to centre around the enhancement of employment-generating capacity among specific types of enterprise activity and the generation of employment opportunities for women in particular types of enterprises in which they are clearly under-represented within the SME labour force.

3.7.3 The Rural/Urban and Regional Employment Profile

Another extremely important issue for SME development is the rural/urban balance of employment opportunities and possibilities for job creation within the sector. The data clearly show substantial variations in the ratio of rural-to-urban employees of small-scale enterprise between regions.

Out of the total number of employees in the SME sector, 78% are working in rural-based enterprises while 22% are working in urban businesses. The variations in the ratio are substantial but so also are the variations in the ratio of rural-to-urban businesses in the three regions. Out of the total number of enterprises that employ people, 84% are found in urban areas and 16% in the rural districts. In the north, 93% of businesses that employ people are in the rural areas. In the centre and the south the corresponding figures are 83% and 79%, respectively. Table 3.25 shows how SME employees predominate in the rural

areas. The main contrast is between the Southern and Northern Regions; in the south the pattern is largely attributable to urbanisation levels and the pre-eminence of Blantyre-Limbe in particular. However, this is a region in which there are some of the highest rural population densities in the country. Hence, a possible policy dimension is that of rural job creation in the context of a strategy that seeks to promote SMEs in rural areas with high potential levels of effective demand or market size. In looking at the Northern Region it is apparent just how high the share of rural employees can be within the overall SME labour force.

TABLE 3.25: RURAL-URBAN DISTRIBUTION OF WORKERS BY REGION (%)

	Urban	Rural
North	13	87
Centre	15	85
South	29	71

It is not only significant how many workers are employed in rural enterprise, it is also quite evident that both the urban and rural work forces are unevenly distributed among the various regions (Table 3.26).

TABLE 3.26: REGIONAL DISTRIBUTION OF URBAN AND RURAL LABOUR FORCE (%)

	North	Centre	South
Urban	8	20	72
Rural	15	33	52

Once again, if one considers the extreme cases, the Northern and Southern Regions, there are again some very marked discrepancies. In the Northern Region, for instance, we have seen that 87% of employees are in rural business, yet Table 3.29 shows that the share of the total national rural labour force in SME in the north is only 15%.

As far as the Southern Region is concerned, the ratio of rural-to-urban workers is lower than for the other regions, yet 52% of all workers in rural SMEs are to be found in the south. When it comes to the urban worker, it is also obvious that the bulk of them, almost three-quarters, are found in enterprises in the south. Businesses in the Northern Region only have an 8% share of the total number of employees in urban enterprises at the national level.

The data discussed so far give some interesting and important insights. However, it is helpful to get some idea of the way in which enterprises with small, medium and moderately large work forces are distributed in terms of the regional profile, and also with respect to those businesses which are in rural or urban locations.

If we look at the regional distribution of enterprises with labour forces of varying sizes, regardless of the rural/urban dichotomy, there are again some conspicuous patterns emerging. Among the larger enterprises, those that employ five or more people, 12% are located in the north, compared with 30% for the centre and 57% for the south. Within that category of firms that do not employ anybody (over 40% of the sample), 45% are in the north, 23% in the centre and 32% in the south. Of those firms that are moderately large with regard to the size of their labour forces (those enterprises that employ two to four workers), 18% are found in the Northern Region, 38% in the centre and 44% in the south. There are therefore regional imbalances not only among the work-force in a general sense, (insofar as the total numbers are unevenly distributed) but also in that the total number of firms with work-forces of different sizes are also unevenly spread.

Table 3.27 illustrates the marked contrast between regions as far as their labour-absorption capacity is concerned. The fact that 2/3 of enterprises in the north do not employ anyone is suggestive of an acute lack of employment opportunities in SME and is also, perhaps, indicative of poor performance in general. By contrast, in the centre and south only about a third of the enterprises have no employees.

TABLE 3.27: DISTRIBUTION OF BUSINESSES ACROSS REGIONS BY SIZE OF LABOUR FORCE (%)

Region	Size of labour force			
	0	1	2-4	5 +
North	66	11	17	6
Centre	32	20	34	14
South	34	17	29	20

Table 3.28 demonstrates how firms with work-forces of various sizes are distributed within urban and rural areas, as well as within regions, and the variations are substantial. If one looks at firms in the rural north, 68% do not employ anyone. The corresponding figure for the centre is 31%. If one looks at the urban areas there are also some marked contrasts. Of the urban firms in the centre some 11% employ five or more people in contrast to 27% for the urban south. It must be concluded that if employment creation is high on the agenda for SME development, then those wide discrepancies should be recognized.

TABLE 3.28: REGIONAL DISTRIBUTION OF URBAN AND RURAL ENTERPRISES BY SIZE OF WORK-FORCE (%)

		Size of Labour Force			
		0	1	2-4	5+
North:	Urban	48	16	16	20
	Rural	68	10	18	5
Central:	Urban	39	19	31	11
	Rural	31	21	34	15
South	Urban	40	14	19	27
	Rural	33	17	32	18

3.7.4 Some Reflections on the Employment Problem

The preceding discussion has involved an analysis of enterprises in terms of size and characteristics of the workforce. Considerable importance has been attached to this component of the study by some clients who are concerned with raising levels of income and effective demand in rural areas by means of effective employment creation in the SME sector. The READI survey incorporated a number of questions that furnish information pertinent to these issues and what follows are a few comments on some relevant secondary literature on the subject of employment patterns in SME.

One study which looks at patterns of rural non-farm employment within developing nations suggests that the major dimensions of the policy profile are four in total: the quantitative importance of rural non-farm activities, the sectoral composition of employment, equity implications and prospects for growth [1]. Many of these descriptive attributes of the employment profile of SMEs are covered in the READI survey. It is argued by some that SME absorbs labour and maximises scarce resources. Thus, growth of rural income and employment is a major spur to SME development. This is an interpretative issue, but the present study can contribute to discussions of it. Exploration of these issues are also justified, given the level of commitment to aiding rural enterprise and encouraging non-farm employment [2].

The summary of future employment prospects up to 1990 provided by the World Bank is in many respects a sobering commentary. The Mission concluded that even a sizeable expansion of formal sector employment would not solve the problems of a rapidly expanding labour force. It was assumed that most additional workers would have to be absorbed into non-estate agriculture or other informal sectors[3].

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[1] Chuta, E. and Liedholm, C. "Rural Non-farm Employment: A Review of the State of the Art", MSU Rural Development Paper No. 4, Department of Agricultural Economics, Michigan State University.

[2] World Bank, 1978

[3] World Bank, Malawi - Employment Aspects of Economic Development, Washington, D.C., 1981

CHAPTER FOUR

PROSPECTS AND CONSTRAINTS FOR SME DEVELOPMENT

4.1 Introduction

Development of the SME sector requires a thorough transition in the approach to setting development objectives for the sector and organising the structure of institutions through which technical assistance is or will be provided.

A system has been established for providing essential credit, entrepreneurial training, and business and technical advisory services to entrepreneurs in the SME sector in Malawi. The situation is promising for expanding and developing practical changes and improvements as they become essential and feasible in the system of credit provision, entrepreneurial training and business and technical advisory service provision and a whole array of incentives specifically geared to the promotion of the sector during transitional changes and growth in the SME sector and elsewhere in the economy of Malawi.

If the commitment has been and effectively made to the objective that development of the SME sector is a crucial component in the programme for dynamic growth in Malawi, then much more must be done in the way of upgrading technology and economic behaviour in the sector. This calls for conditioning the economic environment and greatly expanding the provision of business and technical assistance to entrepreneurs in the sector.

The degree of urgency is demonstrated by the entrepreneurs' conceptions of their greatest operational problems. In the day-to-day conduct of their enterprises, 14% of the entrepreneurs say that a lack of customers is their greatest problem and 6% say that this is their second largest worry. More than half the entrepreneurs find that financial capital for investment (perhaps working capital for investment in goods and materials) is their greatest problem and nearly 70% say that a problem of capital is their <u>only</u> problem. A few even say that finance capital is both their greatest <u>and</u> their second greatest problem. If entrepreneurs are to overcome these problems they are going to need entrepreneurial training and on-the-job advisory services to help them to draw customers and to make their enterprises profitable. Such training and on-the-job advisory services will require the combined resources of government, donors and SME support organisations.

4.2 Prospects for Growth for the SME Sector 1987-1991

Projections of SME investment to 1991 have been prepared on the assumption that the estimated current (1986) size gives a fair basis for calculating estimates of future growth in the

size of SME investment. The government national accounts projections[1] assume that large-scale investment will grow at a faster rate (10.5%) than small-scale investment (10.1%). Past trends show lower growth rates in large-scale investment during the period 1978 to 1986, compared to small-scale fixed investment (Table 4.1).

TABLE 4.1: RATES OF GROWTH OF INVESTMENT BY SECTOR (%)

	1973-1978	1978-1986
Large-scale investment	9.9	-0.4
Small-scale investment	21.6	13.5

Source: Department of Economic Planning and Development

If the overall government projections of GDP and fixed capital formation have to be met it would seem that the SME sector may have to grow faster than large-scale investment. Based on the historical growth rates of fixed investment given above it seems realistic to project a higher growth rate for SME investment than for large-scale fixed investment, particularly if you bear in mind that past SME investment growth rates have been achieved with little support from government and now government would like to promote the sector actively due to declining growth opportunities in large-scale investments. The projections of SME investment have, therefore, been made using an annual growth rate of 22% as opposed to the growth rate of 10.1% for small-scale investment. The results of the projections are presented in Table 4.2 below.

TABLE 4.2: ESTIMATES OF SME INVESTMENT 1986-1991 (K MILLION)

	1986	1987	1988	1989	1990	1991
GDP	2036	2216	2415	2641	2882	3149
Gross fixed investment	308	320	353	402	446	507
Public, large-scale & small-scale investment	295	304	334	379	417	472
Est. SME business investment	13	16	19	23	29	35

Source: Department of Economic Planning and Development, Economic Report 1986 and our estimates

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[1] OPC, Department of Economic Planning and Development, Economic Report 1986, Zomba.

4.2.1 Medium-term Projections of SME Business Savings

The technique that was used to project SME business savings was based on the methodology which was used to estimate current SME business savings in Chapter two. The results of the projections are presented in table 4.3.

TABLE 4.3: PROJECTION OF SME SAVINGS TO 1991 (K Million)

	1987	1988	1989	1990	1991
Small- and medium-scale sector GDP at market prices	1,157	1,259	1,369	1,489	1,619
Total SME savings	35	38	41	45	49
SME business savings	14	15	16	18	19

Source: Department of Economic Planning and Development and our estimates

4.2.2 Estimates of Future SME Capital Needs

Comparing the projected SME fixed capital formation with savings, a financing gap ranging from almost K2.0 million in 1987 to K16 million in 1991 emerges. Including current projections of SEDOM and INDEFUND loans, the indications are that there will still be a shortfall in the financing of projected SME gross fixed capital formation beginning in 1989.

TABLE 4.4: ESTIMATES OF SME CAPITAL NEEDS 1986-1991 (K MILLION)

	1986	1987	1988	1989	1990	1991
SME business investment	13	16	19	23	29	35
SME business savings	13	14	15	16	18	19
Balance	0	-2	-4	-7	-11	-16
Projected SME credit*	3	3	4	6	6	9
Financing gap (surplus)	(3)	(1)	0	1	5	7

* INDEFUND and SEDOM term loans

In addition to the projected shortfall in capital for gross fixed capital formation, the SME sector will require working capital. Using the proportion of SEDOM mini-loans (about 50% of the loan portfolio) as an indicator of the minimum level of demand for working capital from SME financial intermediaries, we estimate that the minimum levels of demand for credit from SEDOM and INDEFUND will be one and half times the amount of long term loans projected by SEDOM and INDEFUND shown in the above table, K4.5 million in 1987 rising to K13.5 million in 1991. As of now, neither SEDOM nor INDEFUND has yet identified the sources of such magnitudes of resources for their lending operations let alone their running expenses. Until now donors, particularly USAID, EEC, KFW and FMO, have provided the resources required for lending operations and some running expenses of SEDOM and INDEFUND.

SME growth will require active promotion efforts like those mobilised for smallholder agriculture over the last two decades. Only trading businesses have been encouraged, through DEMATT's advisory services, in a way that may be compared to the encouragement which has been given to smallholder agriculture.

Given the current pattern of concentration of businesses in a very narrow range of enterprises, there is scope for growth of SMEs, particularly in productive ventures. Therefore, more consideration might be devoted to ways and means of diversifying the pattern of SME development within the country into productive ventures, especially in the area of agro-industry, using the agricultural base as a source of raw materials. Diversification of the SME sector can be promoted through the provision of entrepreneurial training, advisory services and credit on a selective basis. Currently, these services are not targetted to any group or groups of entrepreneurs because the provision of the services is driven by the institutional capability of the SME institutions rather than a government strategy.

Government will, therefore, play a key role through its SME policies in shaping the future of SME development. The above projections of SME investment and its financing show that the SME investment climate will be characterised by limited credit delivery capacity, scarce credit funds and a high projected investment capital resource shortfall. The expected expansion of SMEs into productive agro-industry will require a dynamic policy-driven credit programme which channels credit resources and advisory services into diversified production oriented businesses.

4.2.3 Prospects for SME Employment Generation

The summary of future employment prospects in Malawi up to 1990 provided by the World Bank is in many respects a sobering commentary. The report concluded that even a sizeable expansion of formal sector employment would not solve the problems of a rapidly-expanding labour force.[1] It was assumed that most additional workers would have to be absorbed into non-estate agriculture or other informal sectors. It is at this conjuncture that SME development can contribute to the creation of rural job opportunities.

The estimation of an increase in the number of jobs has assumed a credit driven policy with emphasis on labor-intensive, high value-added enterprises like wood furniture and carpentry, tailoring, and other foods and beverages and a de-emphasis on capital-intensive enterprises such as wholesale and retail trade.

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[1] World Bank, Malawi - Employment Aspects of Economic Development, Washington, D.C., 1981, p. 59.

One of the major benefits that would accrue from raising the annual level of SME investment would be an increase in the number of jobs. The SME sector is more labour-intensive than the large-scale sector. As such it creates more employment per unit of investment. The capital cost per job derived from the READI survey is about K2,900 compared with K3,820 (1981 prices) for large-scale enterprises[1].

The capital cost of K2,900 per job, adjusted by an investment deflator of 7% per annum assumed in the government projections[2], has been used to estimate the number of jobs likely to be created by the projected SME investment. The results are presented in Table 4.5 below.

TABLE 4.5: PROJECTED EMPLOYMENT GENERATION BY SME INVESTMENT: 1986-1991

	1986	1987	1988	1989	1990	1991
Proj. SME inv. (million)	13	16	19	23	29	35
Capital cost/job (K)	2,900	3,100	3,320	3,550	3,800	4,070
Est. number of new jobs	4,480	5,160	5,720	6,480	7,630	8,600

The above estimates assumed that the pattern of industrial distribution of investment will be similar to past patterns. Some industries like grain-milling, hotels and rest-houses and wholesale and retail trade are relatively more capital-intensive than wood furniture and carpentry, tailoring, and other foods and beverages. Increased emphasis on the former would limit new job creation while emphasis on the latter would create more jobs.

Given population growth trends in the country, the total labour force is projected to rise from 3,516,000 in 1985 to 4,047,000 in 1990[3]. In other words, the absolute size of the labour force will increase by 531,000 or 106,200 per year. Out of the total number of 531,000, subsistence agriculture is expected to absorb 408,000 which means that the number of people employed in that sector will rise from 2,704,000 to 3,112,000. That will leave 123,000 people to be absorbed by other sectors.

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[1] The capital cost per job for large scale enterprises is calculated by dividing fixed assets (book value) by total employment using information contained in the Statistical Year Book 1983, published by the National Statistical Office, Zomba.

[2] OPC, Department of Economic Planning and Development, Economic Report 1986, p. 114

[3] NSO, Malawi Population Census1977 Analytical, Vol. II, Zomba 1984, p116.

Large-scale modern sector employment declined from 387,491 in 1983 to 380,853 in 1984.[1] If it grew at a rate of 2.9% (population growth rate), in 1985 it would have reached 392,000. Future growth at the same rate would raise it to 452,000 by 1990, implying that total additional employment in this sector would grow by 58,000 over the five-year period, which would leave 65,000 people to be absorbed by the SME and informal sectors.

Out of the total employment of 812,000 outside the subsistence sector in 1985, 147,000 were accounted for by the SME sector and a further 275,000 were self-employed in the informal sector. If the projected SME investment to 1990 were realised, total employment in that sector would rise by 29,000 to 176,000 over the five-year period.

TABLE 4.6: LABOUR FORCE AND EMPLOYMENT GROWTH, 1985-1990 (THOUSANDS)

	1985	1990
Employment in subsistence agriculture sector	2,704	3,112
Large-scale modern sector employment	392	452
SME Sector employment	147	176
Other informal-sector employment and under-employment	273	307
Employment outside subsistence sector	812	935
Total labour force	3,516	4,047

Source: NSO, Malawi Population Census 1977, Analytical Report, Vol. II, and our estimates

4.3 Major Constraints Facing SME Development in Malawi

Entrepreneurship is a difficult and complex activity. Many kinds of abilities are required and many kinds of responsibilities must be exercised. A lack of personal and managerial skill and other faults can be major barriers to getting started and to running a business. Besides the various personal constraints to the decision and the effort of becoming and remaining an effective entrepreneur, there are barriers which can be attributed to socio-cultural, politico-legal, or economic conditions. A number of these constraints can be overcome by entrepreneurs on their own with very minimal outside assistance. However, some of the constraints are outside the control of individual entrepreneurs and require the assistance of government, financial intermediaries, business and technical advisory service institutions and other SME support organisations.

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[1] OPC, Department of Economic Planning and Development, Economic Report 1986, p.114

The major problem in the way of developing this sector is the average size of the establishment. Most (43%) are one-person firms. They are essentially artisan working places and small merchant businesses, not firms in the modern sense, not yet the foundation for growth of employment, expansion of national output nor increased efficiency and productivity.

As a useful way of organising information for understanding the development of firms in the SME sector, the constraints or barriers are classified according to significant time periods in the life of an enterprise, as follows:

(a) initial investment;
(b) current operations; and
(c) expansion or improvement.

At another level the barriers or constraints are classified according to groups of barriers which are determined by factors which are:

(a) institutional;
(b) economic; and
(c) individual.

4.3.1 Barriers to Investment in Enterprise

More than half of the respondents in the READI survey recalled that obtaining funds for their capital investment was the biggest problem in starting their businesses. A problem of funds for capital investment was the only problem in the initial phase of business for 35% of the entrepreneurs. Business and technical advisory service inputs are needed to help SMEs develop a proposal for presentation to financial intermediaries. Often it is the knowledge of the way to write a proposal which is lacking, rather than the funds.

Although the matter of funds for investment was the biggest problem for more than half of the businesses, and was the only problem for a third of the entrepreneurs, as many as 31% were confronted with other barriers while trying to start up their businesses. Getting customers was the principal problem for 9% of the business persons, getting goods and materials was the main problem for 6%, getting equipment and parts for 5%, matters of premises and land for 4% (one-third of the entrepreneurs now wish that their businesses were situated elsewhere). Transport was a main barrier for 3% of the entrepreneurs, the installation of equipment and machinery for 2%, and a number of other problems for the remaining 4%. The identification of markets, market research and marketing per se is an area which business and technical advisory service institutions can provide both training and in some cases actually provide such a service.

Taking up the problems from the point of view of specific sectors of production, the problem of getting customers was quite a strong constraint on food and beverage businesses (mostly grain milling), clothing (mostly tailoring), for bars and restaurants. Services (mostly repair services) often viewed this as the major problem but were more inclined to mention equipment, parts, and the supply of goods and materials for their work as the big problem. Wooden furniture and carpentry works also tended to mention materials as the biggest problem, second to the lack of finance capital.

A problem concerning customers was the next most frequently mentioned problem, especially for furniture makers and other manufacturers (not including the groups of food and beverage or clothing businesses) and for the service businesses (mostly repair services). Transport problems do not seem to attach to any particular type of business more than others, except that a small percentage of traders did mention it as the biggest problem.

Regionally, there was not much difference among entrepreneurs in the problems experienced. Businesses in the Northern Region had more difficulty in getting started because of lack of goods or materials for 12% of the businesses. Transport was the biggest problem for 6% of the businesses in the north. The supply of raw materials, stock control and cash flow to pay are often problems of business planning. While raw materials are often scarce, proper business planning can overcome many of these problems. This is clearly an area in which business and technical advisory service institutions can assist SMEs.

The fact that these businesses were started and remain in operation is proof that this barrier is not insurmountable, at least not for the entrepreneurs of the businesses covered in the READI survey. Nevertheless, investment finance presents a difficult impediment and could well be the major barrier to expansion of the SME sector.

4.3.2 Barriers to the Running of the Enterprise

Roughly the same barriers or problems were mentioned for the current day-to-day running of the business as were mentioned for the period of making the initial investment and getting the business started. The proportion of entrepreneurs with the problem of premises and land diminished from 4% to 3%, the problem of the installation of equipment and machinery diminished from 2% to 1%, and the problem of getting equipment and spare parts diminished from 5% to 4% as the biggest problem.

Problems of customers occur more frequently as the biggest barrier to running the business in 14% of the enterprises, compared to getting it started, in 9% enterprises. The supply of

goods and materials logically becomes a more prevalent barrier, increasing from 6% to 10% of the cited biggest problems. This problem is especially frequent in the food processing sector (mostly grain milling) and wooden furniture making.

The problems of lack of customers may arise because the market is too small (too few consumers within business reach or potential customers with too little income). On the other hand, the problem may come up because the troubled entrepreneurs do not have the marketing abilities required to draw customers to their businesses, or do not know where to go to find customers. Ettema reasons that the fundamental cause is the level of income of the consumers within the entrepreneurs' potential market.[1]

It is possible to derive from national sample surveys of agriculture data some impressions of rural cash income and expenditure levels which do indeed suggest that the lack of purchasing power is rather critical. In the 1980/81 survey annual national rural cash income per household was estimated at K137 and the level of total annual expenditure per household was estimated at K117[2]. If purchases of inputs for farm (14%), business activities (9%), food (23%), livestock and products (2%) and transfers (8%) were excluded, then only 44% (K51.47) of annual household expenditure was spent on the purchase of non-durable, durable and semi-durable goods and miscellaneous items. It is clear that the low level of cash income limits the purchasing power in rural areas.

TABLE 4.7: ANNUAL TOTAL CASH EXPENDITURE PER HOUSEHOLD BY ITEM 1980/81

	Kwacha	Percent
All items	116.98	100
Farm	16.77	14
Business	10.09	9
Food crops	12.53	11
Livestock and products	2.66	2
Other food	14.00	12
Non-durables & misc.	29.55	25
Durables & semi-durables	22.16	19
Transfers	9.22	8

Source: National Statistical Office, National Sample Survey of Agriculture 1980/81, Vol. III.

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[1] Ettema, W. Small-scale Industry in Malawi. Journal of Modern African Studies, 22 (3), 1984, p.508

[2] National Statistical Office, National Sample Survey of Agriculture 1980/81, Vol. III, Zomba 1984, pp. 5-6

4.3.3 Barriers to Expansion

Entrepreneurs in the SME sector were asked a question about their plans or intentions for making changes in their businesses during the next twelve months. Most said that they intended to expand or improve their businesses. Well over half said that they intended to buy more equipment (69%), to offer better products or services (89%), and to offer new products or services (78%).

Entrepreneurs were also asked to point out which intended change would likely be the most difficult to implement, and to explain why. More than half of them (54%) mentioned that the purchase of additional equipment would be the most difficult, while 27% say the same about new products or services; 10% say it about better products or services. The choice of appropriate equipment requires a level of technical and business knowledge not often found. Technical advisory service institutions are needed to provide this knowledge to the SMEs.

Well under half intend to employ additional workers (38%) or additional skilled workers (35%). They aim to be independent but most do not employ others and do not strive in that direction. Only in the textile and leather goods industries is there any apparent interest in employing more workers. In that part of the SME sector, 6% of the businesses expressed an intention to employ additional skilled workers, and 4% intend to engage more unskilled workers. Three of the 23 rest-houses and hotels said that they intend to hire more skilled workers and one hotel expressed an intention to take on additional untrained labour.

Despite intentions for expansion and improvement, a major problem in carrying out most plans is a matter of money in at least 80% of the enterprises. Only with regard to the intention to employ more skilled workers is the problem explained as one of short supply rather than money.

4.3.4 Entrepreneur's Lack of Training

Besides the basic matter of problems encountered while establishing their businesses and those which they encounter currently in operating their businesses, the entrepreneurs' responses to questions were analysed for constraints or barriers which might not be immediately apparent or specifically mentioned by them.

About 22% of the entrepreneurs who were interviewed said that they have had training in the field of their businesses. The sectors in which the entrepreneurs had some training and the proportion of those entrepreneurs in their sector are clothing and tailoring 43%, other manufacturing 41%, and 35% in both wood products manufacturing, and in the services. In trading

businesses, bars and restaurants, and food and beverage manufacturers the levels of trained entrepreneurs are 11%, 9% and 6%, respectively.

Clearly there is a role for on-the-job, and in-service training, as well as short seminars, to help small- and medium-scale Malawian entrepreneurs run their businesses. Business and technical advisory service institutions are needed to fulfil this requirement.

A significantly larger proportion (27%) of the entrepreneurs in the Northern Region report that they have been trained, compared to much smaller proportions in the Southern Region (18%) and the Central Region (21%). Interestingly, a high proportion of entrepreneurs in all regions says that their work or businesses could be easier or improved if they themselves had additional knowledge or skills.

6.2.5 Electricity

Of all SMEs, 25% use electricity and 27% do not use it even though it is available. Electricity is not available to 66% of those who do not use it. Although where it is not available, a need for electricity is expressed by many of the owners of businesses. [illegible] the findings must not be [illegible] taken as being a good indicator of effective demand for [illegible] of power. Some owners may find that they cannot cover the cost when they [illegible] calculate their income and expenditure figures; [illegible] suggestion is not without any regard whatsoever for [illegible] feasibility.

[illegible] of the [illegible] of businesses interviewed, wood-based [illegible] are [illegible] the least. Of the remainder, other [illegible], which includes metal workers, has the highest [illegible] of all the [illegible] sectors. Again, [illegible] purposes - metal [illegible], [illegible] effectiveness, need access to electricity for welding, [illegible] and grinding.

Of interest are [illegible] who have access to electricity but for various reasons do not use it. Without electricity, there is a limit to the level of technological input that can be given. Therefore, any TAS inputs must be categorised into levels of technology according to the requirements of different types of businesses. The following business types show some scope for utilising electricity:

(a) Food processing: 24% use electricity, an additional 21% have access, 55% have no access to electricity. Therefore, there is scope for the introduction of energy savings by the use of electricity as a replacement for diesel, also for the introduction of other food processing activities.

(b) Tailoring: 23% use electricity, an additional 39% have access, and 38% are unable to use it. There is therefore scope for the introduction of batch techniques using electrical sewing machines, irons etc.

(c) Carpenters: 5% use electricity, 25% have access, but 62% have no access. Therefore, there is much scope for the use of electricity for breakdown mills, or for the reprocessing of timber. However, for the majority to which attention of the business and technical advisory service institutions must be directed, the requirements still lie with the introduction of better hand tools and techniques using hand-operated equipment.

(d) Metal workers: 37% use electricity, 25% more could use it, but 36% have no access. There is some scope for the introduction of powered equipment for the improvement of production, quality and product range. However, equal emphasis of the business and technical advisory service institutions must be given to hand-operated equipment, production techniques, etc.

4.3.6 Location of Business

A sizeable number of entrepreneurs said that they would like to move their businesses. Perhaps still more of them would like to move if the alternative situation were well placed and had proper facilities, such as could be provided by public authorities. Half (49%) the entrepreneurs of SMEs said that if the government were to build a small market place or a workshop centre nearby and charged rent they would move their businesses to that place.

The READI survey results show that an enterprise centre is most likely to be successful, from a producer's point of view, if it is planned to meet the requirements of specific types of businesses. Four sectors have a greater than average number of potentially interested entrepreneurs. Those sectors are the service businesses (except repair services), textile and leather product manufacturers, wood product manufacturers, and other manufacturers.

Enterprise centres are found throughout the world. In Malawi, enterprise centres for SMEs are found in Blantyre, Lilongwe (Biwi Triangle) and Liwonde. They have been planned and implemented by SEDOM (Blantyre), the defunct Capital City Development Corporation (Biwi Triangle Industrial Estate) and MDC (Liwonde). Many factors determine the success of a business enterprise centre or industrial estate. Obviously the location and facilities must satisfy particular requirements in order to attract businesses which:

(a) increase local employment;

(b) induce economic expansion;

(c) add to the technological development of the community;
(d) have a positive impact on community welfare.

Malawi's experience with enterprise centres has not been successful so far[1] largely due to the problems of lack of experience and funding to properly operate the centres. In addition the facilities that have been built have inconveniently been located far from shoppers, and in terms of quality and cost, appear not to have taken into account the income generating capacity of SMEs. In all cases, the entrepreneurs have been unable to pay the economic rent for the facilities, and this has resulted in under-utilisation of the facilities or payment of sub-economic rent.

4.2.7 Constraints Due to Lack of Appropriate SME Incentives

Although small- and medium-scale businesses are included, specific mention of the SME sector is brief and not very important in Malawi's development plans and statements of objectives, policies, and strategies. Moreover, very little is said about any aims for developing the sector. While the policy calls for a mixed economy, with both public and private investments, it is not clear whether most investment decisions and the leading direction will be set within the public or the private sector. Nevertheless, a commitment has been made to the principle that a vigorous SME sector, especially in industry, is a crucial component in the development programme.

When DEVPOL 1971-1980 was published, the Malawi government acknowledged that one disadvantage of the industrial policy was its tendency to favour capital-intensive types of operations[2], which in many cases turn out to be large-scale operations rather than labour intensive SMEs. However, in recognition of the lack of specific policy provisions in DEVPOL to meet the needs of small scale Malawian owned industries, the Government acknowledged the need to provide special facilities to encourage small scale enterprise development[3].

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[1] UNIDO, The Potential for Resource-based Industrial Development in the Least Developed Countries, No. 5: Malawi, 1983, p124

[2] OPC, Economic Planning Division, Statement of Development Policies 1971 - 1980, Zomba, 1971, p.76.

[3] Ibid. p.77.

Despite the government recognition of the complementary role of SMEs and the creation of a climate where large-scale as well as small-scale enterprises flourish side by side, it has failed to come up with the specific policies which were envisaged as necessary for promoting the sector when DEVPOL was drawn up; the only exception is the provision of credit and business and technical advisory services. The review of investment incentives to take into account the specific needs of SMEs, anticipated when DEVPOL was drawn-up, has not taken place yet, despite the changes in the manufacturing sector, particularly since 1979.

While most government ministries and departments are committed to the development of the SME sector, and have specific policies, programmes and projects for promoting the sector, their efforts are not coordinated. At the policy level it would appear that ministries are coming up with policies which affect the SME sector one way or another without consulting other interested ministries. Given the changing economic and social conditions which necessitates the need to continuously review and revise the government policies for promoting and regulating SME development there is need to ensure that the revsions and changes are understood and appreciated by all relevant government ministries. Some of the recent changes to the SME investment climate appear not to have been subjected to discussion with interested ministries

4.3.8 Barriers Due to the Economic Structure

Besides the barrier of limited input and output markets, entrepreneurs in the SME sector in Malawi are up against two other general economic barriers. First, the low level of development of the SME sector itself is a great constraint on further development of the entrepreneurs in the sector and their enterprises. It is a constraint because the entrepreneurs are not surrounded by an environment of developed small and medium scale businesses which provide relevant and challenging examples of good business. That is to say, because the entrepreneurs face little dynamic competition, they are not constantly being pressed to reach for higher levels of efficiency; they are not supplying each other with lower cost inputs; they are not supplying final consumers with goods and services of higher quality or at lower prices; and they are not, therefore, expanding their markets in mutual and combined development.

Another general economic barrier which is especially formidable to small enterprises, particularly those which are situated in rural areas or based on agriculturally produced inputs, is the domination of markets by few major holding companies and their commercial businesses. The ownership and, therefore, ultimate vested interests of these holding companies is very difficult to delineate. Some of them have been defined as "quasi-private, quasi public holding companies", "statutory

bodies", "a bridge between the government and the private sector" and "peculiar, hybrid organizations neither public nor private"). They enjoy the advantages of operating as private enterprises in the market, which also disciplines them to maintain some degree of efficiency, without direct control by the government. At the same time they have advantages which are derived from their integrated relationship with the Government and lawmakers, being statutorily created and coming under the responsibility of a government ministry. These holding companies have broad influence in the economy because they are large and their ownership and business aims are closely connected in a compact network of share-holding, directorships and management of commercial firms, and also because the owners and directors are closely affiliated and some are government officials[2]. These holding companies and their business firms dominate the markets and put a formidable barrier to entry in the way of all other enterprises.

4.3.9 Barriers Due to Lack of Sources of SME Investment Capital

Most small- and medium-scale Malawian entrepreneurs are able to save for the start-up and expansion of their business enterprises, mainly out of business, farm and employment incomes. However, because of inflation, low rates of economic growth (low income levels), negative real rates of interest and family obligations, their savings rate is low. This in turn creates a demand for long- and short-term loan capital among SMEs. At present most of this demand is not met by financial intermediaries because of a number of reasons, including the following:

(a) financial resources are lacking; and

(b) lending policy limits lending to SME sector and/or type of businesses.

During the coming five years there is going to be a growing gap between the projected SME gross fixed investment and savings which will be difficult to close using current projections of credit. There will be need to find additional resources through raising the savings ability of SME entrepreneurs, improving savings mobilisation and delivery of loans by financial intermediaries, and allocation of additional funds to credit institutions for on-lending to SMEs. We examine below the major constraints which currently impede the mobilisation of savings among small- and medium-scale Malawian entrepreneurs.

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1 The Private Sector and the Economic Development of Malawi, A.I.D. Evaluation Special Study No.11, Washington, DC, Agency for International Development (AID), March 1983, pp. vi, 3-4.)

2 Ibid., p.4

Barriers to SME Savings

The ability of SME entrepreneurs to save depends on their income and level of real interest rate of saving. Improving SME income requires improving demand for the goods and services which are produced by, among other things, reducing the rate of inflation. To the extent that demand for their products depends on agricultural incomes, there is need to improve these incomes through formulating appropriate pricing policies, diversifying crop production and increasing productivity. Raising agricultural incomes would also directly increase the savings capacity of entrepreneurs who farm. Directly and indirectly, the capacity of SME entrepreneurs to save can also be raised by expanding employment opportunities and preventing wage income from falling in real terms.

Increasing the rate of saving of SME entrepreneurs requires controlling inflation, keeping interest rates positive in real terms and increasing the real rate of economic growth. While most of the inflation is created by factors external to the economy, part of the inflation is domestic in origin and requires better co-ordination of monetary and fiscal policy. Malawi is committed to an active interest rate policy[1], though as yet this has not resulted in sustained positive real rates of interest.

The results of the study, using banking figures and interest rates, have indicated that there is a strong and positive association between changes in savings and changes in real interest rates. The general implication of this is that by making deposit rates positive in real terms, a strong incentive to save can be created which should facilitate mobilisation of savings by financial institutions.

Deposit rates are not market determined but fixed by government through the central bank. In nominal terms, savings deposit rates stand at 10.75% at all financial institutions except at credit unions where they are 5% per annum. In real terms, these rates were negative in 1985. Short-term deposit rates are at 11.5% while investment deposit rates are 12.75% per year. Both of these were negative in 1985 as the inflation rate reached 15.1%. Even fixed-time deposit rates, ranging from 12.25% to 15.75%, were largely negative in real terms. Minimum lending rates range from 13.75% to 16% per annum. Both lending and deposit rates have been negative on several occasions in the past.

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[1] Ministry of Finance and EPD, International Conference of Partners in Economic Development, Vol. I, 1983, p35.

Constraints Facing Savings Institutions in the Mobilisation of SME Savings

Despite the advantage that they lend money to their members, credit unions are not popular savings institutions for Malawian entrepreneurs because of a number of reasons. The following are some of the major reasons, which have been revealed by the study, for their unpopularity as savings institutions among small- and medium-scale Malawian entrepreneurs:

(a) they do not permit withdrawal of shares and as a result the type of member attracted to the membership in the society has been almost exclusively a borrower and all the funds saved in the unions are immediately borrowed back by the same people (for example, as at December 1985, outstanding loans amounted to K989,755 while savings/shares stood at K934,414);

(b) the current organisation and operations of credit unions lack an image of a sound financial institution. For example, because of high loan deliquency rates, approaching 75% in all credit unions, credit unions cannot pay dividends due to lack of interest earnings on loans, thereby discouraging future savers and tainting the hoped-for sound financial image of unions;

(c) there is lack of trust in credit unions because of being associated with cooperative societies which have had a poor record;

(d) there are low dividend rates (5%) payable on shares which compare most unfavourably with interest rates paid on fixed investment, short-term and savings deposits at the commercial banks, New Building Society and Post Office Savings Bank; and

(e) there is a lack of knowledge of credit unions.

Although the presence of commercial banks was evident in all the centres where SMEs were interviewed, their reluctance to lend to the SME sector in general limits their attractiveness to savers in that a substantial number of the entrepreneurs select a savings institution with the hope of being able to borrow money from the institution. As for the New Building Society, the major constraint to saving with the institution would appear to be its limited infrastructure which currently only has branches in Blantyre, Zomba, Lilongwe, Mzuzu and Mangochi.

4.4 Barriers and Constraints in SME Support Structure

Following the decline in large-scale investment at the end of the 1970s, government has focused attention at stimulating the SME sector. However, government has not developed a comprehensive strategy for promoting the development of the SME sector similar to those provided for large-scale enterprise development in DEVPOL 1971 1980. Given the contribution government is expecting the SME sector to make to the growth of the economy, there are concerns as to whether the current institutional SME support structure can meet the projected credit demand and the business and technical advisory service needs of SMEs without a comprehensive government strategy to stimulate the sector. SEDOM, DEMATT, INDUFUND, MUSCCO, BTS and MEDI are the SME organisations that have pioneered the promotion of a sector where baseline information, experience, financial resources and human resources were scarce. The overall policy environment has provided little central direction or coordination to the type, quantity, quality and location of SME services. These factors have resulted in the current search for a coordinated strategy and need to establish a common understanding of the goals and objectives, problems and issues facing each institution and the sector as a whole.

The results of the study indicate that less than 5% of the sample have made use of the services offered by SEDOM, DEMATT, INDUFUND, MUSCCO and MEDI. Business and technical advisory assistance services have been limited to the trading sector, although the overall strategy has been to develop the productive sector. In what sense are limited by both availability of funds and the lack of resources to administer an extensive credit programme. Other essential incentive programmes are either lacking or are too small enough to have an impact on development of small and medium scale Malawian entrepreneurs. SME industrial support programmes have not extended beyond Lilongwe and Blantyre.

SEDOM's portfolio, for example, is regionally biased with 78% of the clients in the south, 14% in the central and 7% in the north. Over five of the loans in the urban areas. The distribution follows the pattern of applications received and the pattern of where SEDOM locates its offices and supporting infrastructure. SEDOM has followed a pragmatic market approach and the majority of that market demand has been urban and in the Southern Region. SEDOM has begun to take on a more active role in redressing these imbalances by establishing regional offices in the centre and north. Future plans project the establishment of five additional offices at the district level. On the other hand, the draft National Physical Development Plan[1] has recommended the

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[1] Department of Town and Country Planning, National Physical Plan (Draft), 1986.

establishment of 24 SEDOM district offices staffed to process credit applications and provide advisory assistance in line with the future distribution of government services for supporting the agriculture policies while addressing regional equity and issues of rural/urban migration.

The financial implication of district level representation is a constraint beyond the current projected budget programme for SEDOM. The benefit of the proposed plan would be to achieve both a more equitable distribution of credit in rural areas as well as providing the infrastructure to better meet national development objectives. However, adopting the plan would require a highly subsidized programme and a change of attitudes on the part of those pressing SEDOM to aim for financial self-sufficiency.

With the expected increased activity in the SME sector in Malawi over the next five to ten years, there are some clear areas of concern in terms of the support structure needed to realise the aims and objectives of promoting the sector. While a system has been established for the provision of credit and business and technical advisory services, there are areas of concern in the existing institutions, in terms of adequate coverage in all other aspects of SME development, which need careful consideration. These are best discussed in terms of the steps one goes through in project formulation through to implementation, usually referred to as the project cycle.

4.4.1 Project Identification

The project must meet some defined need, identified in terms of available resources and skills. This requires an assessment of resources, their exploitability, processability and suitability, as well as an evaluation of skills and their potential for being developed and upgraded to meet the business and technical requirements of the projects.

A market and consumer survey will highlight the needs and preferences of the consumers. Particular attention must be paid to consumer preferences which are becoming much more sophisticated with time. The market needs to be understood in the context of the culture and the purchasing power of the society in which the new SME will be introduced, as well as the ecological constraints and infrastructure implications of the proposed venture.

With the knowledge gained from the project identification, the SME can be researched or developed to provide alternative scenarios from which a choice can be made. In the case of manufacturing or service-based SMEs, there are technological implications. A technology must either be identified, developed or modified to meet the requirements of the project as identified. There are three possible routes:

(a) traditional technology can be assessed to see how it could be up-graded to satisfy the requirements. This route is more likely to be accepted as it requires only a change in familiar technology;

(b) conventional technology - used and proven elsewhere - to meet the requirements. This may involve scaling down of technologies used in western countries or slight design changes to technologies tried and tested in other developing countries to suit the local raw materials and consumer preferences; and

(c) completely new technology can be developed to satisfy the requirements of the identified project. This should only be done if the two previous routes do not meet these requirements.

In all SMEs there are business implications which must also be considered and to which solutions must be developed: marketing channels, product promotion, raw material supply routes, product costing, record keeping, personnel development and general management. Such solutions will depend on the particular SME.

INDEFUND and SEDOM face a term-loan lending constraint to larger projects, particularly projects in new types of business, because of the lack of a well staffed in-house business and technical advisory service needed to appraise and evaluate projects and sponsors before ventures are funded. Technical and business aspects of new types of businesses are riskier, requiring more intensive analysis and background research. These services similarly are required at various points throughout the processing of the loan and during project implementation. The expansion of project lending into a more diversified portfolio will require mobilisation of more financial and technical resources than currently available.

SEDOM accepts all types of projects that fall within its lending criteria. No promotion is undertaken to stimulate the development of specific enterprises. As a result the portfolio reflects only a handful of diversified projects with 70% of the 150 term-loans in either tailoring or maize meal production. SEDOM has experienced a 41% increase in volume of loan applications since 1983. The promotional department, originally a business advisory service for productive businesses, now appraises and monitors loans for the credit section. The majority of the projects in SEDOM's term-loan portfolio are relatively low risk productive enterprises which require little business, technical and monitoring services. There have been no expressed objections to funding more sophisticated projects if the sponsors meet the lending criteria, but SEDOM faces a constraint as it does not have the adequate operational resources and number of technically qualified staff to identify, appraise and monitor large numbers of more complex projects.

4.4.2 Project Appraisal

An evaluation of the financial viability of the proposed SME must be completed. It must be affordable by the people it is intended to serve, or generate sufficient cash advantage to repay and service loans. The owner of the SME must see a clear advantage such that she/he will realise a net gain from involvement with the SME activity, and not be burdened by it. Added to this is the socio-economic evaluation which must be completed in order to assess the impact on the community in which it is promoted: what is the effect on the region's economy, is it going to disadvantage others, or will it destroy more jobs than it creates?

INDEFUND and SEDOM appraisal staff have constraints in gathering information at both the applicant and sub-sector levels. The appraisal officer also plays the role of project consultant because there is nowhere else to refer the applicant. Often appraisal and project preparation become part of the same process.

4.4.3 Project Implementation

After the project has been identified, developed and appraised, it needs to be implemented. A pilot project may be promoted and tested against all the variables previously identified.

In all cases, the financial structure of the project needs to be finalised: premises need to be rented, developed or built, lines of supply of raw materials or stocks developed, personnel trained in business management, and the product(s) promoted.

In the particular case of manufacturing and service SMEs, this will also involve equipment supply, installation and commissioning, personnel training and development in the operation and maintenance of the technology, pre-operation production trials, and the development of production schedules.

The institutional survey picked up INDEFUND implementation constraints in processing a loan. The average period of time between project appraisal and disbursement of funds at INDEFUND is nine months. The analysis shows that the time required is partly a formal internal lending procedure constraint and partly bureaucratic government and banking procedure in the granting of land title, legal documentation and bank and foreign exchange clearances. The time lag has resulted in an unfavorable reputation for INDEFUND among entrepreneurs and business groups who complain about the operating inefficiencies of the institution.

SEDOM has set up an efficient high volume loan implementation procedure which, like its applications, are packaged so that applicants can understand what information and procedures are

required before they start the process. Part of SEDOM's success at quickly turning around mini-loans is the approval process which, after project appraisal is completed, require only the general manager's signature. The 150 term loans in SEDOM's portfolio follow a more rigorous appraisal and implementation procedure but the time lag is rarely longer than six months.

One of INDEFUND's key operational constraints is that of defining its role as either a development organization or a quasi-commercial organization. The conflict arises from pressures from donors and shareholders who want INDEFUND to be a self-sufficient development bank and to pay quasi-commercial rates for operational lending resources. Government places a 7% interest charge on the grant or soft loan money and a grace period of five years before the first interest and principal payment begins. The corresponding government money to SEDOM is 3/4 of 1% interest per year with repayment due in 50 years. INDEFUND's quasi-commercial credit rates do not allow enough interest spread to cover the high costs of disbursing credit and the high risk of funding development projects. INDEFUND requires grant funds to cover the development costs, which to date have not been sufficient to cover current operations. SEDOM's credit funds are on appropriate terms but delay in receiving funds has sometimes disrupted the disbursements of approved loans.

For projects in the productive sector neither INDEFUND nor SEDOM are allowed to fund enterprises in which non-Malawians are partners. A number of viable projects in which the Malawian sponsors solicited experienced non-Malawians through partnerships have been turned down due to the restrictions imposed on the institutions by their trust deeds. The current restrictive policies on lending to ventures with non-Malawian partners may deny Malawian entrepreneurs the much needed transfer of technology and know-how which is possible through partnerships with foreign technical partners.

4.4.4 Project Monitoring

Once in operation the project needs careful monitoring to check that it satisfies the original need/market identified, that it does not create further problems or disturbances and does create net benefits. In practice this will probably involve checking to see that the business can meet its loan repayment schedules, to identify problems before they develop, and to make suggestions for the rectifying of the situation.

In the particular case of manufacturing and service SMEs, monitoring will also require a check on the performance of the technology/equipment in terms of its capacity utilisation, maintainability and ease of operation, and will identify production bottlenecks.

SEDOM and INDEFUND monitoring functions place a constraint on quality and performance of the portfolio. Project monitoring in both organizations is intended to be a once quarterly activity, but monitoring for some loans is done only once a year. The volume of SEDOM's mini-loan programme further limits the ability of SEDOM to even confirm that loans are used for the intended purpose, much less to evaluate the impact of the loan. At INDEFUND project monitoring is said to be constrained by lack of transport and as a result the arrears repayment rate is as high as 40%. The viability of some projects has fallen victim to poor or no monitoring, either resulting in poor project performance or in some serious problem of loan default.

4.4.5 Project Dissemination

In many cases, SME models can be developed for a wider dissemination, and the experiences and lessons learned from the pilot exercise can help to develop the model. The project cycle needs to be re-run to check that the model is not being forced into the perceived need/market, but this will inevitably prove to be a much quicker exercise, calling on past experience.

Such a project cycle needs to be coordinated as it requires a multi-disciplinary team if it is to be completed successfully. Invariably, there will be back-tracking as obstacles are encountered. There are rarely shortcuts, and in order to ascertain that the SME is truly viable, the general approach outlined above must be adopted. It is also recognised that it is not always practical or logistically possible to adhere to these steps, but the promoters of SMEs must be aware of the potential pitfalls.

4.4.6 Support Structure

The discussion of the project cycle, and our analysis of the institutional capacity of the Ministry of Trade, Industry and Tourism to deal with SMEs, has revealed a number of institutional weaknesses which constrain the promotion of SMEs. Apart from three regional offices, the ministry lacks the field infrastructure to effectively perform its regulatory functions, let alone to promote activities that would assist SMEs.

Despite the scaling-down of some of the ministry's regulatory functions, such as price control, the ministry has not yet oriented itself to promotional activities. In our discussion with officials in the Trade Department, for example, it was evident that officers are still occupied with price controls, when such controls have been reduced to a bare minimum. There was very little evidence of trade promotion, particularly in rural areas where the gap left by the departure of Asian traders has not yet been filled.

The manpower establishments of both the Trade and Industry Departments do not have personnel with the requisite qualifications and experience for developing and promoting the SME sector. For example, the current establishment of the Small-scale Industry Unit does not have any posts which call for engineering qualifications or small-scale industrial experience.

The ministry is aware that it needs to establish offices at the district level to be responsible for all matters pertaining to trade, industry and tourism regulation and promotion. However, there are no indications at present as to when this will be done, in view of the budgetary and manpower limitations being experienced. Furthermore, it is not clear to us whether the ministry will emphasise its regulatory or promotional role.

Overall, we believe the major constraint facing SME development in Malawi concerns planning and extension. In our discussions with the ministry we did not find evidence of active planning for the development of the SME sector or the provision of extension services. The planning unit in the ministry appears to be occupied with regulatory functions such as analyses of price and industrial applications. A number of Malawian entrepreneurs we talked to feel that the ministry treats any information it has, including that on potential SME areas of growth, as confidential and therefore not available to the general public.

In the initial start-up period INDEFUND and SEDOM were largely unaffected by the limited government strategy for developing the sector and lack of adequate information on the sub-sector, for planning purposes. Both institutions were occupied with establishing an institutional capacity to extend credit. Credit disbursement has so far been limited while staff were being trained and systems established. For training and supervision reasons the portfolios of INDEFUND and SEDOM are concentrated in the south, particularly around the city of Blantyre. However, it appears that the concentration of SEDOM and INDEFUND loans in the Southern Region is also due to the lack of government guidance regarding the distribution of credit so as to ensure that it conforms with the development strategy of the country as a whole.

As INDEFUND and SEDOM have expanded their operations and become more experienced, demand for basic sub-sector information and overall SME policy direction have constrained the expansion and diversification of their portfolios. Needs assessments, prospects and constraints analyses have been lacking. Whatever information exist is often treated as confidential by lead ministries and not available to SME investors. Both institutions have also been constrained by lack of in-house staff to appraise and evaluate projects and sponsors before ventures are funded.

The institutional survey revealed that SEDOM and to some extent INDEFUND face internal organisational constraints due to lack of institutional plans to guide their operations. We were unable to obtain programmatic plans for SEDOM. INDEFUND, on the other hand, has prepared an institutional development plan and an annual work-plan which are required by one of the funding agencies, USAID, for evaluating the READI project's success.

INDEFUND is the lesser known institution of the two, according to the READI survey and the institutional survey. INDEFUND has no formal application form or procedures which could be self-administered. The resulting application procedure requires considerable INDEFUND staff intervention to ensure sufficient information for project appraisal. Compared to INDEFUND, SEDOM has widely available application forms with detailed instructions for the applicant.

The role of the SME development institutions within Malawi should be to help the entrepreneur overcome many of these constraints. However, the concern with financial self sufficiency to achieve operating cost recovery for SEDOM and INDEFUND, by both donors and government, conflicts directly with development objectives SEDOM and INDEFUND would like to address. Cost recovery objectives favour funding more urban and simpler, less risky mini- and term-loans and is a constraint in expanding into rural and high risk diversified project term-lending portfolios. Often, the temptation is to set up a myriad of institutions to solve the problems created by the constraints.

It is recommended that the existing institutions be developed to take on the roles not already covered. In the meantime, however, the project cycle of identification, appraisal, implementation, and dissemination must be completed; otherwise the development of SME will be stifled. This then leaves a possible role for private voluntary organisations (PVOs) to backstop until the institutions in Malawi can be identified and developed to take on expanded roles.

The READI survey has identified a number of gaps where the support of PVOs is needed. These include:

(a) Funding: A provision for pilot industry funding is required so that entrepreneurs can make products for consumer testing before a market can be developed. This will include the field testing of new and unfamiliar technologies introduced to the SMEs for the improvement of efficiency and of product ranges. A continuation of funding for SME loans is needed to cover the high costs of monitoring projects, particularly for smaller loans where interest payments could not possibly cover such expenses.

(b) Training: The main requirement is for the training of trainers. Much of the skill up-grading that is needed can be done in Malawi if the trainers are equipped with the necessary skills themselves. The two main areas where this is needed are in the provision of the necessary skills for business management and entrepreneurship development, and the technological training required to advise producer clients, initially in artisan up-grading courses.

(c) Technology/development: Technological problems are not major constraints to SME development, but a provision for technological development needs to be made in Malawi, in four main areas:

(i) Information on available technology choices needs to be accumulated. This can be done by the proposed technology centre at the Polytechnic, but assistance in determining the most appropriate information will be needed;

(ii) The specification of the technology required is an essential component of the project cycle. Without it the most appropriate technological solution to the problem cannot be determined. Technology specification skills can be developed, but only over time and with experience. Therefore, the best way to develop these skills is to have counterpart on-the-job training, provided by a PVO placement;

(iii) The information on technologies often does not necessarily reflect needs in Malawi. Therefore, the technology will need to be adapted or further developed to suit the resources and skills available in Malawi; and

(iv) Using technology testing facilities, imported technologies need to be evaluated for suitability in Malawi. Such institutions do exist, but they need developing so that they can undertake minor modifications to match the conditions in Malawi. One notable omission is a food technology laboratory. Facilities for the development of agricultural tools are available to some extent, but would need to be developed further. There is a role for PVOs here to fill a gap and to help build an institution to a level where it can handle the work on its own.

Continued reliance on PVOs is not a desirable objective, but a phased input by PVOs would help to fill the institutional gaps identified, and help to develop the institutions so that they can grow and eventually be self-sustaining in terms of funding, training and technological inputs. The PVOs should be encouraged to take on the task of phasing themselves out of a job as they provide their specialised inputs to effective Malawian institutions.

4.4.7 Other SME Development Institutions

4.4.7.1 DEMATT

A major goal of DEMATT, in Phase II, is to attain financial independence. In the current phase, DEMATT operates on a grant from USAID, through Partnership for Productivity (PfP) of US$2.8 million, and a subvention of US$0.5 million from the government, but would like to see itself attaining financial self-sufficiency through increased income-generating ventures such as providing services to public and private institutions at a fee that would cover the cost of the services. At present, DEMATT receives payment for services it gives to the Malawi Commercial Transport Project and to the Rural Growth Centres Project. Other income-generating activities include loan preparation on behalf of its clients, and a modest management fee (K2.00) levied on all its clients. In the future it intends to operate a venture capital fund.

According to the Institutional Plan, the focus of DEMATT's Phase II operations include the following:

(a) selection of high-potential areas;

(b) closer cooperation with financing institutions, in particular SEDOM and INDEFUND, to provide a support service to both the financial institution and the client in terms of project appraisal, planning and monitoring;

(c) intensifying marketing services for new and existing businesses;

(d) developing a venture capital fund to assist Malawian businesses in need; and

(e) improving the quality of staff through training.

The plan further comments that it hopes that these measures will, among other things, bring about:

(a) a reduction in the number of field offices;

(b) increased income from chargeable services to achieve a level of self-sufficiency and financial independence; and

(c) reduction in expenses through improved management and financial control[1].

In our view these measures will effectively result in a smaller service being provided than at present, and yet the READI survey has shown that DEMATT's strength is in its 25 business consultants spread throughout the three regions in the country, reaching businesses which would otherwise not benefit from any business advice. These are by definition rural and remote; the READI survey has identified that this is the greater portion of the enterprises in Malawi. Cutting back on the geographical area of operation will undoubtedly affect the most rural and remote, and may be self-defeating in terms of the developmental role of DEMATT.

Further, the READI survey has demonstrated that the number of producers in Malawi is small compared with the traders, so that DEMATT will again effectively reduce their assistance to the majority of those in need if they favour producers at the expense of traders. It should also be noted that the needs of producers require a different approach for which DEMATT is not yet prepared, and therefore DEMATT will need to provide a new type of consultant to deliver an effective service.

While the aim of self-sufficiency is admirable, it is not operable if the original target group is to be maintained. DEMATT activities in the initial phase were to assist small rural shopkeepers whose businesses could not support the cost of the business advice they need. If DEMATT were to charge for its services it would only reach those who could afford advice and not those for whom advice is most needed. The READI survey shows that 77% of businesses interviewed are in the category, having started with less than K1,000.

It is recognised that venture capital is needed in Malawi to help entrepreneurs who have good projects but lack equity. By definition, venture capital is money provided for high risk projects with projected high gains. In developing countries, most industrial projects hold a degree of high risk. What makes them succeed is effective appraisal at the early stages of project conception in order to assess what those risks are and to design the project to minimise them. Once in operation, the venture needs to be run efficiently, often imaginatively, and it needs to be carefully monitored. The role of the venture capital investor is to see that all the necessary steps are carefully

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[1] DEMATT, Institutional Plan 1986/87-1988/89

appraised and that once the business is operating, see that it runs according to plan. Most venture capitalists have vast experience in businesses and are business-persons in their own right. This is not the case with DEMATT. Furthermore, it is unlikely that the returns from the projects will be significant, certainly in the early stages when reinvestment is the most prudent use of profits; hence the capital will be tied up and not working for the Malawian entrepreneurs most in need. DEMATT lacks the ability to properly appraise such projects, run them or monitor them, and hence lacks the capability to operate a venture capital fund.

A move to producer clients, venture capital and charging for services all have implications on staff training. In order for DEMATT to provide professional services, it will need to upgrade its staff considerably. Most of the business consultants hold only MCE, which is not much greater than the qualifications of their clients as identified by the study. Before they can be trained, it is the belief of the study team that a level of formal education will be needed to provide the educational tools for the consultants to benefit from training. Four or five years formal education will bring them to the level needed for on-the--job or in service training to be beneficial.

What is needed is an assessment of the skill levels in DEMATT, followed by an assessment of the skill levels required to provide the services that it perceives as being demanded. The difference will highlight the areas where training is required and determine the type of person capable of receiving that training. Alternatively, DEMATT should look at the manpower resources it has and develop a plan of assistance which more closely matches that. If this were done, however, DEMATT would probably have to revert to the original goal and objective of the organisation - assistance to the rural trader. This would, indeed, match the needs as identified by this study.

Apart from serving its own clients, DEMATT proposes to make special arrangements with SEDOM, INDEFUND, MEDI and MUSCCO to service their clients in the rural areas, for a fee. Before doing this, however, DEMATT will need to improve its reputation in the field, where it presently does not work effectively, if at all, with these institutions. It should be noted that DEMATT has in the past year introduced an annual fee of K2.00 to its clients, to gauge their willingness to pay for the service. The results were positive, but this must be seen in the light of this fee being much less than the actual costs, estimated to be K800.00 per client. Whether DEMATT can command this sort of fee from the other institutions remains to be seen.

CHAPTER FIVE

CONCLUSIONS

5.1 Government Policy and Strategy

Government development policy and strategy has largely focused on large-scale enterprises in the agriculture, transport, industry, trade and social services sectors. However, the government's long-term policies as laid down in DEVPOL and with some subsequent amendments, have recognised the complementary role of SMEs and the creation of a climate where large-scale as well as small-scale enterprises flourish side by side. The policy calls for a mixed economy in which both public and private investments are promoted and the economic development goal is to increase the degree of local participation in business ventures. In addition, the government is committed to a free enterprise system in which government keeps a relatively low profile, while exercising regulatory and promotional functions.

While small- and medium-scale businesses are included in DEVPOL, specific mention of the SME sector is brief and not very important in Malawi's development plans and statements of objectives, policies, and strategies. Moreover, very little is said about any aims for developing the sector.

When DEVPOL was drawn up the government did not have enough information on SMEs for the design of a development strategy or incentives for the sector. However, in recognition of the role of SMEs in the economic development of the economy, government had hoped to formulate a development strategy and incentives for the sector as information about the sector became available. Beyond the provision of credit and business and technical advisory services, a review of investment incentives to take into account the specific needs of SMEs has not taken place yet. The results of this study have therefore provided the government with some of the much needed information necessary for reviewing its policies and incentive structure, taking into account the needs of the SME sector.

The institutional analysis of the Ministry of Trade, Industry and Tourism, the lead ministry for SME development, has revealed weaknesses in the institutional setup. The ministry lacks the manpower and field infrastructure to adequately implement promotion policies and programmes and at the same time devise new promotion policies and programmes to accommodate the ever-changing needs of SMEs.

The Ministry of Trade, Industry and Tourism is represented on the boards of DEMATT, MUSCCO and SEDOM, (but not INDEFUND or MEDI) and is therefore in a position to influence the SME promotional and development programmes of these organisations.

However, the ministry has not developed a strategy for promoting the SME sector in order to be able to influence the operations of the SME institutions towards the desirable goal for SME development.

5.2 SME Institutional Support Structure

The SME sector, while it has a place in the institutional structure which promotes and manages the development of private enterprise in Malawi, does not have a place which is comparable in importance to the position given to large enterprises. Compared to entrepreneurs in large-scale enterprises, the entrepreneurs in the SME sector have considerable freedom in business decisions. They are not subject to most of the legal and bureaucratic procedures which constrain the operating modes of the managers of large enterprises. Nevertheless, because their freedom is derived largely from benign neglect, they are deprived of positive assistance and support in many ways.

In the present system of SME promotion and support institutions, the scope of assistance of each agency is unique, with very little overlap or unproductive duplication and interference. Such separation of work is commendable and should be continued. The credit function should be left to the exclusive preserve of SEDOM and INDEFUND, being separated along the current lines by size of loans, or along other lines such as types of businesses or purposes for which the loans will be utilised. Likewise, the business and technical advisory services and training are best kept with DEMATT, RTS and MEDI where the division falls more or less along a line between entrepreneurial and skill training at MEDI and RTS and on-the-job business and technical advisory service by DEMATT, although DEMATT has so far been giving most of its attention to traders.

Clearly, there are gaps in the institutional framework for the delivery of business and technical advisory services which until now have been partially filled by DEMATT, SEDOM and INDEFUND. In the case of SEDOM and INDEFUND, business and technical advisory services are considered secondary to their lending operations. DEMATT requires broadening of its functions beyond those of advice to rural traders, to include a full range of business and technical advisory services. In addition, all three institutions lack the manpower and the experience to provide the business and technical advisory services deemed necessary.

Currently all major SME promotion and support institutions in Malawi are faced with barriers to the development of their own operations and the provision of their services and assistance. Those barriers or constraints include insufficient financial resources, an inadequate or overburdened staff, seemingly unavoidable high operating costs and little or no institutional planning or updating of quarterly or yearly plans. Such barriers

or constraints, however, are not limited to the institutions, because the impediments to their functions translate directly to impediments to the sector which they are aimed to serve.

5.3 Performance and Prospects for Growth of the SME Sector

Whereas much is known about large-scale enterprises through regular surveys for statistical use, information about smaller firms is sparse, often being merely a list of names kept by local authorities. Many small economic activities are operated without being officially recorded anywhere. Consequently, until this study, virtually nothing was known about the size and the contributions to the national economy of the small- and medium-scale enterprise sector. Nevertheless, government considers this sector important for the economic growth and development of the country, especially since the end of the 1970s which brought about a slow-down in the growth of the large-scale enterprise sector.

This study has attempted to measure the size and significance of the SME sector using secondary information contained in the national accounts published by government. The size of SME investment in 1986 as estimated by this study is approximately K13 million, rising to K35 million by 1991.

Until now most of the SME investment has been funded by savings generated within the sector. Due to lack of information on savings in the SME sector, estimates have had to be made using government national accounts figures. SME savings have been estimated at K13 in 1986 rising to K19 in 1991. The little formal credit that has been provided to the sector is a recent phenomenon following the establishment of INDEFUND and SEDOM. Commercial banks have not provided credit for SME investment because of:

(a) the high cost of dealing with large numbers of small borrowers;

(b) the risk of default associated with SMEs;

(c) the commercial banks' practice of not lending money for starting businesses; and

(d) the difficult liquidity position often faced by banks.

SME term-loans given by INDEFUND and SEDOM have so far been limited by institutional constraints and availability of resources. In the next five years term loans are projected to rise from K3 million in 1986 to K9 million in 1991, leaving a financing gap for SME capital formation investment of at least K7 million in 1991 alone.

5.4 Characteristics of the SME Sector

There is a pattern of concentration of businesses in a very narrow range of enterprises, and therefore more consideration might be devoted to ways and means of diversifying the pattern of SME development within the country. Businesses in different regions do not all perform equally well. It is unlikely that this is attributable to entrepreneurial deficiencies but is rather explicable in terms of deep-seated structural economic factors. Imbalances due to such factors cannot be rectified by policies initiated within the SME sector strategy. They will need to be changed through a strategy that is much broader in scope. Any programme for SME development must take account of differences in the rural/urban profile of enterprise activity. In different regions of the country there are widely differing degrees of urban concentration of SME. This is an important issue since the spread of business activity is much more narrow in the rural areas of the country. Moreover, there are substantial divergences in the capacity of rural and urban firms to generate employment. Finally, the participation of women in business enterprises is very minimal despite the great potential for expanding women's participation in SME[1]. However, many practical measures need to be taken to turn this potential into a reality. This is particularly true of the rural areas where it has been reported that only 1.5% of women are in non-agricultural family businesses[2].

5.5 Employment Patterns in Malawian SME

Employees are unevenly distributed among the various types of enterprise groupings. The disproportionate spread of employees among various types of business activity is especially pronounced for the women workers. The Southern Region urban enterprises have the highest mean number (4.6) of workers while rural businesses in the Northern Region have the lowest average number (1.1) of employees.

The repercussions for employment policy within the SME sector appear to centre around the enhancement of employment-generating capacity among specific types of enterprise activity in the rural areas, and the generation of employment opportunities for women in particular types of enterprises in which they are under-represented within the SME labour force.

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[1] SEDOM, Women in Small and Medium Scale Enterprises, A paper presented at the workshop on "Malawi's forward-looking strategies on the advancement of women to the year 2000" held in Lilongwe, 9 - 10 September, 1986.

[2] United Nations, Economic Commission for Africa, Women, Planning and Policy in Malawi, African Training and Research Centre for Women, Addis Ababa, 1984, 9.2.

Another extremely important issue for SME development is the rural/urban balance of employment opportunities and possibilities for job creation within the sector. Of the total number of employees in the sample, 78% are working in rural-based enterprises while 22% are working in urban-base enterprises.

Based on population growth trends in the country and the projected labour force, it is estimated that the large-scale modern sector will generate 58,000 jobs over the five year period to 1990. This will leave 65,000 people to be absorbed by the SME and informal sector. Based on the projected levels of SME investment to 1990, a total of only 29,000 new jobs in the SME sector could be realised, leaving 36,000 people jobless or underemployed.

5.6 Constraints Facing the SME Sector

The degree of weakness in business requisites is demonstrated by the entrepreneurs' perceptions of their biggest operational problems. In the day-to-day running of their enterprises, 14% of the entrepreneurs believe that a lack of customers is their biggest problem and another 6% say that this is their second largest worry. More than half the entrepreneurs report that finance capital is their greatest problem and nearly 70% say that it is their only problem.

Insufficient funds for capital investment is a problem which is not normally associated with ongoing operations. Perhaps the entrepreneurs set aside too little working capital when they establish their businesses, or perhaps they depleted their capital. On the other hand, their perceptions may have been misinterpreted when the entrepreneurs were simply trying to say that their essential problem is one of low income, which some are able to understand as being the consequence of too few customers. This possibility appears greater in view of the fact that not many more than half the businesses have expanded since starting; in fact, 37% of the businesses were said to have declined, 16% of all entrepreneurs doing less than half the business that they did in their first year. In terms of employees, only 45% have done well enough to employ additional workers. Of those who did employ workers, 30% now have fewer. Many businesses started and remain as enterprises for the self-employment of the owner, without employing others.

Most of the surveyed entrepreneurs have serious difficulties. They are enterprising up to a point. Either because they are unable to find an employer who would employ them in the desired activity, or because they want to be self-employed, they managed to put themselves in business. Many of the businesspersons soon reach their entrepreneurial limit. Their businesses hardly grow; few employ additional workers while many (43%) remain one-person enterprises, essentially artisan working places and small retail businesses, not firms in the modern sense.

There appears to be little room for more new businesses to be started in the SME sector, or even in the LSE sector, given the structure of the economy. But this may be just a passing phase in a nation in which a sixth of the national income is earned by subsistence farm families and as much as four-fifths of the potential labour force are peasant farmers. Subsistence output and the group of peasant farmers are diminishing measurably in relative importance. If the nation is changing into a post-agricultural society, industrialisation may well be leading to significant changes in the present structure of ownership and control. Consequently, the economy may become more competitive and open to diversified types of businesses.

This transition must be encouraged and promoted by a progressive policy which will induce appropriate responses and entrepreneurial actions throughout the economy. Entrepreneurs in the SME sector should be looking into ways to bring faster and sustained growth to their markets. A growing market can be created by:

(a) extending the geographical reach of business; and/or

(b) increasing the purchasing power of customers.

Business firms of the LSE sector have already nearly completed their spread into all market areas of Malawi and their external markets are limited greatly by transportation, the factor which also restrains their foreign competition in Malawi markets. The best alternative direction for the SME sector, then, is to look toward raising the purchasing power of their present markets. This can be achieved through:

(a) increased income of customers; and/or

(b) lower prices and costs of purchases.

For a number of reasons, large businesses have greater survival power than small businesses in the face of most fluctuations in the market. Consequently, they present imposing competition to smaller businesses. Large businesses, however, are not invulnerable to market forces and they are not always in a more favourable position than small businesses. Large size also means that small-scale activities may not be economical for firms which do not have procedures and administrative support for them or which must disturb large-scale activities in order to carry out a small-scale activity. This means that there is room for small-scale businesses to provide consumers with certain final goods and services which are uneconomic for large-scale businesses and, also, for small-scale businesses to produce goods and services which large-scale businesses must have in small quantities for inputs in their production and services.

5.7 Demand for Business and Technical Advisory Services

The constraints summarised above all need to be surmounted before SMEs can develop. There is a need for institutions already trying to address these problems to take on a much more rigorous role. Business and technical advisory services are needed to help SMEs overcome many of these constraints.

These areas of need can be broadly summarised as: marketing, raw material assessment, transport assessment, technology choice training assessment, credit supply and in particular project planning, appraisal and monitoring.

(a) Marketing

This is a service which can be provided for any type or size of business. It should encompass the following activities: market opportunities in the rural areas, in the towns and overseas; market development; market promotion; consumer surveys; and a training facility to assist entrepreneurs in these fields. The feasibility of a marketing service to rural or small producers, and of a sales cooperative, should also be explored. These are roles which DEMATT is exploring and we recommend that assistance be given to DEMATT to develop these services further.

(b) Raw Material

The assessment of raw materials will be a technical role and dependent on the type of raw material: minerals could be tested to a limited extent by the Geological Survey in Zomba, but frequently will need to analysed outside of Malawi; agricultural produce will need to be tested in a food laboratory, not available in Malawi except for minimal facilities at Bunda College of Agriculture; and metallurgical facilities exist at the Polytechnic.

The whole question of rural material supply needs to be surveyed to assess the real requirements of various industrial sub-sectors to determine the need for buyer co-operatives, wholesale facilities and/or alternative materials. This latter activity is a role for DEMATT in coordinating data from the field, using its field staff at its head office.

(c) Transport

Similarly, the present transport pattern in the rural areas needs to be surveyed to see how the transport problem could be solved. This is very much an on-going requirement and DEMATT's Transport Consultant could play a leading role. Most businesses have transport requirements in terms of delivery of raw materials to the business and finished goods to the markets.

(d) Technology

This is a much more complex area, and one which will require long term assistance from outside of Malawi to fill the gaps identified here. It is essential for the most appropriate technology to be used. This basic information could be provided by the proposed Technology Centre at the Polytechnic. The Centre exists in name only at present, with two lecturers working part time on the development of the concept of the Centre. As a first step, a resource centre needs to be developed to provide information on technology choices, their performance and problems in other parts of the world.

The testing of these technologies is a separate function which is being done to a limited extent. Chitedze Agricultural Research Station, for instance, is doing some testing of agricultural implements, and processing equipment. Other areas, such as food processing technologies, mineral extraction and processing technologies, and workshop equipment and tools, are not catered to in Malawi.

Technology adaptation and development is not being done to any great extent in Malawi. Indeed, the Chitedze Agricultural Station needs to develop its engineering ability in order to turn good concepts into production models. Outside of this there is little being done. The Polytechnic has done some work as a part of its research programmes, but nothing of note which could assist the SME sector. It is not recommended that the Polytechnic be the institution to take on this role, as worldwide experience with Technology Centres based at academic institutions has not been positive. They are considered too remote from the sector they are trying to serve. Elsewhere for each technology area an institution is developed to take on the role of technology testing, adaptation and development. A separate study is needed to identify the most appropriate institution for each area.

(e) Training

This is a vast area which deserves more space than this report can give, but briefly the areas can be split into training of trainers, so that the concepts can be taught over and over to different groups, and entrepreneurial training such as that being undertaken at MEDI. Then there are the broad areas of training which can be categorized into business and technology.

(i) Business

Formal education in this field should continue to be encouraged, both at the secondary school level and at the Polytechnic and MEDI levels. In-service training courses need to be designed for small and medium businesses, and DEMATT and MEDI could upgrade activities in this area to cover the sector requirements. Every effort should be made to hold courses near to the businesses in need.

(ii) Technology

Formal courses such as those already held, should continue at the secondary schools, Nasawa Technical Training School, MEDI and the Polytechnic, where trade tests and certificates can be awarded. The Rural Trade School provides a valuable service to rural artisans; their capability to extend their services to the field and train non-graduates should be expanded to provide artisan up-grading courses. The Rural Trade School could also be a useful medium for providing training of trainers courses for the other institutions mentioned. The Malawian Entrepreneurial Development Institute does a useful service in combining the technical training with the necessary business training. A parallel service needs to be developed for existing businesses, which could take the form of joint artisan training and business courses. This would require a certain amount of collaboration between business institutions such as DEMATT and the technical institutions.

(f) Credit Supply

The financial intermediaries, INDEFUND, SEDOM and MUSCCO, should be encouraged to develop their own capabilities in project planning, appraisal and monitoring, calling upon DEMATT for input on market, raw material and transport information, and to provide the necessary business training needs as identified in the planning stage. For small loans, SEDOM and MUSCCO could be encouraged to use DEMATT's field extension to assist with the monitoring. This will reduce the overhead cost of monitoring small loans where the interest charges cannot hope to cover these administration costs. For their larger loans, however, the financial intermediaries should develop their own monitoring service, as this is the most effective means of feedback to build their experience in loan provision and enable them to provide a better service to their customers.

5.8 Role for Business and Technical Advisory Services in SME Development

More than financial aid is required for the promotion of business. Information and advice are needed, too. Sometimes even those forms of assistance are not enough to make the difference between success or failure of a small venture. In some cases, direct credit assistance for obtaining materials, goods or services is essential. Such assistance, including loans, is valuable but credit alone is not likely to be enough. In order to put technical assistance on a level of first-order importance along with credit functions, the network of official institutions should be restructured, removing the subsidiary relationship by which technical assistance is now secondary to credit functions and technical assistance to SME industrial producers is less important than technical assistance to traders and farmers.

Business and technical advisory services are required to meet the needs of the existing businesses to develop, and those of the new enterprises being developed. However, it should be pointed out that a different approach is going to be needed for the existing businesses which already have problems, often caused by lack of proper project planning, appraisal and monitoring, and these need to be addressed in the light of the particular business, the context in which the business has found its problems, and its ability to overcome them in terms of the status of the business. This will often need innovative thinking on behalf of the business and technical advisory service institutions.

Careful planning before a business venture is established, proper appraisal and careful monitoring will reduce the number of problems encountered, if only because this process will identify potential problem areas before they are reached, and allow preventive actions to be devised in advance. Existing businesses which are not planned, appraised or monitored will find themselves in the middle of a problem which could have been solved long before it materialised.

Given the perceived needs of the entrepreneurs and the constraints facing the SME institutions the following areas need to be addressed by business and technical advisory service institutions and entrepreneurial and skills-training institutions:

(a) For the amount of credit that is expected to be required to finance the projected levels of SME investment, much more project identification is going to be needed. Reliance on entrepreneurs to come up with viable projects, which is currently the case, will not yield the needed projects. As the obvious options are taken up, more innovative thinking is going to be needed, requiring new inputs from business and technical advisory service institutions. Technological

inputs, such as raw materials, and technology assessments are going to call on the services of outside institutions. In addition, market research and development facilities should be developed in country with the existing institution sharing the responsibility.

(b) Proper planning of projects will need market research and consumer preference tests to develop a marketing strategy that includes delivery of finished goods to the markets. This can be done in conjunction with testing the suitability of the supply of raw materials. The choice of the most appropriate technology, best matched equipment and process will also require a technological input to test, adapt or develop the technology. Also required is an assessment of the business and marketing skills needed to operate the business.

(c) The appraisal of projects is to a very limited extent being done by the financial intermediaries, and to a lesser extent by DEMATT with its credit worthiness scheme and loan preparation service. However, a much more rigorous approach is needed to reduce the number of projects with arrears on the books of many of these organisations. Training in project appraisal to take into account IRR, NPV, break-even analysis or payback (whichever is the most appropriate), as well as sensitivity and risk analysis, is needed. The last two are most relevant, particularly when the more innovative projects emerge. There will be risks, but this is no reason not to proceed, as long as the risks are known, quantified and reduced to an acceptable level by careful project design. Risk analysis can only be done if the market is properly assessed so that the variance in size and acceptable price level is known, the raw materials carefully chosen, the appropriately priced, operable and maintainable technology is chosen, the manpower skills needed are specified and developed, and the financial structure is selected so that the projected income from the project is sufficient to service the loans comfortably.

(d) Project implementation is often left to the entrepreneurs themselves. The business and technical advisory service institutions too quickly let go of the project at this crucial stage, thinking their job is done. Clearly there is a role for these institutions in helping with advertising and promotion of the product, establishing the lines of raw material supply, supervising or overseeing the installation and commissioning of the equipment. In addition there is a need for designing and arranging training courses to run, service and maintain the technology as well as run, manage and develop the business, and finally in the effective disbursement of the loan.

(e) The whole area of monitoring is in need of a radical re-thinking on behalf of the financial intermediaries, who pay lip service to this activity but rarely give constructive advice to businesses running off target. Checking on consumer reactions to the product, determining that the process flow and capacities of the equipment are balanced and adequate, that the machinery is being properly maintained, that the manpower performances are on target and that the repayment schedule is being met or being rescheduled, are all essential services to the infant industry to help it grow into a healthy and prosperous business.

5.9 Enterprise Centres

Malawi's experience with enterprise centres has not been successful so far. The facilities that have been built so far have inconveniently been located far from shoppers, and in terms of quality and cost, appear not to have taken into account the income generating capacity of SMEs.

Half (49%) the entrepreneurs of SMEs said that if the government were to build a small market place or a workshop centre nearby, and charged rent, they would move their businesses to that place. The READI survey results show that four sectors have a greater than average number of potentially interested entrepreneurs. Those sectors are the service businesses (except repair services), textile and leather product manufacturers, wood product manufacturers, and other manufactures.

5.10 Research Areas for Future Policy Direction

The comparison of some growth rate trends since 1965 for the amount of initial investment put into the founding of businesses and the number of those businesses, suggests that not only is the SME sector growing at a rate which is important to the economy, but also that modest structural changes are occurring within the sector.

By total amount of finances put into starting businesses, the fastest growth in investment is generated in manufacturing (8%), specifically in food and beverages (11%), tinsmithing (10%), grain milling (8%) and clothing (7%). The number of businesses which are started in these sectors, however, is growing at a comparatively low rate. This suggests that perhaps the initial investment required to enter into these sub-sectors of business is now much larger than it was one or two decades ago. Therefore, the increase in the size of initial investment would be acting as an economic barrier to entry. This is not a bad change, however, given the large numbers of businesses in these sub-sectors. The relative differences in rates of change may also reflect technological changes, whereby these sub-sectors are becoming increasingly capital intensive.

Looking for the sub-sectors having a relatively low rate of growth in the current market value of initial investment, one finds wood furniture manufacturing and restaurant and bars, in particular. Curiously, these sectors show comparatively high rates of growth in numbers of starting businesses. In other words, the size of the SME sector is growing, especially in activities in which the required size of the initial investment is relatively small, perhaps declining.

The single noticeable exception to the above two observations is the sub-sector of hotels and rest-houses. While the rate of growth of initial investment is not low, the rate of growth of numbers of new hotels and rest-houses appears to be high.

The conclusion derived from the above analysis suggests that some types of businesses, for example grain milling, food processing and sheet metal fabrication, may be switching to new and more expensive technology which entails increasingly large financial credit for starting and for capital improvements. Other types of businesses, for example carpentry, some manufacturing and restaurants and bars, may be declining in levels of technology, and, therefore, require greater emphasis upon manpower development, particularly in forms of business and technical training.

A study in greater detail of the characteristics of all businesses, especially in carpentry and miscellaneous types of manufacturing and restaurants and bars, is recommended before making policy recommendations on specific types of businesses. Overall, the general results suggest that investment in the SME sector is both increasing (growing in number of enterprises) and deepening (both in size and capital investment).

CHAPTER SIX

RECOMMENDATIONS

6.1 SME Development Policy and Strategy

The major policy recommendation for SME development in Malawi is for government to establish a set of government incentives which take into account the needs and constraints of the SME sector, and a development strategy for the sector which would guide the operations of SME development institutions. This study has provided the basic information to enable the Ministry of Trade, Industry and Tourism to develop a strategy for promoting and developing the SME sector. The desirability of developing the sector has been laid down in DEVPOL. The base for developing the sector has been created through the establishment of SME development institutions such as DEMATT, INDEFUND, MUSCCO, SEDOM and MEDI.

The focus of the Ministry of Trade, Industry and Tourism requires redirection. A shift in ministry priorities from regulatory activities to promotional activities is recommended, particularly in view of the price decontrol that has taken place during the last two years. The vacant posts in the Ministry need to be filled and training will be required to upgrade existing and new personnel to facilitate the guidance of the participating SME sector ministries and implementation institutions. In particular the Ministry's Small-Scale Industrial Unit will need resources and support to adequately carry out the following roles:

(a) establishing a dynamic SME industrial policy and reviewing it periodically to reflect economic changes and government priority emphasis;

(b) coordinating SME industrial policy for all secondary processing of primary products in coordination with sectoral ministries responsible for production of primary products;

(c) promoting SME industrial activities by establishing fiscal incentives relevant to the SME sector and other incentives such as the provision of credit, advisory services, research and infrastructure; and

(d) promoting the development of SME entrepreneurs by identifying priority SME training areas and supporting entrepreneurial and on-the-job training programmes of MEDI, RTS, and the expanded DEMATT.

Given the large number of government ministries and departments involved in defining and formulating government policies and strategies for the SME sector we recommend the setting up of an SME Development Advisory Committee which will be responsible for defining and formulating SME policies, objectives and strategies. The role of the committee would be to coordinate and monitor the SME policies and strategies, including reviewing policy and strategy changes for government consideration and approval. Membership could include Principal Secretaries of EPD (OPC) (Chairman), Finance, Agriculture, Local government, Forestry and Natural Resources, Labour, Education and Trade, Industry and Tourism.

With several institutions involved in small and medium scale industrial and rural development work, coordination becomes essential in order to rationalize the individual efforts and complement them more effectively with government policies as implemented through SME support institutions. We therefore recommend that the Ministry of Trade, Industry and Tourism set up an SME Implementation Coordinating Committee to provide guidance at national level and also serve as a forum for discussing SME issues. We propose that membership include all the SME support organizations including non-governmental organizations as well as representatives from all other institutions involved in industrial and rural extension work such as the Ministries of Agriculture, Labour, Education, Forestry and Natural Resources, Finance and the University of Malawi. At the field level similar coordination using the DDC is recommended with a view to presenting regular reports to the main committee so that coordinated action may be taken.

6.2 Institutional Capacity of Lead Ministry

Currently the Ministry of Trade, Industry and Tourism has limited number of officers working on industry as a whole and only one officer devotes part of his time on SME issues. At the operational (or field) level the Ministry is not represented.

For the above reasons we recommend the strengthening of the lead ministry so that it has the institutional capacity to coordinate and advise government and SME support institutions on opportunities for SME development and related support policies and programmes. The kind of improvement we would like to recommend is in both numbers of officers, levels and types of professions on the establishment of the Department of Industry. The ministry requires to have an in house institutional capacity to advise government on appropriate policies and also play an active role in the promotion of SMEs by being represented at the operational level. Such strengthening will require commitment of manpower and financial resources beyond the levels that have been allocated to the Ministry of Trade, Industry and Tourism so far.

We note that one of the ministry's functions is to provide advice and extension services to entrepreneurs. We believe that this is better facilitated at the operational level i.e. where the SMEs operate. We therefore recommend that in addition to enhancing the institutional capacity of the lead ministry at the ministry level, the ministry should also deploy staff at the field level to deal with coordination, promotion, monitoring and advice.

6.3 Planning of SME Development Institutions Activities

The preparation of comprehensive institutional work-plans is recommended for SEDOM, INDEFUND, DEMATT, MUSCCO and MEDI. We found little or no institutional planning, or updating of quarterly or yearly plans, in these institutions. The coordination and sharing of institutional activities should be facilitated by institutionalising the model developed for the READI Project Implementation Committee, which meets once a quarter and is chaired by the Ministry of Trade, Industry and Tourism.

6.4 Cost and Availability of Credit

Present institutions have a key position in the mobilisation of resources and must be maintained and expanded. Financial liquidity seems to be the biggest problem for most entrepreneurs. Therefore, any possible relief that is economically sound should be implemented. One form of relief would be making credit more readily available in the rural areas by increasing the penetration of credit institutions.

Given the high cost of delivering credit (K0.67 for every K1.00 for SEDOM and K0.44 for every K1.00 for INDEFUND), the SME financial intermediaries will not be able to make credit readily available to SMEs without assistance in the financing of the cost of delivering credit. If credit is to be made readily available throughout the country, particularly in the rural areas, the cost of delivering credit may have to be financed in the same way small-holder agriculture credit is financed. Government and donors may have to bear some of the expenses of delivering credit, particularly into rural areas.

Given the risks involved in providing credit to the SME sector, the SME financial institutions require a large spread in the interests at which they raise money and lend to SMEs. Both SEDOM and MUSCCO have been given the maximum possible spread by government. However, the government on-lending terms to INDEFUND (7% interest per annum and eight years grace period before loan repayment starts) are a major barrier to lending for high risk development projects. INDEFUND's exposure is the same as that of SEDOM. The terms of loan monies from government should, therefore, be the same (3/4 of 1% interest with first repayment due in 50 years).

Credit should be available at commercial rates for any entrepreneur who requires it, but because development can be faster in certain sectors than others credit could be used to promote the desirable sectors while being withheld from over-crowded sectors. The recommended basis for business promotion through credit facilities could be to make credit available for activities which are likely to generate a high rate of employment, use local materials, and set up backward and forward linkages.

As for the services of the enterprise development organizations, it is recommended that charges for their services be determined by a balance between what the market can bear and what the government wishes to achieve. Consequently, advice and demonstration might be free, and lectures and courses might be free or available on tuition payment, depending on the character of the course and other circumstances.

With regard to RTS graduates, it is felt that they are under capitalised when they start their businesses. It is therefore recommended that SEDOM be approached to help finance limited working capital for RTS graduates, and that DEMATT provide strict monitoring procedures.

Finally, government support is needed to secure the cooperation of the two commercial banks to establish a working capital facility for SEDOM and INDEFUND term-loan clients so that the resources of the two SME financial institutions can be devoted to SME fixed capital formation. The commercial banks are not opposed to the idea of financing the working capital needs of the SME sector, particularly those entrepreneurs whose start-up capital needs are financed by SEDOM and INDEFUND, provided a guarantee scheme can be worked out and the monitoring of the projects can be undertaken by SEDOM and INDEFUND or the proposed expanded and reconstituted DEMATT.

6.5 SME Institutional Support Structure for Business and Technical Advisory Services

Often, there is a temptation to set up a myriad of institutions to solve the problems created by the constraints to SME development. However, too many institutions end up competing for clients, rarely having their interests in mind and frequently the entrepreneurs are confused as to which institution would cater to their needs. Therefore, it is recommended that the existing institutions remain unchanged, and that the present functions of DEMATT be improved and expanded to provide a wider range of business and technical advisory services to help SME entrepreneurs become aware of their needs and overcome their problems. The proposed structure and coverage of the expanded DEMATT is discussed below.

The distribution of SME businesses extends into the districts, and advisers are needed in all of the 25 districts and/or main market centres as identified by the national physical plan. The balance of businesses over the country is not uniform, and some districts and/or main market centres may need 2 or 3 advisers. These advisors should be coordinated from a regional office with a level of autonomy that would allow it to respond to the special needs of that region. Each regional office should have facilities for providing the following services: management, business promotion and marketing, technical advise, and training. The three regional offices would be serviced by a national head office with a general manager, supported by specialists in marketing, research, training of trainers and technology choice.

Each office would need to develop its own work-plan, which could be pulled together in a master institutional plan by the head office. The institutional plan will develop strategies for implementation, which will include a manpower recruitment and development plan.

The financial implications of such a nationwide institution staffed by qualified advisors are enormous. Government and donors will need to offer financial support for such an organisation.

The functions of each of the positions in the restructured DEMATT is described below with an indication of the type of person needed to fill that role.

(i) District and/or Main Market Adviser

It is recognised that it will be difficult to recruit high powered, well educated people to work at the district level. However, it is suggested that the adviser should be diploma level, developing their experience with in-service training. His/her tasks will be to provide business assistance to traders and producers, similar to that already being provided by DEMATT, but a better developed package will need to be formulated which closely matches the needs of the rural traders and producers. The advisors can also be used in long-term and continuous research work as enumerators, collecting data under the instructions of the regional office for use in developing SME promotion packages. Such people need close supervision, guidance and regular on-the-job training from the regional and head office so that they can eventually take over the innovative role needed for SME promotion. Until then this role will be fulfilled by the regional office.

(ii) Regional Office

The regional office will be one of three operational units which will have a level of autonomy to respond to the needs of that particular region. It should be managed by an experienced person with a track record in management and an ability to plan and develop programmes. He/she will be advised at a regional level by a team of experienced people: a business promotion officer, who will have project appraisal, planning and development skills; a marketing manager who will develop marketing strategies based on identified market needs and feed information back to the head office for wider analysis; a technology adviser to help entrepreneurs choose the most appropriate technology, identify technology gaps and training needs for action by the head office; and a regional training officer who will work closely with the district advisors to develop training packages based on district level needs, using case studies, and provide that training him/herself in the districts.

The regional manager should run the activities of his/her region according to an agreed upon work-plan with the head office, which he/she should develop based on the information being collected from the district advisors and analysed by the regional office specialist. Once this work-plan has been accepted by the head office, the region should be left to implement it, with sufficient funds to execute the plan. His/her other role will be to form a close liaison with SEDOM and INDEFUND regional offices to provide a project appraisal and planning service for them. In the case of MUSCCO, the regional office could also be responsible for monitoring loans which are small and not cost effectively monitored from a central office. Arrangements could also be made for SEDOM's mini-loans to be similarly monitored.

(iii) Head Office

The main activity of the head office will be to provide a national perspective and coordinate the regional work-plans, identify the resources needed to implement the plans, seek the necessary funding and provide a back-up service to the regions. This should be comprised of training for field personnel, a marketing and research facility, and a technology choice facility. To integrate the national development plan into the institutional plan, the general manager would need to develop close links with sister organisations, INDEFUND, SEDOM, MUSCCO, MEDI and Rural Trade School, to provide the services they need in order to operate efficiently.

The training facility should have two arms, one to train the district advisors and give them tool kits to help traders and rural producers in basic business skills, the other to train the regional trainers. Training is a specialised skill, particularly when applied to the seminar or classroom situation. The role of the regional training officer is to identify the common training requirements, and develop appropriate training packages based on case studies drawn from the district with the help of the district adviser, and to hold training seminars. The head office training manager will be responsible for identifying the most appropriate courses for the training of the district advisors and the regional training officers.

The marketing and research facility needs to include assistance with rural and urban market surveys, export market potential, government tenders, manufacturers' associations and the whole area of raw material procurement and delivery of finished goods to markets, with particular reference to transport needs.

The technology choice facility is only an interim measure until the necessary institutions, as discussed previously, can be developed to take on this role. The facility will essentially identify technology needs and the institutions to meet these needs.

(iv) Board

Since this institution will provide the project appraisal and planning services needed by the financial intermediaries, it is essential that they are represented on the board. Similarly, the donor organisations should also be represented. The board structure should then have the general managers of MUSCCO, SEDOM and INDEFUND, the general manager of INDEBANK, representatives of the two commercial banks, MEDI, RTS, the donor organisations - USAID, EEC, KFW, FMO, etc., and other business connected representatives who could help direct the activities of the institution.

The financial intermediaries, INDEFUND, SEDOM and MUSCCO should be encouraged to develop their own capabilities in project planning, appraisal and monitoring, calling upon DEMATT for inputs on market, raw material and transport information, and to provide the necessary business training needs as identified in the planning stage. For small loans, SEDOM and MUSCCO could be encouraged to use DEMATT's field extension staff to assist with the monitoring. This will reduce the overhead cost of monitoring small loans where the interest charges cannot hope to cover these administration costs. For their larger loans, however, the financial intermediaries should be encouraged to develop their own monitoring service, as this is the most effective means of feedback to build their experience in loan provision and enable them to provide a better service to their customers.

6.6 Mobilisation of Savings and Delivery of Loans to SME's

The results of this study have indicated that there is a strong and positive association between changes in savings and changes in real interest rates. The implication of this is that by making deposit rates positive in real terms, a strong incentive to save can be created which should facilitate mobilisation by financial institutions generally. Different financial institutions have, in addition, specific problems which must be addressed.

For credit unions, which are handicapped by a very low dividend rate, there is need to seek government permission to raise the dividend rate to a level that is at least equal to the savings deposit rate. Because it will be necessary to increase the interest rates at which credit unions lend money to members, it will be necessary to seek reform of the provisions of the Co-operative Societies Act which prevent payment of dividends if money is lent out at more than 10% per annum.

Other measures which would encourage savings at credit unions include allowing withdrawal of shares, strengthening their capacity and that of MUSCCO to lend, and generally improving the operational efficiency of these institutions. MUSCCO has already made plans to implement all of these measures. We endorse these plans as well as measures that would separate the link between savings and borrowing so as to attract more savers. All these would go a long way toward improving the competitiveness of the credit union movement in the country.

Although the presence of commercial banks was evident in all the centres where SMEs were interviewed, their reluctance to lend limits their attractiveness to savers. It is therefore recommended that they should increase their lending to SMEs, if not directly, then through other financial intermediaries. There is also need to establish a cost-efficient network of branches and agencies for the commercial banks, as well as for the New Building Society, whose activities at present are limited to a small number of urban centres.

6.7 Provision of SME Site and Service Enterprise Centres

Renewed consideration of planning and building SME enterprise centres or industrial estates is recommended. Bearing in mind the problems that have been experienced in utilising the SME enterprise centres that have been built so far, we recommend a change in emphasis, from industrial complexes such as the Biwi Triangle in Lilongwe or the SEDOM Industrial Estate in Blantyre to the provision of rural enterprise serviced plots. Such sites could be selected from the centres identified by the National Physical Development Plan and the Rural Growth Centres Project. The sites would be made available to SME entrepreneurs to build

their shops and factories, with a special fund to assist qualified entrepreneurs build shops and factories.

The proposed sites, planned specifically for particular types of businesses and taking into account the needs of the entrepreneurs, can effectively achieve a number of development objectives. Most important from a development point of view, they induce and quicken the pace of industrialisation or growth of particular types of businesses by helping ambitious entrepreneurs to acquire land with supplied utilities. Efficiency in resource allocation is also achieved in several ways. First, economies of scale are realised when a concentration of industries are constructed in one place and utilities for the whole area are put in place at the same time. Second, the site and infrastructure in the surrounding environment may be planned to meet the requirements of the entrepreneurs and their markets. Third, the composition of the enterprises on the site may be influenced by kinds of purchase policies, which promote external economies in shared supply of labour of different types, shared business and technical services, inter-business trade in goods and services, etc. Besides efficiency, the location of rural enterprise site and service schemes promote policy objectives for development of specific regions or areas, promotion of improved income distribution, employment in economically depressed areas, and exploitation of potential resources.

6.8 Government Procurement

Businesses in the SME sector would be better able to remain viable in markets which do not fluctuate greatly. It is recommended that government formulate a general set of policies for procurement which would favour businesses in the SME sector. This would require identification of items which could be satisfactorily supplied by businesses in the sector and entail a systematic method of purchasing, and informing small businesses so that they may submit competitive tenders to supply the government and local authorities with their requirements. It is recommended that the set of policies be drawn up so that enterprises in the SME sector would have initial advantages or preferential treatment.

6.9 Contract Supply

Procurement of government requirements of goods and services from the private sector would include procurement of supplies on contract. Additionally, small businesses could be greatly assisted by means of policies to induce businesses in the LSE sector to contract as much of their work to small businesses as would be economically feasible. This should benefit both the large firm which would contract out the work and the small business which renders the work. Promotion of a greater amount of contract business between firms within the private sector

should include policies to allow and encourage sub-contracting within tenders. This latter aim would be foster d through an institutionalized network of information and procedure for bringing the contracting parties together and assisting in the formal agreements.

6.10 Selection of Target Groups

A general bias of all programmes of financial, training, business and technical assistance to SMEs should be directed toward assisting firms that contribute most to national product and its growth, for example, in the use of locally produced materials, in employment generation, in technological advancement, etc. Such a bias should apply to all programmes such as financial credit, tax incentives, business and technical services, importation for capital expansion, internal and external marketing schemes, etc.

6.11 Definition of Enterprises by Size

Another recommendation is to define the dividing line between the two or three critical scales of enterprise and between types of enterprises, such as formal and informal, or cottage and craft enterprises. This action would not directly effect the private sector, but would serve the development of enterprise because it would be extremely useful for purposes of research and analysis, as a basis for planning and policy formulation. It is recommended that the definition be strictly in terms of characteristics of the enterprises and not the owners' ethnic origin or nationality. Accordingly, enterprises of all types could be included in a study. Of course, any set of requirements for type of enterprise and ownership may be specified for policies and programmes for the beneficiaries of special assistance.

6.12 A Role for PVOs

There are a number of possible roles for private voluntary organisations to backstop and fill some of the gaps until the most appropriate institutions can be identified and developed to take on new expanded roles. Expatriate advisors/counterparts with development experience could be provided from private voluntary organisations. In the interim these people will help train their counterparts to fill the gaps identified above. These gaps include:

(a) Training:

The main requirement is for the training of trainers. Much of the skills that need upgrading can be done in Malawi if the trainers are equipped with the necessary skills themselves. The two main areas where this is

needed is in the provision of the necessary skills for business management and entrepreneurship development, and the technological training required to advise producer clients. This initially will be artisan up-grading courses.

(b) Technology/Development:

As stated previously, technology is not the major constraint to SME development, but a provision for technology development needs to be made in Malawi. This will fall into four main areas:

(i) Information on the technology choices that are available needs to be accumulated. This can be done by the proposed Technology Centre at the Polytechnic, but assistance to collect the most appropriate information will be needed.

(ii) The specification of the technology required is an essential component of the project cycle. Without it, the most appropriate technological solution to the problem cannot be determined. Such skills can be developed, but only over time and with experience. Therefore, the best way to develop these skills is to have counterpart on-the-job training, provided by a PVO placement.

(iii) The information on technologies will often reflect the needs of a particular requirement elsewhere which do not necessarily reflect the needs in Malawi. Therefore, the technology will need to be adapted or further developed to suit these needs, to suit the resources and skills available in Malawi. One notable omission in Malawi is in the provision of a food technology laboratory. Other areas such as the development of agricultural tools are available to some extent, but would need to be developed further. There is a role for PVOs here to fill a gap, and to help build the institution to a level where it can handle the work on its own.

(iv) Closely associated with adaptation is the need for technology testing facilities, so that imported technologies could be evaluated for suitability in Malawi. Such institutions do exist, but they need developing so that they can undertake minor modifications, or conversely specify how they should change to meet the conditions in Malawi.

(c) Institutional Support:

The institutions which exist need support and help in developing Malawian expertise. Many of the studies done by outsiders should have been done by Malawians who understand their own surroundings better than expatriate experts, if only the terms of reference were de-mystified and written in an understandable way. Data collection is often a chore if the purpose of the exercise is not explained and the analysis not shared. Experience shows that these exercises can easily be carried out by locals, if only some guidance were available. PVOs could therefore play that role of guiding and training Malawian staff.

Continued reliance on PVOs is not the objective, but a phased input by PVOs would help to fill the institutional gaps identified, and help to develop the institutions so that they can grow and eventually be self-sustaining in terms of funding, training and technological inputs. The PVOs should be encouraged to take on the task of phasing themselves out of a job, at the same time as building up their specialised inputs into the Malawian institution.

6.13 Donor Support

Donors have a big role to play in the promotion and development of the SME sector in Malawi. We recommend increased financial and technical assistance for all SME development institutions in Malawi so that they can effectively perform their promotional roles in the development of the sector.

Donors are not new to the pressing issues confronting the SME sector in Malawi. All the major SME development institutions have been initiated with the financial and technical support of donors. The continued support of donors is vital to the promotional efforts being planned for the sector. The level of financing requested from the donor community will be based upon the projected financing gap of SME investment and associated operating costs of the various institutions. If the services of SEDOM and DEMATT have to be made more readily available to rural communities it will entail rises in the operating costs of the institutions.

The push by donors and government on SME development institutions to attain financial self-sufficiency will need to be reviewed in light of the development objectives placed on the SME development institutions. Otherwise these institutions will be forced to curtail their services in rural areas where the cost of delivering the services is highest and concentrate on the more developed urban areas. We recommend that the self-sufficiency strategy be applied selectively. The institutions for example could be required to attain financial self-sufficiency in their operations in more developed and urban areas while being allowed to subsidise their operations in less developed and rural areas.

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