PD-ABD-981

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:

Mission or AID/W Office USAID/Malawi
(ES# 91-1-214-F)

B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan?

Yes [x] Slipped [ ] Ad Hoc [ ]
Evaluation Plan Submission Date: FY 91 Q 3

C. Evaluation Timing

Interim [ ] Final [x] Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
612-0214	Rural Enterprises and Agribusiness Development Institutions (READI) Project	84	June '92	8,870	8,870

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
1. Amend WOCCU grant to provide necessary support to MUSCCO during the life of the grant, and incorporate measures to address issues of women's participation, headquarter/SACCO management and financial systems improvements, and loan delinquency rate.	D. McCloud/ E. Kambalame	6/30/92
2. Provide assistance to Indefund to assess concept and implementation of raising capital locally, addressing at the same time the loan delinquency rate.	D. McCloud/ E. Kambalame	9/30/92
3. Investigate possible assistance to the GOM and the respective institutions to help define the future role and operating requirements of the institutions, especially in light of significant funding constraints.	D. McCloud/ E. Kambalame	9/30/92
4. Identify and implement required steps to assure proper financial management of Mission program-generated local currency allocated for use by host country institutions.	D. McCloud/ E. Kambalame	6/30/92
5. Implement SME baseline survey.	D. McCloud/ E. Kambalame	6/30/92

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) February (Day) 21 (Year) 1992

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	David E. McCloud	J.M. Mhango Min. of Finance	Indira Biswas	Carol A. Peasley
Signature	[signature]	[signature]	Indira Biswas	C Peasley
Date	4/14/92		4/14/92	4/14/92

a

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

The READI Project aims to strengthen, diversify and expand the economic activities of small and medium scale Malawian entrepreneurs, especially those involved in agribusiness and in rural employment generating, import substituting or foreign exchange earning activities, through the strengthening of the following support institutions: Indefund, a development finance organization; MUSCCO, an apex savings and credit cooperative organization; DEMATT, a business and technical advisory services organization; Project Officer and Entrepreneur Training facility; and the Ministry of Trade and Industry (MTI). The Project was managed by a host country PSC located in the READI Project Coordinating Unit of MTI. The project included separate agreements with CUNA/WOCCU and Africare for specific activities.

This final evaluation was performed mid-year 1991 by a five-member external contractors' team and included a review of project documents as interviews with project personnel and participants. The primary purpose of the evaluation was to do an analysis of project-supported institutions and of the role of Project Coordinating Unit. A secondary purpose was to provide background to put the Mission's SME development activities in context and to provide a basis for suggestions on future Mission direction.

Major findings and conclusions are:

-- All the institutions that were supported by the project have been strengthened. Staff generally have acquired improved managerial skills and competence, and activity levels have increased. However, management systems must be strengthened.

-- Enterprises assisted by project-supported institutions are generating employment and are achieving other project objectives of import substitution, foreign exchange earnings, and agro-processing.

-- Loan delinquency rates are a concern, and indicate a need for more effective appraisal and monitoring systems, and management information systems. A shortage of credit funds threatens Indefund's long term viability.

-- Weaknesses in senior level management threaten the recruitment and retention of qualified staff, and institutional viability.

-- The low participation rate of women must be addressed.

Lessons learned are:

-- Developing effective institutions that are financially and organizationally sustainable and able to deliver effective advisory and financial services, in a society where literacy rates and incomes are exceedingly low and where government intervention is pervasive, is a management-intensive and long-term exercise, and frequently frustrating.

-- Unless lending institutions are able to raise capital on the local markets or in some other way mobilize savings, institutional and financial viability as independent entities will be questionable.

-- Mixing USAID project management functions with a contractor's implementation functions places too little oversight responsibility within the Mission and too much authority with the contractor. The resulting potential problems which arise may outweigh the potential gains of a more independent approach.

-- While a government may participate in an SME support institution's development, it should not be involved with the management of the institution.

COSTS

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Stephen Silcox	Community Economics Corporation	20	unknown	AFR/MDI
John Else	Institution for Social and Economic Development	PIO/T 612-0214-3-90059	15,700	Project 612-0214
Jennefer Sebstad	Private Consultant	612-0234-3-10011	8,500	PD & S
Mark Franklin Richard Van Breda	Deloitte & Touche Deloitte & Touche	612-0234-3-10008	22,000	PD & S

2. Mission/Office Professional Staff Person-Days (Estimate) 30

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 10

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report: August, '91
USAID/Malawi	February 17, 1992	Final Evaluation: Malawi, Rural Enterprises & Agribusiness Development Institutions Proj

1. Purpose of the Activity

The READI Project, with a LOP funding level of $8.87 million, has supported the strengthening of institutions which promote the development of the small and medium scale enterprise (SME) sector. The project goal is to increase the productivity and incomes of Malawi's rural population. The project purpose is to strengthen, diversify and expand the economic activity of small and medium scale Malawian entrepreneurs, especially those involved in agribusinesses, on or off-farm employment generating activities, and import substitution or foreign exchange earning types of light industry and manufacturing activities which can be expected to benefit rural consumers. Specific constraints addressed have been a shortage of credit funds and inadequate institutional development to service the SME sector, and inadequate financial institutional development to service primarily the rural population. The project fits within the earlier Mission objective of assisting the development of Malawi's indigenous private sector, and the current objective of promoting off-farm employment.

2. Purpose of the Evaluation

The purpose of the evaluation was to assess achievement of the project purpose and to propose recommendations about design of a planned follow-on project to the READI Project. The evaluation was based on a review of project documents, interviews with project personnel and persons knowledgeable about SME activities in Malawi or were participants or beneficiaries of project activities. The evaluation focused on an analysis of project-supported institutions, including the Project Coordinating Unit (PCU), and on suggestions for future Mission activities in this area.

3. Findings and Conclusions

a. Institutional Strengthening

All of the institutions supported by the READI Project have been substantially strengthened. INDEFUND has shown progress in both management and in financial viability. DEMATT has made considerable gains in its staff development and programmatic approach to services. MUSCCO has grown substantially in size and assets and is moving towards financial viability. POET is still in its initial organization phase and appears to be providing valuable services to its clients.

Nevertheless, considerable problems remain. The delinquency rate at INDEFUND reveals a weakness in the appraisal and monitoring systems. DEMATT continues to have problems in its overall management at the top levels as well as problems in recruiting and retaining qualified staff. The rapid growth in numbers and share capital of SACCOs has created problems for MUSCCO in its overall operation management as well as its financial management at both the SACCO and MUSCCO levels. POET can only survive if it finds an institutional home outside of the PCU. In all cases, management and the technical advisors were aware of these problems and appeared to be taking steps to address them. However, the problems are serious and should be corrected within the immediate future.

b. Institutional Sustainability

INDEFUND is approaching both management and financial viability, but will need some additional staff development support to correct weaknesses in the loan monitoring system. DEMATT is almost totally dependent upon donor funds and the GOM. It must resolve the issue of its long-term source of funds for it to continue in its present form. MUSCCO is making steady progress toward financial viability, but is threatened by management and financial weaknesses and must resolve these to remain viable. Local sources of funding for POET must be found for it to be sustainable.

The de facto use of expatriate staff to serve in line management positions in their respective organizations is a concern. Although this is a problem which exists in Malawi on a much larger scale than just the READI Project, any expatriate advisors used for any follow-on project need to perform a more supportive, rather than direct management, role in order to develop the local management capability required for long-term institutional sustainability.

c. Programmatic Issues

A heightened tension currently exists between some of the developmental goals of the institutions assisted and their search for financial viability. This is not to say that financial sustainability concerns must be sacrificed to developmental goals. If these institutions cannot find or develop a long-term source of finance for their activities, they will not survive. But neither should the goals which spawned the institutions be abandoned in search of a comfortable financial existence.

Some areas where institutions have been moving away from their development goals include serving urban areas in preference to rural areas and serving clients who have more resources or status in society, and lack of full participation by women in decision-making and receiving an equal proportion of program benefits.

d. Role of the Project Coordination Unit

The PCU has played a vital role in coordinating the assistance to the various institutions involved in the project as well as directing attention and resources to institutional problem areas. It has also provided a valuable service to SME development in Malawi by focussing attention on this area and helping the various players in the economy and government to recognize the importance of this sector. However, the dual role played by the PCU of representing USAID in funding decisions and allocation of resources while, at the same time, being a major player in the SME sector has caused some confusion in the perception of its role.

The 1988 project evaluation recommended that the PCU coordinating role for the SME sector be turned over to MTI. This did not happen. MTI does not have an operational understanding of this role.

e. Policy Reform / Other Institutional Issues

The GOM appears to have been making progress in the liberalization of its economy and support for the private sector. Nevertheless, a number of significant constraints to SME development remain. The PCU has acted as a key spokesperson for the SME sector during the READI Project. These would be better placed within a business association which can speak for all businesses, and not just for the privileged few. The MTI has been viewed as the likely place for this activity in the past. It may be better placed in an agency such as the EP&D Department of the OPC. It is important that any future USAID efforts be directed at working with an agency which is best placed to perform this role.

f. Focus of Mission Efforts on Private Sector Development

Much of the Mission's efforts in the private sector in recent years have been in the SME sector. USAID/Malawi appears to be viewed by other donors as the major player in SME development in Malawi as well as in the development of the private sector as a whole. As the Project Paper noted, one of the functions of the READI Project was to give the Mission time and experience to develop a comprehensive approach to private sector development in Malawi. Although most of the Mission's activities in this area can be justified, there does not seem to be a clear focus on where the total efforts are going. It would seem to be a propitious time for the Mission to analyze how its SME development programs and projects fit within an overall private sector economic development strategy prior to any follow-on project to READI.

g. Overall Impact

The evaluators found that the SME support institutions are making an effective contribution to the growth of SMEs in Malawi, and that the project has played an important pivotal role. As evidence, MUSCCO is now managing 123 savings and credit cooperatives (SACCOs) with 23 study clubs awaiting incorporation compared to less than 50 SACCOs in 1985. By end 1991, 10,884 individuals were SACCO members, and 6,723 loans have been extended. (Roughly 80% of the members are men, and 80% of the loans have gone to men, who also have received loans averaging 50% more than those to women.) Indefund has 163 loans outstanding, 54 of which were financed using project resources. 2,927 direct jobs have been created by Indefund loan activity, out of which 700 can be attributed to project resources. Loan activities have included import substitution, export promotion, and goods and services for rural consumers. Dematt is promoting new business ideas, implementing new service delivery technologies, and developing entrepreneurs. One study has shown that for an average of 64 hours of assistance that Dematt provided to a sample of firms, gross sales improved by an average 43%, profits by 41%, net worth by 29% and wages by 8%.

4. Principal Recommendations (Institution-specific recommendations are included in the report.)

a. Institutional Development

(1) Consolidation of improved management and financial systems and capabilities is required at all institutions, and specific weaknesses must be addressed.

(2) Local sources of funding and support must be found for the institutions to be viable in the long-term. Their present dependence on donor and government funds is not sustainable.

(3) Under the project, there was extensive use of expatriate advisors to serve directly or de facto in line management positions within the various institutions. Although this is a general problem in Malawi, expatriate advisors need to perform a more supportive rather than direct management role in order to develop the local management capability required for long term institutional sustainability.

(4) Whereas the project acted as a key spokesperson for the SME sector, efforts should be made to find a local institutional home for private sector advocacy.

b. GOM Policy

(1) The GOM must do more to liberalize the economy. In particular, limitations on competition with parastatals or established large businesses must be eliminated in the SME sector is to grow.

c. Future Directions

(1) The project has played a major role in building momentum to develop a positive environment and services for SMEs. USAID should capitalize on that momentum and continue many of the activities of the project that have helped to move SME development forward.

(2) In the design of follow-on activities, USAID's project management functions should be separated from implementation functions which may be performed by a contractor.

5. Lessons Learned

a. Developing effective institutions that are financially and organizationally sustainable and able to deliver effective advisory and financial services, in a society where literacy rates and incomes are exceedingly low and where government intervention is pervasive, is a management-intensive and long-term exercise, and frequently frustrating.

b. Unless lending institutions are able to raise capital on the local markets or in some other way mobilize savings, institutional and financial viability as independent entities will be questionable.

c. Mixing USAID project management functions with a contractor's implementation functions places too little oversight responsibility within the Mission and to much authority with the contractor. The resulting potential problems which arise may outweigh the potential gains of a more independent approach.

d. While a government may participate in an SME support institution's development, it should not be involved with the management of the institution.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Final Evaluation: Malawi Rural Enterprises and Agribusiness Development Institutions Project

USAID READI Project: Financial Assessment

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The final evaluation of the READI Project was fair and complete. Important achievements were noted, in particular the progress in strengthening the various project-supported institutions and the movement toward the development of a common purpose among those working in the small and medium enterprise sector. Important weaknesses also were noted, and should receive the attention of the institutions, including loan delinquency rates and low participation of women in some activities. One matter which is particularly bothersome concerns the transfer of program management skills and requirements from the READI Project Coordinating Unit (PCU) to the Ministry of Trade and Industry and to the various participating institutions. With the disbandment of the PCU upon the departure of the contract project manager, coordination apparently has ended, and required actions by the various actors are not fully understood and therefore not accomplished. This points to the need during project implementation for integration of management and planning activities, where appropriate and necessary for future viability, into the operations of the relevant institutions.

While the evaluation report recommends a continuation of project activities in one form or another, the Mission has decided to not design a full-fledged follow-on project. This decision has been made for the following reasons: Mission staffing and program constraints, increased activity by other donors in the SME sector, and management problems experienced during READI Project implementation. The Mission, however, is continuing to be active in the SME sector, and in the private sector more generally, through its work with MUSCCO and IESC, its assistance with the establishment of the Unit Trust and the Admarc Holding Company, the SME baseline survey, training through HRDA, and private enterprise-NGO development under the SHARED Project.

FINAL EVALUATION

MALAWI

RURAL ENTERPRISE & AGRIBUSINESS

DEVELOPMENT INSTITUTIONS PROJECT

Prepared for the U. S. Agency for International Development

August 1991

Community
Economics
Corporation

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FINAL EVALUATION

MALAWI

RURAL ENTERPRISE & AGRIBUSINESS DEVELOPMENT INSTITUTIONS PROJECT

by

Stephen C. Silcox, Team Leader
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John Else, Training Specialist
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Jennefer Sebstad, Credit Specialist
(Private Consultant)

Mark Franklin, Financial Analyst
Richard Van Breda, Financial Analyst
(Deloitte & Touche)

Prepared for the U. S. Agency for International Development

August 1991

FORWARD

This evaluation was performed in May 1991 by a five person team. The team leader was furnished by the Office of Market Development and Investment of the Africa Bureau. The others were contracted by the Mission either on personal services contracts or through Deloitte & Touche. We would like to express our appreciation to all of the staffmembers of DEMATT, INDEFUND, MUSSCO, and POET as well as the staff at the READI Project Office for their willingness to spend a good deal of time with us reviewing the activities of their respective organizations and providing us with a wealth of information to use in our assessment. Don Henry, Director of the Project Coordinating Unit, was extremely helpful in sharing his time and expertise with us as well as giving us a myriad of documents on project activities.

We would also like to thank the various government and other officials who met with us to review the progress of the Project and comment on possible ways to improve future efforts. Special thanks go to the Permanent Secretary of MTIT and his staff.

We would also like to thank USAID staff, including Director Carol Peasley and David McCloud and Steve Norton, current and past Project Development Officers for READI, for their guidance on the evaluation and assistance in understanding the general environment and history of the Project. A special thank you goes to Elias Kambalane, Program Assistant for Private Sector Activities, for his advice and assistance in arranging for interviews and field visits as well as his guidance on the overall context of the Project in Malawi.

A draft report was presented by the team at our debriefing before we left Malawi. This was reviewed by the various parties and comments were made. This final report incorporates those comments into the text as appropriate.

The team leader was responsible for the final revision of the draft report with inputs from other team members. He apologizes for any errors or omissions which might have occurred.

Finally, this evaluation was performed by private consultants and does not necessarily represent the views of USAID.

Stephen C. Silcox
Team Leader
August 5, 1991
Washington, DC

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LIST OF ACRONYMS

ABA	African Businessmen's Association of Malawi
ACCIM	Associated Chambers of Commerce and Industry of Malawi
ADMARC	Agricultural Development and Marketing Corporation
AIC	Agro-Industry Consultants
BAS	Business Advisory Services
BAS/TAS	Business Advisory Services/Technical Advisory Services
BASW	Business Advisory Services for Women
BPC	Business Promotion Consultants
BPO	Business Promotion Officer
CDAS	Country Development Assistance Strategy
CPA	Certified Public Accountant
DEMATT	Development of Malawi Traders Trust
DEVPOL	Development Policies
DFC	Development Finanance Consultants
EEC	European Economic Community
EP&D	Department of Economic Planning and Development
EPU	Economic Promotion Unit
FMO	Netherlands Finance Company for Developing Countries
GOM	Government of Malawi
HRID	Human Resources and Institutional Development Project
ICS	Industrial Consultancy Services
IDA	International Development Agency
ILO	International Labor Organization
LOP	Life of Project
MCA	Malawi College of Accountancy
MDC	Malawi Development Corporation
MED	Malawi Enterprise Development Program
MEDI	Malawi Entrepreneurs Development Institute
MEPC	Malawi Export Promotion Council
MIM	Malawi Institute of Management
MIS	Management Information System
MK	Malawi Kwacha
MTIT	Ministry of Trade, Industry and Tourism
MUSSCO	Malawi Union of Savings and Credit Cooperative Organizations
NABW	National Association of Business Women
NGOs	Non-Government Organizations
NRCP	National Rural Centers Program
OPC	Office of the President & Cabinet
PCA	Potential Client Assessments
PCU	Project Coordination Unit
PfP/I	Partnership for Productivity, International
PIC	Project Implementation Committee
PID	Project Identifiation Document

POET	Project Officers and Entrepreneurs Training
PP	Project Paper
PSC	Personal Services Contract
PTD	Personnel and Training Department
PTM	Personnel Training Manager
READI	Rural Enterprise and Agribusiness Development Institutions Project
SACCO	Savings and Credit Cooperative Society
SAP	Structural Adjustment Program
SBC	Senior Business Consulants
SEDOM	Small Enterprise Development Organization of Malawi
SET	Support for Enterprise Transformation Project
SHARE	Services for Health, Agriculture and Rural Enterprises Project
SME	Small and Medium Enterprises
SSIU	Small Scale Industries Unit
TA	Technical Assistance
TC	Technical Consultants
TOT	Training of Trainers
UNIDO	United Nationn International Development Organization
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions
WPC	Women's Program Consultants
WWB	Women's World Banking

EXECUTIVE SUMMARY

BACKGROUND

The Rural Enterprise and Agribusiness Development Institutions Project (READI) was first authorized in 1984 as a four year project with the following purpose:

> To expand the economic activities of small and medium scale Malawian entrepreneurs, especially for a) agriculture production, processing, marketing and the manufacture of agricultural related inputs; b) rural employment generating activities; and c) import substitution of foreign exchange earning types of light industry and manufacturing activities which benefit rural consumers.

The Project Paper described the experimental nature of the Project in order to assist the Mission to determine an overall private sector support strategy:

> It should be noted that while the CDSS gives priority to assisting the development of the Malawian indigenous private sector, this is a fairly new endeavor for USAID/Malawi, and a long term approach has not yet been defined. .... Thus, USAID/Malawi believes it is important to define a more comprehensive and cost effective strategy for assisting the Malawian private sector during the course of this Project and that, when established, such a program should be a principle component of USAID/Malawi's overall program.

The Project envisioned that the best way to support the SME sector was to provide support to key institutions assisting the sector. Thus the project supported the development of INDEFUND and MUSSCO in the form of commodities, training, and funds for on-lending, with technical assistance to be provided by Africare and WOCCU. The project also established a Project Coordination Unit to assume much of the implementation workload and to coordinate and assist the Malawian and US organizations implementing the project.

The total cost of the project was US$6,800,000 of which USAID was to provide $5,100,000 with the balance from the GOM.

Over the LOP, READI experienced a considerable number of implementation changes, although the principal focus of the project remained that of strengthening institutions providing support to the SME sector. There were six amendments to the Project Grant Agreement and two PP supplements. Key changes were a) the addition of DEMATT as a third local institution to be supported under the project; (b) the Life of Project was extended to the end of June 1991; and (c) total authorized funding was increased to

US$8,870,000.

This final evaluation of the READI project took place within the context of an interest by the Mission to continue to support SME development activities. A preliminary Project Identification Document was drafted in January 1991 for the Support for Enterprise Transformation Project. However, it was determined that a final evaluation of the READI Project was needed prior to the consideration of a follow-on project.

This evaluation limited itself mainly to an in-depth analysis of the institutions supported by the READI project and the role of the PCU. It did not evaluate the technical assistance provided to these institutions, except to note particular instances of success or weakness. In addition, this evaluation attempted to provide some general background on the SME sector in order to put the Mission's SME development efforts in context and to provide a basis for suggestions on future Mission directions.

SUMMARY DESCRIPTION OF THE MALAWI ECONOMY AND SME SECTOR

Malawi is a land-locked country located in southcentral Africa with a population of 8 million and annual per capita income estimated at US$170. The economy of Malawi is predominately rural-based. Over 80% of the population lives in rural areas and is mostly engaged in subsistence agricultural production activities. The agriculture sector provides about 36% of GDP, split into 28% small scale and the rest in large scale production. Principal exports are agriculture products. Tobacco, tea and sugar account for as much as 84% of total earnings, with tobacco the providing the overwhelming majority (62% of exports in 1989).

The seasonality of income and expense flows due to the agriculture-based economy also impacts upon most aspects of the economy. Credit flows and purchasing patterns are highly dependent upon the growing season.

The economy of Malawi has in the past twenty years been substantially controlled by the government, parastatals, a handful of multinational companies and local oligopolies. The Government of Malawi has declared its intention to move toward a market-based economy and has agreed to a Structural Adjustment Program with the IMF. The World Bank and other donors, particularly USAID, have encouraged this movement and have provided support to bolster the government's efforts in this direction.

The size of the SME sector in Malawi has been roughly estimated to be comprised of 30-35,000 SMEs employing 50-60,000 workers and an additional 110-120,000 self-employed individuals utilizing their own labor and unpaid family members. It is further estimated that there are hundreds of thousands more who engage in some non-farm activity on a part-time basis.

Various reports on the SME sector in Malawi complain of a shortage of qualitative data on the subject. Although various surveys have been undertaken in the past few years, none has been considered to be sufficient upon which to either base government policy or to ascertain fully the potential impact of programs developed with donor funding. There is clearly a need for this kind of information to be developed. Efforts are currently underway by USAID to provide a baseline survey later this year.

One of the best surveys undertaken in recent years was conducted by the READI Project in 1986 on 1,383 SMEs dispersed throughout the country. The survey revealed that more than 96% of the entrepreneurs were sole owners of their businesses. The sector distribution was 42% in trading activities, 26% in small scale service activities and 30% in a few common manufacturing activities. 91% started business with their own savings with major sources of savings being wage, business and farm income. 72% had initial investments between MK101-1,000 and 18% between MK1,001-10,000. Approximately 3,000 persons were employed by the surveyed businesses, giving a mean number of 2.5 employees per enterprise. Of the total employees, 78% were working in rural-based enterprises versus 22% in urban areas. Of the businesses surveyed, 81% of the employees were male and 19% female.

Specific constraints on the SME sector which have been cited by previous USAID reports include -

1) Limited access to credit and foreign exchange
2) Difficulty in obtaining licenses
3) Restrictive zoning
4) Tax inequities
5) Undue government control of transport and business hours

INSTITUTIONAL ANALYSES

1. INDEFUND

INDEFUND began operations in 1982 with the objective of financing and developing business enterprises owned and controlled by Malawians to increase productivity in the Malawian economy. It was established with the financial support of INDEBANK and the Netherlands Finance Company for Developing Countries (FMO).

INDEFUND serves primarily as a lending institution and does not receive deposits or promote savings within the context of its program. Its loans currently range in size from MK30,000 to MK350,000 and are targeted to commercially viable agriculture, agro-industry, fishing, manufacturing, wholesale and retail trade, service industries, construction, transport, and hotels. It finances both existing and new businesses although, according to staff, preference is generally given to new businesses. INDEFUND policy gives preference to enterprises which promote import substitution or exports, generate employment, use local resources and encourage development. Funds are used in both urban and rural enterprises, although USAID funds have been used exclusively for rural loans and appear to have pushed INDEFUND to lend in rural areas.

INDEFUND project officers assist clients in project preparation (business plans, cash flows) and appraise the feasibility of projects that are submitted. Monitoring officers train entrepreneurs in bookkeeping and other record keeping, monitor the businesses to assure that adequate records are being kept and monthly reports submitted, and provide business and technical advisory services as needed. The newly created position of investment officer will monitor loan payments and be responsible, together with the branch managers,for debt collection.

Several other donors, including FMO and KFW, have provided credit funds to INDEFUND to on-lend to small and medium enterprises. Unlike USAID, these donors have not tied their credit to rural enterprises or other specific types of loans. The World Bank is planning to provide INDEFUND a direct line of credit targeted to small scale agricultural transport enterprises as part of an agricultural marketing project. INDEFUND clients will also have access to a line of credit for SME working capital through the commercial banks. To date, USAID has provided approximately 39% of INDEFUND's long term donor supported credit funds for on-lending to its clients.

The INDEFUND Board consists of six directors, with two members representing each shareholder (two of the current members are women). The chairmanship rotates on an annual basis. In addition to its role in policy level decisions, the Board is responsible for approving all loans. INDEFUND operates offices in two locations, with the headquarters and southern branch office in Blantyre and the branch office for the central and northern regions in Lilongwe. The 26 member staff includes the general manager, two branch managers, three accountants; 8 project and BAS officers; two agricultural officers; two legal officers; and 8 support staff. INDEFUND does not have any women among its professional staff, but expressed plans to recruit some in the future.

INDEFUND is financially viable in the sense of having reached the break-even point and showing a profit in 1990. However, its continuing viability, as well as its ability to continue to provide financial services, requires additional credit funds. Funds are also needed to support the business monitoring and advising function, since these are just being developed and tested. If these funds are not forthcoming during this developmental stage, it is possible that self-sufficiency pressures could lead to a decision to sacrifice this activity. Finally, investment in the continued staff development is important.

a. Strengths

1) INDEFUND serves a useful role in supporting Malawian entrepreneurs in the small and medium enterprise sector. It fills a gap between institutions like SEDOM and the commercial banks.
2) INDEFUND-supported enterprises appear to generate significant employment, and further other project objectives such as promoting import substitution, foreign exchange earning activities, and agro-processing.
3) USAID funds have had a positive impact on encouraging rural lending.
4) INDEFUND has made steady improvement in its credit policies and procedures, leading to an increased approval rate.
5) INDEFUND staff have good managerial skills and competence.

b. Recommendations

1) INDEFUND should carefully weigh the pressures to expand financial services against the development functions and objectives of the organization.
2) Special efforts should be made in women staff recruitment and to increase the number of women receiving loans.
3) The project appraisal process should be strengthened.
4) The loan repayment monitoring and debt collection function should be separated from the business monitoring and advisory service function and both functions should be strengthened to reduce delinquencies.
5) INDEFUND should improve its management information system to generate data on the impact of its loaning activities and to improve the monitoring of loan repayments.

2. DEMATT

DEMATT was established in 1979 as a registered Trust under the Ministry of Trade and Industry. Its purpose is to promote the development of small and medium scale enterprises through the provision of business and technical advisory services to Malawian entrepreneurs. It was originally targeted (as its name conveys) at the development of indigenous Malawian traders, but its activities now encompass the entire SME sector. Beginning in 1981 until its collapse in late 1986, Partnership for Productivity, International (PfP/I) received USAID funding to provide technical assistance to DEMATT. DEMATT was incorporated into the READI Project in April 1987 with continuing funding from USAID.

DEMATT is governed by a Board of Directors composed of three representatives of the African Business Association, two GOM representatives, two bank representatives, and two academics. The staff is headed by the General Manager. Other senior staff positions are the Field Services Manager, the Special Projects Manager, the Finance and Administration Manager, and the Personnel and Training Manager. There are three regional offices (Blantyre, Lilongwe, and Mzuzu) and 28 district offices. The Regional Managers supervise a total of 11 Senior Business Consultants, 36 Business Promotion Consultants, 3 Agro-Industry Consultants, 3 Technical Consultants, 3 Women's Program Consultants, and 17 support staff.

The "Report of Inception Review of DEMATT (August 1987) for USAID Malawi," by Deloitte, Haskins, and Sells summarized DEMATT's situation at that time. The Deloitte study concluded that DEMATT had a predominantly unqualified staff without an adequate training program and with inadequate supervision, no effective methodology, no criteria for success, and no way to measure impact. The ineffectiveness of DEMATT's services was widely affirmed in the SME community, so there was little willingness on the part of other organizations to use DEMATT.

Since 1987, DEMATT has undertaken a series of steps to upgrade its staff, increase staff accountability, improve the quality of its services, and measure the impact of its services. It has:

- Instituted an "improved client methodology"
- Implemented an improved staff induction program and a staff development process with its existing staff
- Raised the entry-level qualifications for new staff
- Created a time management system for its staff
- Implemented a management information system (MIS) to measure the impact of the BAS/TAS services
- Established clear priorities for its services

In August 1990, the Special Programs Department was established within DEMATT to house all "non-core" programs. It is supervised by the Special Programs Manager and each project within the department has a coordinator. Non-core programs are time-limited projects with clearly defined objectives and outputs that are either self-financing or funded by a donor. All project staff are employed on contracts for the duration of the particular project. The department currently has three projects - a medium-scale enterprise promotion project , a carpentry program, and a transportation industry program.

The problems created by DEMATT's lack of autonomy are documented extensively in Deloitte's "DEMATT: Review of Management Information Systems" (December 1989) and Deloitte's "DEMATT: Organization and Management Study" (May 1990). Some of those problems have been addressed. For example, a well-qualified field service manager was recently appointed and a new MIS officer has be hired. Other significant problems remain, however. The Deloitte reports recommend that DEMATT be reclassified as a non-governmental organization. This would (a) clarify the authority of the board; (b) make it possible to establish competitive senior staff salaries, which are currently noncompetitive because of DEMATT's status as a category C parastatal, with the result that DEMATT has be unable to fill the Finance and Administration Manager position; (c) eliminate cumbersomeness government processes that make it difficult to replace staff in a time manner and to obtain goods needed to operate at top efficiency; and (d) make DEMATT a more commercially-oriented organization.

There is wide agreement that business and technical advisory services to the micro and small business level cannot be self-sustaining, although seeking to minimize subsidies can result in improvements in cost effectiveness. This means that DEMATT will most likely be dependent for the long term on donors and/or government subventions unless it can find a source of local, non-governmental funds. This makes it all the more important that DEMATT operate at the highest possible levels of efficiency in order to demonstrate to the government and others the benefits of financial support. The data generated by the new MIS system will be critical to demonstrating the benefits of DEMATT's services -- in job creation, increased wages, and the strengthening of indigenous businesses.

a. <u>Strengths</u>

1) DEMATT has a systematic methodology for its business and technical assistance services.
2) Staff has been upgraded through recruiting staff with diplomas or degrees and through systematic training of its staff in the BAS/TAS methodology.
3) Staffmembers are enthusiastic about their work, confident of their abilities, and seem to have good relationship with their clients.
4) A sophisticated management information system is now in place that generates good impact data and maintains staff accountability.
5) DEMATT has established clear priority on serving existing entrepreneurs.
6) The Special Programs Department which has been established should help to improve financial sustainability.

b. <u>Recommendations</u>

1) We support the Deloitte & Touche recommendation that DEMATT become a non-governmental organization to increase autonomy from government and management accountability.
2) DEMATT should explore the possibility of using POET's training resources. This would free up DEMATT training

resources to be used to develop short-term training for field staff in response to specific identified shortcomings in their knowledge and skills.

3) Long-term funding commitments should be sought, either from Government if DEMATT remains a parastatal or from other sources if it becomes a non-governmental organization. It should also continue to develop and demonstrate its capacity to generate income through its Special Programs Department and explore other strategies for producing income from its services.

4) The new priority on existing businesses will decrease the services available for new business development in Malawi. However, in order that this activity not be abandoned entirely, it should consider alternative strategies, in cooperation with other SME support organizations, which would lessen the strain on DEMATT's resources, but permit continuance of these valuable services.

5) DEMATT should experiment with different size client loads and study the effect on impact in order to determine the optimal size client load and key variables.

6) Now that DEMATT has begun to generate impact data, it needs to establish, in consultation with experts in the field, criteria for use in analyzing and interpreting the data so that the results can guide management decisions and intervention priorities and strategies.

7) DEMATT is at the point in its development where technical advisors should be short-term and in response to specific needs and requests.

3. MUSCCO

MUSCCO was established as an NGO in 1980 with the objective of developing financially sound local savings and cooperative societies (credit unions) throughout Malawi. As an apex organization, its specific role is to promote and expand the number of savings and credit societies and develop a financially viable national association of societies. MUSCCO also aims to increase the savings and borrowing capacities and improve the financial management skills and the credit-worthiness of its member societies, their members, and the national association.

At present, the Local Savings and Credit Cooperative Societies (SACCOs) being developed by MUSCCO are the only financial institutions in Malawi offering both credit and savings services to people not served by the commercial banking sector. Neither SEDOM or INDEFUND, for example, provide savings facilities for their clients.

MUSCCO has its headquarters in Lilongwe and regional offices Mzuzu, Lilongwe and Blantyre. It has a general manager and, effective June 1991, three second-level managers: an operations manager who is responsible for central banking, auditing, risk management, and field services; the personnel and administration manager which includes personnel administration, training, and general administration; and the chief of accounting who is responsible for the accounting function. There are 3 regional managers who supervise 10 field officers. There is an auditor in each regional office who reports directly to the chief auditor. MUSCCO hopes to add two field officers in each region in 1991.

MUSCCO promotes the development of new credit and savings cooperatives through education and organizational assistance to self help and employee based groups interested in forming a SACCO. Study groups are formed to train potential SACCO members. Nine out of ten study groups go on to register as a SACCO. Once the SACCO is formed, MUSCCO staff continue to provide management assistance and training to the SACCOs to strengthen their financial and organizational capacity. In addition, MUSCCO provides central finance lending in the form of short and long term loans to the SACCOs for liquidity, investment in fixed assets, and to re-lend to members.

At the end of 1990, MUSCCO represented 115 SACCOs with 18,000 members, 21 study groups, and had a waiting list of groups interested in forming study SACCOs. This represents a 130% increase in the number of SACCOs and 29% increase in the number of members between 1985 and 1990. One fifth of its member societies are urban-based and four-fifths are rural-based.

A major emphasis of MUSCCO is promoting savings among SACCOs members by mobilizing share capital and deposits. Each SACCO, in turn, deposits 10% of it's share capital in MUSCCO's central fund.

MUSCCO has grown rapidly over the last few years. It had a 35% growth in capitalization in 1990, qualified somewhat by an inflation rate in the range of 15%. MUSCCO's current capitalization by the SACCOs is MK338,472, which represents about 10% of the total capital of all member SACCOs. The SACCOs are currently 66% capitalized by members, the balance coming from MUSCCO in the form of liquidity loans or business loans. Ideally, the SACCOs will become 90-95% capitalized by members.

With MUSCCO's growth has come the problems of having a governing board which can comprehend the sophisticated financial concepts and accounts involved in a major financial institution. MUSCCO has attempted to address this through Board training, but it is a problem inherent in credit union, since their membership is drawn primarily from non-professionals. Another issue that needs MUSCCO's attention is the limited representation of women among SACCO officials and MUSCCO staff and on MUSCCO's Board; it is not clear that this is a priority that is being addressed.

MUSCCO's rapid growth has also created related organizational stresses common in such situations. A significantly higher level of technical skills is needed to operate an increasingly sophisticated financial institution. MUSCCO seems to be planning for this transition rather systematically with assistance from the resident advisors from WOCCU.

Between 1985 and 1990, the READI project provided $2,315,500 to MUSCCO, including $268,000 to support MUSCCO loans to local credit unions and members and $2,047,500 for institutional support. In addition, MUSCCO received technical assistance from AFRICARE during the first three years of the project to promote agro-business and small enterprise development. MUSCCO has also received several small grants from the Canadian Project Fund to construct local SACCO offices. However, USAID provides almost 100% of MUSCCO's donor support. In addition, USAID funds technical assistance to MUSCCO through a cooperative agreement with WOCCU.

a. Strengths

1) Loan impacts have been positive. The most common loan use has been for fertilizer, which has a proven effect in increasing crop yields and household food security. Business loans have provided a means for increasing off farm incomes.
2) MUSCCO-supported loans are not tied to any particular purpose and may be used for agriculture or business, or to buy food and clothing, pay school fees, invest in housing, cover health expenses, and fund other social obligations. This flexibility in loan use is especially important in seasonal economies such as in Malawi.
3) MUSCCO has clear organizational objectives and is working towards them with a systematic plan.
4) MUSCCO is filling an important gap in financial markets through better provision of financial services to lower income groups in both urban and rural areas.
5) The life insurance scheme is innovative, meets an important need, and encourages membership.

b. Recommendations

1) MUSSCO must continue to upgrade the technical skills of its management to meet the challenges of its growth. It must also recruit new employees with the qualifications and experience to manage a large financial institution.
2) MUSSCO recognizes that its activities must be financially sustainable over time if it is to survive and is making strong efforts in this direction. While these efforts should be maintained, MUSCCO also needs to look at how it can continue to serve the rural areas and less advantaged parts of the population to meet its original objectives. We recognize that this is a difficult area and will involve some compromises. It is important, however, to

keep an eye on both goals at the same time.

3) MUSCCO's growth reflects the demand for alternative financial services in Malawi. Most of MUSCCO's growth to date has been more due to the accessibility of credit through SACCO's rather than to the development of a savings base. The two must go hand-in-hand and new approaches to strengthen the savings component should be developed.
4) A serious weakness in financial management has recently come to light. Although a part of this problem will be alleviated through improved technical skill levels of both existing and new staff, immediate steps must be taken to assure that MUSCCO does not become tainted by a perception of mismanagement in the eyes of SACCO members and the general public.
5) MUSCCO should, likewise, take steps to improve its delinquency problem. This problem will be recurrent until MUSCCO establishes a strong policy and effective procedures to control delinquencies.
6) A system to monitor the impacts of MUSCCO programs should be developed in order to better design and modify programs.
7) An overall policy on how to increase participation by women in both the management of MUSCCO as well as in decision-making at the SACCO level needs to be established.

4. <u>POET</u>

In 1987, the READI Project Implementation Committee established a Training Subcommittee to formulate a plan for meeting the staff development needs of SME support organizations. In late 1987 and early 1988, proposals were submitted to FMO and USAID, who agreed to co-fund a Training of Trainers project. Premises at the SEDOM estates were secured in March 1988, and in June 1988, a consultant was hired to undertake a needs assessment study and to prepare the first two curriculum modules. Another consultant joined the staff in mid-1989 to prepare the last three modules. Two Malawian staff members, a lead trainer and a curriculum developer, were hired in late 1988, but both had left by early 1989. In May 1989, a Project Director was hired and was joined in March 1990 by a lead trainer. In addition to these two professional staff, POET has three support staffmembers. Outside consultants and resource persons are used extensively in training.

Originally, MEDI agreed to provide an administrative home for the project, but this arrangement proved unsuitable, so the Training Subcommittee asked the Malawi College of Accountancy to provide an administrative home. This was subsequently found to be not feasible. Thus by mid-1990, the program came under the direct supervision of the READI Project Coordinating Unit and has remained there since.

Though originally established to train the staffs of SME support organizations, some organizations urged that the "project implementation" (or business management) course be offered to entrepreneurs. This was subsequently done, as reflected in the project name adopted in November 1989 - Project Officers and Entrepreneurs Training (POET) Program.

The training needs assessment study of the staffs of DEMATT, INDEFUND, MUSCCO, AND SEDOM was conducted in 1988. The results of the study indicated a need for staff training in business opportunity analysis, business plan preparation, business plan appraisal, business management, business monitoring, and credit management. It also identified a felt need for training in basic skills in communication, interviewing and consultancy. Curriculum development consultants created five courses (or modules), each one week in length and reflecting the five stages of a "project cycle".

During 1990 and the first quarter of 1991, POET conducted 26 courses to a total of 258 trainees (178 project officers and 80 entrepreneurs). While the training was designed to serve all SME support organizations, its primary targets were the organizations participating in the READI Project Implementation Committee, i.e., DEMATT, INDEFUND, MEDI, MUSCCO, and SEDOM. For staff training, SEDOM and MEDI have used POET training extensively, INDEFUND has used it only sparingly, and DEMATT and MUSCCO have used it very little. On the other hand, POET project officer training has been used extensively by the National Rural Centers, Women's World Bank, and several government ministries, parastatals, and non-governmental organizations. Entrepreneurs were sent to POET training by nine organizations. Interestingly, INDEFUND used POET training most extensively, even making it a prerequisite for obtaining loans.

One of POET's most apparent weaknesses is the lack of strong linkages with the organizations it seeks to serve. While POET appears to do a good job of delivering its five courses, and while it is currently addressing the acknowledged need for a credit management course, its training options are too limited and rigid. It needs to strengthen its linkages with its constituent organizations, regularly soliciting feedback on the usefulness of its courses and entering into dialogue on the organizations' perceived training needs and ways POET could respond to those needs.

The READI PCU calculated POET's base budget for 1991 at MK540,000, in anticipation of significant increases in accommodation costs. The budget was calculated on the basis of 300 trainees at a tuition rate of MK 800 and trainee expenses of MK 1,000 per trainee. (Currently the expenses are estimated at MK 700 per trainee.) In addition, the READI PCU added MK 260,000 (for a total budget of MK 800,000) to cover anticipated increases in training demand, particularly from the National Association of

Business Women.

POET's continuing status as a "project" is not viable . It must either become a program of an existing institution or become an independent institution. Two options that seem worthy of exploration are to place POET activities under the Management Department of the University of Malawi/Polytechnic or to give it independent status.

a. Strengths

1) POET has developed a curriculum and an expertise that has allowed it to serve an important and specialized function that no other organization is serving and that is greatly needed by SME support organizations, especially those working at the lower end of the sector.
2) The core curriculum appears to have done a relatively effective job of providing an introduction to micro and small enterprise for the many project officers who are relatively new to the field and need basic training. Its project implementation (business management) course has been useful to entrepreneurs and to the support organizations that are working with them.
3) Current staff is capable and appears able to deliver the current curriculum.
4) Current enrollment levels are adequate to support POET's budget providing a source of reimbursement of the training fees and expenses is maintained.
5) POET has access to a rich pool of resource persons to provide course with specialized content.

b. Recommendations

1) The two organizational status options presented should be explored immediately.
2) POET should keep its priorities clear as it is currently serving a specific market niche fairly well. An increasing number of organizations are becoming involved in the small and microenterprise sector and it is likely that the need for the type of training provided by POET will increase.
3) The core curriculum should be redesigned around functions, roles, and tasks of specific categories of staff, and the modules should be strengthened to serve those staff persons better.
4) Linkages with constituency organizations should be strengthened.
5) A firm financial base should be established by assuring that training costs are built into the operating budgets of constituent organizations.
6) Staff and technical assistance personnel needs should be re-examined. If POET is be effective in training for

entrepreneurship, it must act like a business itself and expand staff only in response to specific market demands which are accompanied by dependable payment for services.

5. Role of the Project Coordination Unit

The PP authorizing the READI Project in 1984 states in the Project Description that,

> The GOM and AID will establish a Project Coordination Unit (PCU) which will ensure that the activities and programs carried out by the participating organizations with Project resources are in support of the Project objectives, and that the desired types and levels of organizational interaction are occurring as planned. The Project will finance an expatriate Project Coordinator and a Malawian assistant. As Project coordinators, these individuals will work closely with the GOM and USAID, and will represent AID in the day-to-day management of the Project.
>
> This office is expected to be the main contact point for the participating organizations. The principal management responsibility of this office is to ensure that participating organizations using Project resources equitably distribute and effectively use shared Project resources.

The actual start-up of the project was delayed by one year due to problems in finding a Project Coordinator. However, the present Project Coordinator arrived in August 1985 and remained in the post throughout the life of the project.

The Mid-Term Evaluation of the READI Project in September 1988 and the PP Amendments signed in May 1989 complimented the work of the PCU and noted "the catalytic influence the PCU has exerted on Malawi's SME sector as a whole." It also observed that the PCU and its activities had grown substantially with its budget expanding from an original $600,000 to the then current figure of $1,691,947. It pointed out that, "Without it (the PCU), most of the participating institutions would have no institutional plans to guide their strategies, no annual workplans by which to determine their activities, and little or no ability to coordinate their mutually-supportive functions."

Over the past two years, the PCU has continued to provide leadership to the SME sector development and to assist in the institution-building of DEMATT, INDEFUND and MUSCCO. The quarterly Project Implementation Committee (PIC) meetings have continued, with the participation of the various READI Project institutions as well as SEDOM and MEDI. The annual SME Sector Planning Workshops have also continued to provide an important forum for coordination and developing the common focus on SME activities by the various institutions active in this arena.

The role of the PCU as described in the PP was primarily to provide project management support to the AID Mission and coordination of the various institutions and activities under the project.

The Project Coordinator described his role to the team as fulfilling five major functions, in order of time spent,

(1) Planning
(2) Budgeting and follow-up
(3) Coordination
(4) Surveys and studies
(5) Research and development
  - on business promotion and trade associations
  - on government policy

He also described the role of the PCU as being similar to a large consulting company. In fact, the PCU has over the LOP hired and trained a large number of consultants, both local and expatriate, to perform the work described in the last two functions above. The Project Coordinator stated that the PCU currently has about 26 ongoing contracts with local consultants.

From discussions with representatives of the institutions supported by the READI Project and from various management reports and evaluations, many believe that the PCU had a strong impact on improving the planning and budgeting capabilities of those institutions. The other major compliment given to the PCU is on its role in developing an awareness of the issues to be addressed in the development of SMEs in Malawi and in providing a forum to raise these issues. These assessments are in line with the first three functions described by the Project Coordinator. On some of the other functions of the PCU, there is less agreement. For example, some expressed concern relative to the independence of the PCU and claimed that the PCU often made decisions and took actions on its own without consulting their organizations. Some individuals also expressed consternation over the central procurement function exercised by the PCU.

The role played by the PCU has been very important to the development of SMEs in Malawi and in developing an awareness of the sector among key players in the economy. Furthermore, the various activities of the PCU have broken much new ground in developing new business opportunities and supporting new institutions in the sector. However, there is clearly a need to move into a new phase in terms of policy and coordination of the SME sector.

It is obvious to most informed observers that there is still too much government control of the private sector. It is evident in the composition of the boards of directors of the various SME support organizations. Although many of these are supposed to be non-governmental organizations established as trusts, they are still substantially controlled by government. The absence of viable private sector funding mechanisms to take over when donor funds are no longer available leads one to wonder how this dilemma might be resolved.

Doubt was expressed that the existing business associations in Malawi, notably ACCIM and ABA, would be willing or able to take on a role of supporting the SME sector in a meaningful way. Nevertheless, this is the logical place to begin in developing a viable private sector strategy and support mechanisms. It is essential that larger businesses in Malawi recognize that the development of SMEs is in their long-term interest and that they need to be involved in developing the support systems and linkages to make it happen. Although it may be questionable that some of the management assistance services being provided to small and informal entrepreneurs will ever be self-sustaining, private sector delivery mechanisms with government financial support could be developed to service this sector. This strategy would facilitate competition in developing the best service package at the least cost.

This leaves one with the choice of where to place the government policy coordination role. Although MTIT provides a locus for many of the support activities to the SME sector, other ministries such as Labor, Finance, Education and Agriculture also have interests in the sector. One of the options presented in the Study of Optimal SME Institutional Set-UP is to place this function under the Department of Economic Development and Planning (EP&D) in the Office of the President and Cabinet (OPC). This is an option worth exploring since it would place this function (as a member the Board of one of the READI institutions described) on "neutral" ground.

OVERALL CONCLUSIONS

1. Institutional Strengthening

All of the institutions supported by the READI Project have been substantially strengthened. INDEFUND has shown progress in both management and in financial viability. DEMATT has made considerable gains in its staff development and programmatic approach to services. MUSSCO has grown substantially in size and assets and is moving towards financial viability. POET is still in its initial organization phase and appears to be providing valuable services to its clients.

Nevertheless, considerable problems remain. The delinquency rate at INDEFUND reveals a serious weakness in the appraisal and monitoring systems. DEMATT continues to have problems in its overall management at the top levels as well as problems in recruiting and retaining qualified staff. The rapid growth in numbers and share capital of SACCOs has created serious problems for MUSSCO in its overall operation management as well as its financial management at both the SACCO and MUSCCO levels. POET can only survive if it finds an institutional home outside of the READI Project Coordination Unit. In all cases, management and the technical advisors were aware of these problems and appeared to be taking steps to address them. However, we wish to emphasize the seriousness of the problems and the need to correct them within the immediate future.

2. Institutional Sustainability

INDEFUND appears to be approaching both management and financial viability, but it will need some additional support in staff development to correct some of the weaknesses in the loan monitoring system. DEMATT is almost totally dependent upon donor funds and the GOM. It will need to resolve the issue of its long-term source of funds very soon for it to continue in existence in its present form. MUSCCO is making steady progress toward financial viability, but is threatened by its current management and financial weaknesses and must resolve these immediately if it is to remain viable. Almost all of POET's funding currently comes from USAID via the PCU in the form of payments for courses given. Local sources of funding and support must be found for it to be sustainable.

The evaluation team was also concerned over the de facto use of expatriate staff to serve in line management positions in their respective organizations. Although we recognize that this is a problem which exists in Malawi on a much larger scale than just the READI Project, we believe that any expatriate advisors used for any follow-on project need to perform a more supportive, rather than direct management, role in order to develop the local management capability required for long-term institutional sustainability.

3. Programmatic Issues

A heightened tension currently exists between some of the developmental goals of the institutions assisted and their search for financial viability. This is not to say that the team believes that financial sustainability concerns must be sacrificed to developmental goals. If these institutions cannot find or develop a long-term source of finance for their activities, they will not survive. But neither should the goals which spawned the institutions (and for which USAID provided support) be abandoned in search of a comfortable financial existence.

Some areas of concern where the team believes the institutions have been moving away from some of their development goals include a) movement towards serving urban areas in preference to rural areas; b) movement towards serving clients who have more resources or status in society; and c) lack of full participation by women in decision-making and in receiving an equal proportion of benefits of programs.

4. Role of the Project Coordination Unit

The PCU has played a vital role in coordinating the assistance to the various institutions involved in the project as well as directing attention and resources to institutional problem areas. It has also provided a valuable service to SME development in Malawi by focussing attention on this area and helping the various players in the economy and government to recognize the importance of this sector. However, the dual role played by the PCU of representing USAID in funding decisions and allocation of resources while, at the same time, being a major player in the SME sector has caused some confusion in the perception of its role. This problem was largely a result of the structural design of the PCU and the exigencies of project implementation. Care must be taken in the design of any follow-on project to separate the functions of project management for USAID and project implementation functions.

5. Policy Reform/Institutional Issues

The GOM appears to have been making progress in the liberalization of its economy and support for the private sector. Nevertheless, a number of significant constraints to SME development remain. The PCU has acted as a key spokesperson for the SME sector during the READI Project. These would be better placed within a business association which can speak for all businesses, and not just for the privileged few. Efforts should be made to find an local institutional home for this type of private sector advocacy. A related activity involves the coordination of public policy and regulations. The MTIT has been viewed as the likely place for this activity over the past number of years. Yet it may be better placed in an agency such as the EP&D Department of the OPC. It is important that any future USAID efforts be directed at working with an agency which is best placed to perform this role.

6. Focus of Mission Efforts on Private Sector Development

Much of the Mission's efforts in the private sector in recent years have been in the SME sector. As the Project Paper noted, one of the functions of the READI Project was to give the Mission time and experience to develop a comprehensive approach to private sector development in Malawi. Although most of the Mission's activities in this area can be justified, there does not seem to be a clear focus on where the total efforts are going. It would seem to be a propitious time for the Mission to analyze how its SME development programs and projects fit within an overall private sector economic development strategy prior to any follow-on project to READI.

SECTION I

INTRODUCTION

A. PROJECT DESCRIPTION

1. Origins

The Rural Enterprise and Agribusiness Development Institutions Project (READI) was first authorized in 1984 as a four year project with the following purpose:

> To expand the economic activities of small and medium scale Malawian entrepreneurs, especially for:
>
> - Agriculture production, processing, marketing and the manufacture of agricultural related inputs;
> - Rural employment generating activities; and
> - Import substitution of foreign exchange earning types of light industry and manufacturing activities which benefit rural consumers.

The rationale of the project was described in the Project Paper (PP) as follows:

> As Malawi's present resource base and population distribution is agricultural and rural, much of the potential for economic expansion by small and medium sized entrepreneurs is linked to the production and processing of agricultural commodities and located in rural areas. The constraints, however, to increasing the growth of economic activity by small and medium scale entrepreneurs are:
>
> - the lack of credit, especially for entrepreneurs based outside of the major urban areas;
> - the lack of technical, financial and managerial skills which are needed to identify, analyze and capitalize on the economic opportunities present in Malawi; and
> - the limited capability of the financial institutions to adequately provide the credit and support services needed by the targeted groups of loan seekers. (This "limited capability" refers to organizational and management capability as well as long term financial viability.)

The PP went on to say (under Relationship to the Country Development Strategy Statement - CDSS):

> It should be noted that while the CDSS gives priority to assisting the development of the Malawian indigenous private sector, this is a fairly new endeavor for USAID/Malawi, and a long term approach has not yet been defined. .... Thus, USAID/Malawi believes it is important to define a more comprehensive and cost effective strategy for assisting the Malawian private sector during the course of this Project and that when established, such a program should be a principle component of USAID/Malawi's overall program.

The project was to be implemented though three agreements:

(i) an Operational Program Grant to Africare of $1,475,000;

(ii) a Cooperative Agreement with Credit Union National Association, Inc. of $375,000; and

(iii) a Grant to the Government of Malawi (GOM) of $3,255,000.

The total cost of the project was US$6,800,000 of which USAID would provide $5,100,000 with the balance from the GOM.

Support was to be provided to both INDEFUND and MUSSCO in the form of commodities, training, and funds for on-lending, with technical assistance to be provided by Africare and the Credit Union National Association, Inc. (whose name was later changed to the World Council of Credit Unions - WOCCU). The project also established a Project Coordination Unit (PCU) to assume much of the implementation workload and to coordinate and assist the Malawian and US organizations implementing the project. An American expatriate was hired to direct the activities of the PCU, initially under a Personal Services Contract (PSC) and eventually under a host country contract through the Ministry of Trade, Industry and Tourism (MTIT).

2. Changes over the life of the project

As is often the case, various components change over the life of a project to adapt to changing circumstances, unforeseen problems and emerging opportunities. READI experienced a considerable number of implementation changes, although the principal focus of the project remained that of strengthening institutions providing support to the small and medium enterprise (SME) sector.

There have been six amendments to the Project Grant Agreement and two PP supplements. The key changes reflected in these documents were as follows:

(i) DEMATT was added as a third local institution to be supported under the project after the financial demise of Partnership for Productivity, a US PVO which had an OPG with USAID to provide technical and operational assistance to DEMATT;

(ii) The Life of Project (LOP) was extended to the end of June 1991;

(iii) Total authorized funding was increased to US$8,870,000;

(iv) Technical assistance from Africare was concluded on December 31, 1989;

(v) Funds for research and special activities by the PCU to promote SME development were added; and

(vi) The GOM agreed to permit and encourage the expansion of the MTIT's Small Scale Industry Unit (SSIU) to a Small and Medium Scale Enterprise Sector Coordination Unit (SME/SCU).

In addition, certain activities in other USAID programs/projects have also supplemented READI activities in supporting the SME sector. These include the Human Resources and Institutional Development Project (HRID), which has provided funds for additional technical assistance and training for READI institutions; Malawi Enterprise Development Program (MED) funds have provided local currency funding for various project elements; and the Services for Health, Agriculture and Rural Enterprises Project (SHARE) is just now gearing up to provide support to Non-Government Organizations (NGOs) for microenterprise development activities in rural areas.

B. CONTEXT OF THE EVALUATION

This was the final evaluation of the READI project. It took place within the context of an interest by the Mission to continue to support SME development activities. A preliminary Project Identification Document (PID) was drafted in January 1991 for the Support for Enterprise Transformation Project (SET). However, it was decided that a final evaluation of the READI Project was needed prior to the consideration of a follow-on project.

A mid-term project evaluation was conducted in September 1988. The Mission directed the final evaluation team to look mainly at the time period and project activities after the mid-term evaluation, unless the analysis of certain activities prior to that evaluation directly impacted upon the team's final evaluation.

Furthermore, a substantial number of studies and reports have been written during the past two years on the various components and activities of the READI project and on SME development in Malawi, including recent institutional evaluations of MUSSCO and INDEFUND as well as organization & management studies of MUSSCO and DEMATT. In addition, two studies funded by the UNDP - one on the optimal institutional SME setup in Malawi and another on the role and capabilities of the MTIT in the SME sector - were nearing finalization and were reviewed in draft form. These studies provide important insights on the institutional structuring of any follow-on project to READI.

As a result of the access to these and other various documents, the Mission and USAID/Washington determined that the evaluation team would be able to rely extensively on secondary data for the final evaluation of the READI project. Consequently, the team spent only three weeks in country and based its findings on extensive document research, interviews with key informants and very limited field visits to interview just a small sampling of clients of SME institutions supported by the project. The field visits were undertaken mainly to obtain an impression of the types of enterprises served and to verify empirical data found in various reports.

The evaluation team consisted of an institutional development specialist/team leader, an SME training and TA specialist, a credit specialist, and two accountant/financial management specialists. Weeks one and two were spent reviewing documents, interviewing key officials and advisors to the project-supported institutions, government, USAID and other donors. Week three was spent composing a draft report to be left with the Mission prior to the team's departure.

It is important to note that this evaluation has limited itself mainly to an in-depth analysis of the institutions supported by the READI project and the role of the PCU. It has not evaluated the technical assistance provided to these institutions, except to note particular instances of success or weakness. In addition, this evaluation has provided some general background on the SME sector which was gleaned from various documents in order to put the Mission's SME development efforts in context and to provide a basis for suggestions for future Mission directions.

C. FORMAT OF THE EVALUATION REPORT

Since the principal focus of the READI project has been the strengthening of institutions supporting the SME sector, the next and main section of this report analyzes each institution in depth for strengths and weaknesses. It also assesses areas which require improvement and makes recommendations to deal with these areas. Each institution is reviewed within the context of institutional development, credit programs, technical assistance and training services provided, financial management systems and financial viability. The subheading on financial viability in each institutional analysis is a summary of a separate report by Deloitte & Touche which analyzes the financial systems of each institution. Readers who desire further information on this topic should consult that report.

The third section of the report is meant to provide information to put USAID's support of SME sector development in perspective. It first describes the general private sector policy environment in Malawi, the role of the SME sector within the economy, and delineates some of the principal constraints to SME sector development. It then reviews how USAID/Malawi's activities in SME development fit within overall Mission strategy and programs/projects. It goes on to describe other government, donor and PVO/NGO activities in the sector.

The fourth and final section of the report presents key overall conclusions of the team on the achievement of project aims and issues which should be addressed prior to any follow-on project to READI.

The annexes include tables that provide data on the loan activities of INDEFUND and MUSCCO, profiles of SME development activities of various U.S., international and local PVO/NGOs, as well as the bibliography and persons interviewed for this evaluation.

SECTION II

INSTITUTIONAL ANALYSES

A. INDEFUND

1. Background

INDEFUND began operations in 1982 with the objective of financing and developing business enterprises owned and controlled by Malawians to increase productivity in the Malawian economy. It was established with the financial support of INDEBANK and the Netherlands Finance Company for Developing Countries (FMO). INDEBANK held 61% of the shares and FMO 39% of the shares.

The Malawi Development corporation became a shareholder in 1989 using local currency funds provided by USAID's MED project. Current shares capital totals MK 3,405,995, with INDEBANK holding 35.8%, FMO 34,8% and Malawi Development Corporation 29.4%. This has provided more balance in the Board's decision making structure which had been dominated by INDEBANK in the past. According to a staff member of INDEFUND, the effect on operations has been to take on a more commercial orientation. This has had a positive effect on institutional survival by generating revenue. However, some staff contend that this has diverted focus from some of INDEFUND's original development objectives such as targeting specific types of enterprises.

2. Programs

a. Financial services:

INDEFUND serves primarily as a lending institution and does not receive deposits or promote savings within the context of its program. Its loans currently range in size from MK30,000 to MK350,000 and are targeted to commercially viable agriculture, agro-industry, fishing, manufacturing, wholesale and retail trade, service industries, construction, transport, and hotels. It finances both existing and new businesses although, according to staff, preference is generally given to new businesses. INDEFUND policy gives preference to enterprises which promote import substitution or exports, generate employment, use local resources and encourage development. Funds are used in both urban and rural enterprises, although USAID funds have been used exclusively for rural loans and appear to have pushed INDEFUND to lend in rural areas.

INDEFUND provides medium and long term loans to finance both fixed assets and working capital; equity finance (although only one so far); guarantees and leasing for hire-purchase facilities (primarily in transport); performance bonds; and seasonal crop financing (generally in conjunction with upgrading building or equipment). Loan repayment periods range from 2 to 12 years. Interest rates are competitive with commercial bank rates and range from 16.5% to 21%, depending on the enterprise sector and type of capital, e.g., the interest rate on working capital is typically 20%.

b. Non-financial services:

INDEFUND project officers assist clients in project preparation (business plans, cash flows) and appraise the feasibility of projects that are submitted. Monitoring officers train entrepreneurs in bookkeeping and other record keeping, monitor the businesses to assure that adequate records are being kept and monthly reports submitted, and provide business and technical advisory services as needed. The newly created position of investment officer will monitor loan payments and be responsible, together with the branch managers, for debt collection. The legal officer advises on legal issues and the agricultural advisor supervises agricultural projects.

c. USAID-funded activities:

Under the original project agreement, USAID provided a total of $1,400,000 to INDEFUND over 3 years including US$1,200,000 for credit (of which $750,000 in foreign exchange and $450,000 in local currency), $75,000 for training, $50,000 for commodities, and $75,000 for operational costs (with allocations of $50,000 in first year and $25,000 in second year). A series of project amendments subsequently decreased the total INDEFUND budget to $1,087,000, of which $101,000 was for non-financial assistance. These decreases were related to INDEFUND's slow draw down of the credit funds and increasing demand for READI project resources to support DEMATT. Additional allocations from MED have bolstered funds available for on-lending.

In addition to direct funding, USAID also supported technical assistance from AFRICARE and accounting/management assistance from firms in the development of in-house advisory services (for example, preparing business plans and follow-up management assistance). INDEFUND also received assistance from the READI PCU in preparing annual management plans through the establishment of realistic organizational objectives and the monitoring of progress towards these objectives. Furthermore, the PCU undertook a business promotion project which resulted in 19 project applications to INDEFUND.

Several other donors, including FMO and KFW, have provided credit funds to INDEFUND to on-lend to small and medium enterprises. Unlike USAID, these donors have not tied their credit to rural enterprises or other specific types of loans. The World

Bank is planning to provide INDEFUND a direct line of credit targeted to small scale agricultural transport enterprises as part of an agricultural marketing project. INDEFUND clients will also have access to a line of credit for SME working capital through the commercial banks. To date, USAID has provided approximately 39% of INDEFUND's long term donor supported credit funds for on-lending to its clients.

3. Analysis of Program Performance

a. Credit

1) Analysis of credit policies and procedures

Promotion: INDEFUND does not actively promote its programs. This initially resulted in a large number of applications that did not meet its lending criteria and a low loan approval rate. In response to this problem, the READI PCU launched an effort to identify and promote projects; this effort did not meet with great success, however, since most applicants failed to meet INDEFUND's investment criteria. Independent of this effort, INDEFUND has steadily increased its approval rate on applications since 1985 (from 10% in 1985 to 21% in 1990) and is now receiving more qualified applications than they can fund. This relates to better understanding on part of applicants of INDEFUND's criteria, an increase in second loans, and a broadening of sectoral emphasis to encompass motels, transport, and tobacco farmers. The change in the frequency of Board meetings from quarterly to monthly has also facilitated the increase in approvals. The problem now seems to be lack of credit funds to meet the growing demand for INDEFUND loans.

Screening and appraisal process: INDEFUND's screening, appraisal, and approval process has been described in two previous evaluations (the 1988 ARIES evaluation and the 1990 DFC Evaluation). The DFC evaluation found the appraisal process to be comprehensive, but not sufficiently critical. It found cost overruns the rule, with disbursements on one-third of the loans exceeding the approved amount by more than 10%. Appraisal reports were found (1) too optimistic in terms of the time required for businesses to become operational; (2) too accepting of project cost estimates; (3) overly generous in estimating the client's ability (or willingness) to meet cost overruns; and (4) overly optimistic about (underestimating) inflation rates. The DFC report recommended more staff training to strengthen project officers in the area of appraisal, more stringent screening of appraisal reports by management, and more rigorous follow up by staff during the implementation phase of projects.

Approval process: INDEFUND has instituted several changes in the loan approval process in the past two years. One change is that the Board now meets monthly rather than quarterly, which has helped to reduce delays. Another change is that the General Manager can no longer approve loans under MK 30,000 without Board approval. Finally, management formerly exercised its own discretion in disbursing up to 15% over approved loan amounts, but the Board must now decide on any increases. The latter policy change is intended to reduce project overfunding and induce more rigor in the appraisal process. It is also intended to pressure clients to cover cost overruns and improve cash flow management. Overfunding is now less prevalent, but it is too early to tell if this has strengthened the appraisal process. Unfortunately, there is no monitoring system in place to assess improvements in client cash flow management.

Monitoring and supervision: One generally acknowledged weakness in INDEFUND's program is inadequate monitoring and supervision of clients. Clients theoretically are required to send in monthly financial and operational reports, but few actually do. In any case, as noted by the DFC evaluation, INDEFUND does not have the information systems required to use this information to monitor projects adequately. The Acting General Manager stated that they are considering a new system whereby the enterprise would be required to appoint an auditor for the business as a precondition to any loan disbursements.

Responsibility for loan monitoring and supervision has shifted back and forth over the years but, in effect, no one has been serving this role. It was initially separated from the appraisal function and housed in the Business Advisory Services (BAS) department. In 1988, the monitoring and appraisal functions were merged and project officers became responsible for performing both roles. However, given pressure to expand the portfolio, project officers focused most of their efforts on appraisals, and the monitoring function was essentially reduced to debt collection.

In early 1990, the Board directed management to again separate the appraisal and monitoring functions, so that project officers would no longer have any responsibility for the projects after appraisal. The monitoring function was to be shifted to the BAS department. Management countered with a proposal to maintain project officer involvement at least through the project implementation phase, in order to overlap and coordinate with the BAS staff person. The project officers would have primary responsibility for the project through the end of the implementation and afterwards be responsible only for debt collection. The BAS staff would be responsible for ensuring clients had proper accounting systems, submitted regular financial reports to provide the information base for monitoring, and dealt with specific problem areas. The Board decided that project officers should handle projects up to implementation.

Debt collection: The established procedures for debt collection are described in the DFC and ARIES evaluations. The primary problem areas identified are (1) delays in billings, which is related to the manual system; (2) delays in preparing the computerized monthly summary sheet on arrears; and (3) unclear definition of responsibility for information and action on arrears. Arrears is currently a serious problem and is discussed in a later part of this section. The Acting General Manager, stated that INDEFUND intends to recruit three new project officers to "beef up" the monitoring function. He was also considering recommending the establishment of a the new position of "investment officer," who would be responsible for debt collection. The proposed staff changes should improve this weak area.

Improved debt monitoring is important to the BAS staff, since delinquencies and arrears are often symptomatic either of problems in the businesses and/or in managing the loans. It will be important for the investment officer, when attempting to collect delinquent loans, to encourage the debtor to make use of the BAS services, and to alert the BAS staff to businesses that are having problems that may need their attention.

2) <u>Analysis of loan portfolio</u>

At the outset it is important to note that the information on INDEFUND's current portfolio was derived from two basic sources: (1) a computer printout on Total Approvals, Disbursements, Repayments, and Capital Due in Arrears and (2) a computer printout of the Sales Ledger Reports - Account Balances. Unfortunately, the number of approvals as of December 31, 1990 reported on each of these reports is different, so the data presented are not consistent. Other information used in developing the tables was compiled by INDEFUND staff from their client files, and by the evaluation team from other branch office data and evaluation reports. Given time constraints, the figures have not been reviewed and reconciled by INDEFUND.

Another important point to note is that INDEFUND does not have any information on client level impacts, i.e., information on changes during the loan period in the financial performance of the enterprises, employment, management practices, household income, or other enterprise linkages. This is related to the problem mentioned earlier regarding project monitoring and the lack of information systems for this purpose. Given these data limitations, this section provides only a rough picture of the overall types of projects, the types of loans, the background of clients, repayment rates, and the USAID-funded loans.

<u>Overall portfolio:</u> As of December 31, 1990, INDEFUND had approved 203 loans valued at MK16,456,853. The average loan size was MK139,016. The rate of approvals over applications increased during the READI project period (from 11% in 1985 to 19.5% in 1990). The number of loans approved per year has increased

steadily over this period (from 26 to 38) as has the average loan size of the loans (from MK42,821 to MK139,016). Another trend has been the "urbanization" of the loan portfolio over the years which, along with increasing loan size, is related to the pressures to disburse larger amounts of loan capital. The proportion of urban loan approvals increased from 43% in 1982 to 72% in 1988 (Table 1). However, it appears that the trend has been reversed by the more rapid disbursal of the USAID-funded rural enterprise loans since 1988 (the urban portion of the current portfolio is estimated to be 60%). This demonstrates USAID's positive role in encouraging INDEFUND to lend in rural areas.

The current portfolio as of December 31, 1990 included 163 loans, with an average loan size of MK 101,673. Almost all the clients receiving loans were men (93%). Moreover, 35 (22%) of the 163 loan recipients were repeat clients who had received a previous loan from INDEFUND. In terms of ownership, a majority are sole proprietorships (58%) and approximately two-thirds of the loans are in the Southern region, a quarter in the central region, and 10% in the Northern region. The new branch office in Lilongwe, opened in 1990, is helping to expand lending operations in the Central and Northern regions. 29% of the clients are using their loans to establish new enterprises. The loans are being used for fixed assets (41%), working capital (13%), a combination of the two (28%), and other unspecified purposes (18%). (Table 3)

A majority of INDEFUND clients are engaged in agriculture (26%) or agro-industries (24%). Others are engaged in manufacturing (16%), hotels and tourism (12%), services (11%), trade (6%), mining/construction (3%), and transport (2%). It is likely that transport loans will further increase when a line of credit becomes available under a planned World Bank agricultural marketing project. According to INDEFUND staff the most frequent types of loan applications are for small hotels, tobacco farming, and transport. The Board sets targets to control the proportion of loans going to these sectors in order to keep the portfolio diversified.

A different set of data was available on the repayment status of the portfolio. This information showed that of the outstanding 140 loans (with a total value of MK 10,056,877), 58 loans (41% of the approved projects) were 120 days or more overdue. The amount of overdue payments represented 5% of the outstanding portfolio, but the total value of the loans 120+ days in arrears represented 34.5% of the portfolio. Using a more standard definition of loans 90+ days overdue, the amount in arrears was 6.3% of the total outstanding portfolio. Of the total balance of repayments due to INDEFUND at the end of 1990 (MK 774,386), 82% was 90 days or more overdue. (Table 4)

The DFC evaluation discusses the arrearage problem in detail. It concludes that this is a serious concern and that INDEFUND's provision for bad debts is probably on the low side. The suggestion was made in June 1990 that it might be a seasonal problem, but this is a weak argument given that the December figures show that the situation had not improved and that a large proportion of the arrears were over 120 days. This reinforces the DFC recommendation that INDEFUND place more emphasis on improving its appraisal and monitoring process, information system on repayment and billing system (e.g., reducing turnaround time on reports), and review its provision for bad debts.

USAID funded loans: By the end of 1990, USAID funds had supported a total of 65 projects representing 32% of all projects in the current portfolio. Of these projects, 49 (75%) were currently active and 5 had been fully repaid. Of the 11 defaults, one had been written off and 10 had been collected (in the form of collateral). An additional six projects were approved by the Board and awaiting disbursal from USAID/READI. (Table 6)

A majority of loans were for agriculture (45%) or agro-industries (20%). The most common agricultural projects were tobacco farms and fishing businesses. The remainder have supported manufacturing, service, and trade projects. The projects were outside Blantyre and Lilongwe and were spread fairly evenly across the three regions of the country.

In general, the USAID-funded loans appear to have performed slightly better than the overall portfolio in terms of arrearage. Overall, USAID loans made up 34% of the total clients, but only 25% of the arrearage (15 loans). Taking the USAID portfolio alone, the proportion of USAID loans in arrears was 31%,compared to 41% for the INDEFUND portfolio as a whole.

Only two women have received USAID-funded loans from INDEFUND, representing 3% of the USAID funded rural clients. This is proportionately less that the overall portfolio. The poor representation of women among INDEFUND borrowers has been raised in the context of past evaluations, but has not been adequately addressed by the Board or management. From discussions with staff, it appears that INDEFUND does not make efforts to encourage women applicants, nor are there any women on INDEFUND's professional staff.

The most common explanation presented in the course of interviews was the limited number of women in the types of enterprises in INDEFUND's target group. A recent study of 1,189 women business owners throughout the country by the National Association of Business Women suggests there may be a larger number and a significant demand for credit. Moreover, 59% of the women in the sample had heard of INDEFUND and 26% (309) had applied for a loan at some point in time. Of those applying for a loan (not necessarily from INDEFUND), 12% (37) had contacted INDEFUND but only two had received any assistance. INDEFUND should consider conducting an analysis of why more women-owned projects are not being funded.

Almost two-thirds of the USAID-funded loans are in direct line with READI's objectives of promoting import substitution, export earnings, agro-processing, and the production of goods and services for rural consumers.

Employment generation: Estimates of employment generated are very rough and based on projections made in the appraisal report. Actual figures on employment generated through the loans are not available. An estimated total of 2,927 jobs were created by the loans, or an average of 14.4 jobs per project. Thus, new jobs generated by USAID-supported projects is roughly estimated to be 806. The average investment per estimated job created was MK 5,622. It should be noted that several INDEFUND staff felt that the figures in the appraisal reports probably under-represent the actual jobs created.

The costs per loan grew from MK 9,436 per loan in 1984 to MK 24,271 in 1990, or an average annual rate of 26%. Overall, the average cost per loan during the period 1984 to 1990 was MK 20,314.

4. Training and Business/Technical Advisory Services

INDEFUND is, of necessity, involved in providing training and assistance to its clients in the preparation of business plans (both the technical and business aspects), in setting up bookkeeping and other record keeping systems, in reporting on the status of the business, and in solving business and technical problems that arise. INDEFUND provides some of these services itself and cooperates with other organizations to obtain other services.

At one point, INDEFUND did considerable group training, especially in bookkeeping, but also in special topics such as taxes, livestock management, and advertising. The responsibility for group training was delegated to POET when it got started in 1990, but INDEFUND was not doing follow-up work with clients after the group training. The INDEFUND staff expressed some unhappiness with the POET training. FMO, which was heavily involved in creating POET and channelled funding for POET staff through INDEFUND, stopped funding POET at the end of March 1991, and it is not clear that INDEFUND will continue to use POET for group training.

At one point, INDEFUND tried to use DEMATT to monitor selected projects, but terminated that relationship because of displeasure with DEMATT's performance. INDEFUND recognizes that DEMATT now has more qualified staff and so INDEFUND is moving toward renewing cooperative linkages. DEMATT's Medium-Scale Enterprise Promotion project is producing clients for INDEFUND, and this has also helped to renew the cooperation. INDEFUND is interested in contracting with DEMATT for its consultants to provide limited monitoring and BAS/TAS services for some of INDEFUND's rural businesses. DEMATT consultants would be more easily available to the businesses, since it has district offices in the areas, and it would reduce travel time for INDEFUND staff considerably.

INDEFUND's organizational structure and division of responsibilities have gone through a number of changes in recent years, but the current structure seems to consist of:

- project officers who assist clients during the preparation of their business plans and then appraise the projects;

- monitoring officers who are responsible for training the entrepreneurs in bookkeeping and other record keeping systems, as well as for monitoring the business to assure that adequate records are being kept, that monthly reports are submitted, and that attention is given to any problems that may arise;

- an investment officer (new position) who will monitor loan payment and be responsible, together with the branch managers, for debt collection; and

- two staff persons who provide specialize assistance - the legal officer who advises on legal matters, and the agricultural advisor who supervises agricultural sector projects.

The monitoring and BAS/TAS functions are critical to INDEFUND's success. The strengthening of INDEFUND's internal monitoring capacities and the separation of appraisal, monitoring, and debt collection functions to let monitoring officers concentrate on their single responsibility are important steps. Likewise, INDEFUND's linkages with DEMATT in both business promotion and monitoring of rural businesses are encouraging developments.

Group training for entrepreneurs in bookkeeping, but also in special topics, is also important to INDEFUND's success. Since INDEFUND has more than enough on its platter, it would be worthwhile for it to have serious discussions with POET to explore cooperative linkages that would meet INDEFUND's needs.

5. <u>Financial Viability Analysis</u>

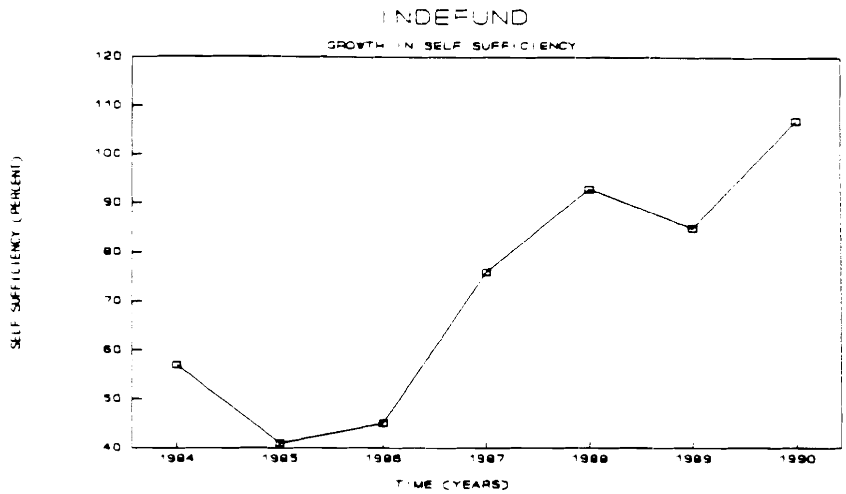
a. <u>Profitability</u>

	1984 000s	1985 000s	1986 000s	1987 000s	1988 000s	1989 000s	1990 000s
INCOME							
Interest on							
- loans	117	168	268	373	522	695	1189
- other	49	47	152	363	358	319	271
Capital grant	-	7	15	17	17	23	29
Revenue grant	-	-	127	124	250	233	286
Other	7	18	34	69	102	121	397
	----	----	----	----	----	----	----
	173	240	596	946	1249	1391	2172
EXPENSES							
Interest	47	81	197	251	279	274	276
Salaries	95	128	154	204	173	240	367
Diminution in value of investments	37	40	196	71	16	35	103
Bad debts prov.	-	72	105	67	14	90	121
Investments & bad debts w/o	-	67	28	-	-	-	-
Other	124	179	324	459	570	695	864
	----	----	----	----	----	----	----
	303	567	1004	1052	1052	1334	1731
	----	----	----	----	----	----	----
NET INCOME	(130)	(327)	(408)	(106)	197	57	441
	====	====	====	====	====	====	====
CORRECTED NET PROFIT*	(130)	(334)	(550)	(247)	(70)	(199)	126
SELF SUFFICIENCY	57%	41%	45%	76%	93%	85%	107%

* The net profit per the audited financial statements includes revenue and capital grants from USAID. These amounts need to be reversed to calculate the correct profitability.

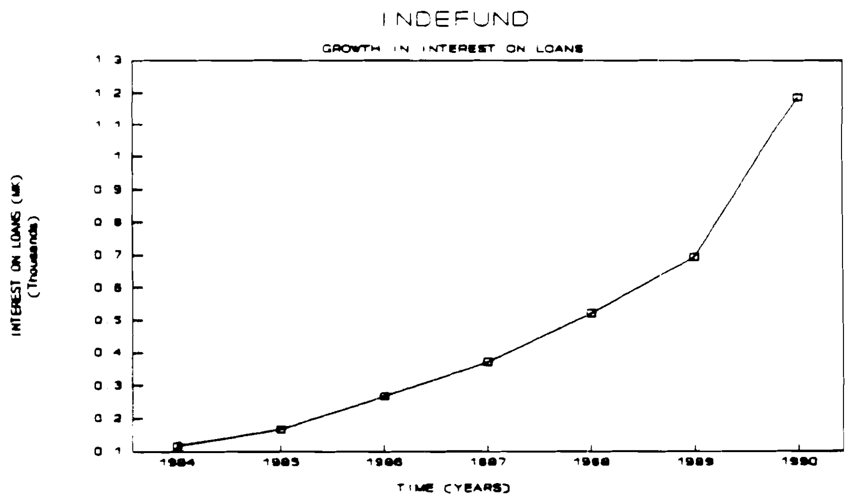
The result is to show that INDEFUND achieved their first actual corrected profit in 1990.

The growth in self sufficiency has therefore been as follows:



The graph shows that in 1987 and 1988 a concerted effort was made to achieve profitability in the audited financial statements by tight cost control which had a limiting effect on growth. When this was achieved in 1988, the institution consolidated this position by releasing costs to encourage growth resulting in a drop in self sufficiency in 1989. This consolidation paid off in 1990 to increase the corrected self sufficiency to over 100%.

The growth in interest on loans has been as follows:



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INDEFUND has now achieved breakeven but will need more credit funds to ensure their long term viability.

b. Capital structure

	1984 000s	1985 000s	1986 000s	1987 000s	1988 000s	1989 000s	1990 000s
Share capital	650	800	1670	1670	1670	1995	3406
Exchange reserve	(49)	(81)	-	-	-	-	-
Accumulated loss	(212)	(539)	(947)	(994)	(798)	(740)	(300)
	----	----	----	----	----	----	----
	389	180	723	676	872	1255	3106
Grants & Funds	12	49	116	209	144	305	874
Long term Borrowing	1119	2171	3992	4613	5098	7204	9786
	----	----	----	----	----	----	----
	1520	2400	4831	5498	6114	8764	13766
	====	====	====	====	====	====	====
USAID LOAN MK	-	436	855	867	988	2652	4234
US$	-	254	464	482	474	1090	1702
DEBT/EQUITY	2.9	12.1	5.5	6.8	5.8	5.7	3.1

The debt/equity ratio has shown a considerable improvement since 1987 due to additional share issues and the conversion of the net losses into net profits.

c. Operations

	1984 000s	1985 000s	1986 000s	1987 000s	1988 000s	1989 000s	1990 000s
Investments	1003	1440	1909	2801	3526	5469	9799
Provision for loss on investments	67	107	303	322	319	354	420
Percentage provision made	6.7%	7.4%	15.9%	11.5%	9.0%	6.5%	4.3%
Collection %					69%	61%	70%

The drop in the percentage provided for uncollectability on investments appears,initially,to be a matter of concern.

The following however were revealed through review and discussion:

- The external auditors were satisfied with the amount and its method of calculation

- Improvements in the system of ensuring adequate security for all loans and better appraisal and monitoring methods have resulted in a more secure loan portfolio

d. Conclusions

The basic systems at INDEFUND are adequate to ensure:

- Accurate, current and complete accounting records are maintained for expenditure and disbursements of AID grant funds

- Accountability is maintained of all AID funds

- An audit trail is available on the use and disposition of all AID funds

We have stated that an audit trail is available. We are not, however, satisfied with the accuracy and completeness of information submitted to AID on the use of their funds. We believe that this is due to the ad hoc basis and pressure under which these reports are prepared.

The stock and procurement systems are not sufficiently developed for management control purposes:

- As INDEFUND's procurement needs are quite small, READI has in the past been responsible for the procurement, control, and distribution of the limited stock items. With the disbanding of the PCU, development of INDEFUND's own stock control system will become essential. As INDEFUND grows, the organization will be required to find the resources to implement and maintain a developed stock system.

Adequate stock systems need to be implemented at INDEFUND with immediate effect to ensure their long term viability.

The financial structure of INDEFUND is adequate for current operations but is susceptible to increases in the level of operations.

e. Recommendations for future action

A considerable amount of funding has been provided to INDEFUND. It is not, however, are currently at a stage where it can be considered financially viable on its own, and needs continued support in one form or another.

Our assessment of the current financial position in this institution is as follows:

Financial Management	Financial Viability	Accounting Systems	Management Information
Adequate	Not yet viable	Adequate	Weak

Our recommendations to address the weaknesses at INDEFUND are as follows :

- o INDEFUND's requirements to achieve viability are:
  - a strengthening of the management information system
  - continued provision of credit facilities for on lending
- o The strengthening of the management information systems will require outside assistance in the following areas:
  - Performance of a management information needs analysis
  - Design/selection and implementation of computerized systems to produce the identified reports
  - Provision of training to management in the use of these reports
  - Development and implementation of an adequate stock system
- o Although INDEFUND has achieved breakeven point it's continual viability is dependent on the availability of credit funds for on lending.

6. Institutional Development/Organizational Viability

a. Organizational Structure

The INDEFUND Board consists of six members, with two members representing each shareholder. The chairmanship rotates on an annual basis. In addition to its role in policy level decisions, the Board is responsible for approving all loans. It originally met quarterly, but now meets monthly. INDEFUND has done better than many other organizations in involving women at the Board level; two of the six current Board members are women.

INDEFUND operates offices in two locations, with the headquarters and southern branch office in Blantyre and the branch office for the central and northern regions in Lilongwe. The 26 member staff includes the general manager, two branch managers, three accountants; 8 project and BAS officers; two agricultural officers; two legal officers; and 8 support staff. INDEFUND does not have any women among its professional staff, but plans to recruit two new officers in 1991 and, according to the management, at least one will be a woman. The support staff includes six women.

b. Organizational Development Issues

The basic management and staff structure is sound. The expatriate general manager recently left and the southern regional manager is serving as acting general manager. The board advertised for the general manager position and following a review of the applicants and interviews, decided to hire another expatriate to fill the general manager position beginning in June 1991. The Board has stated that this will be the last expatriate general manager. It is important that the Board maintain that decision, since the organization cannot be considered viable until it is locally managed.

The regional managers seem to know their jobs well and the other professional staff is qualified, able, and committed. Our analysis has identified weaknesses in all major areas: appraisal, loan monitoring, debt collection, business monitoring and advisory services, and in management information systems. The management and staff are aware of these weaknesses and seem committed to continue to strengthen the staff and organizational capacities.

INDEFUND is financially viable in the sense of having reached the break-even point and showing a profit in 1990. However, its continuing viability, as well as its ability to continue to provide financial services, requires additional credit funds. Funds are also needed to support the business monitoring and advising function, since these are just being developed and tested. If these funds are not forthcoming during this developmental stage, it is possible that self-sufficiency pressures could lead to a decision to sacrifice this activity. Finally, investment in the continued development of staff is important.

c. Staff Development

INDEFUND has sent two of its staff to the full 5-module sequence of POET training. Staff believe that the level of training is lower than is appropriate or useful to them. Several staff members have attended courses outside the country. It is not clear that there is a systematic staff development plan.

The different staff positions within INDEFUND have different training needs. The project officers need to refine their skills in business planning for medium-sized businesses; in this regard, their training needs overlap those of DEMATT consultants who are dealing with the more medium-scale businesses. They also need appraisal training, which relates to the training of MUSCCO and SEDOM staff, as well as that of bank loan officers. However, given the size of the loans being appraised, advanced courses from the University of Malawi/Polytechnic Faculty of Commerce, MIM, or a bank management training program would probably be most appropriate.

The monitoring officers need a more sophisticated level of business management training than is provided by POET. Appropriate courses may be available or might be arranged through the Business Management Department of the University of Malawi/Polytechnic or possibly MIM. The monitoring officers are currently engaged in an extensive GTZ-sponsored training exercise composed of three segments spaced over a period of several months: several weeks in Germany; field work and training in Zimbabwe; and field work and training in Malawi. The training focuses both on the process of business consultancy and business management skills. If this training proves effective, it may also be useful for DEMATT consultants who specialize in medium-scale enterprises.

The investment officer needs training in credit management, which would be similar to that needed by some MUSCCO and SEDOM officers, as well as banking personnel. Again, the amounts of money involved suggest that advanced courses from the University of Malawi/Polytechnic, MIM, or a bank management training program might be more appropriate.

7. Strengths and Weaknesses

a. Strengths

- INDEFUND serves a useful role in supporting Malawian entrepreneurs in the small and medium enterprise sector. It fills a gap between institutions like SEDOM and the commercial banks.

- INDEFUND-supported enterprises probably generate significant employment, and further other project objectives such as promoting import substitution, foreign exchange earning activities, and agro-processing. However, it is difficult to make any firm conclusions in the absence of impact data. This issue needs further study.

- o USAID funds have had a positive impact on encouraging rural lending.

- o INDEFUND has made steady improvement in its credit policies and procedures, leading to an increased approval rate.

- o INDEFUND has a competent staff.

b. <u>Weaknesses</u>

- o Women are poorly represented among INDEFUND clients.

- o INDEFUND is making loans to some persons who should qualify for loans from commercial banks, which means that funds may not be available for businesses which might be rejected by commercial banks but meet INDEFUND's criteria.

- o Problems in cash management, marketing, or business management, which are often indicated by delinquencies, are not being adequately addressed by the BAS unit.

- o There is a high number of delinquencies and an inadequate system of monitoring them and following up on them promptly.

- o Presently there seems to be some confusion about the monitoring function of the project officers, namely whether it includes responsibility for debt collection.

- o Information systems are inadequate, especially in areas of summarizing status of portfolio and project monitoring.

- o The costs per loan are increasing. As the portfolio expands, costs should be decreasing.

- o There has been a tendency to disperse more funds than the amount of the approved loan. While this is now under better control, it should be watched carefully, since it is an indicator of weaknesses in the project appraisal and monitoring systems and/or of the enterprises being funded.

8. <u>Challenges/Needs</u>

- o To maintain a balance between developmental and commercial objectives, and between portfolio growth and portfolio quality

- To improve outreach to women
- To reduce delinquencies
- To strengthen the project appraisal process, especially to make better assessments of whether clients could qualify for commercial bank loans, and to improve cash flow analysis
- To improve the client monitoring system
- To improve the management information systems. There is a need for summary statement of status of portfolio and more emphasis on enterprise level information that can be used in monitoring loans and evaluating impacts (e.g., changes in financial status of the enterprises, in employment, and in management practices).

9. Recommendations

a. Organizational purpose and objectives: INDEFUND should carefully weigh the pressures to expand financial services against the development functions and objectives of the organization.

b. Women's participation: INDEFUND should make special efforts to increase the participation of women in its portfolio; this should include earmarking a portion of its loan funds for women and monitoring those funds carefully to assure that they do not "leak" to men.

c. Credit management: INDEFUND should strengthen its project appraisals and reduce delinquencies.

d. Business and technical assistance: INDEFUND should separate the loan repayment monitoring and debt collection from its business monitoring and advisory service and strengthen both functions.

e. Measuring impact: INDEFUND should improve its management information system so that it generates data on the impact of its loaning activities. The MIS system would also improve the monitoring of loan repayments.

B. DEVELOPMENT OF MALAWI TRADERS TRUST (DEMATT)

1. Background

DEMATT was established in 1979 as a registered Trust under the Ministry of Trade and Industry. Its purpose is to promote the development of small and medium scale enterprises through the provision of business and technical advisory services to Malawian entrepreneurs. It was originally targeted (as its name conveys) at the development of indigenous Malawian traders, but its activities now encompass the entire SME sector.

Beginning in 1981 until its collapse in late 1986, Partnership for Productivity, International (PfP/I) received USAID funding to provide technical assistance to DEMATT. DEMATT was incorporated into the READI Project in April 1987 with continuing funding from USAID.

Under PfP/I's guidance, DEMATT developed a plan for self-sustainability, which included: providing professional services on a contract basis; operating a venture capital company; and making equity investments in SME enterprises. DEMATT later dropped these plans and decided to focus on providing quality business and technical advisory services, particularly in rural agro-industry, import substitutes, and products for export.

2. Structure and Staff

DEMATT is governed by a Board of Directors composed of three representatives of the African Business Association, two GOM representatives, two bank representatives, and two academics. The staff is headed by the General Manager. Other senior staff positions are the Field Services Manager, the Special Projects Manager, the Finance and Administration Manager, and the Personnel and Training Manager. There are three regional offices (Blantyre, Lilongwe, and Mazuzu) and 28 district offices. The Regional Managers supervise a total of 11 Senior Business Consultants (SBC), 36 Business Promotion Consultants (BPC), 3 Agro-Industry Consultants (AIC), 3 Technical Consultants (TC), 3 Women's Program Consultants (WPC), and 17 support staff.

Not all of the positions are filled. The Financial Administration Manager post has been open for some time. In the regional office that we visited (Lilongwe) only eight of the thirteen BPC positions are currently filled.

The General Manager informed us that DEMATT has recently recruited eight Business Promotion Consultants and one Technology Consultant. An Induction Training Course for the newly recruited staff started on May 6, 1991 and will be completed by the end of

July 1991. Posting to various field offices will be made soon after completion of the training program. All vacancies in the Field Services Department will be filled by that time. Interviews were held on May 27, 1991 with applicants for the Finance and Administration Manager and one has been offered the job.

3. Business and Technical Advisory Program

a. Status as of August 1987

The "Report of Inception Review of DEMATT (August 1987) for USAID Malawi," by Deloitte, Haskins, and Sells summarized DEMATT's achievements. In the period of August 1983 to August 1987, DEMATT had served 1200 clients, assisted 70 businesses to obtain loans, and produced a weekly radio program for a full year to increase awareness of DEMATT services. However, DEMATT had been serving a decreasing number of clients at the same time that it was increasing the size of its staff: in May 1985, 38 staff served 976 active clients; by September 1986, the number of active clients decreased to 743; and in July 1987, 47 staff were serving 513 active clients. (DEMATT management contends that during this period, DEMATT was in search of an appropriate client methodology and that each time a new methodology was adopted, former clients under the previous methodology were automatically abandoned.)

The distribution of clients among regions approximated the population distribution among the regions: South 55% (pop. 49%), Central 38% (pop. 40%), and North 7% (pop. 11%). The client distribution among sectors, compared with the overall distribution of SME enterprises by sector were: retail 52% (nationally 44%); production 33% (nationally 30%); and service 15% (nationally 26%).

The Deloitte study concluded that DEMATT had a predominantly unqualified staff without an adequate training program and with inadequate supervision, no effective methodology, no criteria for success, and no way to measure impact. The ineffectiveness of DEMATT's services was widely affirmed in the SME community, so there was little willingness on the part of other organizations to use DEMATT. The DEMATT budget for 1986-87 was MK 721,000, so the cost of services was about MK 1,406 per client.

b. Post-1987

Since 1987, DEMATT has undertaken a series of steps to upgrade its staff, increase staff accountability, improve the quality of its services, and measure the impact of its services. It has:

- Instituted its "improved client methodology;"
- Implemented an improved staff induction program and a staff development process with its existing staff;

- Raised the entry-level qualifications for new staff;
- Created a time management system for its staff;
- Implemented a management information system (MIS) to measure the impact of the BAS/TAS services; and
- Established clear priorities for its services.

1) Improved client methodology

DEMATT staff at all levels are proud of its improved client methodology. It provides a systematic approach and a structure for working with clients. It involves a comprehensive diagnosis of a new client's business, followed by the development of a formal contract with the business owner. The contract sets forth specific objectives, expectations, and commitments on the part of both the business owner and the BPC, and it sets specific time parameters.

2) Skill level of staff

The skill level of the DEMATT staff has, from all reports, increased markedly. Business financing organizations such as SEDOM and MUSCCO, who reported unfavorably on DEMATT's services in 1987 now use DEMATT's services extensively. The field staff whom we interviewed were enthusiastic about their work, confident about their ability to be useful to business owners, and had good relations with their clients.

On the other hand, though the skill level has increased, there are still serious shortcomings in the knowledge and skills of the BPCs. For example, one business plan that we reviewed assumed that a fairly unsophisticated entrepreneur would begin the first month of operation with seven staff producing at nearly full capacity. The market analysis did not demonstrate the potential level of on-going demand. The cash flow reflected the purchase in the first month of assembly parts needed for the entire year; this made the loan requirements four times what they would be if the parts were purchased quarterly. Though many BPCs have diplomas, e.g., from the Bunda College of Agriculture, or degrees in business studies or business management, they are relatively young and have little, if any, practical business experience. (DEMATT management contends that this is their strategic policy. Since DEMATT cannot afford to offer salary levels which would attract experienced personnel, young recruits must be hired and trained on the job.)

Such shortcomings should normally be addressed through supervision, but we were told by senior staff that many of the supervisors (SBCs) are less knowledgeable and less skillful than the staff whom they supervise (BPCs). This is because the SBCs were promoted from among the persons who were on staff prior to DEMATT's upgrading. Efforts have been made to upgrade the academic qualifications of SBCs who show potential through sending them to a diploma course at the Pan African institute for Development (PAID) in Zambia.

The current DEMATT staff appear to perform relatively well with entrepreneurs of the micro and small scale sector. It is at least questionable whether they have the level of sophistication needed to assist the medium enterprise sector. In the regional office we visited, one consultant was designated as a Special Business Consultant and was assigned to medium scale enterprises. This seems a good strategy. INDEFUND staff are clearly not confident of the capacity of DEMATT staff to provide BAS/TAS to their clients who fall in the medium enterprise level.

3) Management information system

A sophisticated MIS system was initiated in late 1990. It provides a mechanism for measuring the impact of the advisory services, so that both the owner and the BPC will know whether, and to what extent, the business is changing -- in gross sales, profits, net worth, and employment. The knowledge that impact is being measured provides incentives for the BPC, and the information from the system helps DEMATT assess the relative effectiveness of their efforts. If the information reflects positive results, it provides the staff with a sense of achievement that is often lacking in consultancy. If the information reflects inadequate results, it provides the impetus for reviewing and modifying strategies.

DEMATT also initiated a time management system. Each employee maintains a weekly time sheet which delineates the amount of time spent with each client each day, as well as time spent in travel, training, office, meetings, etc. This allows DEMATT to relate the business changes to the amount of time spent with clients, and to monitor the amount of time field staff spend with various clients and in non-client-contact activities.

4) Number of clients served and cost per client

DEMATT's management has established client-service goals for the BPCs and suggested time limits for client contracts. Based on these projections, management can predict the number of clients DEMATT will be able to serve within each year. At present, BPCs are expected to serve 6-10 clients, and contracts are expected to last 4-6 months. Assuming that 32 BPC (not including the women's program consultants, whose productivity is determined separately) and 6 TC positions will be filled at any one time, the number of clients served annually in one-on-one consultations could be as few as 462 (38 consultants x 12 clients/year) or as many as 1,140 (38 consultants x 30 clients/year). Only 83% of the BPCs' time is devoted to one-on-one consultation, since 12% of their time is allocated to "general consulting" (including group training) and 5% to new business development.

This is exceptionally intense business consultancy. Even considering other responsibilities -- including conducting as many as 30 PCAs (potential client assessments) per months, as well as numerous one-time consultancies with persons who come to the office seeking assistance -- having an active client load of only 10 clients still amounts to allocating about three hours per week for each client. Now that the MIS system is in place, DEMATT will be able to experiment with the effect of various levels of intensity, i.e., the size of the client load, and the hours per week of consultancy, on the impact of the consultancy. Thus DEMATT can determine the optimum caseload size. It is likely that once the skill level of the consultants and the supervisors has reached the desired level, the client load could easily increase to 15-20 clients per consultant without significant decreases in impact.

These differences in client load and length of contract have important implications for per client cost of BAS/TAS. Assuming a 1991 operating budget of MK 3,536,652 - excluding capital expenditures, the Medium-Scale Enterprise program and the women's program - the per client costs of varying client loads and varying average lengths of contracts are:

Client load	Length of Contract	Clients per yr	Staff	No. of Clients	Total Cost per Client
6	6 mo	12	38	456	MK 9,150
10	6 mo	20	38	760	MK 5,490
10	4 mo	30	38	1,140	MK 3,660
12	6 mo	24	38	912	MK 4,575
15	6 mo	30	38	1,140	MK 3,660
15	4 mo	45	38	1,710	MK 2,440
20	6 mo	40	38	1,520	MK 2,745
20	4 mo	60	38	2,280	MK 1,830

(It should be noted that the above figures do not factor the 12% time that business consultants spend in general consultation, including group training, nor the 5% time allocated to new business development. If these are considered, the per client costs would be 83% of each of the figures in the extreme right-hand column.)

Management's stated client load goal is 10 clients per consultant and contracts averaging four months, which would mean 30 clients per year for each consultant. Currently, DEMATT has 289 clients being served by its 36 consultants (28 BPCs and 8 special consultants). If BPCs, supervisors, and management are disciplined about limiting contracts to an average of six month, DEMATT will serve nearly 600 clients this year.

5) <u>Description of current clients and impact of services</u>

Of DEMATT's 289 active clients, 20% are women. The sectoral distribution is: manufacturing 44%, trade 25%, agriculture and agro-industry 18%, and services 13%. The regional distribution is South 38%, Central 29%, and North 33%.

The first impact report produced with the data from the new MIS system covers 48 contracts that ended between November 1990 and March 1991. It shows that an average of 64 hours spent on each contract produced an average increase in gross sales of 43%, an average increase in profits of 41%, and average increase in net worth of 29%, and an 8% increase in wages paid to full-time employees. These are impressive figures. The impact is tempered, however, by the fact that the contracts were with relatively small businesses; for example, the average gross sales at the beginning of the contracts were MK 2,750 and the average number of employees was two.

Ten new jobs were created via these advisory services. It is noteworthy that DEMATT's women's program with an annual budget of only MK 136,000 assisted in the creation of 14 new businesses in 1990, which resulted in the creation of 55 new jobs. This contrast suggests the need for careful analysis of the relative effects of the two targets of intervention (new versus existing businesses). The analysis should include consideration of the quality of the jobs created and their stability (how long maintained). For example, DEMATT's advisory services, by increasing profitability and entrepreneurial skills, may have contributed to the retention of employment that would be lost if the business failed; employment retention, however, is a very difficult variable to measure.

6) <u>Priority: existing business owners</u>

DEMATT has been criticized in the past for "serving everyone who comes in the door" rather than setting priorities for its services. DEMATT has now established as its priority the expansion of existing businesses. DEMATT believes that providing services to experienced entrepreneurs is more likely to maximize the impact of their services per time and kwacha spent. DEMATT will continue to allocate a very limited amount of its time (5%) to serving new entrepreneurs, and 12% of its time to "general consultancy," i.e., to very short term assistance (such as one time assistance in the office) that does not involve contracting.

Experience in other countries has shown that serving existing entrepreneurs results in lower costs per client served. However, one must look at various measures of impact to ascertain that lower costs result in greater returns per investment. If, for example, impact is measured in terms of jobs created, this has not yet been empirically documented by DEMATT's MIS data. Furthermore, priority on existing businesses will mean reduced services for emergent business owners, which will not only perpetuate, but may actually accentuate current inequities such as the current male-female imbalance in the SME sector.

7) Women's program

DEMATT initiated the Business Advisory Services for Women (BASW) project in 1989 with funding from UNIDO. The project involves several initiatives aimed specifically at existing women business owners and potential women entrepreneurs, including:

- one workshop new business development program per region per year, an eight week program that alternates between classroom sessions and field work to develop business plans;
- one training program per year for existing business women; and
- a national survey which produced a data base on women entrepreneurs.

In 1990, 14 new women-owned businesses were developed with DEMATT assistance and funded by SEDOM. DEMATT also held eight needs assessment seminars, which were attended by 250 women business owners, 100 of whom subsequently received training in business management skills. The survey of women entrepreneurs has been completed and the report is being finalized.

8) Other field service activities

During 1990, DEMATT conducted group training sessions for 8 disabled clients of the Malawi Council for the Handicapped, 27 blind entrepreneurs, 7 women tailors, 82 entrepreneurs engaged in the manufacture of ceramic stoves, 240 produce traders, 72 beekeepers, a group of metal workers in Mzuzu, and a group of restaurant owners in Zomba.

In 1988, the field service department and the personnel and training department jointly undertook a survey of the local resources and economic conditions in the Rural Growth Centers, a program supported by GTZ. The objective was to assemble information which would help the BPCs in their business advisory services and new business development. The survey results were compiled into a handbook which was published in June 1989.

4. Special Programs

In August 1990, the Special Programs Department was established within DEMATT to house all "non-core" programs. It is supervised by the Special Programs Manager, and each project within the department has a coordinator. Non-core programs are time-limited projects with clearly defined objectives and outputs that are either self-financing or funded by a donor. All project staff are employed on contracts for the duration of the particular project. The department currently has three projects.

a. Medium-scale enterprise promotion project:

This project, aimed at promoting medium scale enterprises, was launched September 1990. It is patterned after the READI promotion project, with revisions based on the learning that occurred during that project. By the end of May 15, 1991, DEMATT was working with 34 clients:

- 4 were approved for loans (3 from INDEFUND and one from the National Bank of Malawi);

- 3 were approved on the staff level for INDEFUND loans and were pending Board action;

- 19 were approved by the Selection Committee for full feasibility studies and the studies were at various stages of preparation (the goal is submission of one per week to INDEFUND); and

- 8 were in the preliminary consultancy stage

The project's annual budget of MK 500,000 is fully funded by USAID.

b. Carpentry program:

In May 1990, DEMATT launched this program to train 60 rural carpenters in the use of soft wood to manufacture 3,2000 primary school desks, which will be purchased by the International Development Association (IDA) for use in rural Malawi schools. Ten carpenters were trained as Carpenter Trainers so that they could instruct the other 60 carpenters. The contract of MK 500,000 is funded by the IDA.

c. Transportation industry program:

DEMATT has conducted training programs for 36 drivers, focused on long distance driving techniques and petroleum products handling. It has also conducted a transport business management training program for 20 Malawian small fleet owners. These programs are funded by USAID and KFW.

The creation of the Special Programs Department represented a response to the expansion of non-core activities so that they can be clearly distinguished from core activities and managed effectively under a separate set of policies. All staff in the special programs department, with the exception of the SPM, are on term contracts. The recommendation to establish the department was made in Deloitte's "DEMATT Organization and Management Study" of May 1990. The Board acted promptly on the recommendation. The distinction was particularly important, since DEMATT had been told by GOM not to grow substantially beyond its present staffing levels because of the recurrent cost implications for Government.

Management believes that the income from these non-core functions can offset some of DEMATT's general overhead, which seems quite likely. Due to time constraints, the evaluation team was not able to examine the programs in the department to assess DEMATT's performance.

5. Financial Viability Analysis

a. Analysis of Income and Expenses

	1987	1988	1989	1990
	000s	000s	000s	000s
SOURCES OF FUNDS				
- GOM	129	197	202	308
- USAID	439	615	1152	1645
- Other	92	123	177	87
	660	935	1531	2040
EXPENSES				
- Transport,meals,lodging and allowance	85	135	194	253
- Motor Vehicle expenses	93	160	224	282
- Rents	126	142	240	336
- Salaries & Wages	207	268	409	706
- Other	184	236	419	452
	695	941	1486	2029
SURPLUS/(DEFICIT)	(35)	(6)	45	11

DEMATT is a non profit making organization making no income of its own. Its viability therefore can not be assessed on profitability.

The most useful assessment would be by analyzing expenses on the following:

- Impact on clients

- Number of clients trained

- Time spent on training

This information has, however, only started to be produced this year (1991) and there is no accurate data available for prior years. It is therefore impossible to perform an accurate and useful financial viability study.

b. Conclusions

The basic systems at DEMATT are adequate to ensure:

- Accurate, current and complete accounting records are maintained for expenditures and disbursements of AID grant funds

- Accountability is maintained of all AID funds

- An audit trail is provided on the use and disposition of all AID funds

The overall conclusion is that the purchases/creditors system, with the exception of the non-existence of goods received notes, is adequate to ensure the accuracy and completeness of all data reported to management.

With the disbanding of the PCU, the stock system utilized by DEMATT has become very important. Until recently, DEMATT had no stock system. In the past, stock (mainly stationery and vehicle spares) was purchased by the PCU and supplied free of charge to the institutions. This reduced project costs largely due to the differential between the landed cost of imported stock and the cost of items available locally.

DEMATT is preparing to take over this function by introducing bin cards, ledger cards, re-order levels and a separated physical stock area. In addition, management is exploring the possibility of purchasing some goods locally at duty-free prices as has been the practice of some trust assets in the past.

Bearing in mind the overall weakness of the financial management function at DEMATT and the large consignment of stock which has just been handed over to the institution by the PCU, financial management must ensure that stocks are adequately controlled, that all stocks are accounted for, and that stock levels are satisfactory for the level of operations.

The financial management structure will be strengthened as soon as the Finance and Administration Manager commences work on August 1, 1991.

Therefore, the conclusion with regard to the stock system is that, while it has not been adequate for management control purposes in the past, the current efforts underway are a positive step to ensure that there is an adequate system in the future.

The budgeting system at DEMATT is a key element in controlling expenses and operations. The strengths are:

o The approach has recently been changed to get input, in the preparation of the budget, from the departments responsible. This enhances the accuracy of the budgeting procedures.

o Standard budget forms are now being used to obtain data. This formalized procedure ensures that management objectives are attained.

The main weakness of the system is:

o There is still no report feedback to the department responsible for the preparation of the budget on the accuracy of their estimates. The result is that explanations for variances between actual and budget are not obtained. This comparison function is key in improving the accuracy of the budgeting process.

The conclusion for the budgeting system is that it will only be effective and adequate once the comparison of actual to budget is performed on a regular basis.

The time management system disaggregates consultant time according to the following variables: employee, client representing a business, cost center representing a region or area, sector, consulting activity or overhead, and contract number. The resultant reports allow management to monitor (among others):

- Consultant productivity on an individual basis
- Analysis of employee activity by area and region
- Overall employee activity
- Employee time by client

The strength of the system is that it is supplied by the regional offices and supported by them. This has been key to ensuring that it is developed to meet all of DEMATT's requirements.

c. <u>Recommendations for future actions</u>

A considerable amount of funding has been provided to DEMATT.

It is not, however, are currently at a stage where it can be considered financially viable on its own, and needs continued support in one form or another.

Our assessment of the current financial position in DEMATT is as follows:

Financial Management	Financial Viability	Accounting Systems	Management Information
Weak	N/A	Adequate	Adequate

Our recommendations to address these weaknesses at this institution are as follows:

- o The main areas of concern in DEMATT are its weak financial management and dependency on donors and GOM for funding. We believe that if DEMATT is to be in a position to continually attract donor funds its financial management must be strengthened. This would involve acquiring a General Manager with strong financial management capabilities and filling the post of Finance and Administration Manager with the right calibre person. The question of DEMATT's reliance on funding from donors and the GOM is broader and needs to be considered after assessing all parts of the overall READI project assessment.

- o Financial management must ensure that correct stock and procurement systems are designed and implemented.

- o Budgets must be input to the general ledger and the relevant reports produced and distributed. Departmental managers must be made to explain all variances on a monthly basis.

6. <u>Institutional Development/Organizational Viability</u>

a. <u>Governance</u>

The problems created by DEMATT's lack of autonomy are documented extensively in Deloitte's "DEMATT: Review of Management Information Systems" (December 1989) and Deloitte's "DEMATT: Organization and Management Study" (May 1990). Some of those problems have been addressed. For example, a new, well-qualified field service manager has been appointed and a new MIS officer has be hired. Other significant problems remain.

The most significant problem is the legal status of the organization and the lack of autonomy of its operations. The Deloitte report suggests that the Trust agreement actually gives the Board of Directors more autonomy than it has chosen to exercise. The Board of Directors has stated that the General Manager has performed unsatisfactorily and should not continue in his position. However, the Board referred the matter to the Ministry of Trade and Industry (MTI) rather than take action on its own, and the MTI has not taken any action. It is difficult for any organization to operate effectively when the chief executive officer is not accountable to the Board.

The Deloitte reports recommend that DEMATT be reclassified as a non-governmental organization. This would (a) clarify the authority of the board; (b) make it possible to establish competitive senior staff salaries, which are currently noncompetitive because of DEMATT's status as a category C parastatal, with the result that DEMATT has be unable to fill the Finance and Administration Manager position; (c) eliminate cumbersomeness Government processes that makes it difficult to replace staff in a time manner and to obtain the goods needed to operate at top efficiency; and (d) make DEMATT a more commercially-oriented organization.

b. Sustainability

There is wide agreement that business and technical advisory services to the micro and small business level cannot be self-sustaining, although seeking to minimize subsidies can result in improvements in cost effectiveness. This means that DEMATT will most likely be dependent for the long term on donors and/or government subventions unless it can find a source of local, non-governmental funds. This makes it all the more important that DEMATT operate at the highest possible levels of efficiency, and that it demonstrate to the government and others the benefits of financial support. The data generated by the new MIS system will be critical to demonstrating the benefits of DEMATT's services -- in job creation, increased wages, and the strengthening of indigenous businesses.

There are strategies for reducing the amount of dependence. DEMATT currently sees one of those strategies as income from the special programs that offset some of DEMATT's overhead costs. Another possibility is establishing contracts with clients so that they pay DEMATT some percentage of the increased profits generated by DEMATT services. There are major problems with this, however, since it is likely to result in hesitancy of owners to allow DEMATT consultants to examine their books; also, it might result in business owners fiddling with the books in order to avoid paying the fee, which would result in less accurate impact data.

c. Staff Development

DEMATT has a Personnel and Training Department (PTD) consisting of two persons, the personnel training manager (PTM) and a training officer. The PTM is currently on two-year study leave for an M.Ed. degree with a specialization in training. While the Deloitte report of May 1990 expressed concern about the capabilities of the training officer because she has no specific training in staff development, the training technical advisor gives her high marks.

The Personnel and Training Department conducts an extensive, practice-oriented induction course for new employees, which also serves as a screening process prior to formal hiring. It is now organized and taught primarily by the training officer, with sessions led by DEMATT field staff and, on some topics, by external resource persons. The Personnel and Training Department and the Field Services Department jointly plan and conduct supervisory training for the regional managers and senior business consultants. The on-going training of BPCs occurs via group case review sessions that the SBCs hold with their three BPCs on a monthly basis.

This is a solid design for staff training, which should build the capacities of the staff and organization. Two minor observations might be made. One is that the induction course was developed prior to the formation of POET, and DEMATT believes its induction course serves it better than the POET training would. This may or may not be the case, but in the spirit of cooperation, capacity building, and maximizing resources, it would seem appropriate for DEMATT to explore with POET the possibility for mutual support that would maximize the potentials of both organizations. For example, since part of the 12 week induction course undoubtedly covers the same material as the POET project officer training, it may be possible to coordinate the two so that the DEMATT training officer would be free to develop, organize and perhaps conduct on-going training for field staff. Furthermore, the DEMATT staff could be interacting and building relationships with staff from other organizations with which they work.

Such on-going needs assessment and training is particularly important given the acknowledged weakness of the middle-level staff. This is compensated for in part by a peer supervision strategy involved in the group case review meetings. It is possible, however, that the training officer could serve an important function on behalf of the FSM by attending some of the group case review sessions to assess, simply by observation, the on-going training needs. The training officer could then work with the FSM, the regional managers, and SBCs to arrange short workshops to address some of those needs.

Finally, the heavy reliance on long-term, out-of-country training seems inappropriate, probably even counterproductive, to the needs of the organization. Much of the training that is needed could be less expensively provided in-country, either by personnel already available in Malawi or by resource persons who could be brought for the length of time of the course, plus some planning and follow-up time. Such training would be less disruptive to the work of the organization (less lengthy absences of staff), and the training received would be reinforced in the work that follows, since staff colleagues would have shared the training experience.

d. Technical Advisors

Technical advisors have made significant contributions to the development of DEMATT. On the other hand, their presence has sometimes allowed the organization to avoid dealing with some of its management problems. DEMATT is at the point in its development where technical advisors should be only short-term and in response to specific needs and requests.

7. Strengths and Weaknesses

a. Strengths

- DEMATT has a systematic methodology for its business and technical assistance services.
- DEMATT has upgraded its staff through recruiting staff with diplomas or degrees and has conducted systematic training of its staff in the BAS/TAS methodology.
- DEMATT's staff are enthusiastic about their work, confident of their abilities, and seem to have good relationship with their clients.
- DEMATT now has in place a sophisticated MIS system that generates good impact data and a time management system that maintains staff accountability.
- DEMATT has established clear priority on serving existing entrepreneurs.
- A separate Special Programs Department has been established to manage non-core programs.
- A well-qualified field service manager is in place.

b. Weaknesses

- The present governance structure significantly inhibits the Board of Directors from exercising normal governing functions, and the current situation with the General Manager negatively affects the morale and the effectiveness of the organization.

- The present status as a category C parastatal make it difficult to hire qualified senior staff.
- The field staff is fairly young, and though they have academic qualification, few have any business experience.
- The field staff is still at a fairly elementary level in their business development and BAS/TAS skills.
- While there is a significant effort at on-going staff development, the relatively low level of skills limits what can be accomplished via peer supervision.
- The total number of clients served is fairly small and the cost per client fairly high.
- The result of the priority on existing businesses is a relative neglect of new business development.

8. Challenges/Needs

- To resolve current problems related to the governance structure
- To obtain long-term financial support to support DEMATT budget
- To design effective staff development strategies and programs
- To minimize the cost per client as much as possible without negatively affecting the impact of services
- To develop criteria for determining the success of the impact of services
- To use impact data for management decisions about intervention priorities and strategies
- To design new strategies to maximize the impact of the limited resources that are directed toward new business development
- To demonstrate capacity to operate effectively with minimal use of technical advisors
- To develop and implement strategies that produce income

9. Recommendations

a. Governance: We support the Deloitte & Touche recommendation that DEMATT become a non-governmental organization and restructure its board accordingly. If Government chooses not to follow this path, then at a very minimum DEMATT should become a category A parastatal and the autonomy and authority of the Board of Directors, as stated in the Trust agreement, should be affirmed and supported by the Government.

b. Staff development: DEMATT should explore the possibility of using POET's training resources. The DEMATT training resources that would be freed up could be used to develop short-term training for field staff in response to specific identified shortcomings in their knowledge and skills.

c. Financial support and increased self-sufficiency: DEMATT should seek long-term funding commitments, from Government if it remains a parastatal or from other sources if it becomes a non-governmental organization, for support of its budget. It should also continue to develop and demonstrate its capacity to generate income through its special programs department and explore other strategies for producing income from its services.

d. New strategies for new business development: Since DEMATT's new priority on existing businesses will decrease the services in the area of new business development, it should consider, in cooperation with other organizations in the SME sector, alternative strategies for new business development that would not require too much of DEMATT's resources. For example, POET might be encouraged to run business plan development courses for groups of potential entrepreneurs, so that DEMATT consultants can simply refer potential entrepreneurs to those courses.

e. Client load and cost per client: DEMATT should experiment with different size client loads and study the effect on impact in order to determine the optimal size client load. This may vary by consultant, by urban/rural, and by other variables.

f. Criteria for assessing impact: Now that DEMATT has begun to generate impact data, it needs to establish, in consultation with experts in the field, criteria for use in analyzing and interpreting the data so that the results can guide management decisions and intervention priorities and strategies. This will allow DEMATT to answer questions such as: What is the relative importance of changes in sales, profits, net worth, saving jobs, and creating new jobs? How can one determine whether BAS/TAS has enabled a business to survive that would have closed? How can one determine when or if BAS/TAS has "saved" a job?

g. Impact Analysis: DEMATT should have a regular, periodic review of the impact of its services and, on the basis of the data, review intervention priorities and strategies.

h. Use of Technical Advisors: As stated above, DEMATT is at the point in its development where technical advisors should be only short-term and in response to specific needs and requests.

C. MALAWI UNION OF SAVINGS AND CREDIT COOPERATIVES (MUSCCO)

1. Background

MUSCCO was established as an NGO in 1980 with the objective of developing financially sound local savings and cooperative societies (credit unions) throughout Malawi. As an apex organization, its specific role is to promote and expand the number of savings and credit societies and develop a financially viable national association of societies. MUSCCO also aims to increase the savings and borrowing capacities and improve the financial management skills and the credit-worthiness of its member societies, their members, and the national association.

At present, the Local Savings and Credit Cooperative Societies (SACCOs) being developed by MUSCCO are the only financial institutions in Malawi offering both credit and savings services to people not served by the commercial banking sector. Neither SEDOM or INDEFUND, for example, provide savings facilities for their clients.

MUSCCO has its headquarters in Lilongwe and regional offices Mzuzu, Lilongwe and Blantyre. It has a general manager and, effective June 1991, three second-level managers: an operations manager who is responsible for central banking, auditing, risk management, and field services; the personnel and administration manager which includes personnel administration, training, and general administration; and the chief of accounting who is responsible for the accounting function. There are 3 regional managers who supervise 10 field officers. There is an auditor in each regional office who reports directly to the chief auditor. MUSCCO hopes to add two field officers in each region in 1991.

2. Programs

a. Developing local credit unions

MUSCCO promotes the development of new credit and savings cooperatives through education and organizational assistance to self help and employee based groups interested in forming a SACCO. Study groups are formed to train potential SACCO members in credit union objectives, organization, and management, and to mobilize savings required for the initial share capital. Study groups generally operate for three to six months before applying for registration as a SACCO. Nine out of ten study groups go on to register as a SACCO. Once the SACCO is formed, MUSCCO staff continue to provide management assistance and training to the SACCOs to strengthen their financial and organizational capacity. In addition, MUSCCO provides central finance lending in the form of short and long term loans to the SACCOs for liquidity, investment in fixed assets, and to re-lend to members.

At the end of 1990, MUSCCO represented 115 SACCOs with 18,000 members, 21 study groups, and had a waiting list of groups interested in forming study SACCOs. This represents a 130% increase in the number of SACCOs and 29% increase in the number of members between 1985 and 1990. One fifth of its member societies are urban-based and four-fifths are rural-based.

b. Savings mobilization

A major emphasis of MUSCCO is promoting savings among SACCOs members by mobilizing share capital and deposits. Each SACCO, in turn, deposits 10% of it's share capital in MUSCCO's central fund.

c. Loans

There are two basic levels of loans - MUSCCO loans to SACCOs and SACCO loans to individual members. At the first level, MUSCCO provides three primary types of loans to SACCOs:

1) Short term loans to SACCOs at 12% interest for liquidity and to provide capital to on-lend to its members. SACCOs may borrow up to 50% of their share capital depending on their classification;

2) Development loans to the SACCOs to purchase fixed assets (primarily to purchase office supplies, furniture, equipment, and for management development) at 6% interest; and

3) Long term business loans provided to SACCOs at 11% interest to re-lend to individual members for enterprise activities. Individual members, in turn, may borrow from the SACCO up to a maximum of MK15,000 and must have at least 10% of the sum borrowed in share capital. The interest charged by the SACCO is 16% per annum.

In addition, MUSCCO manages the Father Roy Trust Fund, which is earmarked for loans to 21 SACCOs in the Mzuzu Diocese. MUSCCO also provides loans directly to its staff.

At the second level, the SACCOs provide two basic types of loans to individual members:

4) Short term loans to members at 16% interest repayable over one to two years, depending on the purpose of the loan. The most common uses are for agriculture, business, and personal expenses. Individuals may borrow from the SACCO up to a maximum of K15,000 and must have at least

10% of the sum borrowed in share capital. These loans are generally small, flexible and controlled by the local SACCOs; and

5) Long term business loans at 16% interest repayable over one to five years. Unlike the short-term loans, MUSCCO staff appraise the loan applications and take an active role in loan monitoring and collection. The MUSCCO Board Credit Committee approves each loan.

d. <u>BAS/TAS</u>

While all of MUSCCO training is focused on the knowledge and skills needed to operate credit unions, the training had broad benefits in developing general leadership skills and business skills. There is no specific training in business development or management, since business development is not seen as a central function and is only a minor part of the lending activities.

SACCO members interested in developing or expanding businesses are referred to DEMATT, whose staff assists with the preparations of a business plan and, if a loan is granted, assists with monitoring and business assistance. The only assessment of DEMATT's services received was from a MUSCCO field officer, who reported that the quality of the business plans was uneven, and that there was a lack of follow-up after the loan was procured. One suggestion made by a MUSCCO staff member was to hold group training on project planning and business management in some of the rural growth centers; this is something that could be explored with both DEMATT and POET.

3. <u>Analysis of MUSCCO's Programs</u>

a. <u>Analysis of SACCO Development:</u>

The 115 SACCOs currently supported by MUSCCO embody a democratic decision making process. Each SACCO is governed by an elected Board of Directors and the admission of members is voted on by all members. No member can hold more than 10% of a SACCO's share capital.

Criteria for membership are established by individual SACCOs and include, for example, residential location, personal character, commitment to the SACCO, regular attendance at meetings, and a reliable source of income. These types of criteria help to ensure that new members are credit worthy and will not jeopardize the SACCO's financial resources. However, in some cases, it may be possible for these criteria to be applied subjectively and discourage inclusion of some community members. Better information on the extent to which the SACCOs may be organized and controlled by small groups within communities is important in understanding how the benefits provided by the SACCOs are distributed at the local level - a primary concern for USAID in the context of its support for small enterprise credit programs.

The level of development and asset base among the SACCOs varies greatly. In one region, for example, 6 SACCOs account for 72% of the assets of the region, while 15 SACCOs account for 15-18%, and the other 9 SACCOs have virtually no assets. Nationally, 25% of the SACCOs account for over 75% of the shares. Some of the largest SACCOs employ their own local managers and some others employ bookkeepers. In the smaller SACCOs, the treasurer of the SACCO committee keeps the books, and the levels of skills vary considerably.

Some of the SACCOs have faced constraints inherent in the credit union system including weak financial management skills among members, the seasonal nature of demand for loans and availability of cash for repayment, and mismanagement at the local level (DAI/IDA 1989). MUSCCO field staff are spread thin and spend a high proportion of their time on the weaker SACCOs. MUSCCO plans to de-register some of the small inactive SACCOs to help relieve this situation.

b. Analysis of Savings Mobilization

The SACCOs have made steady progress in mobilizing share capital over past years. Member deposits in the 115 SACCOs more than tripled between 1985 and 1990 (from MK 940,000 to MK3,295,898). The 1991 membership survey shows men depositing 85% of the shares and women 15%. The average share/savings per member was MK 185, with the average for men (MK 196) higher than for women (MK 140). The average value of share/savings for urban members (MK 326) was almost double that of rural members (MK 159). The higher volume of savings in the urban SACCOs are because most are employee-based cooperative societies which operate payroll deduction schemes.

SACCOs are required to deposit 10% of their share capital with MUSCCO and had MK 288,240 on deposit at the end of 1990.

While the SACCOs have made considerable progress in mobilizing savings, most remain undercapitalized with savings limited to the level of loan demand. (DAI/IDA 1989). Access to credit, rather than access to a place to save seems to be the main reason people join the SACCOs. (READI Project 1989). This is related to several factors including:

- Limited savings capacity by members, especially in the rural areas;

- Inaccessibility of share capital to members (MUSCCO contends that deposits are easily accessible, however);

- Inability of 70% of the SACCOs to pay dividends to members on their share capital (30% are able to pay, but according to MUSCCO staff interviewed in the course of this evaluation, these SACCOs have not yet paid out any dividends);

- Zero percent interest rate on deposit accounts; and

- Erosion of member confidence in the SACCOs as a safe place to save due to some cases of mismanagement.

MUSCCO's plans to increase its capital base include improving SACCO level financial management, expanding the types of services available to members (i.e. offering interest bearing current deposit accounts, fixed interest savings accounts and term deposits), de-registering SACCOs currently functioning at a low level, and further promoting urban employee-based cooperatives. While this constitutes a sound approach to savings mobilization, MUSCCO might also consider encouraging other innovative types of savings mobilization schemes (such as savings clubs) that more effectively meet the needs of lower income groups, especially women. While the promotion of special groups or substructures is not within MUSCCO's by-laws, there are no restrictions on groups organizing themselves as a SACCO to undertake these types of activities.

c. Analysis of Lending Activities

MUSCCO has used USAID credit funds primarily for short term loans to the SACCOs for liquidity and on-lending to individual members, and for longer-term loans to SACCO members for business investments. The following section analyzes these lending activities.

1) Credit policies and procedures

MUSCCO has well established policies and procedures for providing short term loans to its SACCOs and business loans to individual SACCO members and they appear to be working well. The procedure for collecting debts on the short-term SACCO loans is to write a letter and, if necessary, to follow-up with a field visit. Similar procedures are followed for the business loans. Although business loans are theoretically made by SACCOs to individual members, MUSCCO field staff take primary responsibility for appraising and monitoring the loans and collecting debts.

The policies and procedures for SACCO short term loans to individual members are established by each society. Interest rates are uniform at 16% but criteria regarding savings requirements, selection of loan recipients, repayment periods, and debt collection vary from SACCO to SACCO. The most common lending ratios are two to one, while repayment periods are based on the type and purpose of the loan. In some SACCOs, the loan selection criteria seem loosely defined and open to the discretion of SACCO credit committee members. For example, a credit committee member from one group said they gave first priority to applications for "small amounts"; another described his SACCO's policy as giving priority to people requiring loans for "emergencies". While in some cases priorities are accorded by objective conditions (for example, if loan funds are limited within some SACCOs, priority may be given to small loans), this type of criteria appears somewhat arbitrary and based on the subjective judgement of credit committee members. In general, the rural SACCOs are more conservative and require a higher level of savings for borrowers.

According to SACCO credit committee members interviewed in the field, debt collection on SACCO loans to members is based primarily on group pressure. Delinquencies are reviewed and discussed among members during regular SACCO meetings. The first step is to assist the member solve any problems he or she may have and reschedule repayment if necessary. If the member still does not repay pressure is exerted through relatives or local authorities (such as the local chief or party officials). As a last resort, the membership votes on whether to take the member to traditional court, but this course of action is rarely pursued.

2) Loan Portfolio

MUSCCO loans to SACCOs: MUSCCO has experienced rapid growth in both the number of loans and amount of loan funds disbursed to SACCOs each year. In 1990, MUSCCO made 53 short term loans, 32 development loans and 67 business loans to SACCOs totalling MK 1,118,702 (excluding the Father Roy Trust Fund loans and the Staff loans) (Table M2). Of the total loan funds disbursed to SACCOs in 1990 (excluding the Father Roy and Staff loans), about half have been allocated to the Central Region (51%), one third to the Southern Region (30%), and the remainder to the Northern Region (22%) (Table M2).

The short-term loans have been used by the SACCOs for liquidity and to on-lend to members. By contrast, the business loans have been targeted to crop and livestock production (52%), trade (28%), manufacturing (15%), and service activities (3%). The average business loan was MK 6,450, and ranged from MK790 for ox carts to MK12,000 for maize mills (Table M4). Figures were unavailable on the gender distribution of these loans but according to staff a majority of the funds went to men.

Delinquencies were a serious problem at the end of 1990. Year end figures for 1990 showed that 43% of all the business loans were delinquent, with the amount due representing 10% of the outstanding business loan portfolio (Table M6). Comparing these figures with those in the 1988 AIRES evaluation report, the proportion of delinquent loans had increased from 32% to 43%.

The performance of the short term loans was only marginally better, with 34% of all short term loans delinquent. The amount delinquent represented 11% of the outstanding short term portfolio (Table M5).

Combining these figures shows that 36% of all MUSCCO loans to SACCOs were two or more months delinquent. The total amount delinquent, MK95,249, represented 8.5% of the outstanding portfolio and the total balance of the delinquent loans, MK350,446, represented 31% of the outstanding portfolio (Table M7). Several delinquent loans in the Southern region comprised a large part of the problem but, according to management, these delinquencies were significantly reduced in early 1991. More recent figures on delinquencies were not available to determine whether or not this had improved the overall financial status of the portfolio, although staff report the overall delinquency rate is declining.

According to MUSCCO staff, repayment problems in the short term loan program is largely due to poor performance of the weaker SACCOs. Other problems include

- Weak credit management at the SACCO level;
- The lingering belief that societies are welfare organizations; and
- Inadequate monitoring by MUSCCO field staff due to too few field staff, and the time required to organize new SACCOs.

MUSCCO staff and management anticipate that the delinquency rates should significantly decrease as more employee-based urban cooperatives with stronger resource bases form SACCOs.

The risks associated with rural enterprises, especially in agriculture, are cited by MUSCCO staff as a main cause for delinquencies in the business loan program. A thorough review of the appraisal and monitoring process and the status of the businesses is required to understand more fully the underlying problems. This is particularly critical as MUSCCO is planning to launch another targeted credit program later in 1991 (through a Christian Service Committee supported credit and training project targeted to rural women).

SACCO loans to members: Outstanding loans to members totalled MK 3,721,643 at the end of 1990, with 12% of the current portfolio

60 or more days overdue. These loan funds were spread fairly evenly across the country, with 41% of the loans in the Southern Region, 32% in the Northern Region, and 27% in the Central Region (Table M8).

MUSCCO's first comprehensive membership survey was completed in May 1991 and provides a detailed description of the SACCOs, their membership, savings, and loans. The preliminary results include information from 97 of the 115 SACCOs (which comprise most of the active SACCOs). The largest proportion of SACCOs surveyed were in the Northern region (41%) followed by the Southern (33%) and Central Regions (26%) (Table M9). Their total membership was 10,884, including 8,751 men (80%) and 2,133 women (20%). The average share savings per member was MK 197 for men and MK 140 for women.

The 97 SACCOs had 6,773 outstanding loans, including 5,552 loans to men (82%) and 1,221 loans to women (18%). The average loan size was about 50% lower for women (MK 270 for women compared to MK 401 for men). Relative to the proportion of women who are members (20%), and to the proportion of share capital women have contributed (15%), they have received less than their share of loan funds (13%).

Of the loan funds advanced to the members, the largest proportion went to farming (43%), primarily for the purchase of fertilizer. Loans were also used for personal expenditures (24%) such as food, school fees, housing, health care, clothing, wedding and funerals. Overall, less than one fifth of the loan funds supported businesses (18%), although more than a quarter of the loan funds allocated to women were used for this purpose. The remaining loans funds (14%) had not yet been classified, but according to the MUSCCO consultant compiling the data were primarily for business and transport. Other than a larger share of the loan funds to women being allocated to business activities, there were no other significant differences between men and women in the use of loans.

Shortage of information precludes any analysis of SACCO level delinquencies. However, repayment problems in the MUSCCO short term loans to SACCOs suggest similar repayment problems at the local level. Credit committee members from the two SACCOS interviewed by the evaluation team discussed repayment problems among their members. They concluded that delinquencies within their SACCOs were often seasonal, that women are more reliable in terms of loan repayments compared to men, and that agricultural loans were considered the most risky and provident loans the least risky. MUSCCO contends that the delinquency rate has been declining recently.

<u>Client level impacts of credit and BAS/TAS:</u> Information to assess the impacts of MUSCCO's loans on productivity, income and

employment does not exist. However, the 1989 DAI study found that a majority of MUSCCO members interviewed cultivated two or more hectares of land, which places them among the top 20% of all smallholders. If this finding can be generalized, it suggests that the loans and other services offered by the SACCOs may not be serving a large segment of the rural population. It further suggests that MUSCCO's efforts reach very few women-headed households who are concentrated among farmers with less than 1 hectare and more dependent on off-farm sources of income.

A similar concern is that the increasing emphasis on urban employee-based groups - which presently form 20% of the SACCO system - will also benefit a more advantaged segment of the population. MUSCCO staff argue, however, that plans to increase the number of urban SACCOs is not intended to be at the expense of the rural population, but to strengthen the system as a whole. Recognizing that MUSCCO acts as a liquidity pool, and that the level of savings in rural areas is low, MUSCCO anticipates that the high level of savings in the urban SACCOs will strengthen the system as a whole.

While the overall number of loans provided by MUSCCO is impressive, their actual impact at the community level in terms of scale remains limited. The number of women benefiting is especially disappointing. The average number of loans per SACCO was 57 for men and 13 for women. The average number of farming loans per SACCO was 31 for men and 7 for women and business loans 7 for men and 2 for women (Table M9).

The impact of MUSCCO loans on the women who have received them appears positive, and although women's representation among borrowers is significant higher than in INDEFUND, MUSCCO needs to place more emphasis on providing its services to women. The program to be started later in 1991 in conjunction with the Christian Service Committee is a positive step in this direction.

4. Financial Viability

a. Profitability

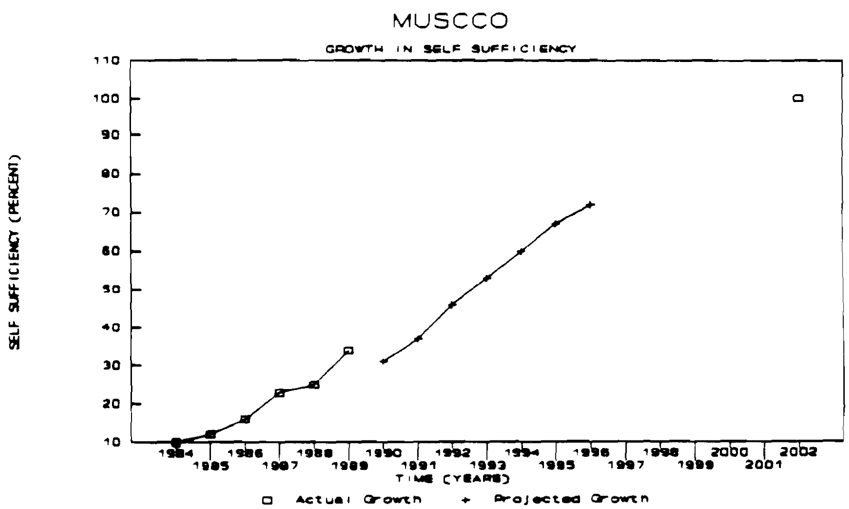
	1984 000s	1985 000s	1986 000s	1987 000s	1988 000s	1989 000s	1990 000s
INCOME							
Subsidies	97	88	247	305	360	477	828
Bank & investment interest	1	3	4	18	43	105	248
Loan interest	2	5	11	19	23	51	103
Other	7	10	26	30	44	58	80
	107	106	288	372	470	691	1259

EXPENSES							
Staff remuneration	31	37	-	86	113	181	345
Staff travel	26	41	-	58	99	119	228
Provision for doubtful debts	-	6	-	6	11	27	19
Loans w/o	-	-	-	[illegible]	28	-	-
Other	38	69	-	136	191	295	509
	95	153	256	286	442	622	1101
NET PROFIT	12	(47)	32	86	28	69	158
CORRECTED NET LOSS	(85)	(135)	(215)	(219)	(332)	(408)	(670)
SELF-SUFFICIENCY	10%	12%	16%	23%	25%	34%	39%

The above net profits are slightly misleading in that they include the subsidy from USAID. To review the profitability accurately the donor subsidy needs to be reversed. The corrected net profit would then be as shown above.

Self sufficiency is steadily increasing. Although the corrected net loss is also increasing, a position in terms of self sufficiency will be reached where this starts to decrease again until 100% efficiency and breakeven is achieved.

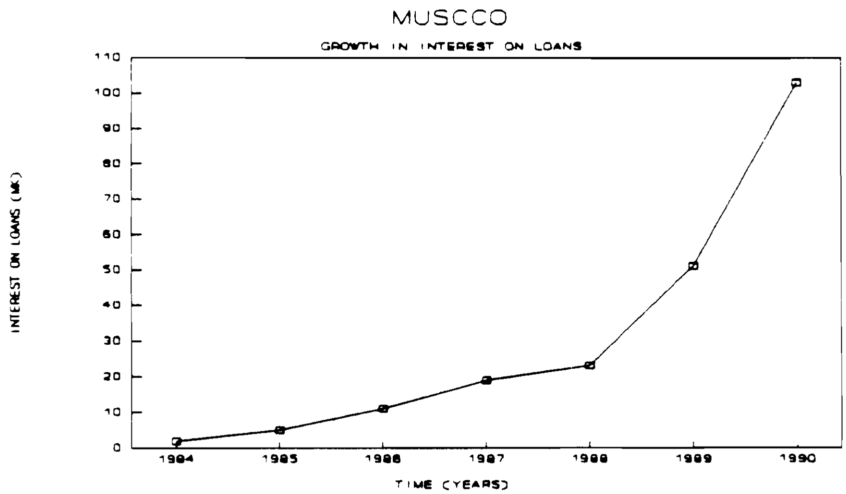
A graphical representation of the growth in self sufficiency is as follows:



The most important point highlighted in the graph is that if MUSCCO maintains its current growth rate in self sufficiency it can only expect to reach self sufficiency around 2002 - 11 years from now.

This is supported by the institutional development plan whose projected rate of growth for the next five years indicates a self sufficiency of 72% by 1996.

The growth rate in interest on loans is graphically represented below.



The sharp increase in the previous two years is encouraging. This will probably slow down in 1991 as MUSCCO consolidates its financial position.

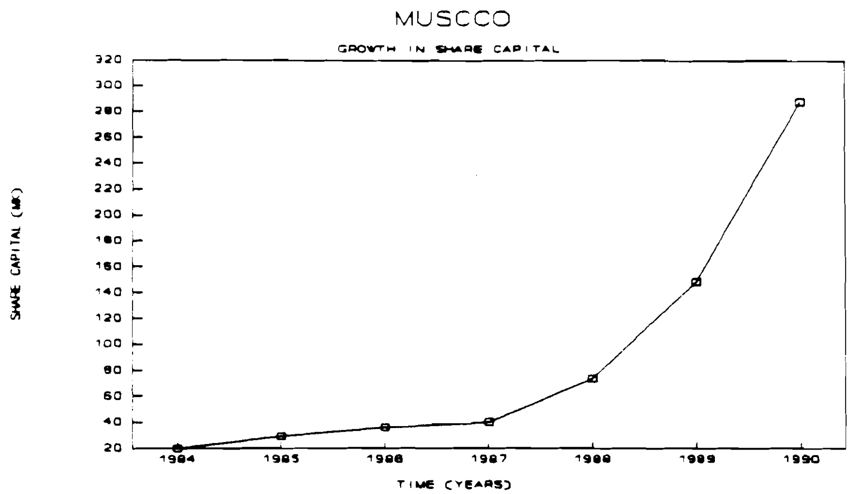
b. Capital Structure

	1984 000s	1985 000s	1986 000s	1987 000s	1988 000s	1989 000s	1990 000s
Share Capital	20	29	36	40	74	149	288
Capital contributions	118	236	516	771	1347	2313	3396
Accumulated surplus	(12)	(60)	(28)	58	79	144	284

Savings and Credit Cooperatives SACCOs are required to contribute 10% of their savings on a quarterly basis to MUSCCO. This contribution takes the form of shares and represents the

SACCOs ownership in MUSCCO.

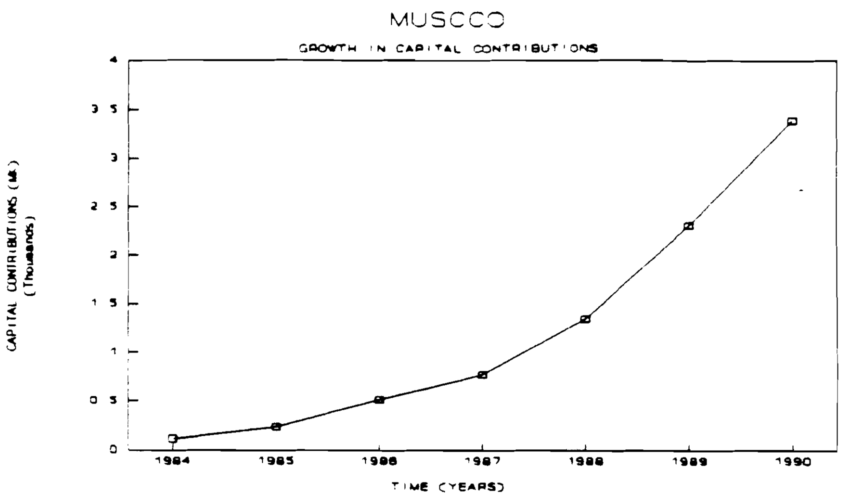
The following represents the growth in the SACCOs share capital invested in MUSCCO:



This emphasizes the considerable growth experienced by MUSCCO in the last two years.

USAID provides funds for capital procurement and loans. This money is recorded under capital contributions and is separate from the subsidy provided by USAID ,for operational expenses, recorded under income.

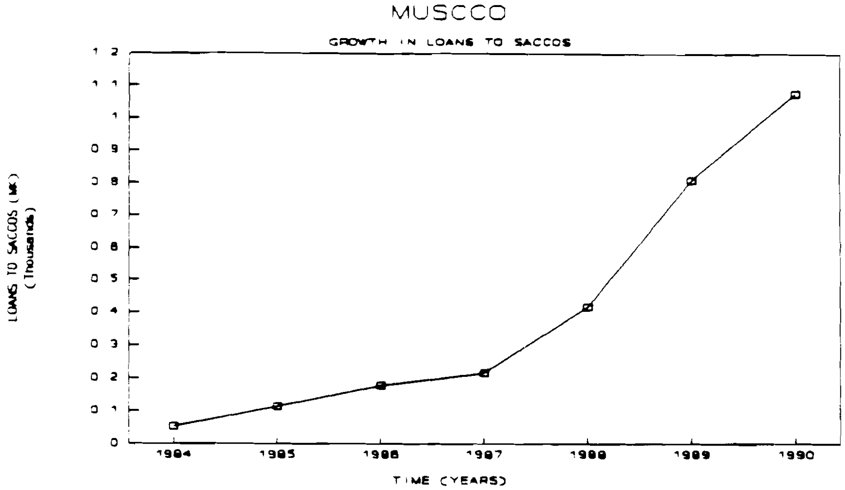
The growth in capital contributions representing the line of credit has been as follows:



c. <u>Operations</u>

	1984 000s	1985 000s	1986 000s	1987 000s	1988 000s	1989 000s	1990 000s
Loans to SACCOs	53	113	178	217	417	808	1076
Investments & Cash	42	43	108	349	380	1221	1764
Debtors	7	27	11	25	353	210	808
Stock	7	8	8	11	17	26	23
RATIO OF CASH & INVESTMENTS TO LOANS TO SACCOs	44%	27%	38%	62%	48%	61%	62%

MUSCCO's main operations consist of loans to SACCOs. The growth in these loans has been as follows:



The significant increase of the past two years is again noted.

Two points should be made here regarding MUSCCO operations. Firstly, their investment of a large portion of the USAID line of credit rather their utilization of this fund for loans to SACCOs would appear to enable MUSCCO to move along the road to self-sufficiency at a quicker rate because the interest income earned on the invested cash is greater than the income MUSCCO might receive from the interest it receives on loans to SACCOs. In this light, USAID would only have needed to donate a further MK5,175,000 in 1990 for MUSCCO to achieve breakeven.

Without the significant USAID line of credit, self-sufficiency would be much more difficult to achieve because their need for credit funds, combined with the lower interest rate at which loans to SACCOs are made, would greatly lower their profitability margin.

Secondly, from a profit perspective, one should look more closely at the composition of interest earned on investments versus interest earned on loans to SACCOs:

	1988	1989	1990
Average interest on loans to SACCOs	7%	8%	11%
Average interest on investments	12%	13%	16%

Interest on investments is consistently 5% higher than interest on loans to SACCOs. As a financial institution, MUSCCO would be better advised to close down their loans department and invest all surplus cash elsewhere. However, because MUSCCO 'is also an apex organization which has certain developmental objectives, it is recognized that the organization must try to balance profitability with these developmental objectives.

Current calculations propose that MUSCCO will only reach financial viability in the year 2002 and will require continued funding support until that point.

d. Conclusions

The current accounting systems at MUSCCO are not adequate to ensure:

- Accurate, current and complete accounting records are maintained for expenditures and disbursements of AID grant funds
- Accountability is maintained of all AID funds
- An audit trail is provided of the use and disposition of all AID funds

The financial management and performance of key controls is weak and needs to be improved.

There is currently no stock procurement or maintenance system in operation. This gives rise to the following concerns:

- The ability of MUSCCO to physically control the stock recently distributed by READI
- The impact on MUSCCO's profitability of having to acquire and pay for its stock requirements
- The ability of MUSCCO to provide an adequate stock maintenance and distribution system

Adequate systems must be implemented in MUSCCO with immediate effect to ensure their long term viability.

MUSCCO has recently experienced considerable growth in the level of operations. This has not been matched with appropriate improvements and advancements in the accounting systems.

The steps taken by MUSCCO to address the problems and the success of these should ensure the reversal of our assessment on the accounting systems.

MUSCCO does not have the ability to manage a large host country procurement activity in terms of commodities or technical assistance.

e. Recommendations for Future Action

A considerable amount of funding has been provided to MUSCCO. It is not, however, are currently at a stage where it can be considered financially viable on its own, and needs continued support in one form or another.

Our assessment of the current financial position in MUSCCO is as follows:

Financial Management	Financial Viability	Accounting Systems	Management Information
Weak	Not yet viable	Adequate	Weak

Our recommendations to address the weaknesses at this institution are as follows:

- MUSCCO's potential to reach self sufficiency is good. It does, however, still require considerable assistance to address weaknesses in financial management. financial viability, accounting systems and management reporting.

- MUSCCO has an adequate financial management structure and is now in the process of filling the positions. The only concern is the financial ability of the current General Manager.This will need to be addressed before MUSCCO can be considered to be viable in this area.

- MUSCCO is moving toward self sufficiency in the financial viability area but will require continued funding for the next ten to fifteen years.

- The underlying controls in the accounting systems are weak but are now being strengthened through the use of CPAs from the Peace Corps. Computerized systems are now being implemented but still require development. We believe MUSCCO is addressing the problem themselves but will need to be monitored so that timely assistance can be provided when the need arises.

- A complete management information needs analysis has been performed and accepted. MUSCCO has begun implementation of its recommendations but still has considerable work to do. We, again. believe some kind of financial monitoring is needed in this area to ensure the systems are implemented as soon as possible.

5. Institutional Development/Organizational Viability

a. Governance

With MUSCCO's growth has come the problems of having a governing board which can comprehend the sophisticated financial concepts and accounts involved in a major financial institution. MUSCCO has attempted to address this through Board training, but it is a problem inherent in credit union, since their membership is drawn primarily from non-professionals. Another issue that needs MUSCCO's attention is the limited representation of women among SACCO officials and MUSCCO staff and on MUSCCO's Board; it is not clear that this is a priority that is being addressed.

b. Development as a Financial Institution

MUSCCO has grown rapidly over the last few years. It had a 35% growth in capitalization in 1990, qualified somewhat by an inflation rate in the range of 15%. MUSCCO's current capitalization by the SACCOs is MK338,472, which represents about 10% of the total capital of all member SACCOs. The SACCOs are currently 66% capitalized by members, the balance coming from MUSCCO in the form of liquidity loans or business loans. Ideally, the SACCOs will become 90-95% capitalized by members.

The SACCOs now have 75% of their assets in loans and 15% in investments. As the apex organization, MUSCCO needs to reconcile its goals for financial sustainability with its role of providing credit funds to the SACCOs. As with most organizations established to perform social objectives, the solution is not without pitfalls. Clearly, MUSCCO must either achieve financial self-sufficiency or be dependent upon donor or other funds. The achievement of this objective will depend upon either the willingness of its SACCOs to increase their interest rates or the willingness of donors (USAID, in this case) to, in effect, provide funds to endow MUSCCO with the financial capability to meet its developmental objectives. In this light, it is interesting to note that in 1990, MUSCCO earned 16% on its investments and distributed to the SACCO 10% in dividends (the legal limit) plus a 2% bonus. The SACCO's used the income for their administrative expenses and did not pay dividends to their members.

To strengthen MUSCCO and make it competitive as a financial institution, it needs to give attention to risk management through four strategies: double indemnity life insurance on savings is already in place; bonding of directors and supervisory committees will soon be in place; plans are being developed for a stabilization fund, which will provide for capitalization of SACCOs and deferral of interest and payments when there is a drought or other area crisis; and planning has begun for insurance to cover facilities. The other key to continued development are to be able to offer savings accounts and fixed deposit accounts, both of which would pay set interest rates.

c. Development of Management Capacity

MUSCCO's rapid growth has created related organizational stresses common in such situations. A significantly higher level of technical skills is needed to operate an increasingly sophisticated financial institution. MUSCCO seems to be planning for this transition rather systematically. The two resident advisors from WOCCU are assisting in the planning and implementation of this transition.

The general manager has taken an intensive training program: first a 3-month tutorial in accounting, management, and computer skills at the Malawi College of Accountancy to prepare himself to attend a 2-month international management course at the Arthur E. Little Management School in Cambridge, Massachusetts. Several new senior staff persons are being hired, including a new personnel and training manager and a new chief of accounting, both of whom will join MUSCCO in June 1991.

d. Staff Development

MUSCCO has an extensive staff development program for its staff. There is a formal, in-house training session for field officers, managers, and assistants for one week each year. Also, as part of the performance evaluation system, appraisals of all staff are done in January of each year. The Human Resources Manager is responsible for developing a training plan with each staff person to address the weaknesses that have been identified. The following are the special staff development training during 1990 and early 1991:

- Three Field Officers attended a one-week POET course on business opportunity identification and two attended a one-week POET course on project appraisal financed by READI. (One Field Officer with whom we spoke reported that the project appraisal course was excellent.)

- The three Regional Managers attended a 4-week course on financial management for non-financial managers held in Zimbabwe by ESAMI; this was financed by HRID.

- One Field Auditor attended a 3-week advanced accounting course at ESAMI's center in Arusha financed by HRID.

- The Audit Manager attended a 14 week course at the Cooperative College in India, sponsored by the Indian High Commission.

- The Central Banking Manager attended a 14 week diploma course in cooperative banking at the Cooperative College in India, sponsored by the Indian High Commission.

- The 5 senior staff and 9 directors attended a 3-day workshop on board-management relations held in Lilongwe and led by ACOSCA; it was financed by READI.

- The Training Officer, 2 Risk Management Officers, 3 Auditors, and 11 Field Officers attended a 1-week TOT workshop led by ICA, held in Lilongwe, and financed by READI.

- One Field Officer attended a 2-week field visit to the Mauritius credit unions led and funded by ACOSCA.

e. Support from USAID:

Between 1985 and 1990, the READI project provided $2,315,500 to MUSCCO, including $268,000 to support MUSCCO loans to local credit unions and members and $2,047,500 for institutional support. In addition, MUSCCO received technical assistance from AFRICARE during the first three years of the project to promote agro-business and small enterprise development. MUSCCO has also received several small grants from the Canadian Project Fund to construct local SACCO offices. However, USAID provides almost 100% of MUSCCO's donor support. In addition, USAID funds technical assistance to MUSCCO through a cooperative agreement with WOCCU.

6. Strengths and Weaknesses

a. Strengths

- The impacts of loans on people who have received them seem to be positive. The most common loan use is for fertilizer, which has a proven effect in increasing crop yields and household food security. Business loans provide a means for increasing off farm incomes (1988 DAI evaluation).

- MUSCCO-supported loans are not tied to any particular purpose and may be used for agriculture or business, or to buy food and clothing, pay school fees, invest in housing, cover health expenses, and fund other social obligations. Flexibility in loan use is especially important in seasonal economies.

- MUSCCO has clear organizational objectives and is working towards them.

- MUSCCO is filling a gap in financial markets through better provision of financial services.

- The life insurance scheme is innovative, meets an important need, and encourages membership.

b. <u>Weaknesses</u>

- Despite the rapid growth in the number of SACCOs, and in the number of loans used for business and agriculture (in keeping with the original READI Project objectives), the loans are spread over 97 SACCOs around the country and the average number of loans per society for these activities (46) is quite low.

- In general, very few women have benefitted from MUSCCO supported credit programs. This is an issue that has been raised in the two previous evaluation reports and the Deloitte management study. The results of the May 1991 membership survey reinforce this finding.

- While MUSCCO has made impressive strides in developing an institutional base for savings mobilization, impacts remain minimal in terms of the number of people reached and the capital mobilized. People save only up to the level they wish to borrow (usually a 2:1 ratio). As yet, 70% of the SACCOs have been unable to pay dividends on shares (and the other 30% which have sufficient funds have not actually paid out dividends) and no interest is paid on other deposits. While deposits are more easily accessible, withdrawal procedures for share capital are cumbersome and take time.

- The high level of delinquent loans is a serious concern that needs to be addressed. More detailed information - both at the SACCO and individual member level - on who is receiving loans and the reasons for delinquencies could help to identify strategies for improving the repayment rate. MUSCCO's plan to expand its training in credit management for SACCO committees should help to address this problem.

- Although MUSCCO's approach to building local financial institutions is sound and focused, it has not been very experimental or innovative. Recent efforts to identify new types of loans and financial services is a positive step in this direction.

- Inadequate monitoring and management information systems is currently a shortcoming. MUSCCO has a sound plan for improving its information systems related to finance, credit management, and other aspects of organizational management. However, a stronger data base on SACCO members is needed to address some of the social and economic impact questions important to USAID and other development agencies.

- o Urban expansion represents a significant departure from MUSCCO's previous orientation. Although it is seen as part and parcel of strengthening the overall system and thus benefiting the rural SACCOs, this should not be at the expense of staff time and attention to the particular needs of rural SACCOs (for example, addressing problems related to the disparities among rural SACCOs in the savings capacity of members, the need for improving SACCO staff skills, and upgrading their general level of development).

- o MUSCCO is highly dependent on USAID funds. It still has a long way to go to achieve financial self sufficiency,

7. Challenges/Needs

- o Rapid growth over the past few years has stretched MUSCCO's existing organizational capacity. A major challenge facing MUSCCO in 1991 is strengthening its management systems and staff skills to the level required to manage the current number of SACCOs. This should take priority over further expansion.

- o A related challenge for MUSCCO will be to maintain a focus on developmental objectives while strengthening its financial base at the same time.

- o Avoiding "elite capture" is a common challenge for community-based organizations. MUSCCO must strive to keep a focus on serving the general populace and to keep a close watch on the persons who are benefitting the most from MUSCCO's activities.

- o Finding a balance between the need for financial sustainability and the need to reach the rural populace is important. Unless the rural population has access to financial services, rural development will suffer. MUSCCO has played a key role in this effort in the past and should not abandon its role.

- o Increasing the participation of women as members and decision makers at the SACCO level, and on MUSCCO's staff. Urban employee-based SACCOs may offer additional opportunities for involving women in decision making.

8. Recommendations

a. Management Skill Upgrading: MUSSCO must continue to upgrade the technical skills of its management to meet the challenges of its growth. It must also recruit new employees who have the qualifications and experience to manage a large financial institution. Current efforts being made in this direction must be continued.

b. Financial Sustainability/Development Objectives: MUSSCO recognizes that its activities must be sustainable over time if it is to continue to function. Strong efforts are being made to achieve sustainability and should be continued. MUSCCO also needs to look at how it can continue to serve the rural areas and less advantaged parts of the population to meet its original objectives. We recognize that this is a difficult area and will involve some compromises. It is important, however, to keep an eye on both goals at the same time.

c. Savings Mobilization: MUSCCO's growth reflects the need for alternative financial services in Malawi and MUSCCO's fulfillment of that need. Most of MUSCCO's growth to date has been more due to the accessibility of credit through SACCO's rather than to the development of a savings base. The two must go hand-in-hand and new approaches to strengthen the savings component should be developed. MUSCCO should examine innovative savings programs in other countries for applicability to Malawi.

d. Internal Financial Control: A serious weakness in financial management has recently come to light. Although a part of this problem will be alleviated through improved technical skill levels of both existing and new staff, immediate steps must be taken to assure that MUSCCO does not become tainted by a perception of mismanagement in the eyes of SACCO members and the general public. Nothing can be more damaging for a semi-formal financial institution than to develop such a reputation.

e. Delinquencies: MUSCCO should, likewise, take steps to improve its delinquency problem. This problem will be recurrent until MUSCCO establishes a strong policy and effective procedures to control delinquencies.

f. Monitoring Impacts of MUSCCO's Financial Services: Although this is a common concern of donors, MUSCCO should develop a system to monitor the impacts of its programs in order to better design and modify its program. This could be likened to market research which shows whether the services being provided are meeting consumer needs and/or could be improved. Through the development of such a system for its own needs, MUSCCO will, at the same time, improve its ability to attract donor funds to enhance its efforts. In addition, data collected under such a system can be used to assure that the benefits of MUSCCO programs are reaching all members of society.

g. Outreach to Women: MUSCCO needs to develop an overall policy on how to increase participation by women in both the management of MUSCCO as well as in decision-making at the SACCO level. A first step could be to appoint more women to positions within MUSCCO. An important second step is to develop organizational goals, policies and procedures to institutionalize representation by women on decision-making bodies and to increase the percentage of women benefitting from MUSCCO programs.

D. PROJECT OFFICERS AND ENTREPRENEURS TRAINING (POET)

1. Background

In 1987, the READI Project Implementation Committee (PIC) established a Training Subcommittee to formulate a plan for meeting the staff development needs of SME support organizations. In late 1987 and early 1988, proposals were submitted to FMO and USAID, who agreed to co-fund the Training of Trainers (TOT) project. Premises at the SEDOM estates were secured in March 1988, and in June 1988, a consultant (Ms. B. Kligermann) was hired to undertake a needs assessment study and to prepare the first two curriculum modules. Another consultant (Ms. J. Hoffman) joined the staff in mid-1989 to prepare the last three modules. Mr. H.M.S. Chunga was hired as Project Director in May 1989.

Originally, MEDI agreed to provide an administrative home for the TOT project, but this arrangement proved unsuitable, so the Training Subcommittee asked the Malawi College of Accountancy (MCA) to provide an administrative home. MCA initially expressed interest, but subsequently found it not feasible. Thus by mid-1990, the program came under the direct supervision of the READI Project Coordinating Unit (PCU) and has remained there.

Though originally established as a TOT program, that is, to train the staffs of SME support organizations, some organizations urged that the "project implementation" (or business management) course be offered to entrepreneurs. This was subsequently done, as reflected in the project name adopted in November 1989 -- Project Officers and Entrepreneurs Training (POET) Program.

2. Program

a. Design and Content of Current Curriculum

A training needs assessment study of the staffs of DEMATT, INDEFUND, MUSCCO, AND SEDOM was conducted in 1988. The results of the study indicated a need for staff training in business opportunity analysis, business plan preparation, business plan appraisal, business management, business monitoring, and credit management. It also identified a felt need for training in basic skills in communication, interviewing and consultancy.

The curriculum development consultants created five courses (or modules), each one week in length. They reflect the five stages of a "project cycle":

(1) Business Opportunity Identification
(2) Project Preparation (Business Plan)
(3) Project Appraisal

(4) Project Implementation (Business Management)
(5) Business Monitoring/Evaluation

Once the modules were in draft form, a group of senior officers of the participating organizations, plus professionals from leading training institutions such as the Malawi College of Accountancy (MCA) and the Malawi Institute of Management (MIM) were invited to a series of workshops to pilot the modules and to provide their critiques. Their comments and suggestions were incorporated into the final drafts. Each module has a handbook, which is given to the participants at the end of the course, and a trainers guidebook with time schedules, recommended training activities, and suggested training methods.

These five courses together are seen as the basic training required for project officers. They are now being offered individually and as a "package" taught in sequential weeks. Organizations are encouraged to enroll project officers in the full sequence of courses. In response to requests from several organizations, a sixth course, "Credit Development and Management," has recently been developed.

The design of the individual modules is basically sound. However, the following modifications are suggested. Module 1 (Business Opportunities Identification) is misnamed. It is actually an introduction to the SME sector: definition of SME, government policies, sources of financing, and sources of information and non-financial assistance. Module 2 (Project Planning) lacks practical exercises. Module 4 (Project Implementation) is weak; there is no material on management decision-making and problem-solving and the content on bookkeeping and other record-keeping is grossly insufficient. Module 5 (Business Monitoring) needs content on consulting roles and processes and skills; it focuses on more sophisticated businesses than most project officers will be dealing with.

Our team concurs with the FMO evaluation, that the "project cycle" is not an appropriate organizing principle for the curriculum. The curriculum should be reorganized around the functions, roles, and tasks of the staff for whom it is designed. For example, project officers are usually responsible for assisting with business plans preparation, for giving technical advisory services (or linking the entrepreneurs with organizations and individuals who can provide the specific technical advice needed), and for assessing and advising on business management. They are generally not responsible for business opportunity identification nor project appraisal. Thus project officers training should consist of improved and expanded versions of modules 2, 4, and 5.

On the other hand, the staff of loan institutions such as INDEFUND, MUSCCO, and SEDOM need extended training in the content represented in modules 2 (business plan), 3 (loan appraisal), and

6 (credit management). In addition to the loan appraisal staff, INDEFUND has project monitors who would benefit from training in consulting with businesses on management issues and technical problems (modules 4 and 5).

Also, a uniform length is not necessarily appropriate. The length of each course should reflect the amount of content involved in that area and the amount of time required to cover that content. The amount of information that project officers need to be able to assist in project preparation (or business plan preparation), for example, is unlikely to be covered adequately in a five-day course.

b. <u>Implementation: Course Offerings and Trainees</u>

The following table summarizes POET's course offerings and enrollments. (Note: These figures do not represent 258 different persons, since some persons took more than one module.)

NUMBER OF COURSES AND NUMBER OF TRAINEES

	1990	1991 (1st Quarter)	Total
Courses taught	20	6	26
Trainees			
Project officers	107	71	178
Entrepreneurs	78	2	80
Total	185	73	258

Of the 178 project officers enrolled in POET courses, 27% (48) were women; the percentage of women project officers participating increased from 18.7% in 1990 to 39.4% in the first quarter of 1991. Of 80 entrepreneurs trained, 29% (23) were women.

GENDER DISTRIBUTION OF TRAINEES

	------Men-----		-----Women----		Total
	1990	1991	1990	1991	
Proj Officers	87	43	20	28	178
Entrepreneurs	56	1	22	1	80
Total	143	44	42	29	258

During the first half of 1990, the course offerings were not offered on a systematic, planned schedule; but by September 1990, POET had developed a plan to offer the full set of five modules five times each year. The five-module set was offered in September-October 1990 and again in January-February 1991.

COURSE OFFERINGS

	1990	1991	
	Proj Off	Entrep	Proj Off
Bus Opportunity Identification	3		1
Project Preparation	2		1
Project Appraisal	3		1
Project Implementation	2	8	2
Business Monitoring/Evaluation	2		1
Total	12	8	6

While the training was designed to serve all SME support organizations, its primary targets were the organizations participating in the READI Project Implementation Committee: DEMATT, INDEFUND, MEDI, MUSCCO, and SEDOM. For staff training, SEDOM and MEDI have used POET training extensively, INDEFUND has used it only sparingly, and DEMATT and MUSCCO have used it very little. On the other hand, POET project officer training has been used extensively by the National Rural Centers, Women's World Bank, and several government ministries, parastatals, and non-governmental organizations, as shown in the chart below.

NUMBER OF STAFF PARTICIPANTS: BY ORGANIZATION

SEDOM	33
National Rural Centers	27
Women's World Bank	22
MEDI	18
Dept of Housing and Phys Planning	17
INDEFUND	10
World Vision International	7
Nat'l Assoc of Business Women	6
READI	6
Ministry of Agriculture	5
MUSCCO	5
Christian Service Committee	4
DEMATT	4
Ministry of Youth	4
Mudzi Fund	4
Save the Children Fund (USA)	4
ZOA Refugee Care	1
Unspecified	1
Total	178

Entrepreneurs were sent to POET training by nine organizations. INDEFUND used POET training most extensively, even making it a prerequisite for obtaining loans.

NUMBER OF ENTREPRENEUR PARTICIPANTS:
BY NOMINATING ORGANIZATION

INDEFUND	32
SEDOM	21
READI	12
DEMATT	9
Unspecified	3
Mudzi Fund	2
Nat'l Rural Centers	1
Total	80

c. Evaluation of Training by Trainees and Organizations

Two major evaluations have been conducted on POET, one sponsored by FMO (Molenaar, July 1990) and the other sponsored by READI (Tamoko, March 1991). The comments of participants reported in those evaluations are consistent with those we received in our decidedly limited set of interviews with persons who had participated in POET training. The comments were predominantly positive -- about the content, the teaching methodology, and the usefulness.

The FMO evaluation reported negative feedback about the lack of skill of trainers in the participatory training methodology, but this shortcoming seems to have been overcome; in fact, we received several very positive comments specifically about the participatory style of training.

Some persons with a fairly high level of business education or experience indicated that they did not find the training useful. This was not a consistent criticism, however, even among persons who might be considered advanced in knowledge or experience. There is some indication that the problem may not be so much the level of the training as the diversity in the levels of the participants. That is, if most of the participants are fairly homogeneous in their level of knowledge and experience, the speed at which the material is covered and the level of the discussion is likely to be more useful than when there are extreme differences in levels of knowledge and experience.

Before POET initiated its training courses, DEMATT had already developed its own "induction course" for new staff. DEMATT is satisfied with its own training and has decided not to use POET courses. INDEFUND sent two staff members to the 5-module sequence, but decided that the level of training was lower than appropriate or useful for its staff.

d. Staffing

Two Malawian staff members, a lead trainer and a curriculum developer, were hired in late 1988, but both had left by early 1989. In May 1989 Mr. H.M.S. Chunga was hired as Project Director; Mr. Chunga worked for the GOM for 23 years, in a number of senior posts; he was General Manager of SEDOM for six years. Mr. J.M.E. Chipeta joined the staff in March 1990 as lead trainer; Mr. Chipeta received a diploma in agriculture at Bunda College, was a DEMATT business consultant, and took a course in Germany in adult education methodology. The support staff consists of a secretary/office manager, a temporary secretary, and a cleaner.

Both major evaluations affirmed the quality of the current POET staff, at the same time acknowledging their limitations in regard to the level of business training that they are equipped to provide. It is clear that they are capable of providing the level of training at which the current modules are aimed.

Outside resource persons are used extensively in the training. The evaluation reports indicated that availability, quality of presentations, appropriateness for the particular audience, and integration of content varies greatly. As the READI evaluation suggests, a meeting of resource persons is needed to present the total curriculum, the place of their presentations within it, and suggestions regarding training methodologies that will increase the likelihood that the content is relevant and pitched at an appropriate level.

e. Linkages with Constituency Organizations

One of POET's most apparent weaknesses is the lack of strong linkages with the organizations it seeks to serve. While POET does a good job of delivering its five courses, and while it is currently addressing the acknowledged need for a credit management course, its training options are too limited and rigid. POET needs to strengthen its linkages with its constituent organizations, regularly soliciting feedback on the usefulness of its courses and entering into dialogue on the organizations' perceived training needs and ways POET could respond to those needs.

3. Finance

It is difficult to calculate POET's cost in previous years, because of multiple payment mechanisms and sources. However, beginning in January 1991, a unified set of books has been kept by Graham Carr and Company. POET income for the first quarter of 1991 was MK 117,596, of which MK 97,044 came from READI/USAID and MK 20,552 from FMO. (The READI PCU Director reported that the FMO funding stopped as of March 31, 1991, and renewal of its funding will be dependent upon POET becoming a legal entity.) The total expenditures for the same period were MK 80,317. Even assuming some one-time costs not reflected in this quarter, the expenditures for the year should be less that MK 400,000.

(This is significantly below the highly inflated and unrealistic proposed 1991 budget of MK 1,567,613 in POET's 5-year plan; that budget proposal includes three new professional staff -- a technical advisor, a curriculum developer, and an accountant -- plus MK 822,400 in capital expenditures and MK 156,000 in staff training.)

The READI PCU calculated POET's base budget for 1991 at MK540,000, in anticipation of significant increases in accommodation costs. The budget was calculated on the basis of 300 trainees at a tuition rate of MK 800 and trainee expenses of MK 1,000 per trainee. (Currently the expenses are estimated at MK 700 per trainee.) In addition, the READI PCU added MK 260,000 (for a total budget of MK 800,000) to cover anticipated increases in training demand, particularly from the National Association of Business Women.

The PCU Manager indicated that he is attempting to arrange for training funds in the amount of MK800,000 to be set aside for reimbursement of POET training fees, which would assure its solvency through 1991 and into 1992. Continuing funding from FMO would provide POET with support for some of the development activities that it needs to undertake.

POET's income from READI/USAID is tied to its level of activities, since the funds are expended as reimbursement for the tuition and expenses per trainee. Since the READI PCU budget is based on an anticipated enrollment of 300 trainees per year, and POET's enrollment for the first quarter of 1991 was 73, it seems quite feasible for POET to generate sufficient income to cover its 1991 budget, assuming funds for reimbursement continue to be available.

4. Institutional Development/Organizational Viability

a. Purpose and Priorities

POET's initial purpose and objective was clear, namely, to serve the staff development needs of SME support organizations. A secondary objective came into being in response to requests from constituency organizations, namely, to provide structured training for entrepreneurs. POET is still a young organization. It is important that it maintain a clear, narrow focus and develop a solid, widely respected program serving the specific constituency that it is currently serving.

b. Governance Structure

POET's continuing status as a project is not viable . It must either become a program of an existing institution or become an independent institution. As indicated in the "Background" section, two unsuccessful attempts were made early on to house POET within existing institutions -- MEDI and the Malawi College of Accountancy -- before it was finally settled a project within the READI PCU. Other options for housing POET in an existing institution are: Malawi Institute of Management (MIM), the University of Malawi/Polytechnic's Faculty of Commerce, the Malawi Chamber of Commerce and Industry, or the banks.

Several of these seem inappropriate. MIM is a parastatal whose target constituency is middle and upper management, and who is unlikely to be interested in the predominantly micro and small scale enterprise support organizations served by POET. Neither the Chamber nor the banks are likely to place any priority on the lower end of the SME sector.

The two options that seem worthy of exploration are the Management Department of the University of Malawi/Polytechnic and an independent status. University faculties tend to be oriented to formal, lecture-style, degree-oriented educational programs rather than the more informal, practical, adult-education style in-service training needed for staff development in the SME support organizations that are serving predominantly the lower end of the SME sector. Since the Management Department designs curriculum and provides training for the staffs of some companies, it may be sufficiently flexible in its orientation to be able to incorporate a special unit such as POET.

The other option is for POET to be registered as a non-governmental organization with a board of directors that includes representation from several major constituencies. The following suggestions reflect slight modifications to the suggestion made in the FMO evaluation report:

- the business sector (Chamber of Commerce and Industry);
- the financial sector (NBM, MCB, INDEFUND, MUSCCO);
- the non-governmental SME business development sector (e.g., WWB, NABW, CSC, WVI);
- public SME support organizations (e.g., DEMATT, MEDI, Mudzi Fund);
- public SME financing institutions (e.g., SEDOM);
- a government ministry involved with donor funds and SME finance (e.g., Ministry of Finance or MTIT).

c. Facilities and Equipment

The FMO evaluation examined the question of facilities in detail. It found that the present facilities are suitable for the current program, but that any growth will require additional and improved facilities. The present training room can probably serve 12-15 trainees, but not any larger groups. After studying the options for improved facilities, Molenaar recommended that, in the short-term, POET rent at least two additional offices in the SEDOM estates, renovate the present facilities, and construct a larger training room adjacent to the current facilities.

POET has no audio-visual equipment. Previous evaluations have recommended an overhead projector and a VCR and TV as minimum requirements. Regarding vehicles, Molenenaar's research indicated that POET can contract for the transport of its trainees less expensively than to own a van.

d. Technical Advisors

Consultants played a major role in developing the current curriculum. Future curriculum development can use similar short-term consultants with specific knowledge and skills to assist training staff in the development of curriculum.

5. Strengths and Weaknesses

a. Strengths

- POET has developed a curriculum and an expertise that has allowed it to serve an important and specialized function that no other organization is serving and that is greatly needed by SME support organizations, especially those working at the lower end of the sector. It is neither efficient nor effective for each organization to develop its own in-house staff training capacity.

- POET's core curriculum appears to have done a relatively effective job of providing an introduction to micro and small enterprise for the many project officers who are relatively new to the field and need basic training. Its project implementation (business management) course has been useful to entrepreneurs and to the support organizations that are working with them.

- Current staff is capable and able to deliver current curriculum.

- Current enrollment levels are adequate to support POET's budget as long as there is a source of reimbursement of the training fees and expenses.

- o POET has access to a rich pool of resource persons to provide specialized content.

b. <u>Weaknesses</u>

- o POET's current organizational status is not viable.
- o The curriculum is designed around "project cycle" rather than functions and roles of specific categories of trainees.
- o Some parts of the curriculum are lacking in specific content areas and in relevance to level of the sector served by most trainees.
- o Current staff is not qualified to teach credit management or advanced business planning and management.
- o The content provided by external resource persons is not always appropriate or well integrated into the total course.
- o POET's linkages with some of its constituency organizations are weak.
- o Constituent organizations do not pay for POET training out of their own budgets, so POET is dependent on GOM and donors to reimburse the training costs.
- o The present classroom is small and the training equipment inadequate.

6. <u>Challenges/Needs</u>

- o To find a dependable, supportive administrative home or to become a separate legal entity
- o To redesign and strengthen its curriculum
- o To strengthen its staff and to integrate external resource persons more effectively
- o To strengthen its linkages with constituent organizations and to serve their total training needs more effectively
- o To strengthen its financial base
- o To improve its facilities and acquire essential training

equipment

7. Recommendations

a. Governance: POET should immediately explore the two organizational status options presented in section 4a (Governance Structure) of this report, namely, the University of Malawi/Polytechnic Management Department and NGO status.

b. Purpose and Priorities: POET should keep its priorities clear. It is currently serving a specific function (market niche) fairly well. As indicated by the enrollment figures presented above, many organizations are already using the training. An increasing number of organizations are becoming involved in the micro and small enterprise sector, and those organizations are likely to grow in size, for example, the Mudzi Fund, the National Association of Business Women, Women's World Bank, and the SHARED project (which is likely to increase both the number of NGOs involved in the small enterprise sector and the extent of involvement in the sector by existing NGOs). It is therefore likely that the need for training of people working at the lower end of the support organizations in the SME sector will increase.

POET should resist the suggestions and pressures to serve a wide diversity of functions and constituencies. For example, the two evaluation studies suggested that POET develop courses targeted at: (1) policy makers; (2) bank staff;(3) private consultants; and even (4) southern and eastern Africa region. POET has a full platter simply providing effective service to the specific constituency it is currently serving. POET's energies should be directed toward improving and extending its services to its current constituency and strengthening its image as a solid, respected training organization before it begins to explore extension to other constituencies within or outside Malawi.

One exception to the above is that banks may find useful for their staffs the same project appraisal and credit management courses that POET designs for INDEFUND, MUSCCO, and SEDOM. This would simply involve making existing courses available for a broader constituency rather than specifically seeking to meet the needs of a new constituency.

c. Curriculum: POET should redesign its core curriculum around functions, roles, and tasks of specific categories of staff, and should strengthen the modules to serve those staff persons better. It should integrate content on skills needed in the business and technical assistance process into existing courses, especially skills in communication, interviewing, interpersonal relations, consultancy, and research.

POET should provide leadership in exploring options for assuring the availability of more specialized and advanced courses. There are at least three options: (a) encourage an existing Malawian institution to provide the higher level training, e.g., the University of Malawi/Polytechnic's Department of Management, the Malawi Institute of Management (MIM), or the Malawi College of Accountancy; (b) POET could add a senior trainer with recognized expertise to develop the curriculum and conduct the training; or (c) POET could organize and manage higher level training, but recruit, from within or outside Malawi, resource persons with recognized expertise to conduct the training. In some cases POET could arrange with an external training institution to co-sponsor the training, so that the partner institution would provide not only the trainer but external certification of the course.

d. Linkages with Constituency Organizations: POET should strengthen its linkages with constituency organizations by:

1) Forming a "training consultancy committee" composed of constituent organizations, which can meet quarterly to review current curriculum and schedules of course offerings. It would also make suggestions for improvements in existing courses and additional training that could be organized, either ad hoc or long-term.

2) Meeting at least semi-annually with each constituent organization:

- To obtain an assessment of POET training and suggestions for changes in course content, training approach, administrative procedures;
- To review the organization's training needs and to assist in preparing staff development plan;
- To identify the staff who need each module and prepare a schedule for sending them to courses;
- To review other training needs within the organization and begin to make plans for ways to meet those needs.

3) Developing more flexible strategies to be responsive to the training needs of constituent organizations, e.g.:

   - Scheduling a session of a workshop exclusively for the staff of one organization;
   - Recruit appropriate resource persons and organize specially tailored workshops of appropriate content and lengths to address specific identified organizational needs.
   - Develop topical seminars of varying length for support organization staff and for entrepreneurs, e.g., 1-2 day courses on financial record-keeping, on using financial records for business decision-making/management, on marketing techniques, on advertising approaches and techniques, etc.

4) Finalizing and offering of the sixth module, credit development and management.

5) Exploring potential new market needs. For example, Mudzi Fund, WWB, NABW and other NGOs may be interested in: (i) group training in business plan preparation for potential new entrepreneurs and (ii) field officer training in consultancy methodologies and business planning and management techniques that are appropriate for persons with limited literacy and numeracy skills.

e. <u>Finances:</u> POET must build a firm financial base. This is most likely to occur by assuring that training costs are built into the operating budgets of constituent organizations. Currently constituent organizations are not paying these training costs. Rather READI/USAID funds are used to pay the tuition and expenses of trainees. POET's long-term financial viability will require that POET work with its constituent organizations and persuade them to plan for the inclusion of staff training costs in their operational budgets. If this can be accomplished, and if POET keeps its costs down, it is feasible for POET to be a self-sufficient organization.

f. <u>Staffing:</u> POET should examine its needs in regard to staff and technical assistance personnel. Both evaluation reports suggest increases in staff. However, if POET is be effective in training for entrepreneurship, it must act like a business itself, and expand staff only in response to specific market demands which are accompanied by dependable payment for services. One additional senior trainer would strengthen POET by creating a critical mass of staff to assure continuity during staff turnovers and by providing the capacity to teach credit management and advanced business and technical advisory services. While both evaluations suggested a curriculum development specialist, this would seem a luxury that POET cannot afford; if there are needs in this area that cannot be met by existing staff, it would be best to contract for the services related to a specific curriculum need rather than to have a full-time staff person occupying such a position.

Any technical assistance personnel should be providing short-term, needs-driven consultation. Such personnel could serve a staff development function (both in content areas and in training methodologies) at the same time that they assist in curriculum development. For example, experienced trainers with a tested curriculum can be invited to work with the staff to adapt their tested curriculum to the Malawi context and then to co-train with the staff for the first few cycles of the course. Long-term technical assistance staff seem unnecessary at this point.

E. ROLE OF THE PROJECT COORDINATION UNIT

1. Background

The PP authorizing the READI Project in 1984 states in the Project Description that,

> The GOM and AID will establish a Project Coordination Unit (PCU) which will ensure that the activities and programs carried out by the participating organizations with Project resources are in support of the Project objectives, and that the desired types and levels of organizational interaction are occurring as planned. The Project will finance an expatriate Project Coordinator and a Malawian assistant. As Project coordinators, these individuals will work closely with the GOM and USAID, and will represent AID in the day-to-day management of the Project.
>
> The coordination and monitoring function will serve to extend the ability of the GOM and AID to monitor and manage Project implementation. AID and the GOM will thus be able to focus their attention on resolving problems as they arise and on making improvements on the strategy for promoting private sector development.

Under the Implementation Plan section, it goes on to say,

> This office is expected to be the main contact point for the participating organizations. The principal management responsibility of this office is to ensure that participating organizations using Project resources equitably distribute and effectively use shared Project resources.
>
> The Project Coordination Unit will be staffed by a Project Coordinator, Assistant Project Coordinator, Project Accountant and secretarial and office staff as required. Annual workplans, budgets and progress reports will be submitted for clearance by the Project Coordination Unit prior to submittal to AID for approval. Quarterly Project meetings will be held and chaired by the Project Coordinator....Annual Project Reviews will be held and chaired by a representative of the Ministry of Finance to make needed adjustments in project design and project implementation plans and to provide guidance to the participating organizations in preparing their individual work plans and schedules.
>
> AID's role in Project management will be considerably lightened by the existence of the Project Coordination Unit.

The actual startup of the project was delayed by one year due to problems in finding a project coordinator. However, the present project coordinator arrived in August 1985 and has remained in the post through the life of the project.

In September 1988, a team composed of 4 Americans and 4 Malawians evaluated the READI Project. They noted four key contributions made by the project:

- READI completed the first SME sector survey in Malawi
- The READI Project Implementation Committee has brought together a critical mass of SME development institutions and has laid the foundation for future coordination
- The READI Project contributed to the development of three key institutions -- DEMATT, INDEFUND and MUSCCO. The latter two institutions are more self-sustaining today than they were four years ago.
- The READI Project has contributed to the SME policy dialogue. Among other impacts, the project has contributed to the recognition that the MTIT's Small-Scale Industries Unit should broaden its mandate to encompass the entire SME sector.

The PP Amendment signed in May of 1989 complimented the work of the PCU and noted "the catalytic influence the PCU has exerted on Malawi's SME sector as a whole." It also observed that the PCU and its activities had grown substantially with its budget expanding from an original $600,000 to the then current figure of $1,691,947. It pointed out that, "Without it (the PCU), most of the participating institutions would have no institutional plans to guide their strategies, no annual workplans by which to determine their activities, and little or no ability to coordinate their mutually-supportive functions."

That PP Amendment extended the life of the PCU until the end of 1990 with one key proviso,

> In accordance with the evaluation's (1988 ARIES evaluation) recommendation, however, the PCU will over the course of this extension gradually turn over its coordinating role for the SME sector as a whole to MTIT. As the team pointed out, "it is now important to transfer this function to the MTIT and institutionalize it more fully during the extension period of the Project."

With that, the PCU was funded an additional $734,700 to bring its total LOP funding to $2,426,647.

2. <u>Review of the Activities of the PCU over the Past Two Years</u>

Over the past two years, the PCU has continued to provide leadership to the SME sector development and to assist in the institution-building of DEMATT, INDEFUND and MUSCCO. The quarterly Project Implementation Committee (PIC) meetings have continued, with the participation of the various READI Project institutions as well as SEDOM and MEDI. The annual SME Sector Planning Workshops have also continued to provide an important forum for coordination and developing the common focus on SME activities by the various institutions active in this arena.

New activities have included the following:

- The Project Officers and Entrepreneur Training (POET) program has been established to provide training to the project officers of various institutions active in the development of the SME sector (reviewed in depth in the second section of this report);

- The PCU has carried out a number of significant subsector studies and published information on these and other topics important to SME development. These include reports on the following four subsectors - herbs and spices, transport, construction and agro-industry;

- The prospects for SMEs in the mining industry were analyzed and a book was published describing how SMEs can develop businesses in that sector;

- The Balaka Lime Project was set up as a part of the PCU's business promotion activities, particularly as an effort to promote appropriately adapted technologies in Malawi. This has resulted in the creation of a medium-scale enterprise which reports indicate is functioning quite well. (The team did not have time to analyze this activity and, therefore, cannot comment on the viability of the enterprise.);

- The pilot Business Promotion Project established by the PCU in 1988 has been transferred to DEMATT, which is now running this as one of its special programs;

- A handbook entitled, "How to Start a Business," was written and published;

- Assistance has given to the development of trade associations and to the National Association of Business Women (NABW);

The scope and range of activities is impressive. These activities demonstrate how the PCU has helped to shape and provide direction on SME development in Malawi.

3. <u>The Role of the PCU during the READI Project</u>

The role of the PCU as described in the PP was primarily to provide project management support to the AID Mission and coordination of the various institutions and activities under the project.

The Project Coordinator described his role to the team as fulfilling five major functions, in order of time spent,

(1) Planning
(2) Budgeting and followup
(3) Coordination
(4) Surveys and studies
(5) Research and development
  - on business promotion and trade associations
  - on government policy

He also described the role of the PCU as being similar to a large consulting company. In fact, the PCU has over the LOP hired and trained a large number of consultants, both local and expatriate, to perform the work described in the last two functions above. The Project Coordinator stated that the PCU currently has about 26 ongoing contracts with local consultants.

From discussions with representatives of the institutions supported by the READI Project and from various management reports and evaluations, many believe that the PCU had a strong impact on improving the planning and budgeting capabilities of those institutions. The other major compliment given to the PCU is on its role in developing an awareness of the issues to be addressed in the development of SMEs in Malawi and in providing a forum to raise these issues. These assessments are in line with the first three functions described by the Project Coordinator.

On some of the other functions of the PCU, there is less agreement. For example, the Permanent Secretary of MTIT expressed concern relative to the independence of the PCU. He claimed that the PCU often made decisions and took actions on its own without consulting the MTIT. Whether this claim is accurate or not, his complaint may be indicative of an apparent structural problem in the design of the PCU. It seems as though the PCU role as described in the PP was primarily a project management function for USAID in order to lighten the administrative load for Mission staff. However, for one reason or another, the PCU appears to have developed into more of an SME programmatic role over time. It became a vehicle not only for the coordination of the READI institutions, but one envisioned to coordinate the SME sector as a whole. Thus the PCU became one of the major players in the SME sector, rather than serving in a supporting role. Its access to USAID funds allowed it to fund projects and activities of interest to either the PCU or USAID, while at the same time, act as the controller of the pursestrings for AID money going to both READI institutions and others under the MED program. It is not surprising that this might have led to confusion on the part of local institutions and MTIT regarding the role of the PCU.

Some individuals also expressed consternation over the central procurement function exercised by the PCU. All motor vehicle equipment and office equipment and supplies purchased with USAID funds were requested by the various READI institutions, ordered by the PCU (frequently from South Africa for supply or cost reasons), delivered to the PCU and then distributed to the institutions. Although the READI Project institutions may not have the experience or procedures in place to procure large shipments and be consistent with USAID's purchasing and accounting procedures, one might question the wisdom of this approach. It would seem that local procurement, particularly of office supplies, would be more responsive to the institutions' day-to-day needs and would also support the local economy. Furthermore, it would not seem to be a good use of the Project Coordinator's time to have to deal with such matters. It also contributed to a resentment of the role of the PCU.

Although the PCU was supposed to have institutionalized its coordinating role in the MTIT after the PP Amendment in 1989, it appears to have continued in much the same role as before. The fact that the PCU had its own offices outside of the MTIT and staffed with a battery of consultants might also have led to some resentment on the part of officials at MTIT. As mentioned before, there are clearly questions of staff capability in the MTIT to perform this function as well as, perhaps, the availability of office space in the ministry. Yet, experience with projects in other countries reinforces the belief that physical proximity can often facilitate closer communication and relationships.

We would like to stress that the problems regarding the role of the PCU were principally due to the a design problem which would have been difficult to foresee during the project design phase. The staff at the PCU have performed admirably in a very difficult position and have accomplished a great deal during the project. They are to be strongly commended for their diligence and hard work and for the many successes of the project.

4. Considerations for Determining the Role of a Future PCU for a Follow-on SET Project

a. The SME Coordination Function

The role of the Project Coordination Unit (PCU) in the READI Project has been clearly a critical and sometimes, a controversial one. When people talk about the PCU, they tend to personify the role in the person of the Project Coordinator. This is not surprising since there has only been one person in that role for the past six years, and he has a very assertive personality. This has helped to get projects and activities moving very quickly (which many have admired), but has also ruffled some feathers in the process. Most persons interviewed considered him to be a very dynamic individual who has moved the SME sector forward on a number of significant fronts.

The role played by the PCU has been very important to the development of SMEs in Malawi and in developing an awareness of the sector among key players in the economy. Furthermore, the various activities of the PCU have broken much new ground in developing new business opportunities and supporting new institutions in the sector. However, there is clearly a need to move into a new phase in terms of policy and coordination of the SME sector. The 1988 project evaluation and the PP Amendment both cited the need to move toward institutionalizing the role of the PCU in the MTIT. Unfortunately, and for a number of reasons including turnover and a shortage of qualified personnel at the MTIT, this has not occurred. Nevertheless, the issue still remains - where should this function be placed in Malawi?

The Permanent Secretary of MTIT suggested to the evaluation team that it may not be realistic to expect to coordinate all of the activities in SME development in Malawi. We would agree that *government policy should be coordinated, but it may not be possible to effectively coordinate all of the diverse activities of the various local institutions and international donors involved in SME development.*

It is obvious to most informed observers that there is still too much government control of the private sector. It is evident in the composition of the boards of directors of the various SME support organizations. Although many of these are supposed to be non-governmental organizations established as trusts, they are still substantially controlled by government. The absence of viable private sector funding mechanisms to take over when donor funds are no longer available leads one to wonder how this dilemma might be resolved.

In Botswana, the USAID BPED Project is providing support to a business association which has been broadening its base to include small entrepreneurs and assist them with training and management assistance. The association also serves as an advocate for private sector interests on government policy issues. However, there is doubt that the existing business associations in Malawi, notably ACCIM and ABA, are willing or able to take on a similar role. Nevertheless, this is the logical place to begin in developing a viable private sector strategy and support mechanisms. It is essential that larger businesses recognize that the development of SMEs is in their long-term interest and that they are involved in developing the support systems and linkages to make it happen. Although it is doubtful that some of the management assistance services being provided to small and informal entrepreneurs will ever be self-sustaining, one can still develop private sector delivery mechanisms that have government financial support. This strategy facilitates competition in developing the best service package at the least cost.

This leaves one with the choice of where to place the government policy coordination role. Although MTIT provides a locus for many of the support activities to the SME sector, other ministries such as Labor, Finance, Education and Agriculture also have interests in the sector. One of the options presented in the Study of Optimal SME Institutional Set-UP is to place this function under the Department of Economic Development and Planning (EP&D) in the Office of the President and Cabinet (OPC). This is an option worth exploring since it would place this function (as a member the Board of one of the READI institutions described) on "neutral" ground.

b. The USAID Project Management Function

As the discussion in section C demonstrates, the project management function for USAID must be clearly demarcated from an implementation role in the development of the SME sector. There will be a need for a project manager for a follow-on project to READI. Since the Mission staff currently are spread very thin in relation to Mission programs, we recommend that this position should be filled by a contractor. It would be best if his/her office were located within the Mission to reinforce the idea that a USAID management and monitoring role is being performed.

c. Technical Assistance for the SME Coordination Function

Should the project design team for a follow-on project to READI decide that technical assistance is necessary to institutionalize the SME coordination function, we recommend that the advisor be placed within the institution which will perform that function. This will permit close contact and communication to develop the relationships necessary in order to build local institutional capacity.

F. READI PILOT BUSINESS PROMOTION PROJECT

In January 1988, READI launched the Business Opportunity Identification, Entrepreneur Recruitment, and Project Development Program, a pilot project to identify bankable SME projects. This was initiated mainly because INDEFUND had used only 25% of its $1.2m credit line for rural agro-businesses by December 1987, only six months before the end of the original READI project. INDEFUND reported that the applications that were received from this sector were poorly prepared and required substantial staff assistance to prepare adequate feasibility studies. The pilot project thus had as its goal the identification of 100 viable rural agro-business projects and entrepreneurs who could qualify for INDEFUND loans. A secondary goal was to diversify the kinds of businesses being initiated and expanded.

The concept of the one-year pilot project was to identify business opportunities, such as raw materials in each region that could be processed, and to generate a list that could be presented to existing entrepreneurs. Business ideas were also solicited from the entrepreneurs. The design of the project limited assistance to rural agro-businesses that would require loans of at least MK30,000 (INDEFUND's minimum) and to entrepreneurs already in business who were able to provide 15% of the total investment requirements and had sufficient collateral for the loan.

According to "Rural Agro-Business Promotion Sub-Project Report (March 1989)," four field promotion officers, supervised by a project coordinator, contacted 280 entrepreneurs (including 21 women) in 23 of Malawi's 24 districts. Of these, 165 (11 women) were considered potential beneficiaries of the promotion project, based on questionnaires completed in the field. The 106 project profiles (6 for women entrepreneurs) that READI's internal screening process subsequently forwarded to the Selection Committee were in the following sub-sectors:

28 Food processing
28 Manufacturing
22 Livestock
15 Natural resources processing
13 Food production

The Selection Committee was composed of representatives of several financial institutions (both commercial banks, INDEFUND, SEDOM, and MUSCCO), as well as the Ministry of Trade and Industry, DEMATT, AFRICARE, and the ADMARC disinvestment program. It held ten meetings and took the following actions:

12 profiles were referred directly to financial institutions because there appeared to be sufficient information to appraise the projects without further feasibility analysis;

17 profiles were rejected, mainly because of poor credit ratings of the entrepreneur or technical difficulties associated with the business idea; and

77 profiles were approved for further development as full feasibility studies.

Through an extensive screening and training process, 33 Malawians were hired as part-time consultants to prepare the feasibility studies. Fifty-five feasibility studies were completed and, in the end, 35 entrepreneurs were encouraged to apply to INDEFUND for loans. (There were several reasons for this attrition, including determinations that the projects were not commercially viable or that the project or the prospective entrepreneur would not meet INDEFUND's loan criteria.)

Only 19 of the 35 entrepreneurs applied for INDEFUND loans, and only 5 loans had been approved by March 1989, when the report was completed. Using only this March 1989 data, the promotion cost were MK 19,504 per INDEFUND loan application and MK 71,115 per business that received an INDEFUND loan. Follow-up of these five businesses reveals current employment of 81 persons. Thus the promotional cost per job generated was MK4,575.

It is clear, however, that the report on the project was not intended as a thorough impact analysis, and the data was not sufficient to draw cost/benefit conclusions. For example,

- Twelve of the original 165 identified projects were referred directly to financial institutions because the Selection Committee determined that sufficient information existed for appraisal. It is likely that some of these received loans, but there was no follow-up to determine how many were funded.

- The report indicated that some entrepreneurs found their own sources of capital and started their businesses without seeking INDEFUND loans. Unfortunately, these numbers were not captured.

- It is possible that some of the entrepreneurs, especially some of the 16 who were encouraged to submit their projects to INDEFUND but did not, may have taken their projects to SEDOM or other financing sources, but again no data were collected.

Except for the analysis of the partial data above, it is impossible to determine with any accuracy the total extent of the impact of the promotion project, the cost per business start, or the cost per job created.

A variety of other noteworthy benefits from the project included:

- Increased awareness of the potential for SME development throughout the country.

- A variety of potential SME sub-sectors were identified and the information about the sub-sectors researched and made available to potential entrepreneurs. Twenty model feasibility studies of sub-sectors are currently being published as the "Agro-Industrial Handbook." Also, a book was published on the mineral and mining sub-sector.

- A manual, entitled "How to Start Your own Business" was prepared and published.

- A cadre of professionals was trained in the process of conducting research required for business plan development and in drafting feasibility studies.

- Finally, a frequently ignored benefit of programs that help entrepreneurs prepare thorough business plans is that they often avoid the waste of precious resources by discouraging non-feasible businesses; the promotion project served this function as well.

SECTION III

THE SMALL AND MEDIUM-SCALE ENTERPRISE SECTOR

A. THE PUBLIC/PRIVATE SECTOR CONTEXT AND POLICY ENVIRONMENT

The function of this section of the report is first to provide a brief, overall description of the private sector/public sector context in Malawi and some of its impacts on the SME sector. It does not purport to analyze comprehensively the complex policy environment in Malawi, but rather to identify some of the constraints to SME development. The second section looks at USAID's activities in the SME sector in relation to its overall country strategy. Finally, the third part of this section looks at the other key actors and institutions in the SME sector and the activities of various international donors. This section relies extensively on analyses performed by previous consultants, rather than on primary research.

1. Overall Economic Environment

Malawi is a land-locked country located in southcentral Africa with a population of 8 million and annual per capita income estimated at US$170. The economy of Malawi is predominately rural-based. Over 80% of the population lives in rural areas and is mostly engaged in subsistence agricultural production activities. The agriculture sector provides about 36% of GDP, split into 28% small scale and the rest in large scale production. Principal exports are agriculture products. Tobacco, tea and sugar account for as much as 84% of total earnings, with tobacco the providing the overwhelming majority (62% of exports in 1989).

The average size of the rural holdings is very small and decreasing due to population growth (currently estimated at 3.2% per annum). Less than 25% of the smallholders had access to more than one hectare in 1980. Average annual income per household on these holdings was estimated in 1981 to be approximately Malawian Kwacha (MK) 300, of which MK 110 was in cash. About a third of cash income is spent on food purchases. This leaves only about MK 70 annually per household to spend on non-food items. This shortage of disposable income has an obvious impact upon the ability to expand output of SME producers for sale in these areas.

The seasonality of income and expense flows due to the agriculture-based economy also impacts upon most aspects of the economy. Credit flows and purchasing patterns are highly dependent upon the growing season. Much of the economy slows down substantially during the wet season of December to March when most investment is in the ground. It starts to pick up again in

April/May when harvesting begins and by July, the availability of disposable income has its corresponding effect on the economy.

The economy of Malawi has in the past twenty years been substantially controlled by the government, parastatals, a handful of multinational companies and local oligopolies. The GOM has declared its intention to move toward a market-based economy and has agreed to a Structural Adjustment Program (SAP) with the IMF. The World Bank and other donors have encouraged this movement and have provided support to bolster the government's efforts in this direction.

However, as evidence in other parts of the world attests, changes in the usual way of business do not come easy, particularly when resources are scarce and the local demand is great. The GOM has stated its commitment to policy reform in its Statement of Development Policies 1987-1996 (DEVPOL). The challenge to Malawi will be to implement an effective program to liberalize the economy, and more importantly, to broaden the base of economic activity through increased human capital development and greater access to the benefits of economic development.

Key constraints to the large, modern sector (composed of both private companies and parastatals) include problems of infrastructure, debt, shortage of entrepreneurial and managerial talent, weak domestic demand due to agricultural growth-driven consumer purchasing power, and foreign exchange constraints.

2. Characteristics of the SME Sector

Various reports on the SME sector in Malawi complain of a shortage of qualitative data on the subject. Although various surveys have been undertaken in the past few years, none has been considered to be sufficient upon which to either base government policy or to ascertain fully the potential impact of programs developed with donor funding. There is clearly a need for this kind of information to be developed. Efforts are currently underway by USAID to provide a baseline survey later this year.

One of the best surveys undertaken in recent years was conducted by the READI Project in 1986 on 1,383 SMEs dispersed throughout the country. The results of that survey and other thoughts on SME development are found in report entitled "New Directions for Promoting Small and Mediums Scale Enterprises in Malawi: Constraints and Prospects for growth." A report for USAID on, "Strategies for Small and Medium Enterprises in Malawi," by D. Mead, B. Bolnick and R. Young in August 1989 synthesized much of the information from that survey and from other sources. In addition, a memorandum to the Mission from D. Greenberg, a Private Sector Advisor from REDSO, regarding the concept for a follow-on project to READI provided some comments and raised some issues relative to future SME sector efforts. The information presented below draws heavily on these reports.

a. Description of the sector

The size of the SME sector in Malawi has been roughly estimated to be comprised of 30-35,000 SMEs employing 50-60,000 workers and an additional 110-120,000 self-employed individuals utilizing their own labor and unpaid family members. It is further estimated that there are hundreds of thousands more who engage in some non-farm activity on a part-time basis.

A resource survey conducted by DEMATT in June 1989 performed a comprehensive enumeration of all enterprises with a fixed location in 169 trading centers of the country. Their survey excluded all the urban areas and covered 60-65% of other trading centers, including probably the most important non-urban centers. They enumerated 8,318 enterprises in the following sectors:

Producers	2,414
Traders (retail & wholesale)	2,765
Services (including repairs)	3,439
Total	8,318

The READI survey in 1986 provided extensive information on its sample of 1,383 enterprises. It should be noted, however, that 80% of the businesses surveyed were run by full-time businesspersons. This indicates that most of these enterprises were probably in the formal sector. The survey revealed that:

More than 96% of the entrepreneurs were sole owners of their businesses. The sector distribution was 42% in trading activities, 26% in small scale service activities and 30% in a few common manufacturing activities. 91% started business with their own savings with major sources of savings being wage, business and farm income. 72% had initial investments between MK101-1,000 and 18% between MK1,001-10,000. Of the total interviewed, only 16% had applied for any loan during the previous two years; of those, almost half had applied from loans from SEDOM and only 12% approached INDEFUND.

Approximately 3,000 persons were employed by the surveyed businesses, giving a mean number of 2.5 employees per enterprise. Of the total employees, 78% were working in rural-based enterprises versus 22% in urban areas. The southern region urban enterprises had the highest mean number of employees while rural businesses in the northern region had only 1.1 employees.

Of the businesses surveyed, 81% of the employees were male and

19% female. This preponderance of male employment was prevalent throughout all sectors except in the hotel, restaurant and bar subsector where participation by both sexes was nearly equal.

b. Constraints on the sector

USAID's Malawi Enterprise Development Program (MED) was designed "to revitalize existing businesses and create new enterprises, particularly small and medium scale enterprises, by supporting policies directed at reducing economic, institutional, and fiscal distortions which inhibit the development of the private sector." It is composed of a $35 million policy and institutional reform component, divided into three tranches, and a $1.6 million technical services component; most local currencies associated with MED were to be programmed in support of MED objectives. (Maushammer, Mead & Rhyne, "Elements for a Mid-Course Revision of the Malawi Enterprise Development Program," USAID, May, 1990)

The mission has requested that the evaluation team also look at policy constraints to SME development and tie these into the team's recommendations for future Mission directions. Since approximately $15 million remains to be disbursed from MED funds, this analysis could help the Mission to determine their disposition as well. Much of the local currency generated by the MED funds have already gone to support the institutions funded under the READI Project, as well as to support other activities in the SME sector.

It should be kept in mind that the following list of constraints are based on the reports cited above, and not on field research by the evaluation team, since time constraints did not permit this. The report by Maushammer/Mead/Rhyne recommended specific conditions to be met prior to the release of the next tranche of funds under MED. Some of these conditions were tied to specific policy or regulatory needs of the READI Project, e. g., revision of the Deed of Trust for DEMATT to establish it clearly as a non-governmental organization and the enactment of the proposed Cooperatives Act to provide a firm legal foundation for MUSCCO. The constraints on the SME sector listed below present more general areas for policy and regulatory reform which could be incorporated either into the SET Project or future MED conditions:

1) Availability of Credit: This constraint is due to the limited amount of funds left over in the commercial banks after government and prime private sector clients have been satisfied. Coupled with the conservative lending patterns of most merchant banks which demand substantial collateral to cover their loans, this leaves very little credit available to SMEs. USAID's efforts in providing funds to on-lend to INDEFUND and MUSSCO have helped to meet this need. It is likely that continuing funds will be needed

for this purpose, perhaps to other institutions as well. In addition to funding what are essentially development finance institutions, further efforts should be made to develop linkages between the SME sector and the commercial banking system. This is not easy, but some programs in other countries, such as the Get Ahead Foundation in South Africa, have provided loan guarantee funds and local non-profit foundations to administer the loan program. This approach will be tried in the Small Business Development Project in Swaziland, which is just completing its design phase.

2) Foreign exchange: Despite a strengthening overall balance of payments, Malawi continues to have a somewhat overvalued exchange rate with a discretionary system of exchange control. Although the government has voiced its support for changes in this area and the World Bank and other donors have provided foreign exchange to beef up Malawi's reserves, some concerns remain. The partially de-controlled foreign exchange regime affects SMEs in that small, unregistered enterprises are unable to receive authorization to import inputs for their operations. This results in the necessity of purchasing these imports from larger trader/importers who frequently do not take the needs of these small enterprises into account, either in terms of proper or timely inputs, and generally provide the inputs at a considerably higher price than had the small entrepreneur imported them him/herself. In addition, large producers frequently have priority access to foreign exchange and, consequently, to imports ahead of SMEs. This results in a form of protectionism against competition from below.

3) Fiscal policy: Credit ceilings induce banks to service large, known, prime customers and avoid risky SMEs. They also reduce the incentive for banks to mobilize funds and this depresses deposit rates. Since most SMEs are capitalized with their own savings, and since the banks have limited flexibility on interest rates, inflation tends to erode the ability of SMEs to finance their own creation or expansion.

4) Licensing: The length of time required to register a business is reported to be very time-consuming and to take an inordinate length of time. The expense of trading licenses also serves as a barrier to entry to informal businesses. Obtaining an industrial license is also reported to be a long and complex procedure. Licensing can also provide a means for local officials to harass small traders and hawkers.

5) Zoning: The issue of zoning is a particularly acute issue in Malawi. Although there are certain benefits in preventing overcrowding and limiting certain businesses to areas where the noise or pollution resulting from their activities can be controlled, overregulation can decrease economic activity and dampen initiative. Most lower income communities exhibit a certain livelihood and, one might say, even a degree of apparent

disorganization. However, closer analysis often reveals a pattern of organization unrecognizable to an untrained eye from middle class suburb. A policy which recognizes the financial limitations under which informal and small-scale enterprises operate would permit certain activities to take place outside of the normal, formal sector locations. The issue should be not whether certain activities may be displeasing to the eye of outsiders, but whether the people directly affected by the activities are disturbed by them.

6) Taxation: Like other countries, Malawi needs a tax system which will require that each person pay their full share of taxes. However, there needs to be a realization that sometimes that principle can get in the way of economic development, especially when one is dealing with small enterprises which have limited resources and narrow profit margins. The "small business tax" on enterprises with turnover of less than MK2,400/yr could be viewed as less than cost effective if one weighs the costs of collection against the monies received. In addition, certain value added taxes and withholding taxes which are collected from registered businesses can discourage small, unregistered businesses from doing business with the formal sector and thereby prevent linkages between small and large businesses.

7) Control of Transport: The control of transport routes for both people and goods has the effect of dampening the movement of commerce. Studies have revealed that the strict rules as to who may transport goods and persons in Malawi have left many areas poorly served. One need only to travel along the road into Blantyre during rush hour to view the need for better transport to get people to work. The number of personhours spent walking long distances to and from work could be much better utilized in a productive activity.

8) Business Hours: Restrictions existing on opening and closing hours limit the potential for increased commerce. The absence of petrol stations selling petrol after dark is a good example of the limitation on movement and corresponding economic activity.

These are some of the key constraints to SME development in Malawi. This is not meant to be an exhaustive list, but rather to point out some of the most significant areas for attention.

B. SME DEVELOPMENT VIS-A-VIS MISSION STRATEGY AND PROGRAMS/PROJECTS

The goal of the current Country Development Assistance Strategy (CDAS) for 1990-95 is to enhance the economic well being of the average Malawian household. The two subgoals are 1) to raise per capita income and improve food security and 2) to improve health status and increase workforce productivity. Five Strategic Objectives were defined to achieve those goals:

(1) Increase agricultural productivity and production
(2) Increase off-farm employment
(3) Reduce fertility
(4) Reduce infant and child mortality and morbidity
(5) Control the spread of AIDS

The CDAS notes that these objectives are highly complementary and mutually reinforcing and gives an example of the high degree of interdependence between the smallholder sector and off-farm enterprises in that SME expansion is dependent upon higher agricultural incomes to generate demand for SME goods and services.

In a discussion of Strategic Objective #2, the CDAS states that in the next five years, the Mission will concentrate its efforts on (a) expanding the number and sizes of SMEs and (b) enhancing estate land utilization, because of the efficiency of job creation in these enterprises and the strong linkages between such sources of income and smallholder agricultural development. To a lesser extent, in order to increase off-farm employment, USAID will also be concerned with (c) increasing medium and large enterprise production capacity, (d) expanding self-employment, including informal sector activities, and (e) financial market development. It further states that policy dialogue, institution building and local currency programming will be important in advancing this strategic objective.

The various planned projects/programs to achieve this objective include:

- The final year of the READI Project
- The Small Enterprise Transformation Project as a follow-on project to READI starting in 1991
- The Malawi Enterprise Development Program which provides local currency to fund various SME support elements in conjunction with policy reforms implemented by the GOM (1988-94)
- The Parastatal Divestiture Program (1986-90)
- Human Resources and Institutional Development to strengthen DEMATT and MUSCCO (1987-94)
- University of Minnesota's financial sector research (1990-92)
- Increasing Female Access to Basic Education starting in 1992

Although the PVO umbrella project, Services for Health, Agriculture and Rural Enterprises (SHARE), was not listed in that section, it too will provide support to enterprise development at the lower, informal enterprise level and help to achieve objective #2.

C. OTHER KEY LOCAL INSTITUTIONS AND DONORS SUPPORTING SME DEVELOPMENT IN MALAWI

1. Local Institutions

The READI project directly funded assistance to MUSCCO, DEMATT and INDEFUND as well as establishing POET and an enterprise promotion program as project activities of the Project Coordinating Unit (PCU). In addition, the PCU attempted to assist the MTIT to develop its coordinating role in the sector through annual SME Sector Planning Workshops and encouragement of participation by other sector institutions in READI Project activities. This effort has had some limited successes, but remains an area where greater coordination could be achieved. A discussion of the possibilities of accomplishing this task is reserved for a later section of this report. However, a brief description of other key actors in the SME sector is now appropriate.

The draft report of the Study on Optimal SME Institutional Set-up cited seven core and eleven non-core organizations as comprising the SME sector in Malawi. The seven core institutions consisted of DEMATT, INDEFUND, and MUSSCO (all supported by READI) as well as the Small Enterprise Development Organization of Malawi (SEDOM), the Malawi Entrepreneurs Development Institute (MEDI), the National Rural Centers Program (NRCP) and the Ministry of Trade, Industry and Tourism (MTIT). The non-core organizations include the following:

- Project Officers and Entrepreneurs Training Project (POET) (established under the READI Project and analyzed in-depth in Section II of this report)
- Commercial Banks
- Rural Training School (RTS)
- Malawi Development Corporation (MDC)
- Malawi Export Promotion Council (MEPC)
- Mudzi Fund
- Associated Chambers of Commerce and Industry of Malawi (ACCIM)
- African Businessmen's Association of Malawi (ABA)
- National Association of Business Women (NABW)
- Malawi Institute of Management (MIM)
- Industrial Consultancy Services (ICS)

This section of the report summarizes the activities of the other core organizations. The team relied on the draft Optimal SME Institutional Set-up Study and a summaries provided in the DFC evaluation of INDEFUND for the information below. For information on the various enterprise development activities of U. S., international and local NGOs/PVOs in Malawi, please see Annex 3.

a. SEDOM

SEDOM was formed in 1982 with the assistance of the EEC and began operations in January 1983. It was established as a trust under the MTIT with the Secretaries for Trade and Industry, Treasury, Labour, the Government Chief Economist, General Manager of INDEBANK, ACCIM, and ABA being the original trustees. Although it is a trust, it is regarded as a non-profit-making statutory body and is funded by the GOM and grants from the EEC, KfW and the UN Capital Development Fund. SEDOM has eight objectives dealing, *inter alia*, with the development of Malawian-owned industries, income and employment generation, improvement of rural areas, technology transfer and income distribution among the urban and rural populations. In practice, SEDOM has concentrated on providing finance and business/technical assistance to entrepreneurs at the lower end of the formal and in the informal sector. Its principal emphasis has been on manufacturing and agro-industry.

SEDOM has three regional offices in the usual locations and four sub-regional offices. It has four departments in its head office - loans, technical, financial, and administration. It decentralized its operations in 1984 through a system of regional managers who are responsible for processing of loan applications, project monitoring and client account control.

SEDOM offers mini loans of less than MK5000 and term loans of more than MK5000. It also provides workshop loans and loans for building contractors to finance their working capital. In addition, it leases equipment and takes equity positions in some industries, although it has limited activity in these two areas. Interest rates on the loans vary from 16-20%. Repayment periods are up to seven years and a grace period can be considered for specific projects. SEDOM is currently managing a loan portfolio of over 2500 loans. It received 1040 loan applications in 1989, of which 507 were approved for a total amount of MK5,050,000 and an average loan size of MK10,000. The overwhelming majority of loans are in the manufacturing sector (77% in 1988 and 67% in 1989) with the rest scattered among the other sectors. SEDOM has serious collection problems. The percentage of total number of loans in arrears was 61.7% in 1988 and 64.8% in 1989. The percentage in arrears by value was 21.6% in 1988 and 22.6% in 1989. In terms of financial viability, SEDOM has made losses every year, except for 1985.

b. Malawian Entrepreneurs Development Institute (MEDI)

MEDI was formerly the Vocational Training Institute which was established in 1981 by the Ministry of Labour with joint funding by the GOM and the UNDP with technical assistance from the ILO. It changed its focus to enterprise development in 1985. It is now a trust with a Board of Trustees appointed by the GOM. Its main objective is the creation and expansion of the indigenous entrepreneurial community. This is achieved through several long-term residential courses on how to start one's own business in manufacturing, retailing and the service trades. A variety of rudimentary business skills are taught. Programs are supposed to be designed to meet the needs of specific businesses.

Until November 1990, entrepreneurship development training was conducted for five basic trades. Trainees with some technical skills attended the five month intensive courses and those with no technical skills attended a ten month course. In addition, MEDI has conducted five short intensive business creation courses off campus which did not offer technical skills training. Its courses were taught to mostly live-in students at the campus in Mponela. A total of 314 entrepreneurs have attended various courses at MEDI to date.

MEDI has now changed its emphasis to concentrate on the management of technology and other entrepreneurial and general management skills. It has sixteen trainers with specialization in construction, metalworking, carpentry, electrical, automotive, textiles, leatherworking and agro-industry/food processing. Work experience of the trainers averages from three to eight years and they teach both management (60%) and technical (40%) skills. The training is designed to be participatory and practical and relies heavily on case studies, oral business plan presentations, group discussions and simulation exercises.

The campus will soon have refurbished accommodation for about 200 students, which will almost double its present capacity. A corporate plan was formulated in 1990 for the first time to set down its new direction and target groups. The institute has a plan to implement a number of eight week entrepreneur development courses for 200 people a year over the next four years, provided funding is obtained. No data was available on past financial performance. However, its five year financial projection shows an operating deficit for each year. Out of a total funding requirement of MK17.8 million for the next five years, it hopes to receive 40% from USAID and the balance from the GOM and UNDP in roughly equal proportions.

c. National Rural Centers Program (NRCP)

The NRCP (formerly the Rural Growth Centers Project) was developed in 1978 under the auspices of the Department of District Administration and Rural Development in OPC and is fully funded by the GTZ. The original idea of the program was to construct various public facilities, such as schools, meeting halls and markets in rural centers in order to encourage economic development and discourage urban migration. To date, fourteen centers have been established and three more centers are planned in the final phase of the program. The Economic Promotion Unit (EPU) was set up in 1987 to promote enterprise development within the centers. DEMATT was persuaded to open offices in seven centers, but withdrew in 1988 due to changed internal policy and a perceived high cost/impact ratio. The full task is now the responsibility of the EPU, although with limited success.

The EPU has five Business Promotion Officers (BPOs) for the rural centers. At the head office in Lilongwe, there is one senior socio-economist, two socio-economists, one administrator and support staff. A technical advisor is funded by GTZ until March 1992. The EPU promotes mainly non-agricultural small businesses and income generating activities in the vicinity of the rural centers. It has been working with the Women's Project Workshop in Kanengo to reorganize the workshop staff and familiarize them with new technologies. There are some fifteen business packages or entrepreneurial programs currently available at the Kanengo Workshop.

With exterior funding for the NCRP soon to be finished, the GOM is currently considering whether to integrate it into MTIT or the Ministry of Community Services. MTIT is reviewing the suggestion and is considering the possibility of DEMATT taking on this role.

d. Ministry of Trade, Industry & Commerce (MTIT)

The MTIT is the government agency most intimately involved with the SME sector in that it is responsible for implementing government industrial and commercial policies. The MTIT is divided into three departments dealing with each of the three programmatic areas with which it is charged.

The Trade Department is responsible for the promotion and regulation of internal and external trade. Their activities include:

- Monitoring multi-lateral obligations pertaining to international commodity agreements and within the context of Malawi's membership in several international organizations;

- Liaising with all institutions connected with commercial activities including the MEPC, DEMATT, SEDOM, the Import and Export Company of Malawi, ACCIM, ABA, the Registrar of Companies and District Commissioners for the promotion and administration of internal trade; and

- Issuing import and export licenses.

The department also has statutory responsibilities over the all trading activities and licenses thereto, the regulation of cooperative societies, price investigation and standard weights and measures. With the exception of trading licenses, the department has no clear policies or programs directed specifically at SME trading activities; it also has limited capacity to assess the impact of trade policies, regulations and taxation.

The Industry Department is responsible for the promotion and development of manufacturing industries. Its main activities include:

- The promotion of existing industrial enterprises and the establishment of new export-oriented and import substitution industries;

- The promotion and encouragement of the development of Malawian entrepreneurs in the SME industrial sector;

- The assessment and analysis of industrial investments and incentives;

- The incorporation and registration of industrial firms; and

- The licensing of industrial firms.

Its capacity to assess the impact of industrial policies and regulation is also very limited.

The Small-Scale Industries Unit (SSIU) is located within the Industry Department and is charged with assisting in the development of the small-scale industrial sector, as its name implies. Its objectives are:

- To formulate and enforce government policies to create a favorable climate for the development of the sector;

- To promote small-scale industries;

- To collect data and disseminate information pertaining to the sector; and

- To advise SMEs on licensing requirements, raw material procurement, marketing and financial assistance programs.

The SSIU is currently staffed by three industrial development officers who have limited time to devote to their duties in this unit due to other responsibilities. It is hoped that the staffing of the unit can be increased up to a total of 12, of which five would be based regionally. As it is, promotion is not being undertaken and the linkages between the SSIU and other support institutions are acknowledged as weak.

UNIDO is currently providing a full-time expert to assist in the development of the SSIU. Also, three short term advisors have recently been recruited to study and recommend strategies in the following three areas:

- Improving access to credit,

- Creating a strategy and incentives aimed at promoting the development of the sector, and

- To implement a bulk purchasing scheme to provide common raw materials and other inputs at a reasonable price to SMEs and to develop a scheme to permit access to GOM procurement by SMEs.

The first two studies have been completed and the third is in progress. SEDOM has been selected to administer the bulk purchasing and procurement schemes.

Finally, the role of the MTIT has, in the past, been primarily one of regulation and control of their sector. DEVPOL has made it clear that this should change to one of promotion and encouragement of growth in the sector. It will take some reorientation on the part of the staff to accept their new responsibilities.

2. Other Donor Activity

The description of the following donor activities was obtained through attendance of one of the evaluation team members at a donor coordination meeting on the SME sector. It summarizes some of the principal activities stated by the donors present. This listing is not meant to be exhaustive, but rather to indicate current strategies and expectations for donors active in the SME sector.

a. United Nations Development Program (UNDP)

The UNDP currently provides support to MEDI, MTIT, INDEFUND and to DEMATT (for its women's program). It is now in the process of programming its new funding cycle for 1992-96 and SME development
will be one of its four main areas of emphasis. It is not yet sure what percentage of its core five year budget of US$60 million will go toward SME development.

The UNDP believes that past efforts in the SME sector have taken a piecemeal approach and views its role as assisting the GOM to develop at structured, systematic approach to the sector. It recently funded two studies (including the Optimal SME

Institutional Set-Up Study) to assist the GOM in developing an SME sector strategy. A strategy paper will be completed by July and will be presented to the government and the donor and NGO community. On the basis of these discussions, an implementation plan will be prepared. The UNDP anticipates that NGO involvement will be an important part of the SME development strategy.

b. World Bank

The World Bank has not funded many SME development activities in Malawi, but has instead concentrated on economic policy reform and support for the larger enterprise sector. It has, however, funded the Mudzi Fund, a program to assist the very poor, based on Grameen Bank principals. A recent appraisal mission concluded that the program is doing very well, although supervision appears to be costly. It has approached USAID to help finance Mudzi Fund activities, but USAID has concerns about it being controlled by the government.

The Bank is also supporting SME development through its education sector project, e. g., purchasing equipment from local artisans. It has some technical assistance funds available to strengthen the capacity of SME institutions which SEDOM and INDEFUND could tap.

c. European Economic Community (EEC)

EEC funds coming out of Lome 2 and 3 financed SEDOM for TA, training and recurrent costs. Lome 4 will be held shortly and the EEC has allocated ECU15-20 million for the SME sector in Malawi over the next three years. Further support for SEDOM will be linked to support by German bilateral funds. The EEC will prepare a funding plan later this year.

d. Germany

Germany has been a major contributor to SEDOM (with the EEC) and currently has one German expert and is providing funding for loans and infrastructure. It sees future funding for SEDOM and INDEFUND as important. In addition, it has supported SME activities in its National Rural Centers Program over the past year, although that program is now winding down and further funding is not anticipated. It expects planning for funding in this sector to be completed in July.

In conclusion, all of the donors present at the meeting agreed that future donor funding should be based on an overall SME sector development strategy. The UNDP suggested that the donors approach the GOM as a group to support the development of such a strategy. It does not view donor funding activity as necessarily being limited to the eventual government strategy, but rather as a means of coordinating efforts. The World Bank appeared to be in agreement with this approach. All donors expressed concerns regarding the over-intervention of the government and the need to loosen its control of institutions in the SME sector.

SECTION IV

OVERALL CONCLUSIONS &

ISSUES TO BE ADDRESSED FOR A FOLLOW-ON PROJECT

A. INSTITUTIONAL STRENGTHENING

All of the institutions supported by the READI Project have been substantially strengthened. INDEFUND has shown progress in both management and in financial viability. DEMATT has made considerable gains in its staff development and programmatic approach to services. MUSSCO has grown substantially in size and assets and is moving towards financial viability. POET is still in its initial organization phase and appears to be providing valuable services to its clients.

Nevertheless, considerable problems remain. The delinquency rate at INDEFUND reveals a serious weakness in the appraisal and monitoring systems. DEMATT continues to have problems in its overall management at the top levels as well as problems in recruiting and retaining qualified staff. The rapid growth in numbers and share capital of SACCOs has created serious problems for MUSSCO in its overall operation management as well as its financial management at both the SACCO and MUSCCO levels. POET can only survive if it finds an institutional home outside of the READI Project Coordination Unit. In all cases, management and the technical advisors were aware of these problems and appeared to be taking steps to address them. However, we wish to emphasize the seriousness of the problems and the need to correct them within the immediate future.

B. INSTITUTIONAL SUSTAINABILITY

As stated previously, INDEFUND appears to be approaching both management and financial viability. It will need some additional support in staff development to correct some of the weaknesses in the loan monitoring system. DEMATT is almost totally dependent upon donor funds (much of them from local currency generated by the MED Program) and the GOM. It will need to resolve the issue of its long-term source of funds very soon for it to continue in existence in its present form. MUSCCO is making steady progress toward financial viability, but this is threatened by its current management and financial weaknesses. Unless these problems are addressed immediately, MUSCCO and the SACCOs risk the same fate as of other cooperative societies in Malawi in the recent past. Almost all of POETs funding currently comes from USAID via the PCU in the form of payments for courses given. Local sources of funding and support must be found for it to be sustainable.

A related issue is the extensive use of expatriate advisors to serve either directly or de facto in line management positions within the various institutions of the READI Project. The evaluation team had a good deal of concern over this issue, particularly relative to the development of leadership qualities and management capability of Malawian staff. Although we recognize that this is a problem which exists in Malawi on a much larger scale than just the READI Project, we believe that any expatriate advisors used for any follow-on project need to perform a more supportive, rather than direct management, role in order to develop the local management capability required for long-term institutional sustainability.

C. PROGRAMMATIC ISSUES

A heightened tension currently exists between some of the developmental goals of the institutions assisted and their search for financial viability. This is a common theme in organizations with development goals. However, it must be constantly addressed in order to resolve what sometimes appears to be inconsistent objectives. Rather than to concentrate on one goal or the other, each institution must find a comfortable balance between the two in order to deliver the quality services it was established to provide and, at the same time, maintain its long-term viability.

Some areas of concern to the evaluation team, i. e., where the team believes the institutions have been moving away from some of their development goals, include the following:

1. Urban versus rural orientation

While all are conversant with the problems limiting access to services and economic development in rural areas of Malawi, taking the easy route and concentrating only on urban areas where most of the wealth, infrastructure and institutional resources are based will, in the long-run, only serve to perpetuate urban/rural imbalances. A means must be found to resolve the problems of providing cost effective services to these areas or much of the rationale for the creation of the institutions may no longer apply.

2. Serving the elites of the society

This issue ties in with number one. There is apparent movement of all of the institutions toward serving clients who have more resources or status in society. Care must be taken to keep a focus on providing access to services to all of the people, not just those who have wealth, or influence, or who can be more easily served.

3. Participation of women in decision-making and in proportionality of benefits

The team noted a distinct lack of attention to this issue on the part of all of the institutions. This issue is better addressed by improving the delivery systems so that women have access to the same programs as men. Improvement in this area is best done if constant attention is paid a) to the integration of women into the decision-making structure of the institutions and b) to proportionality in the receipt of services provided. Developing proper impact information systems is critical to achieving this goal. If this issue is not addressed, Malawi will be wasting one of its most precious resources.

This is not to say that the team believes that financial sustainability concerns must be sacrificed to developmental goals. If these institutions cannot find or develop a long-term source of finance for their activities, they will become additional casualties of development aid. But neither should the goals which spawned the institutions (and for which USAID provided support) be abandoned in search of a comfortable financial existence.

D. ROLE OF THE PROJECT COORDINATION UNIT

The PCU has played a vital role in coordinating the assistance to the various institutions involved in the project as well as directing attention and resources to institutional problem areas. It has also provided a valuable service to SME development in Malawi by focussing attention on this area and helping the various players in the economy and government to recognize the importance of this sector. The various studies, workshops, manuals and pilot project activities funded by the PCU have been the means by which this increased awareness of the sector has been achieved.

However, the dual role played by the PCU of representing USAID in funding decisions and allocation of resources while, at the same time, being a major player in the SME sector has caused some confusion in the perception of its role. While many have admired and appreciated the ability of the PCU to move quickly and provide resources to address various issues and problems in the sector, others appear to have resented its independence and its utilization of resources to perform activities without sufficient consultation with other major players. This problem was largely a result of the structural design of the PCU and the exigencies of project implementation. Care must be taken in the design of any follow-on project to separate the functions of project management for USAID and project implementation functions.

It is important that to emphasize that many of the functions performed by the PCU should continue under any follow-on project. The READI Project has played a major role in building momentum to develop a positive environment and services for SMEs in Malawi. USAID should capitalize on that momentum and build in resources in any follow-on project to continue many of the activities of the PCU that have helped to move SME development forward.

E. POLICY REFORM ISSUES

The GOM has appeared to have been making progress in the liberalization of its economy and support for the private sector. Nevertheless, a number of significant constraints to SME development remain. The donor community, notably the World Bank and USAID, have been providing financial support to the GOM in return for its movement toward a more liberalized economy. Public statements must also be reflected in implementation of public policy through the bureaucracy, however. The limitations on competition with parastatals or with larger, established businesses must be eliminated if the SME sector is to grow. The PCU has acted as a key spokesperson for the SME sector during the READI Project. The rightful place for this activity would be better placed within a business association which can speak for all businesses, and not just for the privileged few. Efforts should be made to find an local institutional home for this type of private sector advocacy.

A related activity involves the coordination of public policy and regulations. The MTIT has been viewed as the likely place for this activity over the past number of years. Yet a number of problems exist with this view (which were reviewed in the assessment of the role of the PCU). It is time to look closely at the proper government body to perform this role. One role of government is to regulate activities by the private sector. But, at the same time, governments must also develop and implement policies and regulations which encourage the development of the private sector to perform those positive roles it has in economic development. It is important that future USAID efforts be directed at working with an agency which is properly placed to perform this role and to assist the GOM in the development of that agency.

F. FOCUS OF MISSION EFFORTS ON PRIVATE SECTOR DEVELOPMENT

The SME strategy paper by Mead, Bolnick and Young states (p.1),

> At the same time, it may be wise at the outset to express a word of caution. SMEs have an important contribution to make to the development of Malawi; but the growth of the sector also faces serious constraints, and cannot be expected by itself to solve all the problems arising from the slow growth taking place elsewhere in the economy. SMEs are no panacea.

The paper goes on to say (p. 10), "the fact that rapid growth of employment in SMEs is needed because other sectors are not keeping up with the growth of the labor force in no way implies that such growth is feasible."

It is helpful to keep these cautions in mind, since much of the Mission's efforts in the private sector in recent years have been in the SME sector. Furthermore, there seems to be some overlap among many of the current array of projects dealing with the private sector. Overlap is not necessarily bad (and often cannot be avoided), as long as the Mission understands how each project complements the other. It would be wise for the Mission to analyze how its SME development programs and projects fit within an overall USAID/Malawi private sector economic development strategy prior to any follow-on project to READI.

Concerns have been expressed in Washington regarding the Mission's overall programmatic focus and its ability to manage the multi-faceted program it currently operates, especially in the face of Agency-wide budget cuts for direct-hire personnel. However, USAID/Malawi appears to be viewed by other donors as the major player in SME development in Malawi as well as in the development of the private sector as a whole. It would be a shame to see that role abandoned. A good analysis of how support for the SME sector fits within a manageable USAID private sector program in Malawi might help to allay some of those concerns.

G. SUMMARY LIST OF ISSUES TO BE ADDRESSED IN THE DESIGN OF ANY FOLLOW-ON PROJECT TO READI

(This list presents some of the key issues raised during this evaluation. It is meant to be illustrative rather than exhaustive.)

1. What is the overall private sector development strategy of the Mission and how will the project relate to that strategy?

2. Does the GOM have a strategy for SME development and how will the project relate to that?

3. How will the project relate to the informal, microenterprise activities which will be undertaken under the SHARE Project?

4. What further data is needed to understand the SME sector, e.g.,
   a. What is the overall size and characteristics of the SME sector in Malawi? How can the study done by the READI PCU in 1986 be improved or supplemented?
   b. Can further subsector analysis add to the information base to be used in the design of a follow-on project?

5. What are the minimum preconditions which should be met by the GOM prior to the approval of any follow-on project, e.g.,
   a. General private sector reform
   b. Removal of specific constraints on SME development (see Section IIIA)
   c. Institutional issues, e.g.,
      1) Non-interference by government in the affairs of private sector (either profit or non-profit) institutions, e.g., approval of general managers.
      2) Commitment of financial or other support for specific SME institutions
   d. Agreement to provide infrastructure for specific project activities

6. What further institutional support is needed by each institution and over what period is it needed before the institution will be financially and organizationally sustainable? What specific weaknesses of each institution should be addressed by the project?

7. How will the development goals be achieved while achieving financial and organizational viability at the same time?

8. Will there be a need for the functions performed by the PCU under the READI Project to be performed in the follow-on project? If yes, what type of local institution can best perform them?
   a. Which functions should be performed by a private sector organization/association?
   b. Which functions should be performed by government?
   c. Which private sector organizations/government agencies are best situated and staffed to perform those functions?

9. How will the project be managed by USAID?
   a. Would it be better to hire a US consulting firm or a PSC to perform the management functions?
   b. Where will the individual performing those functions be physically located?

10. Should technical advisors be necessary to assist the government to develop and implement policies and regulations for the SME sector, with which agency would they work and where would they be physically located?

11. What project impacts should be monitored?
   a. What baseline data is needed at the beginning of the project to provide comparative data later?
   b. What types of data should be collected and by whom?
   c. What are the requirements of AID/Washington for monitoring of SME projects?

ANNEXES

ANNEX ONE

INDEFUND TABLES

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TABLE 1

INDEFUND LIMITED

PERFORMANCE INDICATORS FOR THE PERIOD FROM 1982-1990

	1982	1983	1984	1985	1986	1987	1988	1989	1990
No. of Applications Received	324	200	288	234	120	113	279	192	184
No. Approved	15	7	22	26	13	20	23	33	38
Value of Loans Approved	801000	325000	853000	1113356	940800	1608894	2348000	3183200	5232603
Cumulative Loans Approved	801000	1126000	1979000	3092356	4033156	5642050	7990050	11173250	16455853
Average Loan Size	50063	46429	38773	42821	72369	80445	83857	96461	139016
Approval Rate (%)	5	4	8	11	11	18	10	17	21
Loans Advanced in the year	175754	423173	551250	636779	729092	1461910	1222772	2297821	5084056
Cumulative Disbursements	175754	598927	1150177	1786956	2516048	3977958	5200730	7498551	12582607
Repayments in the year	0	11866	134886	138707	239147	528771	496163	359547	750469
Net Investments	175754	587061	1015291	1648249	2276901	3449187	4704567	7139004	11832138
% Cum. Disbursement Approvals	22	53	58	58	62	71	65	67	76
New Jobs Created	467	133	395	310	145	302	486	32	369
Cumulative Jobs Created	467	600	995	1305	1450	1752	2238	2558	2927
Cos/Jobs = Cum. Loans/Jobs	1715	1877	1989	2370	2781	3220	3570	4368	5622

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SECTORAL DISTRIBUTION (%)

Agriculture, Agro-Industry & Fishing	41	33.1	48.9	39.6	29.8	28.7	33.4		37
Manufacturing	40	21.4	15.6	24	27.9	33.1	36.3		18
Construction	5	3.7	2.3	1.5	0	0	1.3		0
Mining and Minerals	8	5.7	9.5	2.2	3.6	0	1.1		4
Hotels & Tourism	5	4.1	10.3	15.1	15.9	20.7	15.4		14
Textiles	0	17.7	9.3	6	5.2	4.1	2		1
Service and Transport	0	12.5	6.3	7.4	13.1	11	6.8		5
Trading	0	1.8	9.8	4.4	4.5	2.4	3.7		4
TOTALS (100%)	100	100	100	100.2	100	100	100	0	83

URBAN/RURAL DISTRIBUTION

No. of Rural Projects	9	12	22	32	34	20	37
No. of Urban Projects	7	11	23	39	50	84	95
Cummulative Projects	16	23	45	71	84	104	132
% Rural Projects	56	52	49	45	40	19	28

No. of Women Entrepreneurs	0	1	1	1	2	2	3
No. of Projects Wound Up	0	0	0	3	0	5	6

Table 2: Summary of INDEFUND performance between 1982-90

Total applications received:	1,934
Total applications approved:	203
Average yearly approval rate 1982-1990:	10%
Total Value of loans approved:	16,456,853
Average loan size:	81,068

Table 3: Summary of INDEFUND current portfolio (12/31/90)

	Number	Percent
Approved loans as of 31/12/90	163	100%
Legal status of projects:		
Limited Company	38	23%
Sole proprietorship	94	58%
Partnership	8	5%
Not specified	23	14%
Total	163	100%
Purpose of Loan:		
Fixed assets	66	41%
Working capital	21	13%
Assets and Working Capital	46	28%
Not specified	30	18%
Total	163	100%

Sector of activity:	Number	Percent	Value of loans approved	
Agriculture	42	26%	3,851,356	23%
Agro-industry	39	24%	2,910,914	18%
Hotels/Tourism	20	12%	2,637,188	16%
Manufacturing	26	16%	3,023,966	18%
Mining/Construction	5	3%	479,277	3%
Services	17	11%	2,235,668	14%
Trade	10	6%	394,330	2%
Transport	4	2%	1,040,130	6%
Total	163	100%	16,572,829	100%

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Location:		
Southern region	104	64%
Central region	43	26%
Northern region	16	10%
Total	163	100%
Type of project:		
New	47	29%
Expansion	59	36%
Other	29	18%
Not specified	28	17%
Total	163	100%
Client Background:		
New client	128	78%
Repeat client	35	22%
Total	163	100%
Men	153	93%
Women	10	7%
Total	163	100%

Table 4: Financial status of INDEFUND portfolio (12/31/90)

Current portfolio:

Approved loans	140
Approved loan amounts	MK 10,811,511
Total Disbursements	MK 11,496,943
Repayments	MK 1,440,066
Total Outstanding portfolio	MK 10,056,877

Loans in arrears (120+ days):

Number	58 (41% of approved projects)
Actual amount 120+ in arrears	MK 506,430 (5% of outstanding portfolio)
Total balance due of loans in arrears	MK 3,473,173 (34.5% of total portfolio)
Actual amount	

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90+ in arrears	MK 634,570 (6.3% of outstanding portfolio)

Loans in arrears by sector:

Agriculture	17	29%
Agro-industries	7	12%
Manufacturing	9	16%
Trade	9	16%
Hotels & Tourism	6	10%
Services	4	7%
Transport	2	4%
	58	100%

Table 5: Delinquencies by age (12/31/90)

	Balances	Percent
0-30 days	42,432	6%
31-60 days	55,122	7%
61-90 days	42,260	5%
91-120 days	126,110	16%
120+ days	508,460	66%
	774,386	100%

Table 6: Status of USAID funded INDEFUND loans

Total USAID loans as of 12/31/90	49
Approved loan amounts	MK 5,169,000
Disbursed amount	MK 4,150,400
Number fully repaid	5
Number defaults	
Written off	1
Provided for	10
USAID funded loans as percent of total (49/140)	35%

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Table 7: Summary of USAID funded INDEFUND loans (12/31/90)

	Number	Percent
Approved USAID loans:	54	100%
Sector of activity:		
Agriculture	23	42%
Agro-industries	11	20%
Hotels/Tourism	7	13%
Manufacturing	8	15%
Mining/construction	0	0%
Services	2	4%
Trade	3	6%
Transport	0	0%
	54	100%
Region:		
North	13	25%
Central	17	31%
South	17	31%
Not specified	7	13%
	54	100%
Gender:		
Men	52	97%
Women	2	3%
	54	100%

Table 8: USAID Funded INDEFUND Loans in Arrears (90+ days)

Number	15
% of total number outstanding USAID loans	30%
Total balance due of loans in arreas	MK 276,505

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Table 9: USAID supported INDEFUND loans by project objectives

Import substitution	wooden rulers (1), tire retreading (1) tannery (1)
Export promotion	tobacco (14) coffee (1) cotton gin (1)
Goods and services for rural consumers	chicken feed factory (1) wholesalers (1) fishing (8) rice mill (1) grain mills (4) cement blocks (1) roofing tiles (1)

Table 10: Rough estimation of employment generated by INDEFUND (a)

Estimated average employment generated across all INDEFUND projects	14.4 jobs/project
Estimated total employment generated by all INDEFUND projects	2,927 jobs
Estimated total employment generated by USAID funded projects	706 jobs
Average investment per job created	MK 5,879/job

(a) based on projections in appraisal reports

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ANNEX TWO

MUSCCO TABLES

Table M.1: Summary of SACCOs affiliated to MUSCCO (12/31/90)

	Number	Percent
Number of SACCOs		
Northern Region	30	26%
Central Region	47	41%
Southern Region	38	33%
TOTAL	115	100%

Table M.2: Summary of MUSCCO's loans to SACCOs

	Number	Amount	
Approved SACCO loans as of 12/31/90	152	1,118,702	
Outstanding loans to SACCOs			
Short Term Loans	53	420,549	
Business Loans	67	412,233	
Development Loans	32	285,920	
TOTAL LOANS	152	1,118,702	
Regional distribution of loans to SACCOs (1990 disbursements)			
North	19	225,460	22%
Central	51	486,721	48%
South	32	295,493	30%
TOTAL	102	997,674	100%

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Table M.3: All long term business loans by year

Year	Number	Total Amount	Average loan size
1986	10	33,810	3,381
1987	9	41,000	4,556
1988	13	84,480	6,498
1989	23	171,860	7,472
1990	34	242,900	7,144
TOTAL	89	574,550	6,450

Table M.4: All long term business loans by purpose

	Number	Total Amount	Average loan size
Poultry	5	40,500	8,100
Piggery	2	4,500	2,250
Dairy	4	6,200	1,550
Crops	37	240,920	6,511
Ox Carts	1	790	790
Maize mill	5	60,000	12,000
Bricks	5	20,640	4,128
Resthouse	2	23,500	11,750
Grocery	25	153,800	6,152
Welding	2	18,000	9,000
Tailoring	1	5,200	5,200
TOTAL	89	574,050	6,450

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Table M.5: Status of Short term loans to SACCOs

Current short terms loans to SACCOs		
Number	53	
Total outstanding amount	420,549	
Delinquencies		
Number	18	(33.9 % of all short-term loans)
Amount Delinquent (principle + interest)	47,267	(11.2% of the outstanding short term portfolio)
Total balance of delinquent loans	182,702	(43.4% of the outstanding short term portfolio)

Table M.6: Status of Business loans to SACCOs

Current business loans to SACCOs		
Number	67	
Total outstanding amount	412,233	
Delinquencies		
Number	29	(43.3 % of all short-term loans)
Amount Delinquent (principle + interest)	47,267	(10.0% of the outstanding business portfolio)
Total balance of delinquent loans	149,628	(34.6% of the outstanding business portfolio)

Table M.7: Status of MUSCCO's loan portfolio
(Short term, Business, and Development Loans)

Current loans to SACCOs		
Number of SACCO loans	152	
Total outstanding amount	1,118,702	
Delinquencies (two months or more overdue)		
Number	55	(36% of all loans)
Amount delinquent (principle + interest)	95,249	(8.5% of the outstanding portfolio)
Total balance of delinquent loans	350,446	(31% of the outstanding portfolio)

Table M.8: Status of SACCO loans to members, December 1990

Loans to members:	Amount	Percent
Northern region	1,191,408	32%
Central region	970,214	27%
Southern region	1,560,021	41%
TOTAL	3,721,643	100%

Delinquent loans (60+ days)	Amount due	% of current portfolio
Northern Region	282,901	23.75%
Central Region	70,783	7.30%
Southern Region	91,489	5.86%
TOTAL	445,173	11.96%

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Table M.9: Summary of loan information based on 1991 survey of SACCO members

A. Gender distribution of SACCO membership:

	Men	Women	Total
Total number members	8,751	2,133	10,884
Percent	80%	20%	100%

B. Total number of loans by purpose:

	Men	Women	Total
Personal	1,433	300	1,733
Farming	3,034	671	3,705
Business	636	152	788
Other	449	98	547
TOTAL	5,552	1,221	6,773

C. Women's share of loans by purpose (number of loans):

	Men	Women	Total
Personal	83%	17%	100%
Farming	82%	18%	100%
Business	81%	19%	100%
Other	82%	18%	100%
Average	82%	18%	100%

D. Women's share of loan funds by purpose (% of loan funds):

	Men	Women	Total
Personal	88%	12%	100%
Farming	87%	13%	100%
Business	82%	18%	100%
Other	92%	8%	100%
Average	87%	13%	100%

E. Average loan size by purpose (in Kwacha):

	Men	Women	Total
Personal	384	243	359
Farming	318	211	298
Business	601	555	593
Other	735	312	660
Average	401	270	377

F. Average number of loans per SACCO by purpose:

	Men	Women	Total
Personal	14.8	3.1	17.9
Farming	31.2	6.9	38.1
Business	6.6	1.6	8.2
Other	4.6	1.0	5.6
Average	57.2	12.6	69.8

ANNEX THREE

PROFILE OF THE ACTIVITIES OF VARIOUS U.S., INTERNATIONAL AND LOCAL NGO/PVOs IN MALAWI

PROFILE OF U.S. AND INTERNATIONAL NGOs/PVOs IN MALAWI

	MAJOR SECTORAL ACTIVITIES AND THEIR PERCENTAGE OF FUNDING					
NAME OF ORGANIZATION	ENTERPRISE	AGRICULTURE	HEALTH	OTHER	IMPACT AREAS COUNTRY WIDE	PERCENTAGE ON WOMEN ACTIVITIES
Adventist Development and Relief Agency		Youth Vegetable gardens (3%)	PHC, CSP, Vitamin A, Borehole & Shallow wells, AIDS education (79%)	Infrastructure, school blocks,(18%)	Lower Shire, Matandani (Mwanza), Lunjika (Mzimba), Makwasa (Thyolo)	Hea.- 90% Agr.- 50% Oth.- 30%
Africare			Water Protection (Springs), shallow wells, sunplat & dip tanks (50%)	Relief work (50%)	Ntcheu, Lower Shire, Chiradzulu & Dedza	Hea.- % Varies Oth.- % Varies
International Eye Foundation			Vitamin A & nutrition project (96%)	Training & technical skills (4%)	Lower Shire	Hea.- 49%
World Vision International	IGAs & Loan Revolving funds (10%)	Food cropping, food for work, and soil fertility & conservation (12%)	Child Survival & water and sanitation (8%)	Infrastructure, evangelical & relief work (70%)	Country wide, but DACs in Lilongwe, Mzimba, Ntcheu, Mulanje & Lower Shire.	Ent. -90% Agr. -50% Hea. -85% Oth. -Varies
Save the Children Federation (US)	IGA, revolving loans, micro-enterprise (15%)	Food cropping, vegetable growing, woodlots (13%)	Child Survival, Vitamin A, AIDS education (47%)	Education & human resource, skills training & Relief work (25%)	Mbalachanda (Mzimba), Mkhota (Kasungu), Mangochi, Ntcheu	Ent. -95% Agr. -60% Hea. -98% Oth. -Varies

SOURCE: SHARE PROJECT

	MAJOR SECTORAL ACTIVITIES AND THEIR PERCENTAGE OF FUNDING					
NAME OF ORGANIZATION	ENTERPRISE	AGRICULTURE	HEALTH	OTHER	IMPACT AREAS COUNTRY WIDE	PERCENTAGE ON WOMEN ACTIVITIES
Project Hope			AIDS control, Safe motherhood & child survival (95%)	Training & technical support (5%)	Tea Estates in Thyolo & Lilongwe, Blantyre	AIDS - for religious orgs. CSP-98%
World Council of Credit Unions				Technical Assistance (100%)	Lilongwe	Not defined.
International Executive Corps Service				Technical Assistance (100%)	Blantyre, Lilongwe	Not defined.
Canadian Physicians for Aid & Relief		Food cropping & vegetable gardening (22%)	PHC, Water & Sanitation (64%)	Education and human resource (14%)	Chitukula in Lilongwe	Agr.-60% Hea.-90% Oth.-70%
Trickle-Up Programme	Micro-enterprises (95%)			Training & technical support (5%)	Chiwere (Dowa)	Ent.-50% Oth.-50%
Action Aid - U.K.		Soil Conservation, Land husbandry, Agro-forestry, Credit farming,& Livestock (35%)	PHC and water protection (shallow wells) (25%)	School construction, Training of auxiliary teachers, Adult literacy, and MCDE educational programme (40%)	Mtsakambewa in Dowa District	Agr. -50% Hea. -85% oth. -35%

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	MAJOR SECTORAL ACTIVITIES AND THEIR PERCENTAGE OF FUNDING					
NAME OF ORGANIZATION	ENTERPRISE	AGRICULTURE	HEALTH	OTHER	IMPACT AREAS COUNTRY WIDE	PERCENTAGE ON WOMEN ACTIVITIES
American Refugee Committee			PHC with san plat production,and nutritional clinics (10%)	Refugee impacted areas - water protection, training of HSAs and VHPs, training and supervision of TBAs (90%)	Machinga	
International Centre for Living Aquatic Research Management		Research on Farming Systems, Aquatic Research & Extension (100%)			Domasi (Zomba), Madisi (Dowa), Lunyangwa (Mzuzu)	Not defined.

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PROFILE OF MALAWIAN NGOs/PVOs

NAME OF ORGANIZATION	MAJOR SECTORAL ACTIVITIES BY PERCENTAGE OF FUNDING				IMPACT AREAS COUNTRY-WIDE	PERCENT-AGE OF WOMEN'S ACTIVITIES
	ENTERPRISE	AGRICULTURE	HEALTH	OTHER		
Save The Children Fund	IGA	Vegetable Gardening Food Cropping IGAs (15%)	PHC elements and Nutritional clinics (35%)	Relief work and water protection (60%)	Lower Shire, Blantyre, Mitundu (Lilongwe), Bolero (Rumphi)	Nut. - 95% Veg. - 60%
Banja La Mtsogolo			PHC, Man to man Aids Education, MCH (100%)		Ndirande (Blantyre), and with 6 companies in the city.	PHC - 100% AIDS - 15% MCH - 90%
Christian Service Committee	IGA, Credit & Savings (15%)	Soil fertility, Food cropping Veg. growing (20%)	Water supply PHC, Health Infrastructure, mission clinics, AIDS education (45%)	Infrastructure, skills training, education and human resource (20%)	Mulanje, Euthini(Mzimba), Nsanje, Ntcheu, Lilongwe	Ent. - 90% Agr. - 60% Hea. - 90% Oth. - 50%
Muslim Association in Malawi			EPI, Water and Sanitation AIDS education (35%)	Infrastructure (schools and mosques) Adult lit. Bursary prog. (65%)	Mangochi, Machinga, Blantyre, Zomba	Hea. - 60% Oth. - 30%
Synod of Blantyre	IGA (3%)	Food produc. (Vegetables poultry, rice banana, fish ponds) woodlots (25%)	PHC, Mission hospitals, nutritional clinics (65%)	Skills, training, educ. & human res., infrastruc. (7%)	Likhubula (Mulanje), Chigodi(Blantyre Domasi (Zomba)	Ent. - 90% Agr. - 70% Hea. - 95% Oth. - 60%
Malawi Against Polio			Medical rehabilitation (17%)	Rehabilita. Centers, Procurement of mobility appliances (73%)	Lilongwe, Zomba, Blantyre, Rumphi	% varies according to patient intake.
National Association of Business Women	SMEs - Credit guarantees (95%)			Training of both personnel & clients (5%)	All districts in the country	Focus is 100% on women

PROFILE OF MALAWIAN NGOs/PVOs

NAME OF ORGANIZATION	MAJOR SECTORAL ACTIVITIES BY PERCENTAGE OF FUNDING				IMPACT AREAS COUNTRY-WIDE	PERCENTAGE OF WOMEN'S ACTIVITIES
	ENTERPRISE	AGRICULTURE	HEALTH	OTHER		
Tiyende Women in Development		Growing of nutritional foods, soil conservation (35%)	Preparation of nutritional foods, Child spacing, & some PHC elements (30%)	Adult lit., homecraft skills (35%)	A radius of 25km around Balaka township	Agr. -100% Hea. -100% Oth. -100%
Private Hospitals Association of Malawi			Clinical & MCH activities, PHC & an extension of CSP with an emphasis on IGAs for volunteers, Aids control project, & drug procurement project. (93%)	technical support and training of health personnel (7%)	Dowa, Salima, Ntchisi, Lilongwe, all the districts in the north, all the refugee districts, Blantyre, & Zomba.	PHAM focuses on hospitals and do not have %ges of their clients' target populations.
Christian Council of Malawi	IGA (13%)	Youth programmes in food production (24%)		Secondary School Education, skills training & relief work (63%)	Blantyre, Nkhoma, Zomba, Lilongwe, Ntcheu, Salima & Thyolo	Ent. -100% Agr. -5% Oth. -Varied
Malawi Red Cross		Vegetable gardening & poultry farming (6%)	PHC, Clean drinking water & First Aid training centre (42%)	Relief work,(52%)	Dowa, Lizulu(Ntcheu) Luwelezi (Mzimba), Zomba, Mulanje, Lower Shire	Agr. -40% Hea. -75% Oth. -Varied
Malawi Union of Savings and Credit Cooperatives	Credit extension & savings (80%)			Non-core programmes (20%)	Mzimba, Lilongwe, Blantyre, Mchinji, Dowa,	No established yet, in the process of analyzing.

PROFILE OF MALAWIAN NGOs/PVOs

NAME OF ORGANIZATION	MAJOR SECTORAL ACTIVITIES BY PERCENTAGE OF FUNDING: ENTERPRISE	AGRICULTURE	HEALTH	OTHER	IMPACT AREAS COUNTRY-WIDE	PERCENT-AGE OF WOMEN'S ACTIVITIES
The Catholic Secretariate	IGAs and Womens activities, Micro enterprise (5%)	Afforestation and food cropping, fish pond farming, (19%)	PHC with support for clinics in seven dioceses (43%)	Infrastructure, education and Human Resources (38%)	Lake Chilwa (Zomba), Dzalanyama (Lilongwe), Lower Shire, Dedza, Mzuzu, Mangochi, Blantyre	Ent. -65% Agr. -50% Hea. -90% Oth. -30%
Zoa Refugee Care Malawi	IGA (10%)	Woodlot, food cropping, fishing, veg. growing (15%)	PHC, Wells protection & nutrition (25%)	Skills training, Youth prog. Relief work (65%)	Lower Shire, Thyolo, Machinga	Ent. -100% Agr. -50% Hea. -90% Oth. -30%
Women World Banking Malawi	Loan guarantees, credit & savings, revolving loan funds (96%)			Technical support & training (4%)	currently establishing pilot impact areas.	Ent. -100% Oth. -100%
Livingstonia Synod	IGA, micro-enterprise (8%)	Food cropping, vegetable growing (15%)	PHC - growth monitoring & immunisation (45%)	Skills training, infrastru., adult lit. (32%)	Ekwendeni, Mzuzu, Embangweni, Livingstonia.	Ent.-95% Agr.-65% Hea.-95% Oth.-60%
Disabled Persons Association of Malawi	micro- enterprises (25%)		Rehabilitation (10%)	educational and social amenities, infrastructure (65%),	Mzuzu, Blantyre & Mulanje, and Lilongwe.	Varies according to no. of beneficiaries
Nazarene Vocational College	Micro- enterprise and seed money loans (25%)			skills training in carpentry, tinsmithing, tailoring, etc. & working with refugees in the lower shire. (75%)	Running a vocational college in Bangwe (Blantyre), and the lower Shire	Not identified yet

PROFILE OF MALAWIAN NGOs/PVOs

NAME OF ORGANIZATION	MAJOR SECTORAL ACTIVITIES BY PERCENTAGE OF FUNDING				IMPACT AREAS COUNTRY-WIDE	PERCENTAGE OF WOMEN'S ACTIVITIES
	ENTERPRISE	AGRICULTURE	HEALTH	OTHER		
Malawi Council for The Handicapped (Statutory)	Micro-enterprise and loan revolving funds (51%)	Vegetable Gardens, Poultry (15%)	Rehabilitation Services (8%)	Skills Training, Community Based Rehabilitation (26%)	Karonga, Salima, Lilongwe, Machinga, Blantyre, Chiradzulu & Thyolo	Ent. - 50% Agr. - 40% Hea. - 80% Oth.
National Wildlife Society		Conservation of wildlife, soil and water (40%)		Educational trips to National Parks, sessions on wildlife activities, and publication of materials (60%)	Lower Shire, Liwonde, Kasungu, Nyika, Lilongwe, Blantyre and Lake Malawi.	Not established yet

ANNEX FOUR

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BIBLIOGRAPHY

(Categorized by subject matter)

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ANNEX FIVE

PERSONS INTERVIEWED

PERSONS INTERVIEWED

Businesspersons

Mr. Kumbowbwe, owner, Kumbowbwe Shoe Manufacturing, Liwondi, DEMATT and SEDOM client

Mr. S.G. Kazembe, owner, icemaking company, Mangochi, INDEFUND client

Ms. L. Patel, owner, Holiday Motel, Mangochi, INDEFUND client

Mr. P. Thindwa, Manager, Limbanazo Fishing Co, Mangochi, (INDEFUND client, owner Mr. B.L.N. Mwakimbwala was not available)

Ms. I. Zingano, Owner, CNC Medical, Lilongwe, INDEFUND client and POET course participant.

Mr. S. Maduka, owner, Four Ways Bakery, Nkotakota (also saw a video on this DEMATT client)

Ms. E. Mayuni, owner, Tasty Take-Away, Lilongwe, DEMATT client and POET course participant.

Simplex Enterprises (aluminum foundery), Lilongwe: Mr. F. Soko, owner and DEMATT client and POET course participant was not available, but we were able to see his work.

Mr. H. Maseko, Ambassador Electronics, Lilongwe, DEMATT client and POET course participant.

Deloitte & Touche

Ms. A. Richwine, Senior Consultant

DEMATT

Dr. Benson Kandole, Chairman (Vice Principal Chancellor College)
Mr. F. Makoza, General Manager
Mr. A. Mtombo, Special Programs Manager
Mr. L. Mangulama, Field Services Manager
Mr. J. Schultz, Training Technical Advisor
Mr. Hellerman, Technical Advisor, Medium-Scale Enterprise Promotion
Mr. R. Chokani, Regional Manager, Central Region
Mr. B. Chipenzaani, Business Promotion Consultant, Special Projects

Mr. G.N. Mpagaja, Business Promotion Consultant
Mr. E. Bauteni, Senior Business Consultant
Mr. P. Cholopi-Phiri, Business Promotion Consultant
Ms. J. Culaton Viray, Chief Technical Advisor, Business Advisory Services for Women
Ms. N. Nyang'wa, BAS/Women Programme Coordinator

Government of Malawi

Mr. T. Vareta, Permanent Secretary, Ministry of Trade, Industry and Tourism
Mr. R. Chilingulo, Principal Industrial Development Officer
Mr. O. Mlambo, Senior Economist
Ms. Kalyati, Permanent Secretary, Ministry of Community Services

INDEFUND

Mr. M. Magola, Chairman
Mr. A. Shaba, Acting General Manager & Southern Region Manager
Mr. S. Mponda, Administration & Finance Officer
Mr. Phiri, Branch Manager, Central and Northern Region
Mr. J. Manda, Project Officer

Kachawa Savings and Credit Cooperative

6 Executive Committee members and others at special meeting

Mudzi Fund

Mrs. M. Nyirenda, Scheme Administrator

MUSCCO

Mr. C. Hansen, Financial Management and Planning Advisor
Mr. G. Knutson, Credit and Investment Advisor
Mr. B. Chilonguni, Manager, Southern Regional Office
Mr. D. Sangree, Peace Corps Volunteer, Southern Regional Office
Mr. Kavwenje, Acting Manager, Central Region

POET

Mr. H. Chunga, Director
Mr. J. Chipeta, Lead Trainer
Mr. K. Chirwa, Rural Housing Project, Course Participant
Mr. W. Banda, Rural Housing Project, Course Participant

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Price Waterhouse

Stuart Crookshank, Consultant

READI Project Coordination Unit

Mr. D. Henry, Manager
Mr. J. Larson, Consultant

SEDOM

Mr. S. E. Maponda, General Manager

SHARED Project

Mr. L. Fox, Director
Ms. M. Nyardovi-Kerr, Enterprise/WID Coordinator
Mr. F. Mlotchwa, Training Coordinator

SME Donor Coordinating Committee

Mr. J. Vandemoortele, UNDP
Mr. F. Ruchel, UNIDO, UNDP
Mr. J. Lavarz, EEC
Mr. F. Mbuka, World Bank
Mr. J. Stell, German Embassy

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Mr. D. McCloud, Project Development Officer
Ms. R. Mahoney, Program Officer
Mr. E. Kambalame, Program Assistant for Private Sector Activities
Mr. D. Walls, Project Manager, SHARED