

# FinScope MSME Survey Malawi 2012



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These stakeholders formed an **integral part** in the survey questionnaire design and offered valuable insight into the MSME sector:



Ministry of Industry and Trade  
National Statistical Office



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## Preface

Micro, Small and Medium-sized enterprises (MSMEs) are highly significant in developing countries as a proportion of the total number of firms, for the contribution they can make to employment, and for their ability to innovate. MSMEs in general attract the interest of not only policy makers, but also researchers, as the sector is seen as an important means of enhancing the long-term development and growth of countries. Governments are interested in setting up support programmes which enable firms to increase their export sales, given the positive effects that increasing exports has on the economic growth and competitiveness of countries. Despite the recognised importance of MSMEs, they still face major challenges today. The challenges associated with business entry, survival and growth is critical to the participation of MSMEs for economic growth.

The barriers stem from limited access to resources and lack of competences necessary to meet the challenges existing within the business environment as well as a complicated and bureaucratic environment posing serious obstacles to the sector: This is particularly true of MSMEs in developing countries like Malawi, where the majority of entrepreneurs lack business management skills and capital to support their businesses. It is widely acknowledged that firms in developing economies have fewer managerial capabilities and fewer private or public support services. These factors negatively affect their ability to grow.

The uneven landscape which includes, access to financial products and services as well as other binding constraints impinging on the growth of MSMEs are some of the areas of professional practice that management research has not been able to analyze, despite their economic relevance and social implications. This publication aims to fill this gap in management literature.

The Ministry of Industry and Trade has been desirous to conduct a national MSME survey in order to generate data that reflects the current status of the MSME sector in order to feed into policy and programme development to address current and emerging national and global realities. This desire is critical noting that the last national MSME survey was the Gemini Survey carried out in the year 2000. This report is, therefore, a nationally representative survey focusing on the status of small businesses in Malawi. It builds on an empirical analysis on the most binding constraints to MSME's development and growth with a focus on access to financial services. Besides reviewing the available academic literature, the report is based on actual experiences of MSMEs, in order to combine a research approach with a more pragmatic view of the phenomenon.

The information presented in this report will be of interest to a variety of stakeholders including policy makers, development partners, MSME support institutions, financial institutions, consulting firms, education and research institutions among others. The report will therefore act as a building block and provide a basis for systematic approach to reviewing policies and designing strategic plans for the development of the MSME sector in the country. Primarily, the Malawi national MSME Survey of 2012 seeks to achieve the following outcomes:

- Describe the size and scope of the MSE sector;
- Determine levels of financial access;
- Describe the structure of the sector;
- Identify barriers faced by the MSME sector;
- Segment the small business market; and
- Serve as a benchmark against which the impact of interventions can be assessed overtime.

## Acronyms and abbreviations

ACP	African, Caribbean and Pacific
AfDB	African Development Bank
BCA	Business Consult Africa
BUPAD	Bulk Purchase and Distribution
COMESA	Common Market for Eastern and Southern Africa
CEAR	Central and East African Railways
DEMAT	Development of Malawi Enterprise Trust
DFID	Department for International Development
EU	European Union
EPV	Export Production Village
FINCA	Foundation for International Community Assistance
GDP	Gross Domestic Product
GoM	Government of Malawi
GPPP	Government Preferential Purchase Programme
HIPC	Highly Indebted Poor Country
IMD	Inclusive Markets Development
IMF	International Monetary Fund
ITC	International Trade Center
MBS	Malawi Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce Industry
MEDI	Malawi Entrepreneurship Development Institute
MEPC	Malawi Export Promotion Council
MIM	Malawi Institute of Management
MIPA	Malawi Investment Promotion Agency
MK	Malawi Kwacha
MoIT	Ministry of Industry and Trade
MSME	Micro, Small and Medium Enterprise
MSE	Micro Small Enterprise
NABW	National Association of Business Women
NASFAM	National Association of Small Farmers of Malawi
NASME	National Association of Small and Medium Enterprises
NGO	Non-Governmental Organisation
NSO	National Statistical Office of Malawi
OVOP	One Village One Product
PSD	Private Sector Development
SADC	Southern African Development Community
SEDOM	Small Enterprise Development Organisation of Malawi
SME	Small and Medium Enterprise
UNDP	United Nations Development Program
WB	World Bank
USAID	United States Agency for International Development
TEVETA	Technical Education, Vocational Entrepreneurship Training Authority

## Executive summary

It is widely acknowledged that micro, small and medium enterprises (MSMEs) are significant contributors to job creation, development and economic growth. Given the crucial role of MSMEs in the national economy it is in the common interest to harness and optimize on this potential by putting into place strategies to mobilise and enable MSME growth and development. To do so, it is imperative that these interventions are target and evidence-based. However, the lack of accurate and reliable information about the sector and the challenges it faces, have been identified as the key constraints in achieving this objective. It is in pursuit of this objective that FinMark Trust developed the FinScope MSME survey.

The Finscope MSME survey is a nationally representative survey focusing on small businesses and their financial services needs. The aim of this survey is to build a comprehensive body of evidence. The objectives of this survey were to:

- describe the size and scope of the sector;
- describe the levels and landscape of access to financial products and services;
- identify the most binding constraints to growth;
- propose recommendations regarding financial assistance, policies, and interventions.

The survey undertakes to profile the perceptions of those who are self-classified business owners i.e. those who consider themselves business owners and/or are engaging in business activities. In doing so, this survey not only captures data on MSMEs in the classical sense (i.e. entrepreneurs with less than 100 employees), but focuses also on individual entrepreneurs who engage in business activities as a survival strategy. In addition to this, business activities are analysed by sector (including farming), and includes businesses that are not registered and/or licensed.

The sample is nationally representative, and also provides representative data for urban/rural levels. The survey followed a three-stage sampling process which included a comprehensive listing exercise. The primary sampling units are the Enumeration Areas (EAs) selected via probability-proportional-to-size (PPS) sampling; the secondary sampling units are qualifier households (those with business owners) selected from a list of qualifier households by applying systematic random techniques (established during the listing exercise it assumes the sample frame); and lastly the tertiary and ultimate sample units are individuals selected by the KISH GRID from a list of eligible respondents (business owners) at every selected qualifier household. A total of 1997 face-to-face interviews were conducted with individuals who are MSME owners from January to March 2012. These individuals were 18 years and older, employing less than 100 people and included individual entrepreneurs.

### MSME sector

Findings indicate that there are almost a million MSMEs in Malawi (987 480). The fact that there are far less business owners (758 118) indicate that some people own more than one business. The sector employs over a million people (1 050 320), generating an income of 326 billion MK (2011), and is a significant contributor to Malawi's economy. However, the majority of MSMEs in Malawi are very small. 59% are individual entrepreneurs who employ no other people, while the remaining 41% of businesses generate employment; however the majority of them are micro businesses. The majority of MSMEs (87%) are retailers, i.e. they sell something, particularly agricultural products. The remaining 13% of MSMEs render services, e.g. professional services (accountant, lawyer, consultants) and skilled services (hair salon, plumber, and mechanics). The large majority of MSMEs (85%) are located in rural areas, the Central (49%) and Southern Region (40%). Given the fact that the majority of MSMEs are micro businesses, the net profit of many businesses is relatively low with 35% of MSMEs making 110 to 25 000 MK a month. MSMEs mainly operate either from a trading centre/market (42%) or from home (42%). Many of those businesses are in the growth phase (3 – 5 years of existence). This phase of a business requires special attention with regards to expansion and support. The large majority of MSMEs trade informally (91%), being neither registered nor licensed.

### MSME owners

In total, 54% of MSME owners are males, while 46% are females. While men are more likely to run larger businesses women are more likely to be individual entrepreneurs. Small business owners in Malawi are relatively young of age, with the average being 31 years of age. MSMEs are predominantly owned by the household head or the

spouse of the household head. This is often the only source of income (54%). The majority of small business owners have low levels of education (68% primary education, 11% no formal education) and acquired the necessary business skills informally (39% self-taught, 28% through the family). The main reasons given for starting the business refer to opportunity (37%) and unemployment/couldn't find a job (36%). Accordingly, almost every second business owner in Malawi (49%) would close down their business, in favour of assuming paid employment if it was offered. Many MSME owners (46%) spend four to eight hours per day in their business, with 35% spending more than eight hours per day working in or on the business. Only 35% of MSME owners indicated that they kept financial records for their businesses, the majority (91%) of whom do so without receiving any assistance. MSME owners face a range of constraints with regards to starting, operating, and growing their businesses, the most significant being the lack of access to finance. In addressing these challenges the majority of MSME owners did not seek or utilize any support or assistance other than to address the issues themselves. Most owners were unaware of existing institutional support structures, but relied instead on broader religious and community groups.

### Financial inclusion

The majority of MSME owners (59%) are financially excluded, i.e. they do not use any financial products /services to manage business finances. If they do save, they keep their money at home and their only coping mechanism is reliance on family and friends. While 20% of business owners have/use informal mechanisms for managing business finances, 22% have/use products/services offered by a commercial bank, and 13% have/use product/services offered by another formal (non-bank) financial institution. Product usage is driven mainly by savings products. However, the majority of MSME owners who save do so at home – mostly to grow their business. The large majority of small business owners did not borrow in the last 12 months. This was largely due to the concern that they would be unable to repay the debt. Those who borrow are most likely to do so from family and friends. Only 2% of small business owners have/use a financial product covering risk, while the remaining 98% do not have/use any insurance. It was found that the main risks to business operations or business income refer to natural disasters, illness or death of the owner; and theft of business stock, equipment or livestock.

The low levels of access and usage of financial products/services indicate that the current product set does not adequately address the needs of MSME owners. Businesses that are individually owned are most likely to be financially excluded (66%) followed by micro enterprises (50%). Medium sized businesses and to a limited extent small business have higher levels of financial inclusion and increasingly sophisticated methods to run their businesses.



# I Introduction

The Government of Malawi recognises the significant contribution made by micro, small and medium enterprises (MSME) in stimulating competition, providing employment, and distributing wealth. As such it acknowledges the vital role of this sector to the overall economic growth and development of the country. The need for a comprehensive strategy to develop private sector led growth in Malawi is therefore a particular recommendation of priority in the Malawi Growth and Development Strategy (MGDS). In pursuit of this objective the Government of Malawi with the support of the UNDP Country Office, is in the process of formulating a new strategic programme on Private Sector Development (PSD) for the next five years.

However, it has been found that the key constraint in achieving this objective is the lack of comprehensive information on the MSME sector. In pursuance of this objective, the Government of Malawi (GoM), through the Ministry of Finance (MoF) represented by the Department of Industry and Trade, contracted the services of FinMark Trust (FMT).

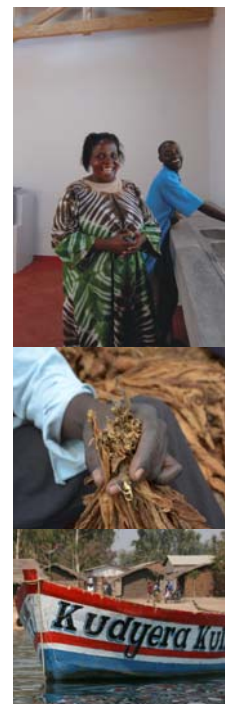
The aim of the FinScope Malawi 2012 MSME survey is to generate comprehensive data that will guide, inform and support the process of policy development and strategic financial interventions in the MSME sector. The overarching objectives of the survey, is twofold: to inform on the size and scope of the MSME sector and secondly, to assess and establish the current state of financial access within the MSME sector in Malawi. Financial support for the survey was provided by UNDP, World Bank, UKaid (DFID) and the EU.

FinScope MSME Malawi 2012 is one of a series of FinScope surveys conducted across Africa over the past few years. The breadth and scope of the information collected in the survey allows analysis of the small business owners across a multitude of different variables such as district/province, rural/urban, income level, age group, gender; etc.<sup>1</sup> This report documents the findings of the survey, as well as potential implications for the policy and regulatory financial sectors, with a particular focus on MSMEs.

This report has been written with the following objectives in mind:

1. To provide the context for FinScope MSME Malawi 2012 so that stakeholders and other interested parties grasp the motivation for the survey and are thus directed as to how best to utilise the findings. Moreover, the user is directed to approach this as a benchmark to compliment and support similar interventions and strategies to mobilising financial access for the poor.
2. To provide background information on FinScope MSME as a tool and describe how it can be used to build inclusive financial markets.
3. To provide insight on the methodology used in the FinScope MSME Survey Malawi 2012 so that users of the survey can understand the implementation arrangements and the rigorous approach to sampling that produced the data set.
4. To present high level findings of FinScope Malawi 2012 to enhance stakeholders understanding of the current state of financial access, and to use this understanding as a baseline to inform and guide future developments.
5. To make recommendations to stakeholders (financial sector and policymakers) as to how to improve financial access.
6. To recommend the ensuing steps to be taken for the dissemination and application of the FinScope MSME Malawi 2012 data.

Findings are reported in a manner comparable to FinScope reports in other countries. However, there is a wealth of data contained in the dataset that has not been covered in this report. It is therefore recommended that stakeholders review the data available to see how it can help them to address financial and development questions that are significant to them. The database is available from FinMark Trust.



<sup>1</sup> Sample size of sub-groups needs to be considered when analyzing the data further.

## 1.1 Background to the FinScope MSME survey

In order to develop effective interventions for MSMEs, it is important to have a comprehensive understanding of the sector; the specific challenges faced by small business owners, and the capacity they have to address these challenges.

Any development or intervention strategy should, however, take into account that a “one size fits all” approach will not be effective. Interventions need to be targeted and evidence-based. Availability of reliable and accurate information pertinent to the specific needs of specific segments of the small business sector is therefore, essential to the development of any intervention strategy. Unfortunately however, in most developing countries this kind of information is not available.

In recognising this, FinMark Trust<sup>2</sup> developed the FinScope MSME survey. It is a nationally representative survey focusing on small businesses and their financial services needs.

The objectives of the Malawi FinScope MSME survey include the following:

- To assess the **size and scope** of micro, small, and medium enterprises (MSME) in Malawi;
- To describe the levels and landscape of **access to financial products and services** (both formal and informal);
- To identify the most binding **constraints** to MSME’s development and growth with a focus on access to financial markets;
- To identify and describe different **market segments** with specific development needs in order to stimulate segment related innovation; and
- To propose **recommendations** regarding financial assistance to MSMEs and financial policies.

## 1.2 Methodology of the study

The table below gives an overview of the methodology applied. The following sections provide more detail regarding the questionnaire, sampling approach, and the analytical tools used.

**Table 1: Methodological overview**

Logistics	Details
Methodology	Face-to-face, pen and paper interviews were conducted among small business owners in Malawi
Definition of MSME owners	Survey of MSME owners, defined as individuals who are: <ul style="list-style-type: none"> <li>• 18 years or older</li> <li>• Perceive themselves to be business owners/generating an income through small business activities</li> <li>• Employing less than 100 employees</li> </ul>
Questionnaire length	± 75 minutes
Fieldwork	January 2012 to March 2012
Data management	10% back checks, data capturing in SPSS, weighting was done on EA, household and individual level, data validation against census data
Implementation	The study was funded by a number of donors and implemented by the National Statistics Office Malawi

<sup>2</sup> Established with initial funding from the UK’s Department for International Development, FinMark Trust is an independent trust, whose purpose is ‘making financial markets work for the poor; by promoting financial inclusion and regional financial integration. It does this by conducting research to identify systematic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

## **1.3 Questionnaire**

### **1.3.1 Original development of the questionnaire**

The FinScope Small Business Survey methodology was first piloted in South Africa in 2006. It has since been implemented in Zambia (2008), Tanzania (2010) and South Africa (2010). The survey is currently underway in Zimbabwe and Mozambique. The South African questionnaire was used as a benchmark for the Malawi MSME questionnaire. The questionnaire was then adapted to the Malawian context.

### **1.3.2 Revisions to the questionnaire**

By design the questionnaire is intended to involve a range of stakeholders in a syndicate, thereby enriching the survey tools through a process of cross-cutting learning and sharing of information. The design of the questionnaire was guided by the FinMark Trust research team, the National Statistical Office and the Steering Committee. The design process entailed several revisions while maintaining continuity on the content for the indicators on trend and monitoring analysis of changes in the financial systems over time. The final questionnaire is signed on by all relevant parties involved. It is then translated and back-translated from English into Chichewa. The questionnaire is used in the training of enumerators and is completed by a detailed training manual. The questionnaire is then piloted internally and in the field. Insights and feedback from supervisors during the pilot are taken into account for further revision before the questionnaire is finalised. The final version is adopted and accepted and ready to be used in the field.

### 1.3.3 Final structure of the questionnaire

The survey tool includes the following broad sections.

**Table 2: Questionnaire structure**

Topic	
Introduction and screening	
A	<b>Demographics</b> Age, gender, education, language, nationality, etc.
B	<b>Nature of the business</b> Economic activity, ownership, location etc.
C	<b>Getting involved in your own business</b> Reasons for opening the business, main constraints, etc.
D	<b>Employees in the business</b> Number of employees, nature of employment, labour relations, etc.
E	<b>Customers</b> Client base, marketing practices, etc.
F	<b>Registration/compliance of business</b>
G	<b>Formal product penetration</b> Usage of formal financial products
H	<b>Banking penetration</b> Usage of banking products, main constraints
I	<b>Credit and loans</b> Usage of credits and loans, reasons for borrowing, main constraints
J	<b>Savings and investments</b> Saving mechanism, reasons for saving and investments, main constraints
K	<b>Risks and insurance</b> Main risks (perceived and experienced) and coping mechanisms, usage of insurance products
L	<b>Money management within the business</b> Transactions, terms and conditions, etc.
M	<b>Record keeping</b> Methods of payment, financial record keeping processes, business turnover etc.
N	<b>Import and exports</b>
O	<b>Business support</b> Awareness of and access to small business support mechanisms
P	<b>Skills of the business owner/company resources</b>
Q	<b>Psychographics and business performance</b> Perceptions and attitudes regarding business performance, and main constraints

## 1.4 Sampling

### Survey population

The survey population refers to MSME owners in Malawi, who are:

- 18 years or older;
- Perceive themselves to be business owners generating an income through small business activities;
- Employ less than 100 employees.

They include both wealthy and poor individuals residing in urban and rural areas, women and men. The sample is representative for urban areas, Southern region rural, Central region rural and Northern region rural.



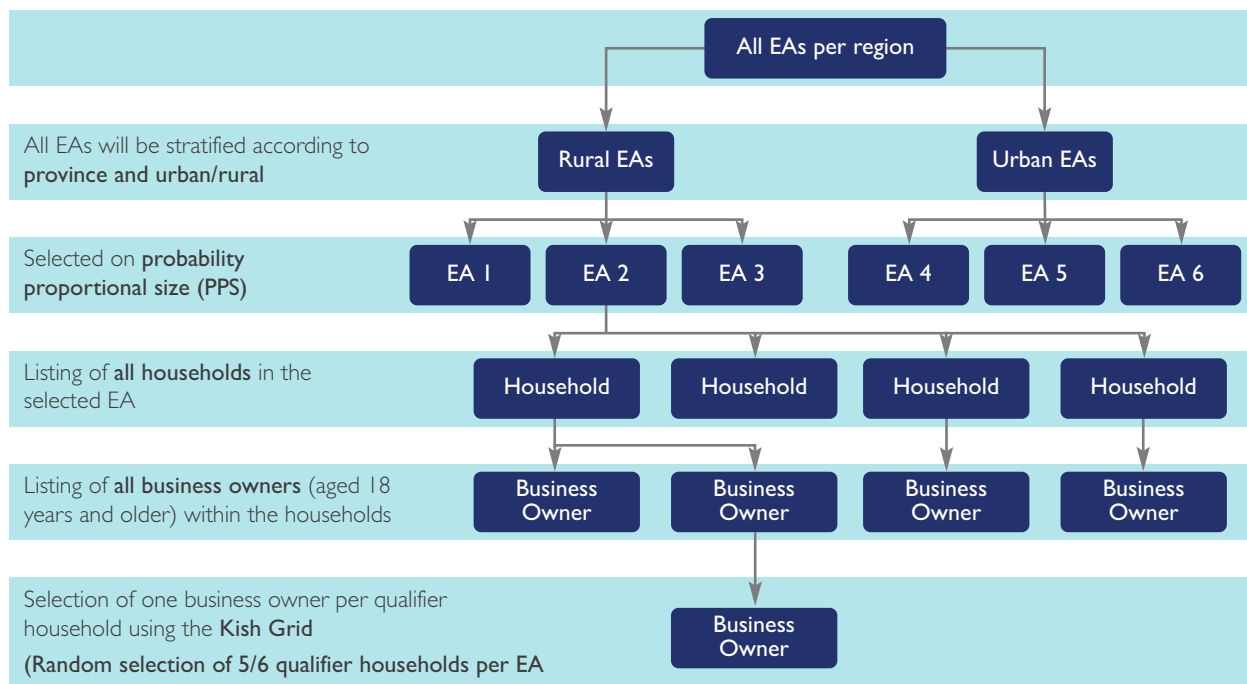
### 1.4.1 Sampling units

Enumeration areas (EAs) are the primary sampling units, qualifier households (those with business owners) are secondary sampling units, and individuals selected by the KISH GRID from a list of eligible respondents (business owners) at every selected qualifier household are tertiary and ultimate sampling units.

### 1.4.2 Sampling strategy

**Sampling method:** A multi-stage sampling approach is used as illustrated in the figure below, including an initial listing phase.

**Table 3: Sampling approach**



**Listing exercise:** A list of all census enumerator areas (EAs) was obtained, stratified by region and urban/rural. A total of 334 EAs were sampled using probability proportional to household size (PPS) based on the 2008 Census figures, including 70 urban and 264 rural areas. All households in the selected EAs were then listed. Within the households, all small business owners who are 18 years or older were identified and this is used as the main sampling frame.

**Survey:** Within each selected EA, six qualifier households (with business owners) were systematically selected from the listed MSMEs. Within the selected households, where there is more than one business owner, the Kish Grid was used to randomly select the qualifying household member with whom to complete the interview (this individual was the ultimate sampling unit).

### 1.4.3 Sample frame

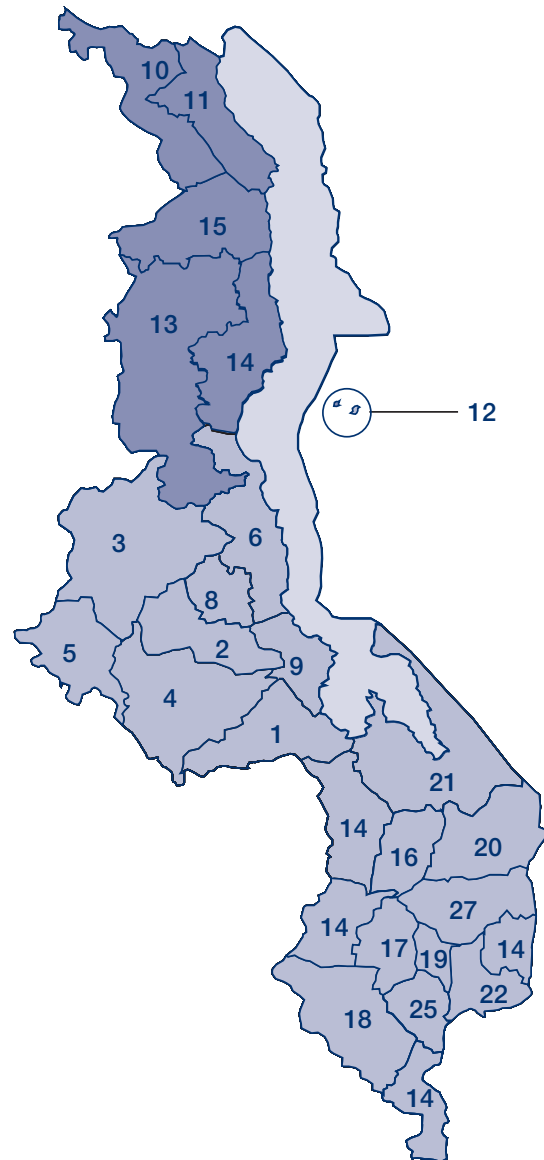
The initial sample frame (for the PPS sampling of EAs) was based on the 2008 official Census data. In addition, a listing exercise was conducted to determine the correct weights, i.e. all small business owners are listed in the selected EAs. Sample frame and weighting of the data was conducted by the National Statistics Office.

### 1.4.4 Sample size

A total of 1997 face-to-face interviews were conducted in 334 EAs. The detailed sample distribution is provided in the table below.

**Table 4: Sample size by district**

District	Completed interviews
Chitipa	30
Karonga	36
Nkhatabay	26
Rumphi	24
Mzimba	96
Mzuzu city	36
Kasungu	78
Nkhotakota	42
Ntchisi	30
Dowa	78
Salima	48
Lilongwe	168
Mchinji	60
Dedza	90
Ntcheu	72
Lilongwe city	179
Mangochi	108
Machinga	66
Zomba	84
Chiradzulu	42
Blantyre	48
Mwanza	12
Thyolo	84
Mulanje	70
Phalombe	42
Chikwawa	60
Nsanje	30
Balaka	42
Neno	12
Zomba city	24
Blantyre city	180
<b>TOTAL</b>	<b>1 997</b>



### 1.4.5 Unit of analysis

The FinScope survey is an individual survey and thus the ultimate unit of analysis is the individual, although some additional household information is collected.

## 1.5 Training and pilot

FinScope follows a standard training procedure. The enumerators undergo ten days of training. The questionnaire is tested internally (mock interviews) and through field pilots. A detailed training manual is compiled, which guides the training sessions.

### 1.5.1 Pretest

Ten, experienced NSO permanent staff were identified for pretesting the questionnaire for the exercise, conducted from the 6th to 19th November 2011. Two teams were formed each consisting of a team leader and four enumerators. One team was assigned to Chiradzulu for the rural population, and the second team was assigned to Blantyre City for the urban population. Each enumerator had to interview two respondents bringing the total to sixteen respondents. The observations and comments from the pretesting exercise were incorporated into the final questionnaire. The updates were informed by revisions made in skip patterns, filters, wording, and the translations of the questionnaire.

### 1.5.2 Training

A total of 85 people were recruited for training by the NSO for the main survey. The survey questionnaire training took place at Masuku Lodge in Zomba City, from 28th November to 10th December 2011. The training course consisted of instructions in general interviewing techniques, and field procedures, a detailed review of items on the questionnaire, sampling techniques and mock interviews between participants. In-depth discussions on the translation were an important part of the training programme. Emphasis was also placed on the importance of correct field map interpretation because failure to correctly locate the boundaries would affect the results of the survey. The enumerators were called in for a three day further briefing from the 15th to the 18th January 2012 before they were deployed in the field.

## 1.6 Data collection and management

### 1.6.1 Fieldwork

The questionnaire was administered through the face-to-face interview technique. The enumerator directly asked the questions to the respondent and the enumerator recorded the responses. The method was adopted as the response rate was high and non-responses due to illiteracy levels were circumvented. Five senior members of the NSO staff and two from the Ministry of Industry and Trade supervised and coordinated all field activities. The field work commenced on 23rd January 2012 and was completed around the 2nd of March, 2012. In total 15 field teams were deployed into the field. A team was made up of four enumerators and a team leader.

### 1.6.2 Data entry

All questionnaires for the MSME survey were returned to the NSO central office in Zomba for data processing. Ten data entry clerks captured the data using the CSpro programme for a period of six weeks. A double data entry was deployed to check for anomalies in the data produced. Data was exported into STATA and SPSS for data analysis and tabulation.

### 1.6.3 Weighting

The MSMEs sample was selected using a stratified two stage cluster design. In each stratum, clusters were selected proportional to household size (based on 2008 Malawi Housing and Population Census). In total, 334 clusters were selected in the first stage and 6 households with MSMEs were interviewed per cluster. Probability of selection of the MSME is given as:

$$P_{hi} = \frac{n_i}{\sum M_i} M_{ih}^* \frac{6}{\sum M_{hi}}$$

- $n_i$  – Number of clusters selected from the  $i$ th stratum
- $\sum M_i$  – Number of households from  $i$ th stratum reported in 2008 census
- $M_{ih}^*$  – Number of households from  $h$ th clusters in  $i$ th stratum reported from 2008 census
- $\sum M_{hi}$  – Number of households listed with MSME in selected  $h$ th cluster from  $i$ th stratum during the 2012 MSME listing operation

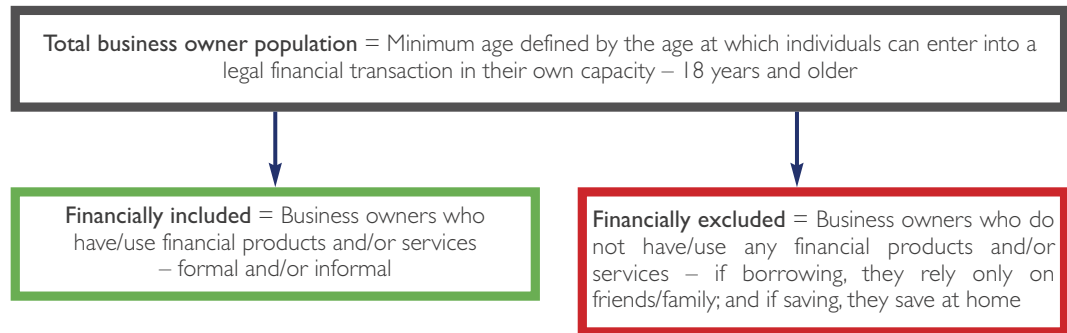
The basic weighting scheme involves reciprocating the design weights (sample weights) and is given as:

$$W_{hi} = \frac{1}{P_{hi}}$$

## 1.7 Analytical framework

The analysis followed a standard analysis plan based on the questionnaire and the objectives of this survey. The financial inclusion section, however, uses the FinScope analytical framework, which is applied to all FinScope MSME surveys for the purpose of comparative study.

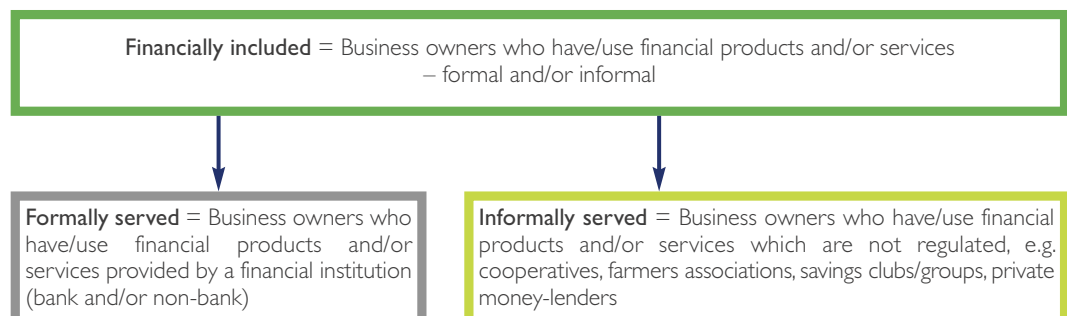
The concept “financial inclusion” is core to the FinScope methodology. Based on financial product usage, the business owners are segmented into two groups: the ‘financially excluded’ and the ‘financially included’:



The ‘financially excluded’ segment refers to business owners who manage their businesses without the use of any financial products or mechanisms external to their personal relationships.

To further understand financial inclusion, the ‘financially included’ segment of the business owners is taken through a further step of segmentation. As the ‘financially included’ segment comprises business owners who have/use formal and/or informal financial products and mechanisms, this second step in the segmentation seeks to identify:

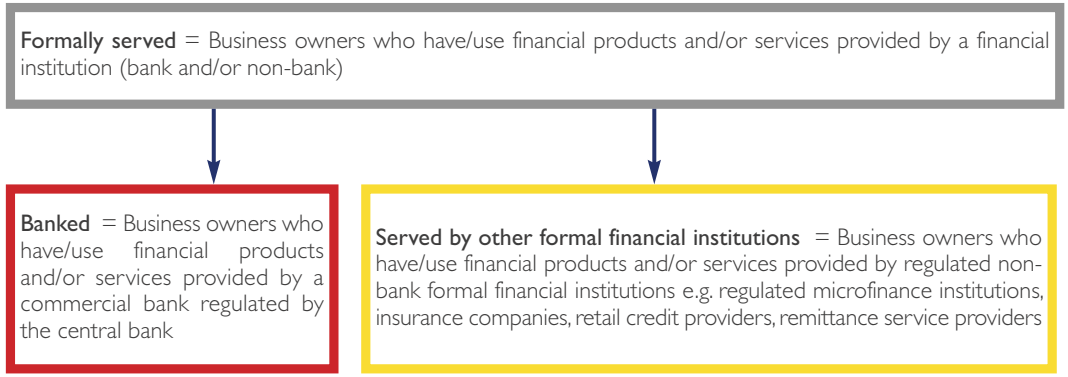
- Those business owners who have/use products/services from financial institutions that are regulated through an Act of law (formal financial institutions) – the ‘formally served’ segment of the population;
- Those business owners who have/use products/services from financial institutions that are not regulated (informal financial institutions and mechanisms) and/or use community based organisations/mechanisms to save or borrow money for business purposes – the ‘informally served’ segment;
- Those business owners who have/use both formal and informal products and services.



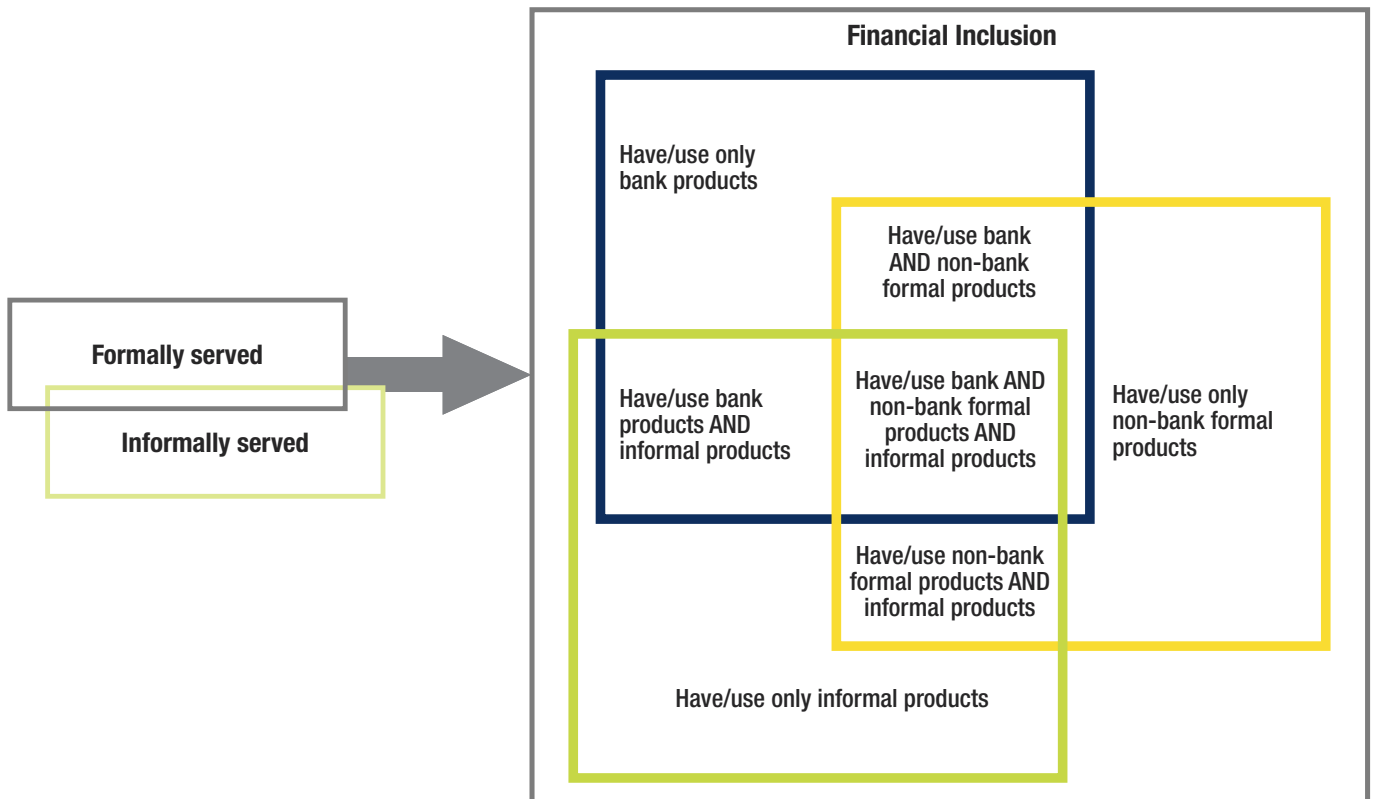
The next step in the segmentation seeks to better understand or unpack the ‘formally served’ segment – i.e. business owners who have/use products/services from financial institutions that are regulated through an Act of law (formal financial institutions). This step further segments the formally served into:

- Those business owners who have/use products/services from licensed commercial banks that are regulated by the central/reserve bank – the ‘banked’ population;

- Those business owners who have/use products/services from financial institutions that are regulated through Acts of law but which are not commercial banks. Those individuals who have/use products/services from such institutions, comprise the 'Served by Other Formal financial institutions' segment (referred to as 'Other Formal' segment);
- Those business owners who have/use products/services from both commercial banks and other formal financial institutions.



Finally the segmentation process looks at the overlaps between the different population segments allowing for a better understanding of the following population segments:



## 2 Background and country context<sup>3</sup>

### 2.1 Country profile

Malawi is a country in sub-Saharan Africa with an estimated area of 118,480 square kilometres. Lakes occupy about 20.6% of the estimated area. The country is bordered to the north and northeast by the Republic of Tanzania; to the east, south and southwest by the People's Republic of Mozambique; and to the west by the Republic of Zambia. The country has a population of about 13.1 million people with an annual growth rate of 2.8% according to the recent 2008 Population and Housing Census conducted by the National Statistical Office. The population is distributed as follows: 44.8% (the majority) reside in the southern region; 42.1% reside in the central region; and 13.1% reside in the northern region. The majority of Malawi's citizens (about 84.7%) live in the rural areas.<sup>3</sup> The literacy rate in Malawi is 64%.

Malawi is highly dependent on agriculture, with 84.5% of the population<sup>4</sup> recording farming as their main source of income. With very low levels of urbanization, the economy is still very dependent on rain-fed agriculture, and with only one rainy season (November to April) it is vulnerable to the impact of drought. In the past, drought had a significant negative impact on growth, inflation, trade balance and fiscal deficit and the Government of Malawi undertook to import significant amounts of maize, the main staple food. If it were not for these natural disasters, economic performance would have been better as has been the case from 2005 to 2010. With a good harvest since 2005 to 2006, economic performance has been good, though it may be vulnerable in the future due to unpredictable weather.

The size of the economy and the private sector is relatively small, with a number of sectors dominating, particularly agriculture which contributes 35 – 39% of the GDP. Within the agricultural sector tobacco, tea and sugar represent close to 83% of the total exports (according to ITC 2008 report on Malawi). Services, particularly distribution (includes trading) are also significant, contributing 45 – 46% of the GDP. Economic trends for the last five years show an increase in the GDP for the agricultural sector, due mainly to good rainfall and fertilizer subsidy, with increases also in the distribution/trading, construction and recently the mining sector. The latter has seen recent investments made in the mining of heavy mineral sands and uranium.

Malawi has limited and mostly underdeveloped mineral resources. However, a major uranium mining project which became operational in 2009 is said to be contributing an additional 5 – 10% of the Gross Domestic Product (GDP)<sup>5</sup>. The only other significant natural resource is fish from Lake Malawi. However some fish species are rapidly being depleted.

### 2.2 Transport infrastructure

The main international airports are Lilongwe and Blantyre, with limited freight transport. The main roads between urban areas are paved and reasonably maintained, but most rural feeder roads are not paved resulting in poor access during the rainy season. Malawi is a landlocked nation. Transport corridors therefore are of particular importance as this links Malawi to the major ports of South East Africa. There are three important transport corridors: to Durban (South Africa), via Mozambique and Zimbabwe; to Nacala; and to Beira (both Mozambique). These three transport corridors account for close to 60% of Malawi's export trade flows<sup>6</sup>. There is an operational railway line from Southern Malawi to Nacala, but the route to Beira has not been operational since the end of the Mozambican civil war. Both systems require investment to restore it to proper use so that it can be utilised to its full potential.

Nacala Port has recently been privatized and CEAR owns the franchise for the Mozambique and Malawi railways. With planned donor and Governmental commitments to improve the Port and Railways, this should result in improved turn around and lower costs of haulage. Some businesses use Tanzania and Kenyan Ports to the north but these are often used by the tea sub-sector. Some of the tea is auctioned at Africa's largest tea auction in Mombassa, Kenya. The Government of Malawi is keen to develop the

<sup>3</sup> Population and Housing Census, 2008

<sup>4</sup> Population and Housing Census, 1998

<sup>5</sup> Deduction from Assessment of MSME Sector in Malawi by Deepening Malawi's Microfinance Sector Project (2007).

<sup>6</sup> National Export Strategy, 2005

Shire Zambezi Waterway that will provide barge transport to the Mozambique port of Chinde and from there to Beira. High transport costs considered to be one of the major inhibiting factors in the development of the economy, is a major hindrance to business.

## 2.3 MSMEs in Malawi

### 2.3.1 MSME definition

MSMEs, defined by a combination of employment and turnover; having dropped the capital investment criteria in 1998, as follows:

**Table 5: MSME definition**

Type	Employment	Annual turnover (MK)
Micro	1 – 4	Up to 120 000
Small	5 – 20	120 001 to 4 million
Medium	21 – 100	Above 4 million to 10 million
Large	Above 100	Above 10 million

Source: Ministry of Industry, Trade and Private Sector Development

The Directorate responsible for MSMEs only uses the employment criteria when defining MSMEs because the turnover figures are meaningless due to changes in inflation for the period. Use of employment criterion, particularly in a low wage economy like Malawi that employs mostly low paid employees, can be difficult to apply in practice, as they are low in cost. In developing or developed economies on the other hand these roles may be out-sourced. Given that the economy of Malawi is predominantly agriculture based, employment is generally highly seasonal as most agriculturally-linked enterprises employ seasonal workers. As a result the relative size of these businesses may be overstated. Nevertheless, in the absence of reliable criteria that are easily measurable, the use of employment as a defining criterion is the most robust method of categorizing businesses.

## 2.4 Role of MSMEs in economic growth

MSMEs play a key role in economic growth and industrial development of a country. They make vital contributions in improving economic and social sectors of a country through stimulating large scale employment, investment, development of indigenous skills and technology, promoting entrepreneurship and innovativeness, enhancing exports, and also building an industrial base at different scales (UNIDO, 2000). A competitive and innovative MSME sector holds out enormous promise particularly for developing countries like Malawi, in terms of: higher income growth; optimal employment of domestic resources; more gainful integration through regional trade and investment; and greater equity in access, distribution and development.

MSMEs have the flexibility to quickly adapt and adjust to rapid changes in the environment. Contrary to the long held belief that MSMEs were meant to serve the local demand, the newly emerged situation has brought changes favourable to demands and investment structures. As a result, MSMEs are not only key ingredients to the global production networks across countries but they are also actively involved in innovation systems. The presence of MSMEs is also found across industries and sectors, in rural, urban and peri-urban areas. In addition, they are an important channel for poverty alleviation through economic empowerment and participation, particularly for women, the youth and the marginalised sections of society.

MSMEs in most countries have not received the necessary attention to enable them to start, grow and diversify-that is why they continue to face a myriad of challenges. This being the case, MSMEs are generally founded, owned, and operated by individual entrepreneurs, often without much support from public or any other sources. Yet, many of the corporations existing today had humble beginnings as MSMEs several decades ago. The situation facing MSMEs in Malawi is not different. It is therefore important to realise that the private sector is a critical player for employment creation, growth and development of any country, and MSMEs make up a critical and largest component and hence the bedrock of the private sector.

### 2.4.1 MSMEs and the informal sector

The informal sector has assumed a very important role in the economy of developing countries. However, the sector is characterized by low productivity; a lack of capital accumulation; low capital intensity, and labour-intensive and dominant capital-saving production. Most people ensure their survival using risk minimizing strategies. Small informal enterprises mainly employ family members or poorly paid workers. Nevertheless, other studies have shown that informal firms are innovative, utilise modern technology and satisfy the demand in both urban and rural areas.

### 2.4.2 Policy environment for MSME development – situation analysis

Government policy towards economic development during the period 1964 – 1980 was largely focused towards large-scale manufacturing industries, with no specific policy to develop the MSME sector. Specific government initiatives to develop and support the MSME sector commenced in the early 1980's with the establishment of specialised SME support institutions to provide entrepreneurial skills, business management training, business financing and technology interventions. The institutions set up by government included the Malawian Entrepreneurs Development Institute, the Development of Malawi Enterprises Trust, Small Enterprise Development Organisation of Malawi, and the Malawi Industrial Research and Technology Development Centre.

Despite these initiatives, there were no specific policies and strategies formulated to support the development and promotion of MSMEs until the mid-1990s. Government specifically recognised the importance of the sector in the Poverty Alleviation Programme approved in 1995 and later the Malawi Poverty Reduction Strategy Paper.

Specific attention was given to the MSME sector with the formulation of the first ever Small and Medium Enterprise Policy developed by the Ministry of Industry and Trade and approved by Government in 1998. The Small and Medium Enterprise Policy was the first step to recognise the different categories of the sector by clearly defining enterprise size to facilitate proper targeting. This was closely followed by the approval of the Cooperatives Development Policy also in 1998. Recognising the importance of access to credit by micro-enterprises as a special category, the Ministry of Industry and Trade formulated the Microfinance Policy which was approved by Cabinet in 2002.

Since the formulation of the specific policy instruments by the Ministry of Industry and Trade, there has been wider recognition regarding the important role of MSMEs. This has further been recognised in overarching government development policies including the Malawi Vision 2020 and the Malawi Growth and Development Strategies I and II. The MSME sector has clearly been recognised as a vehicle for poverty reduction, empowerment and wealth creation. These have led to the implementation by the Ministry of Industry and Trade of specific programmes such as the Small Enterprise Development Programme (1993 – 1997), the Enterprise Development and Employment Creation Programme (1998 – 2002) and funding by Government of specific interventions to the sector under Protected Pro-poor Expenditure.



### 2.4.3 MSE support institutions

The Malawi Government has been spearheading the establishment of a number of MSE support institutions primarily those offering the following services: credit facilities and training in entrepreneurial and technical skills. In recent years, several private institutions have emerged offering these services. Some of the Institutions that provide support to MSEs are shown in the table below.

**Table 6: MSE support institutions**

Name	Service provided	Nature of institution
Malawi Entrepreneurial Development Institute (MEDI)	Training	Public
Development of Malawian Entrepreneurs Trust (DEMAT)	Training and credit	Public
Small Enterprise Development Organisation of Malawi (SEDOM)	Credit	Public
Malawi Rural Finance Company	Credit	Public
Pride Africa	Credit	NGO
Foundation for International Community Assistance (FINCA)	Credit	NGO
National Business Women (NABW)	Credit	NGO
Women's World Banking (WWB)	Loan	NGO
National Association of Small and Medium Enterprises (NASME)	Group loans, training, group marketing	Association
Malawi Bureau of Standards (MBS)	Standardisation, quality assurance, technical services	Public
Malawi Export Promotion Council (MEPC)	Trade fairs, training and extension	Public
Malawi Industrial Research and Technical Center	Technology transfer and industrial research	Public
Malawi Institute of Management (MIM)	Business skills training	Public
Staff Development Institute	Business skills training	Public
IndeFund	Loans	Private
Malawi Confederation of Chamber of Commerce and Industry (MCCCI)	Trade promotion, business advisory services, Certificate of Origin	Private
National Association Small Farmers of Malawi (NASFAM)	Extension, group sales and marketing, training	Association
Technical Entrepreneurial and Vocational Education Training Authority (TEVETA)	Training	Public

#### 2.4.4 Opportunities for Malawi's MSME sector

The Government of Malawi has implemented policies that have fostered and supported the growth of MSMEs. There has been the establishment of MSE support institutions and donor support to the activities of MSMEs channelled through Government and non-government organisations.

Bilateral and multilateral agreements offer MSMEs opportunities to excel and grow. Multilateral agreements like the Lome Convention offer MSMEs in Malawi, which is a member of ACP, to export to EU countries at zero tariffs. COMESA and SADC communities, to which Malawi is a member, offer an expanded market for Malawian MSMEs to explore.

Trade liberalisation has brought about a new entry of chain stores into the Malawi market, creating a demand for supplies that can be locally produced. Some of the products can be sourced locally like eggs, chicken, vegetables, meats, etc. presenting opportunities for MSMEs to supply. However, due to the poor quality of products and services these chain stores have had no choice but to import from South African producers given their ability to supply quality products on time and in the right quantity. Malawian MSMEs require better organisation to take advantage of these new opportunities.

MSMEs in Malawi operate in a more supportive environment now than they did 20 years ago. This is largely due to the enabling environment being created through policy development and innovation to drive development and growth of the MSME sector: It is in this light that the Ministry of Industry and Trade together with other stakeholders are currently directing their efforts in revising existing policy and investigating strategic interventions to impact on the development of the MSME sector so that the potential of this sector is optimised.

NGOs also play a significant role in the development of MSMEs. NGOs offer services in the area of capacity building through training and provide credit facilities to MSMEs. NGOs have had success in reaching out to business players in the lower levels of MSMEs. Business Consult Africa (BCA) is one such organisation that strengthens capacity through provision of training aimed at improving managerial abilities and skills.

The new effort by TEVETA focuses on training artisans within the MSME sector. The artisan skills improvement training on offer include: tailoring, plumbing, bricklaying, etc.

#### 2.4.5 Challenges facing Malawi's MSMEs

While there are various opportunities presented to people within the MSME sector, numerous challenges have been identified that are obstacles to progress and inhibiting the development of small business. The following highlight some of the challenges facing small business owners:

1. Lack of skills in export marketing and export procedures;
2. Lack of credit facilities in general and export credit in particular; and as most credit requires collateral this also limits if not prevents access to finance;
3. Lack of information on export markets;
4. Lack of appropriate technology to produce quality goods and achieve high productivity;
5. Very small size of individual MSMEs which limits their ability to meet export orders and demands; and
6. Lack of information on export markets as relates to consumer requirements.

The most notable challenge currently facing MSMEs is their inability to effectively network. Networking is a form of social capital which facilitates the flow of information among network members. Networking activities is classified into global, localised, innovative and solidarity networks (Barr, 1998). The innovative networks enable members to acquire markets and technical information, and with synergy they may be able to increase productivity and meet a market requirement (Barr, 1998). The solidarity networks enable members, particularly small enterprises, to share information that reduces business uncertainty (Barr, 1998; Fafchamps and Minten, 2001). MSME associations that provide media opportunities for networking are lacking in Malawi. They are often dependant on financial donations to be active, without which they become dormant.

## 2.5 Banking industry and financial services

### 2.5.1 Commercial Banks

Malawi's banking sector is overseen and regulated by the central bank, the Reserve Bank of Malawi. There are 12 licensed commercial banks currently operating in Malawi, which provide a range of services. As shown in a table below, the two largest commercial banks are Standard Bank of Malawi and the National Bank of Malawi, which is 50% government-owned. Three banks, Opportunity International Bank of Malawi (OIBM), the Malawi Savings Bank (MSB) and NBS Bank engage in inclusive financial activities. The banking system is predominantly privately owned, with a significant share of foreign ownership.

Note: list of commercial banks in Malawi

1. National Bank of Malawi
2. Standard Bank Malawi
3. NBS Bank
4. First Merchant Bank
5. Nedbank
6. Indebank
7. Malawi Savings Bank
8. Opportunity International Bank Malawi
9. Ecobank<sup>[2]</sup>
10. International Commercial Bank<sup>[3]</sup>
11. FDH Bank<sup>[4]</sup>
12. CDH Investment Bank

**Table 7: Commercial banks**

Classification	Commercial Banks
Large	National Bank, Stanbic
Medium	NBS Bank, First Merchant Bank
Small	IndeBank, Eco Bank, NED Bank, Malawi Savings Bank, Opportunity International Bank

According to the 2008 Malawi Finscope Consumer Survey, about 19% of Malawians are banked and of this 48% are women. About 22% of adults have bank accounts, 7% of people in Malawi use other forms of financial institutions and 19% use informal financial services.

Given the geography and population density of Malawi, bank operations tend to be concentrated around towns and cities. With around 300 branches, ATMs and agency banking outlets, located mostly in major population centres, Malawi has less than 0.01 banking outlets per capita. Other than for OIBM, NBS and MSB, commercial banks have shown limited interest in lower income markets. However, due to an increased emphasis on financial inclusion and the search for new markets, the Bankers Association of Malawi (BAM) has recently formed the Financial Inclusion Taskforce (FIT) to investigate potential market opportunities for member banks.



As a result of increased competition in the main urban locations, banks have been deepening their presence through agency relationships and the rollout of point of sale (POS) terminals, in areas that were previously of little interest to most commercial banks. While progress is slow, this phenomenon seems to result from the manner in which earlier entrants (such as NBS and OIBM) have demonstrated that they can generate enough business in areas that are generally poor and considered to be of low potential.

Banks are also showing significant interest in the use of technologies that enable them to offer more services across a broader client base. The expectation is that technology-driven products will bring down transaction costs and enable service delivery to a larger volume of clients, including low-income individuals. The traditional banks are currently the largest actors in the mobile banking space in Malawi.

Beyond the issue of location and the accessibility of bank operations, banks face other challenges to extending services that meet the needs of low-income households, especially those based in rural markets. Many banks offer products that are not designed for the needs of low-income households, for example, the significant costs associated with opening and keeping a bank account precludes low-income individuals from holding an account.

### 2.5.2 Non-banking financial institutions

The financial system is further comprised of two discount houses, one leasing company, eight non-life and three life insurance companies, four DFIs, a microfinance industry and a nascent capital market.

The financial institutions primarily provide various forms of credit, with emphasis on services provided to people who are not generally served by the banking sector, including a wide range of microfinance institutions (MFIs). An important development is the entry of payroll moneylenders, for-profit companies that are privately funded, some of which are operating in several countries in sub-Saharan Africa. A number of non-profit institutions also provide microfinance services, which combine a charitable objective with the business of providing financial services to the poor.

These institutions can be further classified in terms of whether they have an urban or rural bias in their client targeting. Many MFIs operate in such a way that they avoid areas where there is no bank and where the roads are in a condition that would make it difficult to access. Payroll moneylenders are concentrated in urban areas, as they provide loans to employed individuals.

Another group of financial service providers are the savings and credit cooperatives (SACCOs). In some other African countries, SACCOs are based on traditional structures that have embedded social and economic networks. In Malawi, however, SACCOs are not commonly found in the local communities and there are relatively few of them. There is quite a variety in the size of SACCOs operating in the country. Some are relatively small, having less than 70 members, whilst the largest has a membership above 20 000.

In addition, financial services are also supplied by a range of informal operators. These include individual moneylenders and village-based savings and loans associations or rotating savings and credit associations where small groups of individuals save small amounts periodically and each member receives a lump sum payment at some point during the cycle.

About 74% of adults save in cash or in kind, the majority of people save for family use and about 5% save money for future investments, for example in business, house and collateral for a loan. About 17% of adults in Malawi borrow from micro-finance institutions whereas 4% borrow from banks. The majority of adults borrow from their family members.

### 2.5.3 Financial inclusion policy and regulatory framework

Over the past 20 years, the Government of Malawi has worked towards the creation of a commercially driven financial sector. Starting out with the privatisation of the sector, it was followed by the deregulation and liberalisation of the sector and more recently, by the introduction of a host of regulatory and policy actions.

The importance of increasing access to credit, savings opportunities and other financial services as a means of reducing poverty has long been recognized in Malawi. The need for a comprehensive strategy to deepen financial access in Malawi was a specific recommendation of the Financial Sector Assessment Programme, conducted in 2007. The Financial Inclusion in Malawi (FIMA) project established by the UNCDF and housed at the Ministry of Finance, aimed to assist in creating a national strategy for building an inclusive financial sector. The Malawian government was one of the original 17 regulatory institutions to make specific national commitments to financial inclusion under the **Maya Declaration** during the 2011 **Global Policy Forum** held in Mexico. The Maya Declaration is a global statement of common principles and a measurable set of commitments made by developing and emerging country governments to address financial inclusion.

Interest by the Government of Malawi in a more inclusive financial system has led to the enactment of new sector laws and the Bankers Association of Malawi (BAM) has formed the Financial Inclusion Taskforce (FIT) to investigate potential market opportunities for member banks. Major challenges for banks downscaling to the low-income market include fulfilling know-your-client rules (Malawi recently introduced a national identity system but only for children, adults lack national identity cards); public relations issues around high interest rates; overcoming high transaction costs; and lack of management capacity. The Government of Malawi is currently receiving support from the World Bank in terms of a Financial Sector Technical Assistance Project with the aim to increase access to finance for the currently unbanked, but bankable population of Malawi.

The relevant policy and regulatory initiatives supporting the financial inclusion sector are listed below.

#### ■ **The Financial Services Act (FSA)**

The Financial Services Act, introduced in 2010, provides for the regulation and supervision of the entire financial sector of Malawi. The FSA is an umbrella law for the financial services industry that is interlinked with all other applicable sectorial laws, and which provides a platform for growth and innovation in the financial services industry. By consolidating all supervisory responsibilities and powers under a single Act, it ensures that no provider in the financial services industry escapes regulation. It provides a best practice set of powers for the Reserve Bank of Malawi that will enable it to supervise similar risks in a similar way across sectors. It provides the Registrar with the power to issue directives relating to the conduct of the affairs of financial institutions, including protecting financial consumers from abusive practices. It also includes a section on market practices of financial institutions.

#### ■ **Malawi Growth Development Strategy (MGDS)**

The Malawi Growth and Development Strategy (MGDS) is the overarching operational medium term strategy for Malawi. The main thrust of the MGDS is to create wealth through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. The strategy is expected to increase prosperity, reduce poverty and assist in the achievement of the Millennium Development Goals (MDGs). However, the MGDS does not directly prioritise the goals of financial inclusion nor does it directly align with the content of the National Financial Inclusion Strategy. The second Malawi Growth and Development Strategy is expected during 2012.

#### ■ **National Strategy for Financial Inclusion (NSFI)**

In October 2010, a four-year National Strategy for Financial Inclusion was established within the Economic Affairs Division of the Ministry of Finance. The NSFI was developed by the Financial Inclusion in Malawi (FIMA) Project under the auspices of the Minister of Finance. The strategy sets out a "good practice" guide to the development of the inclusive finance sector and an agenda for the Government of Malawi at each of the micro, meso and macro levels. But, critically, it will support the Minister of Finance as it assumes its responsibility for the sector development. As part of the NSFI, the Government has established the Financial Sector Policy Unit (FSPU) which is entrusted with the promotion of a vibrant and inclusive financial sector.

#### ■ **Financial Inclusion in Malawi (FIMA) Project**

The Financial Inclusion in Malawi (FIMA) Project (2007 to 2011) was a partnership between the Government of Malawi, the United Nations Development Program (UNDP) and the United Nations Capital Development Fund (UNCDF). This project aimed to increase sustainable access to financial services by Malawi's low-income population, thereby contributing to the achievement of both the Malawi Growth and Development Strategy and the Millennium Development Goals.

#### ■ **Microfinance Act (MFA)**

Microfinance institutions in Malawi remained unregulated until the enforcement of the Microfinance Act of 2010. The Reserve Bank of Malawi now has the mandate to regulate these institutions. This act is the major legislative instrument regulating the microfinance industry.

Importantly, the law requires MFI's to choose between transformation into a credit, or credit and savings institution, with the latter having more demanding capital and reporting requirements. The different types of MFIs defined by Malawi's legislation for the sector include NGOs, Savings and Credit Cooperatives (SACCOs), partially or fully state-owned corporations, private companies and projects of international development agencies and donors.

#### ■ **Financial Cooperatives Act**

This Act introduced in 2011, provides for separate and distinct regulation of Savings and Credit Cooperatives (SACCOs), establishing a separate and clear regulatory framework for SACCOs in Malawi. It ensures that the SACCOs operate in an environment that recognizes their similarities to banks, microfinance institutions and cooperatives while at the same time allowing for their unique differences. The Act allows for both primary and secondary SACCOs to exist and creates a prudential and policy framework for SACCOs to operate while limiting the administrative burdens for the SACCOs.

### 3 Demographics, nature of MSMEs and employment

#### 3.1 Overview

This chapter focuses on the characteristics of MSMEs in Malawi. A listing exercise identified all households operating businesses within an EA, of which, six households operating businesses were randomly selected to represent the EA. Household members were asked if there were any household member(s) above the age of eighteen years operating a business that employed less than 100 persons and selling **not** less than 50% of goods and services. Information about the characteristics of the MSMEs was collected on the number of MSMEs, MSMEs activities, employment size and type of ownership of MSMEs. Respondents owning more than one MSME were asked information pertaining to the main MSME. The criterion that was used to qualify the main MSME was the highest number of hours spent on the MSMEs.

#### 3.2 Demographics

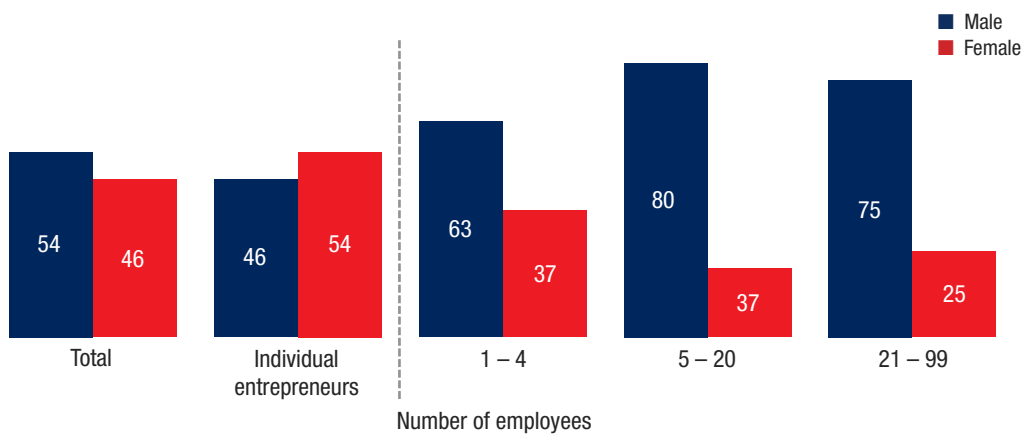
Although the survey focuses on MSMEs, the study of MSMEs would be incomplete without understanding the characteristics of the owners. The section on demographics focuses on the profile of the MSME owner's characteristics like sex, age, people they employ, education, skill and training.

##### 3.2.1 Distribution of MSME owners by sex and employment size

Data was collected on the sex of business owners. The results show that the proportion of businesses owned by men (54%) exceeds those owned by women (46%), with women more likely to be individual entrepreneurs than men. Over one third of businesses owned by females employ 1 – 4 people, one fifth employ 5 – 20 people while one quarter employ 21 – 99 people. Male owned businesses employ 1 – 4 people, four fifth employ 2 – 20 people and three quarters employ 21 – 99 people.

The figure illustrates that female-owned businesses are in general small and do not warrant employing more people compared to their male counterparts. This may reinforce the notion that businesses owned by females do not last long due to limited access to finance, stringent collateral requirements and double duties as home-maker and business person.

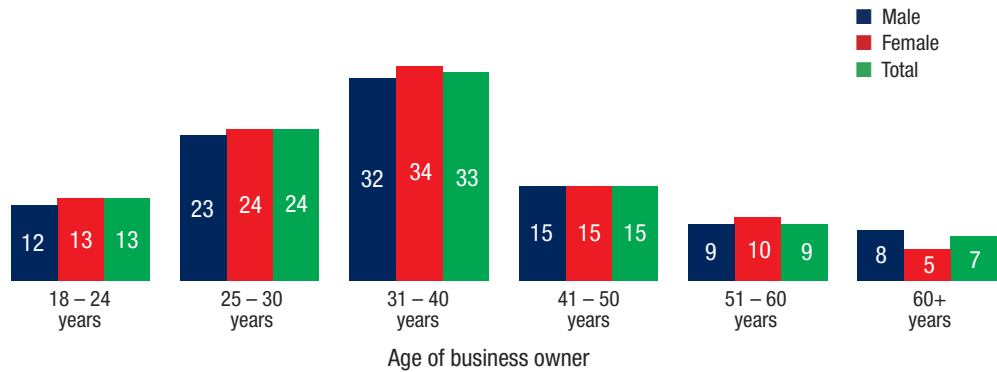
**Figure 1: Distribution of MSME owners by sex and employment size**



### 3.2.2 Distribution of small business owners by age

According to the survey, the minimum age for one to enter into business was set to be 18 years and over. As such business owners were asked to state their age. Figure 2 illustrates that small business owners in Malawi are relatively young. About 13% of business owners are between 18 and 19 years of age, 24% are aged between 25 – 30 years and 33% are between 31 – 40 years. Only 7% of business owners are over 61 years of age. The average age of business owners is 37 years. Female business owners are older than their male counterparts by one year.

**Figure 2: Distribution of MSME owners by sex and age**

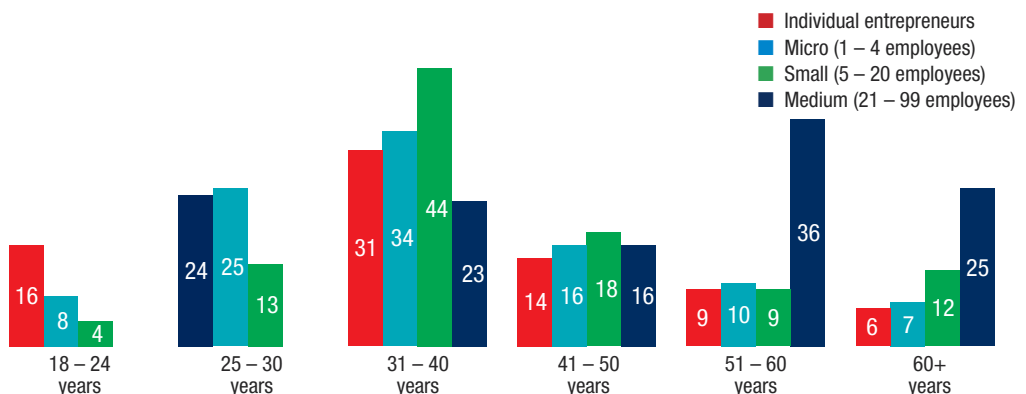


### 3.2.3 Distribution of age of MSME owner by number of employees

The age distribution of MSME owners by the number of employees working or helping in the business show that, almost 40% of businesses are owned and run by individual entrepreneurs aged 30 years or younger; 45% are operated by individual entrepreneurs aged between 31 and 50 years, while 6% of businesses are run by individual entrepreneurs aged 61 years and over without any help. Almost 59% of businesses are run with the help of employees (1 – 4) for business owners aged between 25 and 40 years, 26% by business owners aged between 41 and 60 years and only 6% by business owners aged 61 years and over. The figure above also illustrates that 44% of businesses are operated by owners aged between 31 – 40 years and employing between 5 and 20 people, while 61% of businesses employ between 21 and 99 people and their owners.

Figure 3 illustrates that young business owners aged between 18 and 30 years are most likely to be individual entrepreneurs. While 44% of business owners are in their middle ages (31 – 40 years) and are more likely to operate small businesses, for the majority of medium sized businesses, about 61% are owned by business owners over 50 years of age. Working age adults tend to invest their money in medium sized businesses than the very young. The shift away from a very young age distribution favours greater personal and national savings. The ability to save money and invest in potential businesses is even greater when individuals move into their 50s, when their children are mainly on their own and require less support. This personal savings grows and serves as a partial resource for industrial investment that fuels economic growth and the well-being of individual entrepreneurs.

**Figure 3: Age distribution of MSME owners by number of employees**





### 3.2.4 Education and skills training

There is no question to the fact that basic education enhances the overall quality of the owner of a business by providing him/her with basic numeric and literacy skills, thus increasing the chance of business survival. The figure below shows the distribution of business owners by education level. The majority of small business owners have low levels of education (68% primary education, 11% formal or no education), 19% have secondary education, while 3% have work-related, special technical diploma and other education levels.

**Figure 4: Education levels**

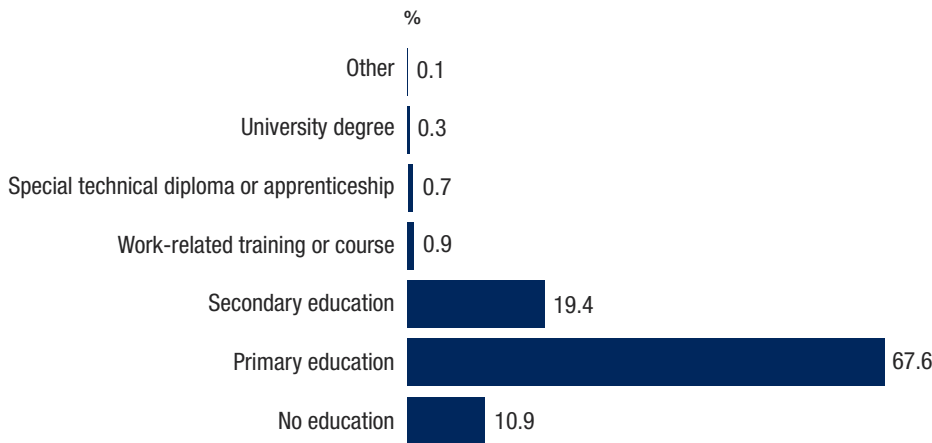
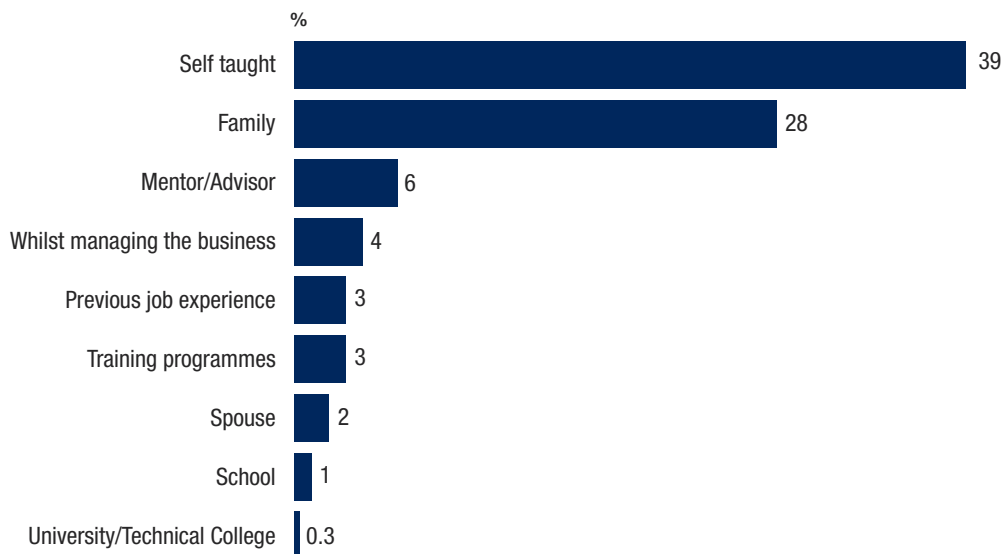


Figure 5 illustrates the distribution of business owners by skills training such as self-taught, family, mentoring, on the job training, previous work experience, training programs etc. The study shows that, 68% of business owners acquired the necessary business skills informally, that is, through self-taught and family. Only 3% attended a training program and 1.3% received their training from a formal educational institution such as a school or technical college. Most people taught themselves (39%) or were taught by family members (28%).

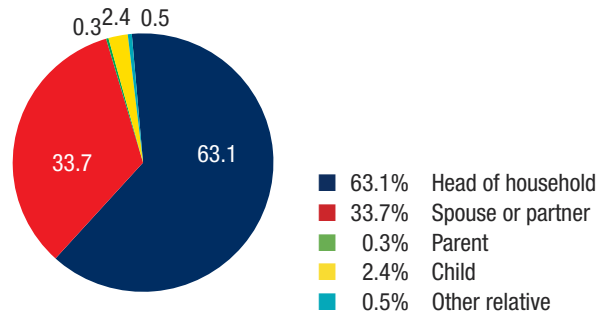
**Figure 5: Skills training**



### 3.2.5 Distribution of business owners in relation to head of household

Figure 6 shows the distribution of business owners by relationship to the head of the household. The results show that 63% of business owners are heads of the household; 34% are spouse/partners; while 3% is either parent, child, grandparent or other relative. Thus the business is likely to be an important source of income for the household livelihood.

**Figure 6: Business owner’s position in the household**



### 3.3 Size and scope of the MSME sector in Malawi

The size of the MSME sector is portrayed by a number of indicators, such as the number of MSMEs in Malawi, the number of MSME owners, the number of people employed in the sector; the total revenue, etc. The scope describes the landscape or nature of the sector; including information such as operating location, nature of ownership of premises, age of the business, registration and compliance, and resources of the businesses.

**Figure 7: MSME sector in Malawi**



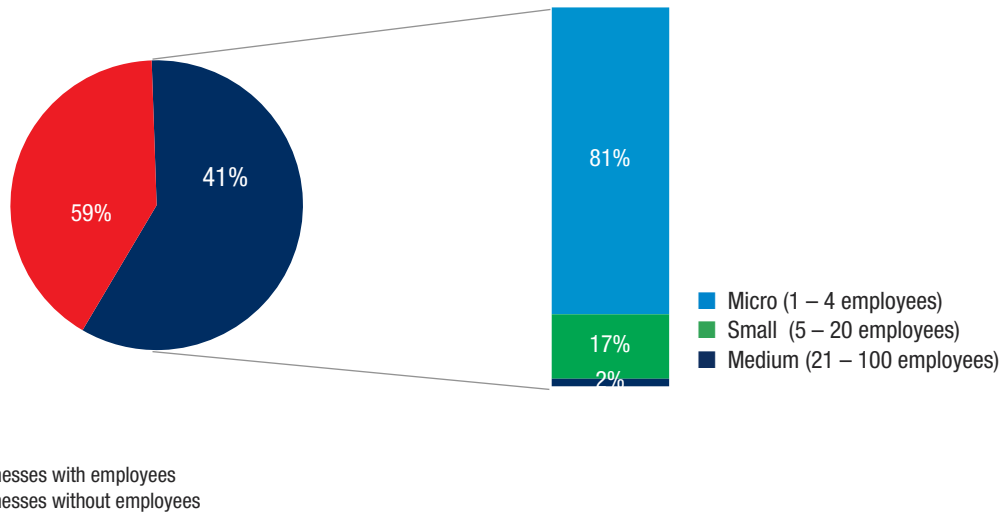
There are almost a million MSMEs in Malawi (987 480). The fact that there are far less business owners (758 118) indicates that many people own more than one business. The sector employs over a million people (1 050 320), generating 326 billion MK (2011), and hence contributes significantly to Malawi’s economy.

#### 3.3.1 Individual entrepreneurs and employees

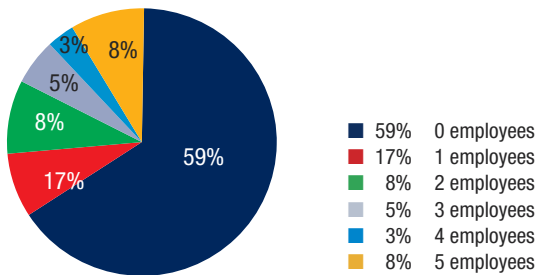
Sizing the sector by number of employees shows that most MSME owners are in fact individual entrepreneurs or employ a few people, demonstrating the importance of entrepreneurship and micro businesses in Malawi.

As illustrated below, 59% of small businesses are run by individual entrepreneurs, while the remaining 41% of businesses actually generate employment (for a total of 1 050 320 people). Of those businesses that generate employment, the large majority are micro businesses (81%) employing 1 to 4 people, while small businesses (employing 5 to 20 employees) account for 17%. Only 2% of businesses with employees employ more than 21 employees (medium businesses).

**Figure 8: MSMEs by number of employees (using the MSME definition)**



**Figure 9: MSMEs by number of employees**



### 3.3.2 Employment status

Figure 10 illustrates that there are few full-time family members working in MSMEs (excluding the owners). Most signed, contract employees are likely to be found in medium businesses than in any other category, again highlighting the importance of individual entrepreneurship in most MSMEs, except medium businesses. Unpaid employees comprise mainly family members, especially in small and medium sized businesses, but there are also few paid-in-kind employees working in MSMEs that include mostly family members as well.

**Figure 10: Employment status**

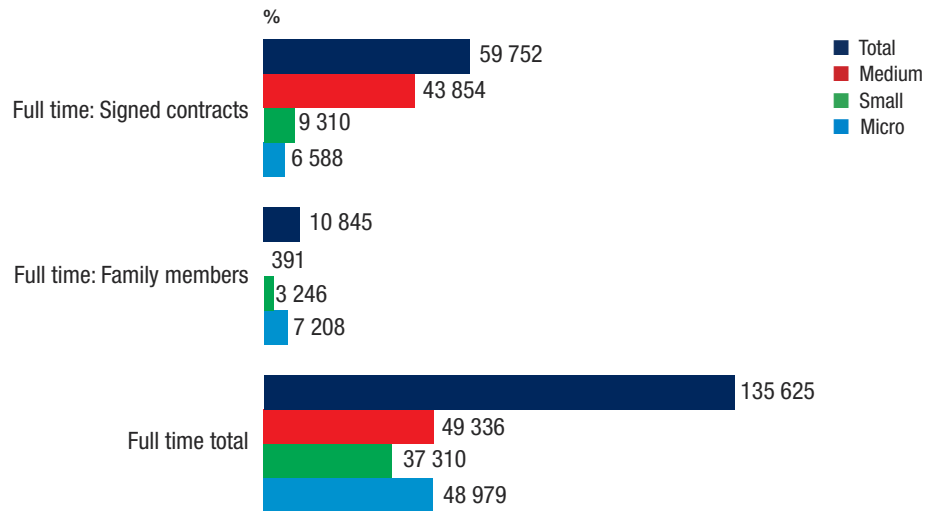
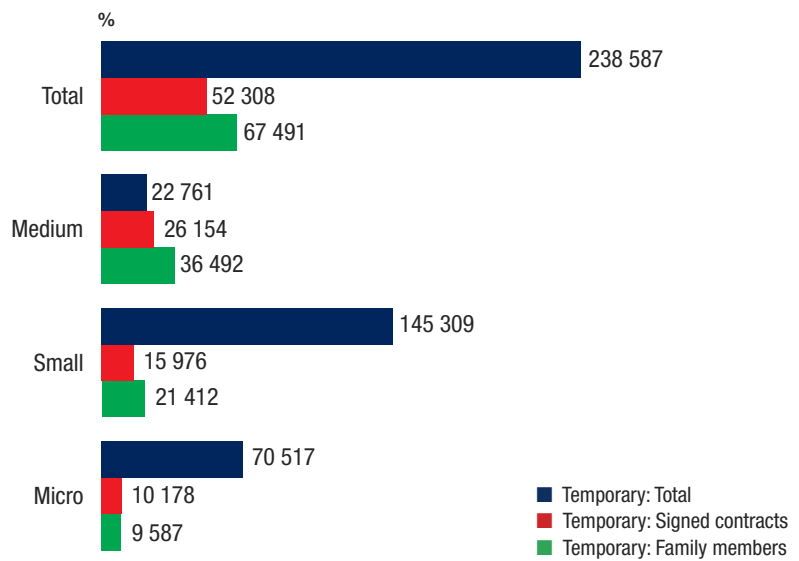


Figure 11 illustrates that part-time and temporary workers are also the feature of MSMEs, more especially for small business that employs between 5 and 20 people than medium businesses. Part-time and temporary family members fill a bigger labour gap than signed contract employees in MSMEs.

**Figure 11: Part-time and temporary workers**



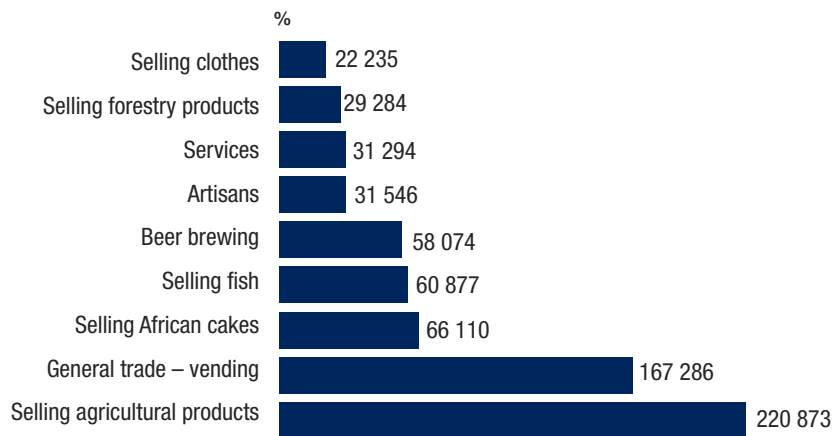
### 3.3.3 Scope of MSMEs in Malawi as illustrated in the table

The MSMEs landscape is portrayed looking at various indicators like business activities, levels of transformation of goods and services, markets, assets ownership and location among other indicators.

#### 3.3.3.1 Business activities

Most MSMEs reported that their business activities involve trading in agricultural products and general vending, followed by trading in food stuffs like Mandasi (fritters) and fish. Alongside brewing beer, the provision of services like saloon, barbershops and artisans' shops; selling forestry products like charcoal; selling clothes and general trading are the main business activities of the MSMEs. These activities are mostly done at a very small scale, e.g. individual entrepreneurship and micro business level, again reflecting the nature of MSMEs landscape in Malawi.

**Figure 12: Business activities**

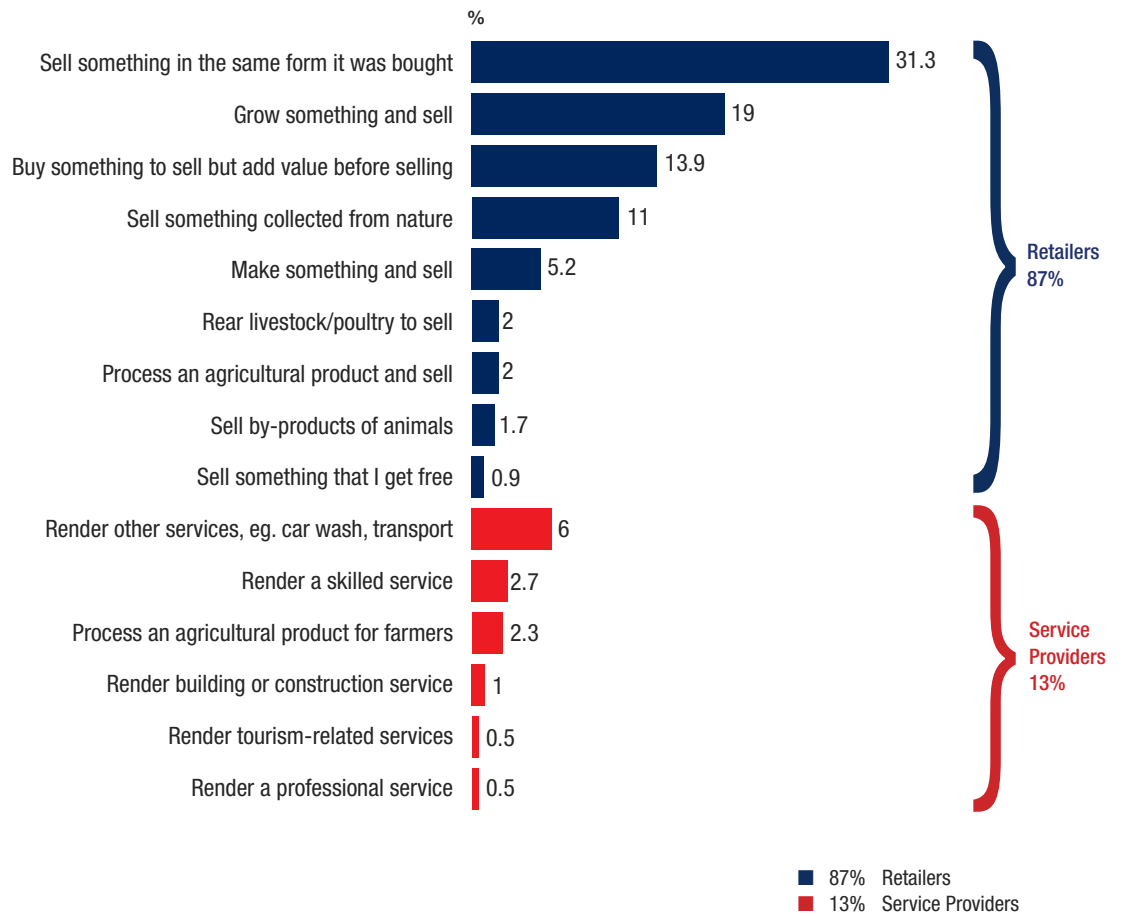


Over 75% MSMEs reported their activities as trading although agriculture and manufacturing does exist in some cases. One in eight MSMEs is in services, mainly artisans like carpenters, bicycle repairers and builders. There are few agricultural MSMEs with dairy farming, chicken rearing and animal production being the obvious agricultural activities. There are very few manufacturing activities like beer brewing, butchering and selling African cakes (it is likely that this involves baking/cooking rather than selling already baked cakes; therefore transformation from flour into cakes makes this light manufacturing).

### 3.3.4 Specific business activities

A more specific business activities profile is constructed from the business activities question and a set of options that emphasized the processes that MSMEs undergo rather than descriptive of their activities. Figure 13 below shows that 31% of the MSMEs sell products in the same form that they are bought, less than 20% are growing and selling products and 14% indicate that they are re-selling products after re-packing, re-grading or cooking which entail light manufacturing, especially given that trading in foodstuffs is widespread.

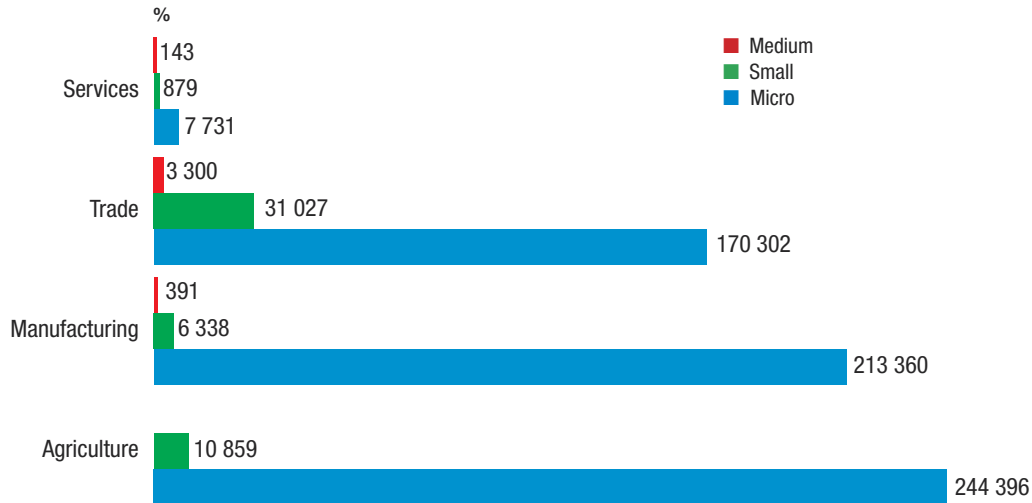
**Figure 13: Specific business activities**



### 3.3.5 Approximation of economic activities from business activities

In order to understand the transformation processes that go on in MSMEs and gauge their potential in value addition activities, given that the country has an abundance of raw materials, especially from agriculture; specific business activities are regrouped into ISIC groups.

**Figure 14: MSMEs by International Standard Classification of Industry (sections)**



The above figure illustrates that Micro businesses have presence in all ISIC sections – although in manufacturing they are likely to be in light manufacturing with a low value-add. Medium and Small businesses are present in manufacturing and agriculture than in services and trade.

### 3.3.6 Distribution across the country

The distribution of MSMEs across the urban and rural residence follows that of the census population distribution mostly because MSMEs are weighted proportional to population size. A measure of the size and number of households in the EA was used, as the proximity of the number of MSMEs at the time of survey sample design was not known.

**Figure 15: Percentage distribution of MSMEs across urban and rural residence**

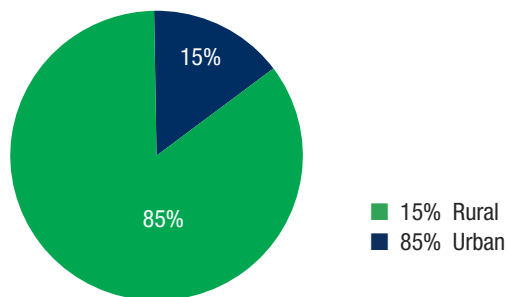
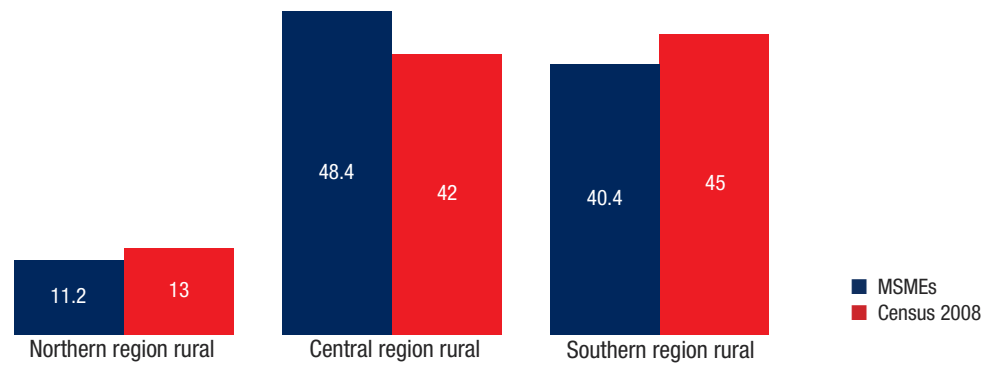


Figure 16 shows the percentage distribution of MSMEs across southern region rural, central region rural and northern region rural compared against the census population distribution on which the MSMEs sample is based. Overall, the MSMEs are proportional to the census frame with one exception; central region rural has a higher disproportionate number of MSMEs than the census population as well as the other rural regions. It is not known whether the central region as a whole (including Lilongwe city) has the same high number of MSMEs because Lilongwe city was sampled as part of the urban stratum alongside Zomba, Mzuzu and Blantyre cities. This implies that comparisons across region need a readjustment of urban weights which has not been done.

**Figure 16: Percentage distribution of MSMEs and population census**

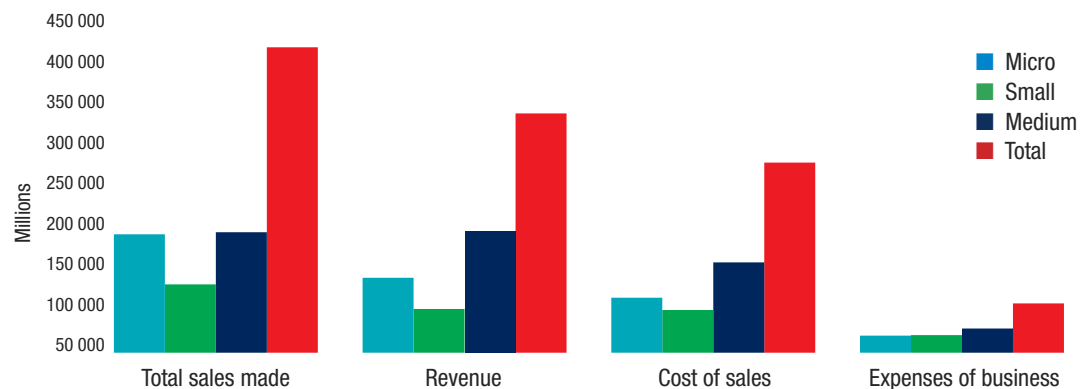


The proportion of MSMEs in the northern region rural and southern region rural is lower than the population proportion with the pattern not different from the census population proportion.

### 3.3.7 Financials<sup>7</sup>

MSMEs financials measure the size of MSMEs in terms of the revenue they collect from their activities and expenditures in terms of inputs and services acquired from other businesses. Estimation of total sales is over 415 billion kwacha, of which 325 billion is revenues and 250 billion is for cost of expenses. The figure below illustrates that although 9 out of 10 MSMEs are Micro businesses, in terms total sales the Micro businesses are at par with Medium businesses which constitutes less than 1% of the MSMEs population.

**Figure 17: Distribution of MSMEs financials**



<sup>7</sup> Note all financial data was answered in the questionnaire through recall. As a result, there could be some inconsistencies in the recall of the financial records.

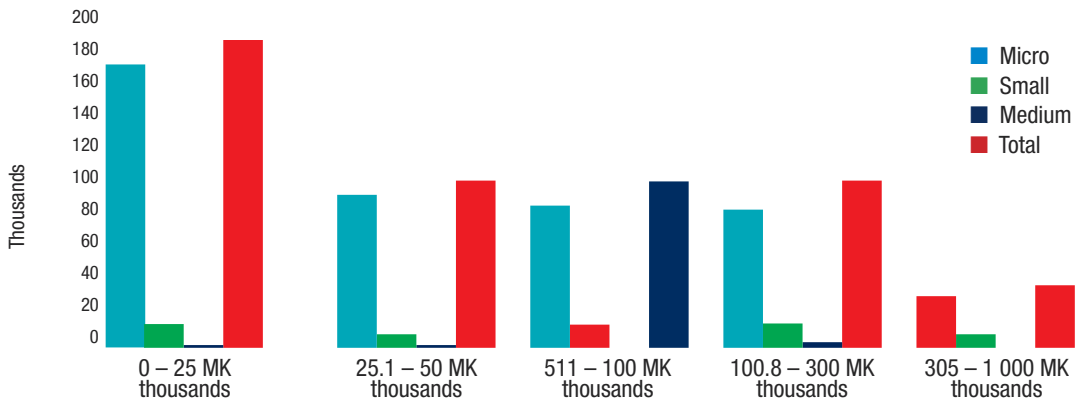


### 3.3.8 Net profit for MSMEs

Given the fact that the majority of MSMEs are micro businesses, the net profit of many businesses is relatively low, with 35% of MSMEs making a net profit of no more than 25 000 MK a month.

However, Small businesses have presence in all categories, while Medium businesses appear (after net profit) over the 300 thousand per month categories.

**Figure 18: MSMEs by net profit**



### 3.3.9 Operation location, years in operation and compliance of MSMEs

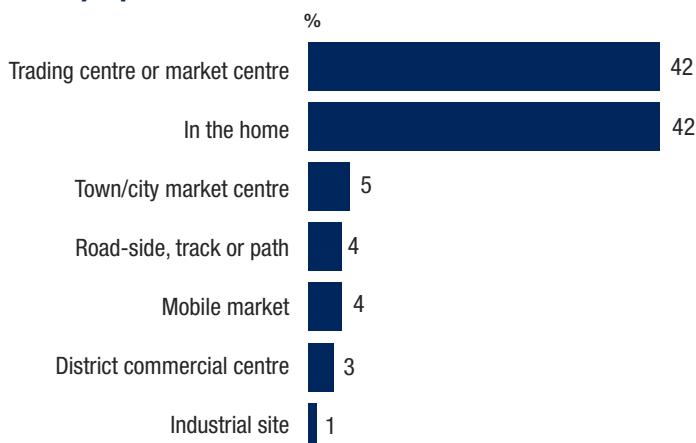
MSMEs place of business operation; years in operation and compliance with laws that govern certain aspects of their operations are indicators that show commitment to their own development, maturity of MSMEs as well as MSME's attitudes and willingness towards formalisation of the business operations.

#### 3.3.10 Operation location

The large majority of MSMEs (84%) operate either from a trading centre/market or from home as illustrated in the graph below. This is to be expected given the fact that selling agricultural products is the main activity of MSMEs.

a

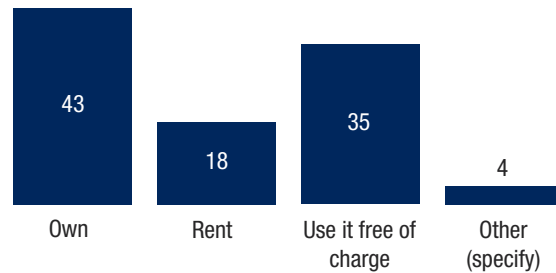
**Figure 19: MSMEs by operation location**



Accordingly, only 18.2% pay rent for the places where they sell their products and services, while the majority owns the place of operation (43.2%) and 34.5% use the premises without paying rent.

Less than half of the MSMEs own the place of business location; a third uses the place of business location free of charge and 1 in every 5 MSMEs is lent the premises of business operation.

**Figure 20: Ownership of MSME premises**

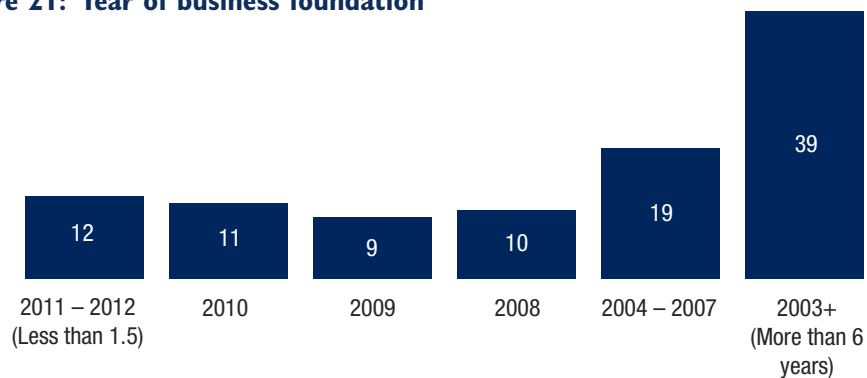


### 3.3.1.1 MSME life cycle

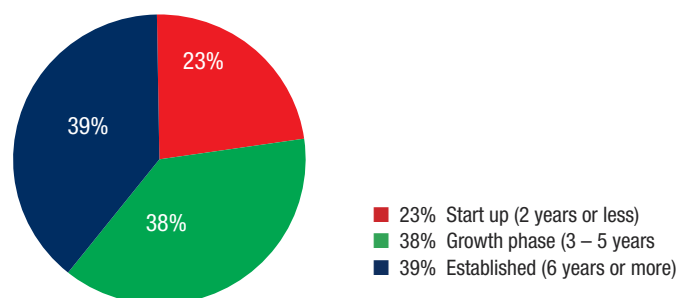
According to business life cycle analysis, a business less than 3 years is considered to be in a start-up phase; more than 3 years but less than 6 years is said to be in growth stage and more than 6 years is an established stage.

About 4 in every 10 MSMEs (39%) have been operating for more than 6 years, thus indicating that businesses are established. The trend in MSMEs start-up and survival shows a slight dip in the formation or survivorship of MSMEs that commenced their operation in 2009 compared to the previous three years.

**Figure 21: Year of business foundation**



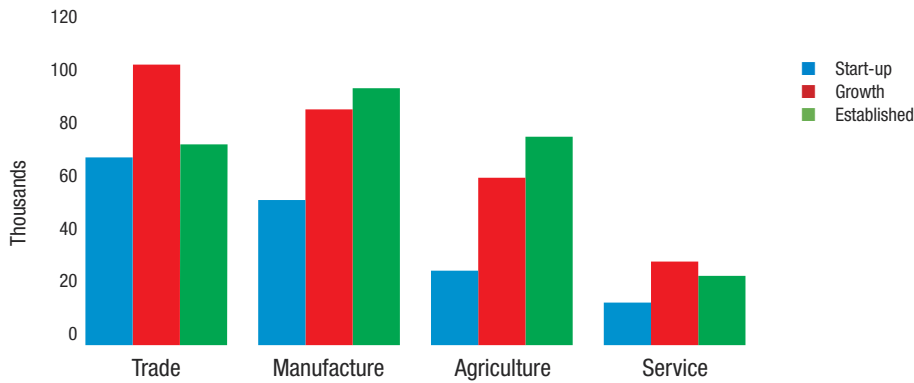
**Figure 22: Age of MSMEs by life cycle**



Most of the MSMEs are in established or growth stages (approximately 77%).

Figure 23 depicts life cycle by ISIC sections. In all ISIC sections, the majority (above two-thirds) of MSMEs are in growth or established stages. This is not surprising given that MSMEs start-ups and survivorship of the three years prior to 2011 is above 9%. Notable is the fact that MSMEs in agriculture start-ups are declining compared to the previous years.

**Figure 23: Life cycle by ISIC sections**



**Figure 24: Life cycle by MSMEs size categories**

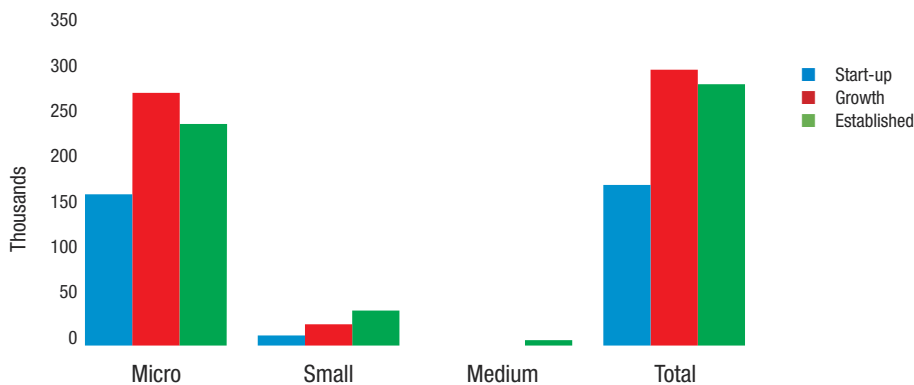


Figure 24 shows a consistent pattern through the MSMEs life cycle; that there is a decline in start-up across different spectra that is not explicit due to the different years that are used to define different stages. If that was the case we would expect the start-up and survivorship of the MSMEs in the two first stages to be close because they cover the same number of years i.e. 3 years but that is not the case. Micro start-ups are less than 60% of the Micro growths and a similar pattern is depicted in Small start-ups and Small growths. There are hardly any medium-size businesses in the start-up and growth phase. Given these small numbers, these categories cannot be analysed further.

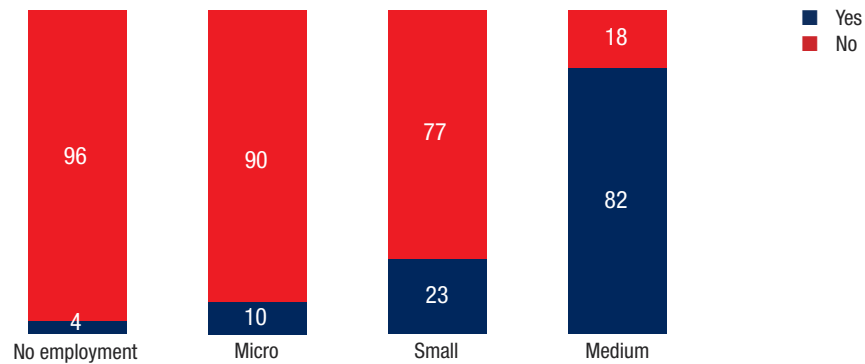
### 3.4 Compliance

This section reviews MSME's compliance with laws and bye-laws that govern the conduct of their business operations. In some cases, especially in cities, operating certain business activities will entail an automatic registration with an authority as in the case of food production or beverage licensing. For MSMEs in rural areas, their client base is predominantly private individuals who do not have an obligation to raise taxes on their invoices. In this instance, it is difficult for an MSME to be encouraged to operate in a regulated and formalised environment.

#### 3.4.1 Licensing and registration

The majority of MSMEs (97.7%) are not registered with the Registrar of companies which means that they are operating the business as natural persons and not as separate entities. This has huge implications in accessing loans or financial advice. MSMEs that have a license are close to 8%. Small and Medium businesses are more likely to be licensed than Micro businesses.

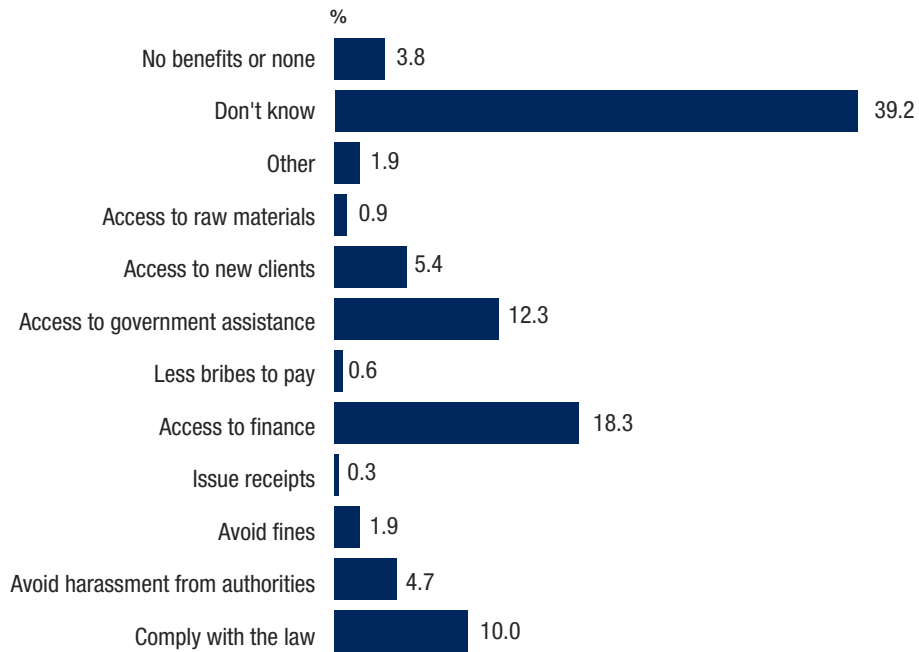
**Figure 25: Licensed MSMEs**



### 3.4.2 MSMEs perception of business registration

Most MSMEs perceived the benefit of registering (61%) but very few are in the process of acquiring the registration (2%). Taking into consideration the wide spread of Micro businesses, it is not surprising that 4 in 10 MSMEs do not intend to register on account of their small scale operations. When asked about the perceived benefit of registering, many mentioned access to finance (19%) and access to government assistance (12%) while 10% indicated compliance with the law as the perceived benefit.

**Figure 26: MSMEs perceptions on benefits of registering**



### 3.4.3 Other compliances

There are other numerous compliance requirements for the MSMEs which stem mainly from tax laws, health regulations governing certain business activities and labour laws mainly for the Small and Medium businesses. About 22% of MSMEs reported compliance with zoning laws that regulate place of doing business compared to 16% of MSMEs that are compliant with health regulation and income tax, respectively. Value added and Pay As You Earn tax have a lower percentage of compliance, so do various labour regulations at 11%, 9% and below 7% respectively. This reflects the nature of MSMEs in that they barely make the minimum threshold for paying taxes and have few signed contract employees.

**Figure 27: Other compliance in MSMEs**



# 4 Business operations, finance and management

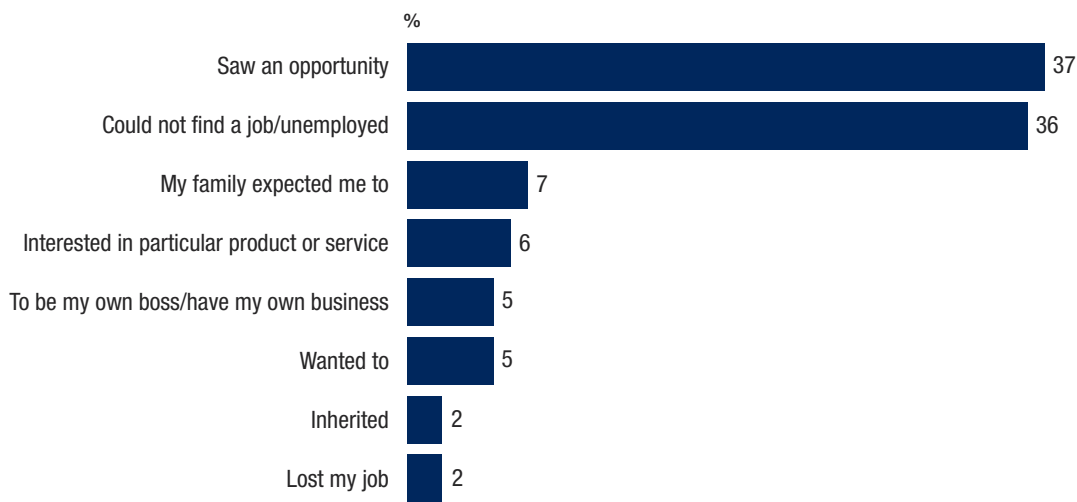
## 4.1 Overview

This chapter focuses on MSMEs operations, finance, management and employment. It is important to understand the skill levels of MSME owners in handling management and finance issues. Information about financial record keeping, offering credit to customers, management of outstanding debt, credit to customer, constraints and support, operations, customer base and market practices were collected.

## 4.2 Motivation to start the business and attitudes towards the business

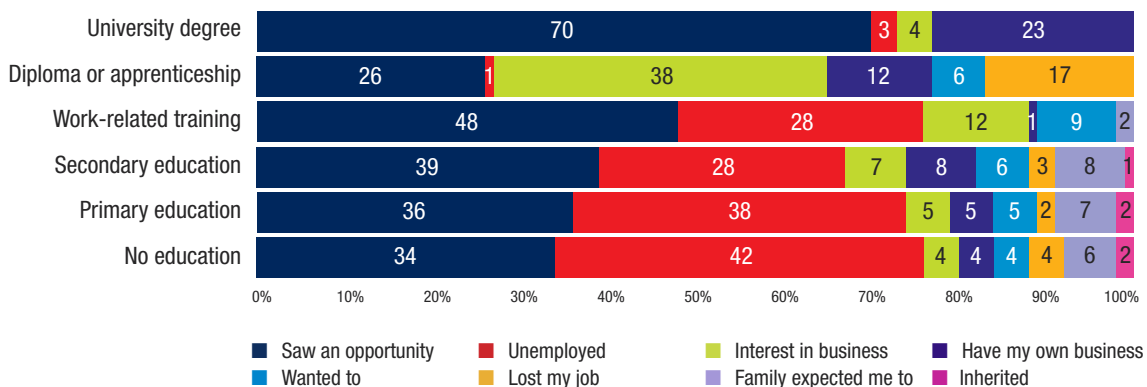
The main reasons for starting the business refer to opportunity (37%) and unemployment/couldn't find a job (36%).

**Figure 28: Motivation to start MSME**



The level of education of business owners seems to be positively related to 'entrepreneurial orientation' (i.e. seeing the opportunity) as shown below.

**Figure 29: Motivation by education level**



\*Please note that the sample size for MSME owners with work-related training, diploma, and university degree is very small and hence should not be taken into consideration.

### 4.3 Attitudes towards the business

Most business owners seem positive about their ventures. Over 50% of business owners said they are not worried that their business will shut down and that they are satisfied with what they have achieved so far in their business. The majority of business owners also agree that their business will continue to grow if Malawi's political environment is stable (79%) and 66% believe that their business is going to be more successful in the next year.

Despite this however, almost every second business owner in Malawi (49%) indicated that they would take paid employment if it was offered and would in turn close their business, relating to the main reason why many started their business in the first place (couldn't find a job/unemployment 36%). Of significance is the implication that this has on the sustainability of these businesses.

The majority of business owners would easily venture into a new business (68%) and are happy to take charge of and see things through (81%).

**Figure 30: Attitudes towards the business**



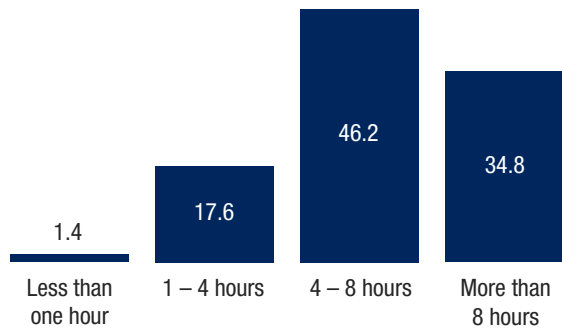


#### 4.4 Time spent in the business

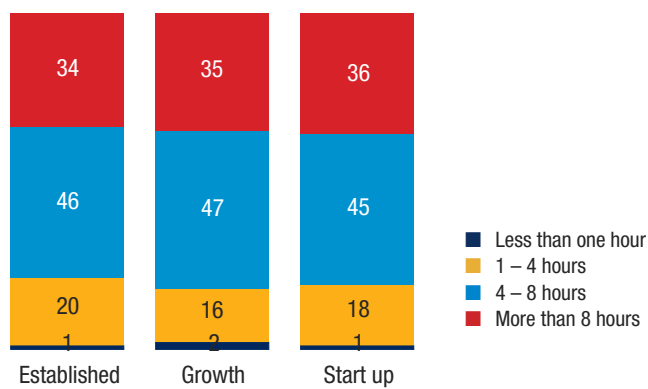
The majority of MSME owners spend four to eight hours in their business, with 35% spending more than eight hours per day working in or on the business.

The number of hours spent working on the business seems to be related to the stage the business was in, i.e. business owners seem to spend slightly more time working on the business in the start up phase.

**Figure 31: Time spent in the business**



**Figure 32: Time spent in the business by business stage**



## 4.5 Financial capability and money management

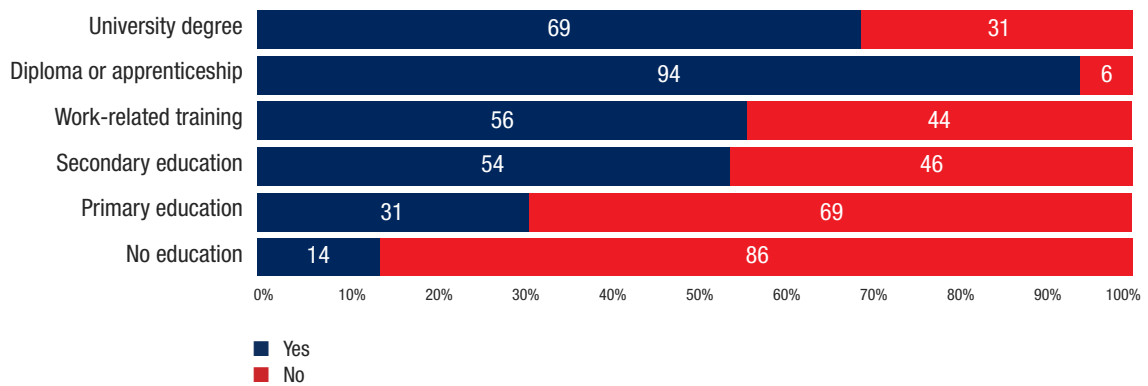
In terms of financial literacy of the business owner and the way that money is managed within the business, the following variables were considered:

- Financial record keeping
- Offering credit to customers and management of outstanding debt

35% of MSME owners indicated that they kept financial records for their businesses, and 91% of these business owners do not get assistance to do so – it is done by themselves. Service providers (36%) are more likely to keep financial records for their businesses than retailers (34%). Among service providers, those that render professional services (67%); sell by-products of animals (62%); rear livestock (53%) and those who render tourism-related services (51%) are significantly more likely than other service providers to keep financial records.

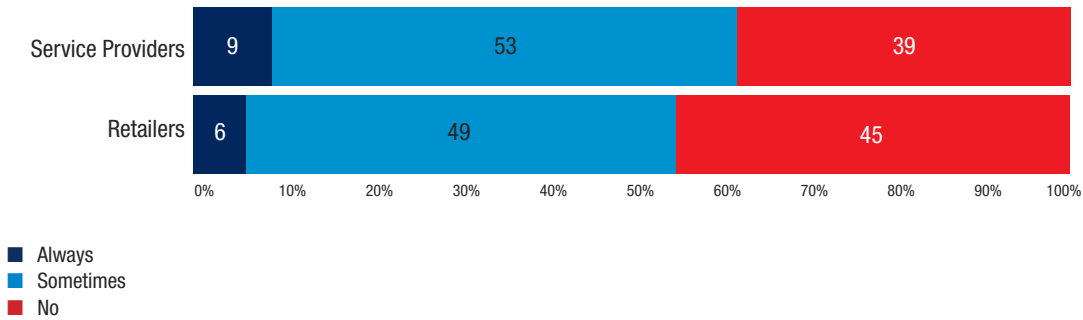
Keeping financial records also seems to be positively related to the level of education given that 94% of business owners with a special technical diploma or apprenticeship keep records, compared to only 14% for those with no education.

**Figure 33: Record keeping by education level**



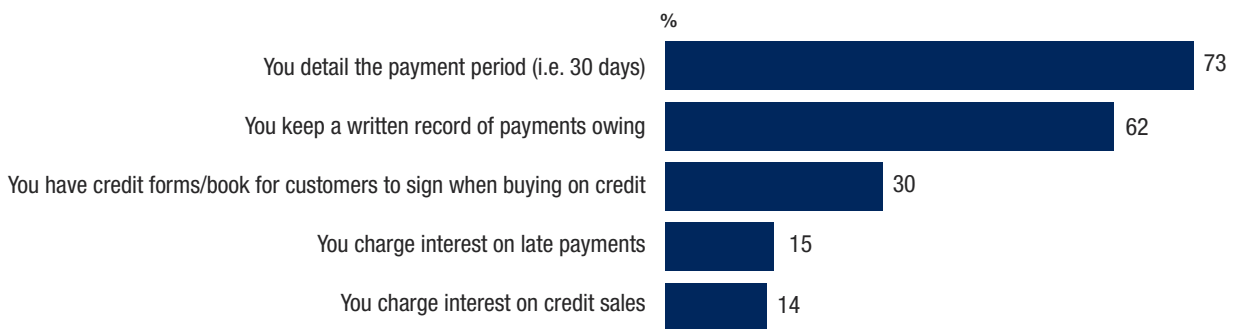
Every second MSME owner (56%) offers credit to their customers. Service providers (61%) are more likely to offer credit to their customers than retailers (55%). While 9% of service providers always offer credit, 6% of retailers always offer credit to their customers. This might be related to the nature of their work.

**Figure 34: Credit to customers – retailer/service provider**



The majority of business owners who offer credit, detail the payment period (73%) and keep written records of payment owing (62%). Only a quarter of business owners who offer credit charge interest on late payments (15%) and 14% charge interest on credit sales. The interest rate was not established.

**Figure 35: Credit management**

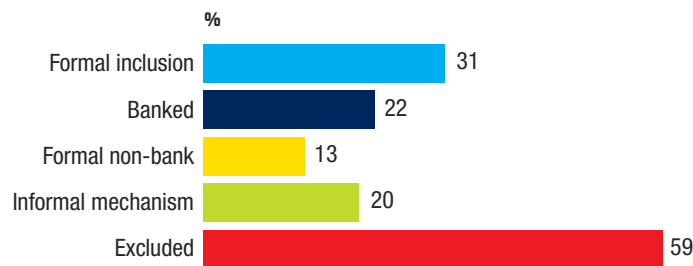


## 5 Financial inclusion

### 5.1 Overview

The majority of MSME owners (59%) are financially excluded, i.e. they do not use any financial products or services to manage their business finances. If they save, they keep their money at home and their only coping mechanism is reliance on family and friends. While 20% of business owners have or use informal mechanisms like *katapila* for managing business finances, 22% use or have products or services offered by a commercial bank, and 13% use products or services offered by another formal (non-bank) financial institution.

**Figure 36: Financial inclusion overview**

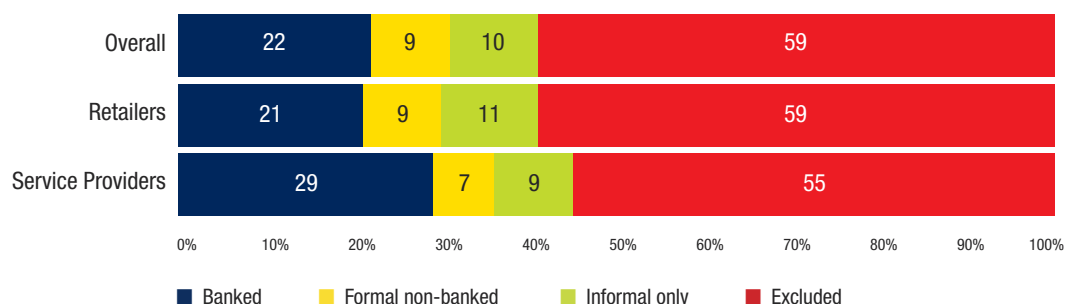


### 5.2 Access Strand

In calculating the Access Strand, a hierarchical approach is used in order to depict:

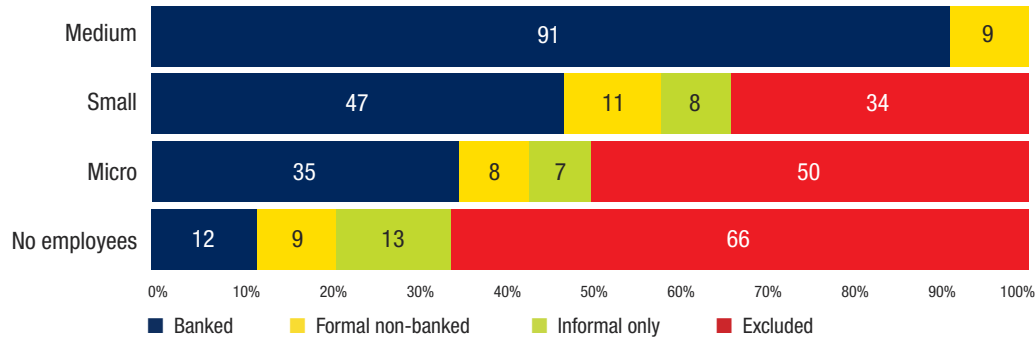
- The percentage of business owners who are banked (banked) – identifying business owners using commercial bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products as well as bank products (22%).
- The percentage of business owners who are formally served but who are not banked (other formal) – identifying business owners using financial products from formal financial institutions which are not commercial banks such as microfinance institutions or insurance companies. This excludes bank usage, but is not exclusive in terms of informal usage – these business owners could also be using informal products (9%).
- The percentage of business owners who are not formally served but who are informally served (informal only) – business owners using informal financial products or mechanisms only. This is exclusive informal usage and does not include business owners who are within the banked or other formal categories of the access strand that also use informal services (20%).
- The percentage of business owners who are excluded or unsaved – business owners using no financial products to manage their financial lives – neither formal nor informal and depend only on family/friends for borrowing and save at home if they save for business purposes (59%).

**Figure 37: Access Strand – retailers and service providers**



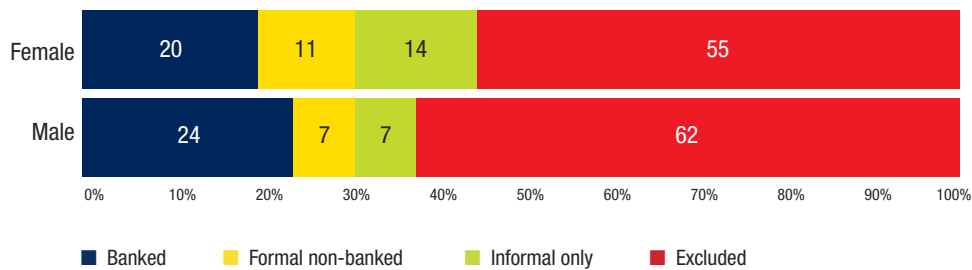
The proportion of banked business owners is higher for service providers (29%) compared to retailers (21%). Those that use formal non-bank products are slightly higher in the retailer's services (9%) as compared to service providers at 7%.

**Figure 38: Access Strand by MSME type**



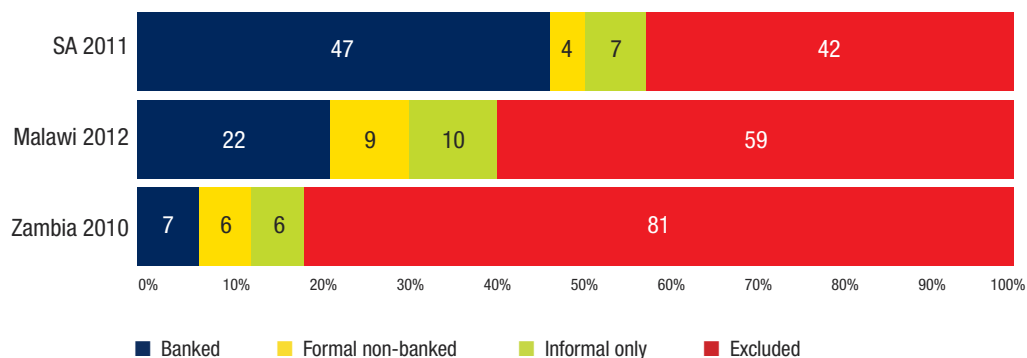
The smaller the business (in terms of number of employees) the less likely it is that the business owner uses/has banking products to manage the businesses finances. While 91% of medium size (21 to 100 employees) business owners are banked, 47% of small (5 to 20 employees), and 35% of micro (1 to 4 employees) business owners have/use products/services from a commercial bank, and only 12% of individual entrepreneurs (those without employees) are banked. The informal sector is mostly used by individual entrepreneurs: 13% of individual entrepreneurs use informal mechanisms to manage their business' finance.

**Figure 39: Access Strand by sex**



More males than females are financially excluded. However, a lower proportion (20%) of females are banked, while 14% engage more in formal non-bank and informal sector activity.

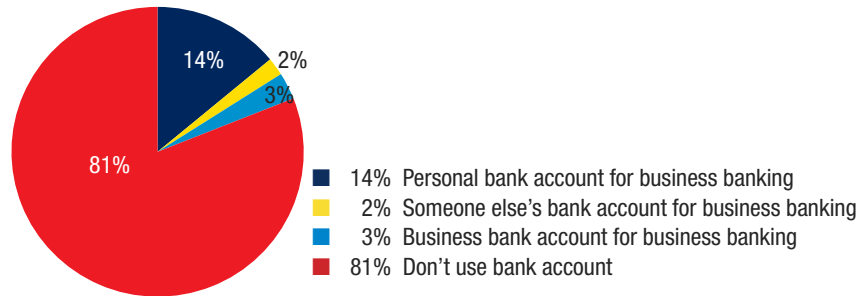
**Figure 40: Access Strand across countries**



Malawi has about 22% of the MSMEs formally banked compared to 7% in Zambia; and 47% in South Africa.

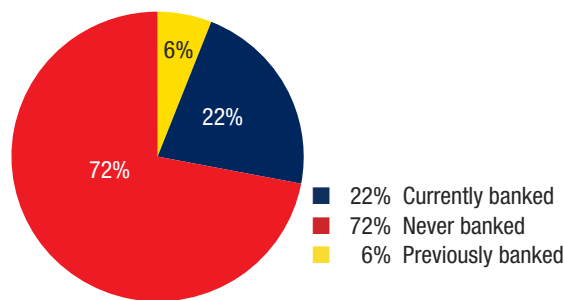
### 5.3 Banking

**Figure 41: Account usage for business purpose**



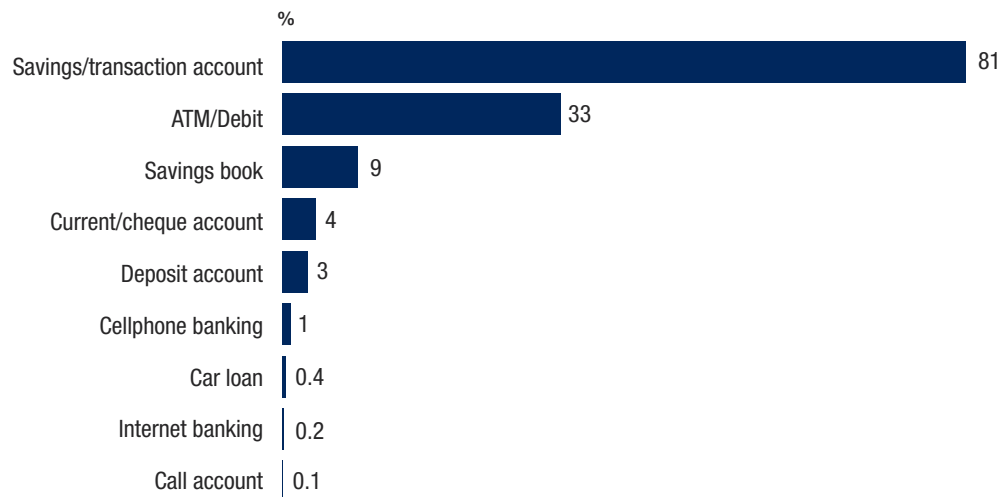
Accordingly, the majority of MSME owners (81%) do not use a bank account for business purposes. Those who have/use a bank account mainly use their personal account for business banking (14%). Only 3% actually have/use a business bank account, while 2% use someone else's bank account for business banking.

**Figure 42: Banking status**



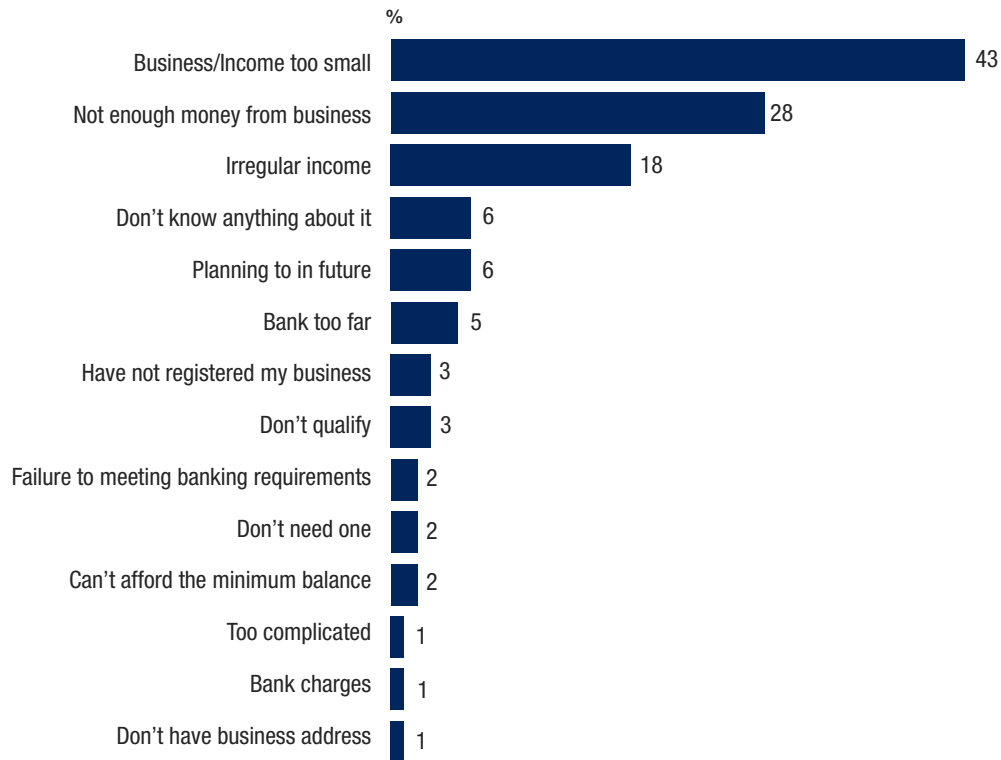
The majority of MSME owners (72%) have never been banked, while 22% are currently banked with 6% being previously banked.

**Figure 43: Drivers of Banking**



Banking is driven by savings and transaction accounts (81%). Every third MSME owner (33%) who is banked has /uses an ATM or debit card. The use of savings books and current/cheque accounts is far less common at 9% and 4% respectively. Only 1% use cellphone banking and only 0.2% use Internet banking.

**Figure 44: Key barriers to banking**



Insufficient income or not enough money from the business (45% and 30% respectively) and the lack of regular income (18%) are identified as the main reasons for not being banked. Only 5% of MSME owners said that the accessibility to banks is a key barrier preventing them from opening a bank account.

While the majority of MSME owners trust banks (60%), 59% believe that they could manage without a bank account, and 47% believe that financial institutions did not understand when they couldn't make a payment.

## 5.4 How is the unbanked population dispersed?

In general, the unbanked population matches the total MSME population profile as illustrated below. Accordingly, the unbanked are mainly male, relatively young, with low levels of education. Individual entrepreneurs and those working in the retail space are most likely to be unbanked.

**Table 8: Banked and unbanked population**

	(n=1997)	Currently banked (n=469)	Unbanked (n=1528)
<b>Gender</b>	%	%	%
Male	54	58	53
Female	46	42	47
<b>Age</b>	%	%	%
18 – 24	13	8	15
25 – 30	23	21	24
31 – 39	33	38	31
40 – 49	15	16	15
50 – 59	9	10	9
60+	7	7	6
<b>Educational level</b>	%	%	%
No education	11	4	13
Primary education	68	50	73
Secondary education	19	40	13
Work-related training	1	3	0.4
Technical diploma/apprenticeship	1	3	0.1
University degree	0.3	1.3	0.1
<b>Description of business</b>	%	%	%
Individual entrepreneurs	59	34	69
Micro	32	50	27
Small	8	14	5
Medium	1	2	0
<b>Type of business</b>	%	%	%
Retailers	87	83	89
Service providers	13	17	11

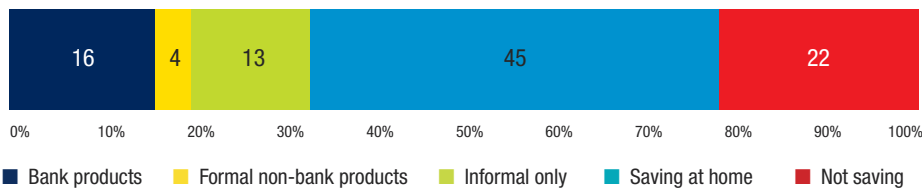


### 5.5 Savings Strand

The Savings Strand focuses on the usage of savings and investment products and savings behavior of small business owners in Malawi. The following results were produced:

- 22% of business owners do not have/use savings products/services;
- 45% keep all their business savings at home only, i.e. these individuals do not have/use formal/informal savings products or mechanisms to manage their business finances;
- 13% rely only on informal mechanisms such as savings groups;
- 4% have/use non-bank formal products/services;
- 16% have/use formal savings/investment products.

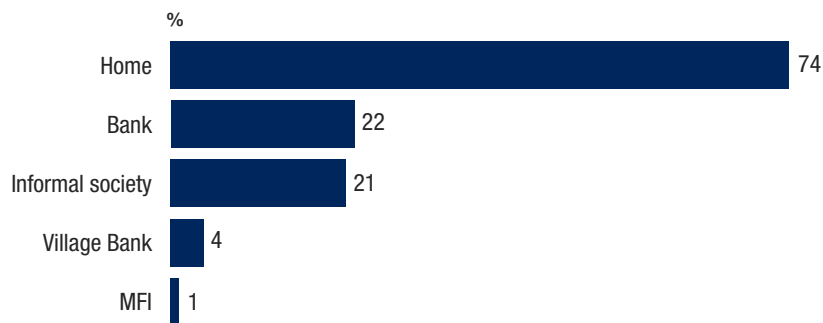
**Figure 45: Savings Strand**



### 5.6 Savings mechanisms (of those who save)

The majority of MSME owners who save for business purposes (74%) keep their savings at home. 22% of those who save, save with a commercial bank, and 21% use an informal savings society.

**Figure 46: Savings mechanisms**

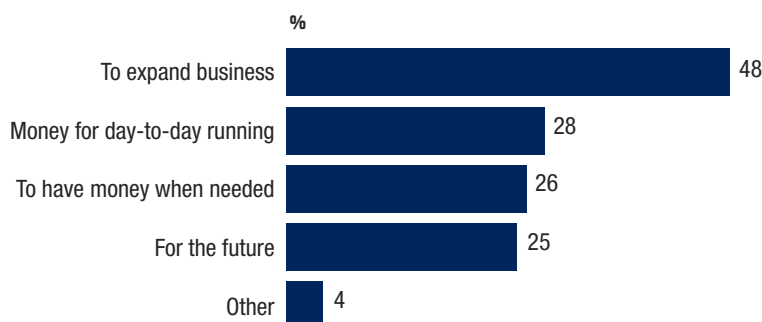


### 5.7 Drivers of savings (for those who save for business purposes)

Small business owners in Malawi are motivated to save in order to expand their business (48%). Access to finance was identified by 44% of MSME owners as a challenge to the growth of the business. These figures show that there is a need for the provision of adequate financial services in order to bridge this gap.

Other reasons for saving refer to having money for daily business operation (28%), to have money when needed (26%), and for the future (25%).

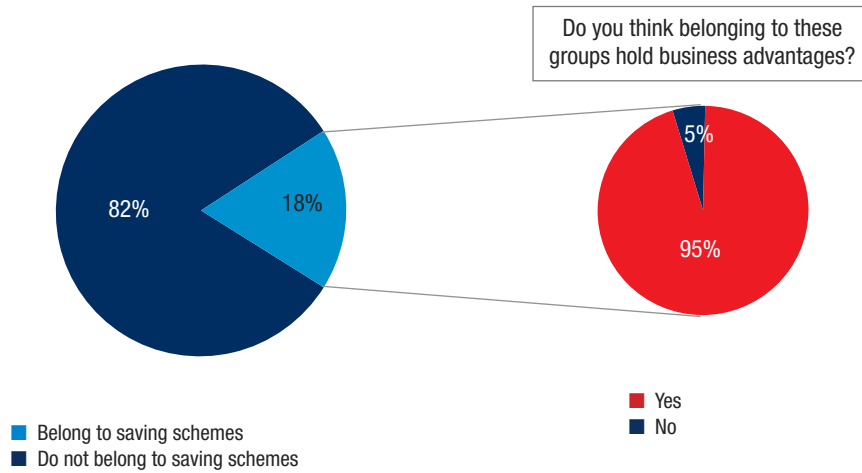
**Figure 47: Drivers of savings**



## 5.8 Usage of group savings schemes to save for business

The large majority perceive group savings schemes to hold business advantages, and yet in spite of this, only 18% of MSME owners actually belong to a savings scheme.

**Figure 48: Usage of group savings schemes**

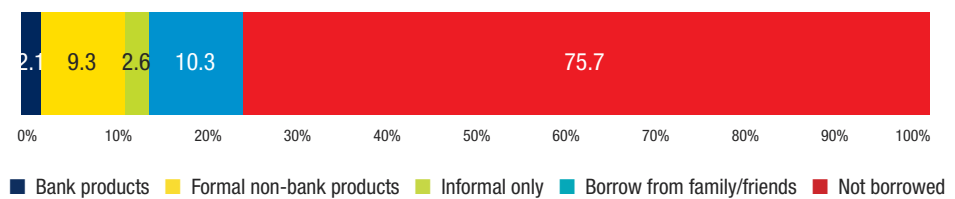


## 5.9 Borrowing and credit

### 5.9.1 Credit Strand

The Credit Strand focuses on the usage of credit products and the borrowing behavior of small business owners in Malawi, resulting in the following segments:

**Figure 49: Credit Strand**

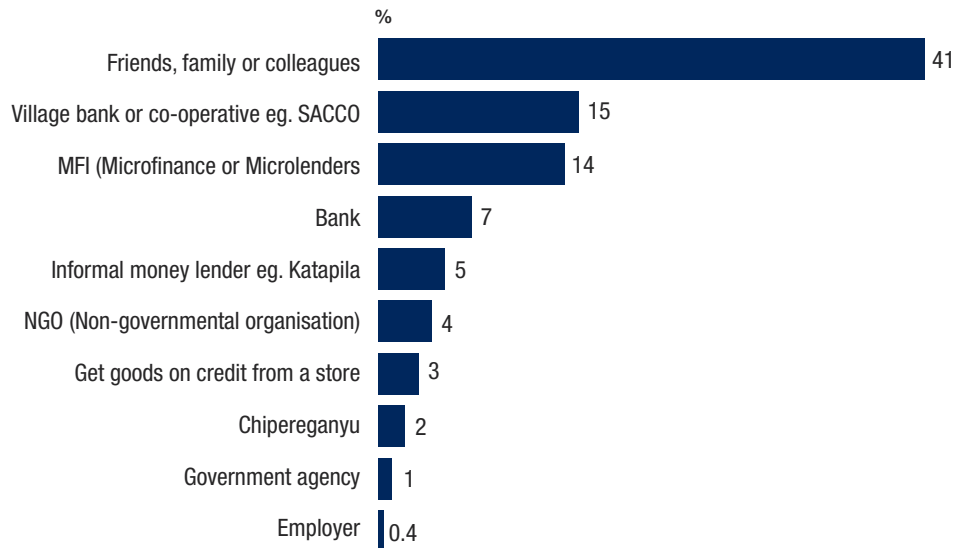


The large majority of small business owners (75.7%) did not borrow in the last 12 months – mainly because they are concerned that they will be unable to repay the debt. Those who borrow are most likely to do so from family and friends (10.3%). While 2.6% rely only on informal mechanisms such as informal money lenders, e.g. katapila, 9.3% do not have a credit/loan product from a bank, but have credit/loan products from another formal financial institution (mainly from a village bank or cooperative). Only 2.1% of small business owners have a credit/loan product offered by a commercial bank.

### 5.9.2 Sources of borrowing

Family, friends or colleagues are the single biggest source of borrowing (41%) by small business owners. Village banks, cooperatives such as SACCOs and MFI's are also an important source of credit (29%), while 7% have /use commercial banks to borrow money.

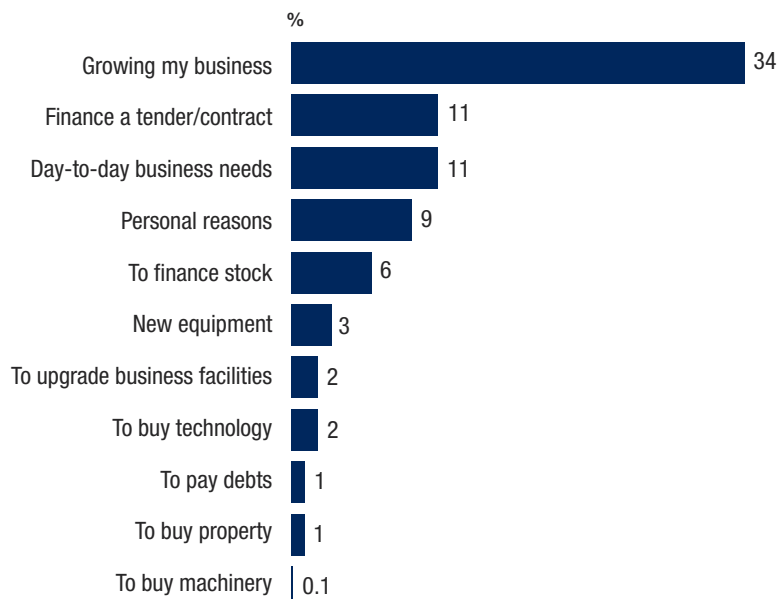
**Figure 50: Sources of borrowing**



### 5.9.3 Drivers of borrowing

Business owners mainly borrowed to grow their businesses (34%) – which relates to previously mentioned obstacles to growth, i.e. access to finance. Other important reasons refer to operations, such as financing a contract or tendering process (11%) and day-to-day business needs or management (11%). The purchase of machinery rated the lowest at 0.1%.

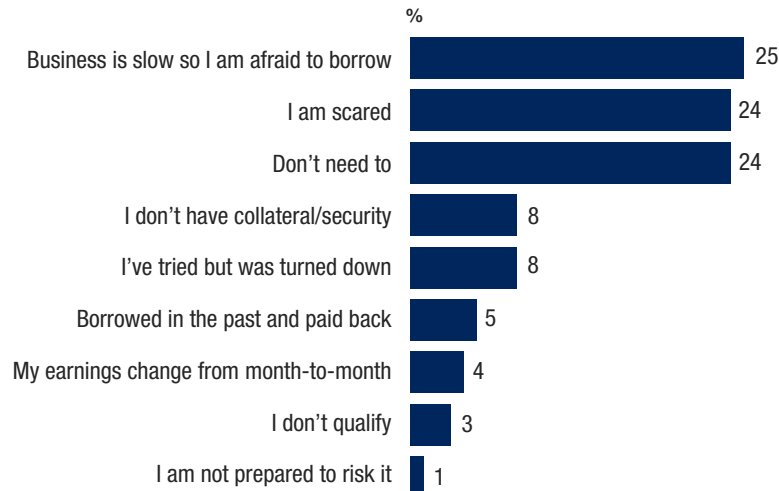
**Figure 51: Drivers of borrowing**



### 5.9.4 Barriers to borrowing

Barriers to borrowing mainly refer to the fear of debt (25%), and having insufficient business income to take the risk (24%). Almost a quarter of the MSME owners (24%) said that they do not need to borrow.

**Figure 52: Barriers to borrowing**



### 5.9.5 Risk and insurance

Only 2% of small business owners have/use a financial product covering risk, while the remaining 98% do not have/use any insurance.

The main risks to operation or business income identified refer to natural disasters such as drought, fire, floods and rain damage (41%), illness or death of the owner (32%), theft of business stock, equipment or livestock (31%).

Most MSME owners had nothing in place to help them cope should they experience problems. Borrowing and using savings was the most frequently mentioned coping mechanism for those who did have a coping strategy in place.

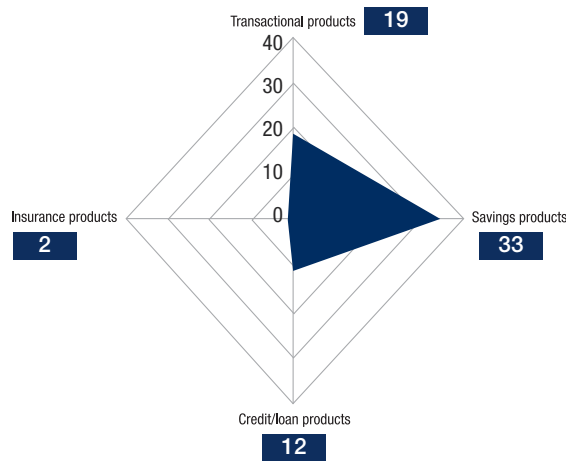
### 5.9.6 Landscape of Access

The FinScope approach uses the Landscape of Access diagram to illustrate the degree to which business owners have/use financial products and services. The diagram depicts, on its four axes, the percentage of adults that have/use:

- Transactional products or services
- Savings products or services
- Credit products or services
- Insurance products or services



**Figure 53: Landscape of Access**



**Savings products:** The Landscape of Access is largely driven by savings products. Every third business owner (33%) who has/uses financial products/services has a savings product. Mechanisms for savings include bank products/services (22%), savings products from an informal society (21%), and savings products offered by a village bank (4%).

**Transaction products:** In total, 19% have/use a transactional product such as a transactional account or an ATM card.

**Insurance products:** Only 2% have or use an insurance product.

**Credit or loan products:** In total, 12% have/use a credit or loan product to borrow money.

### 5.9.7 Key take-outs

There are very low levels of access and usage of financial products/services among MSME owners. The low levels of access and usage of financial products/services indicate that the current product set does not adequately address the needs of MSME owners. Businesses that are individually owned are most likely to be financially excluded (66%) followed by micro enterprises (50%).

There is a limited use of credit products (12%), which are mainly gained from MFI's and co-operatives even though the study findings indicate that access to credit was a significant hurdle. Micro-finance institutions provide credit for 14% of the sector while banks provide 7% of credit.

Medium sized businesses and, to a limited extent, small businesses have higher levels of financial inclusion and increasingly sophisticated methods to run their businesses. Given the levels of risk experienced in business, particularly for death and natural disasters, there are low levels of access and usage of insurance products and hence most MSME owners had nothing in place to help them cope with these difficulties. The business income is often the sole source of income for most households and the head of household is often also the business owner. This has a significant impact on the livelihood of the household. Family and friends remain the most important source of borrowing. Most borrowing is to grow the business and other business related activity e.g. financing a contract, stock and new equipment. Personal reasons only account for 9% of borrowing and savings are primarily kept at home.

## 6 MSMEs management, constraints and support

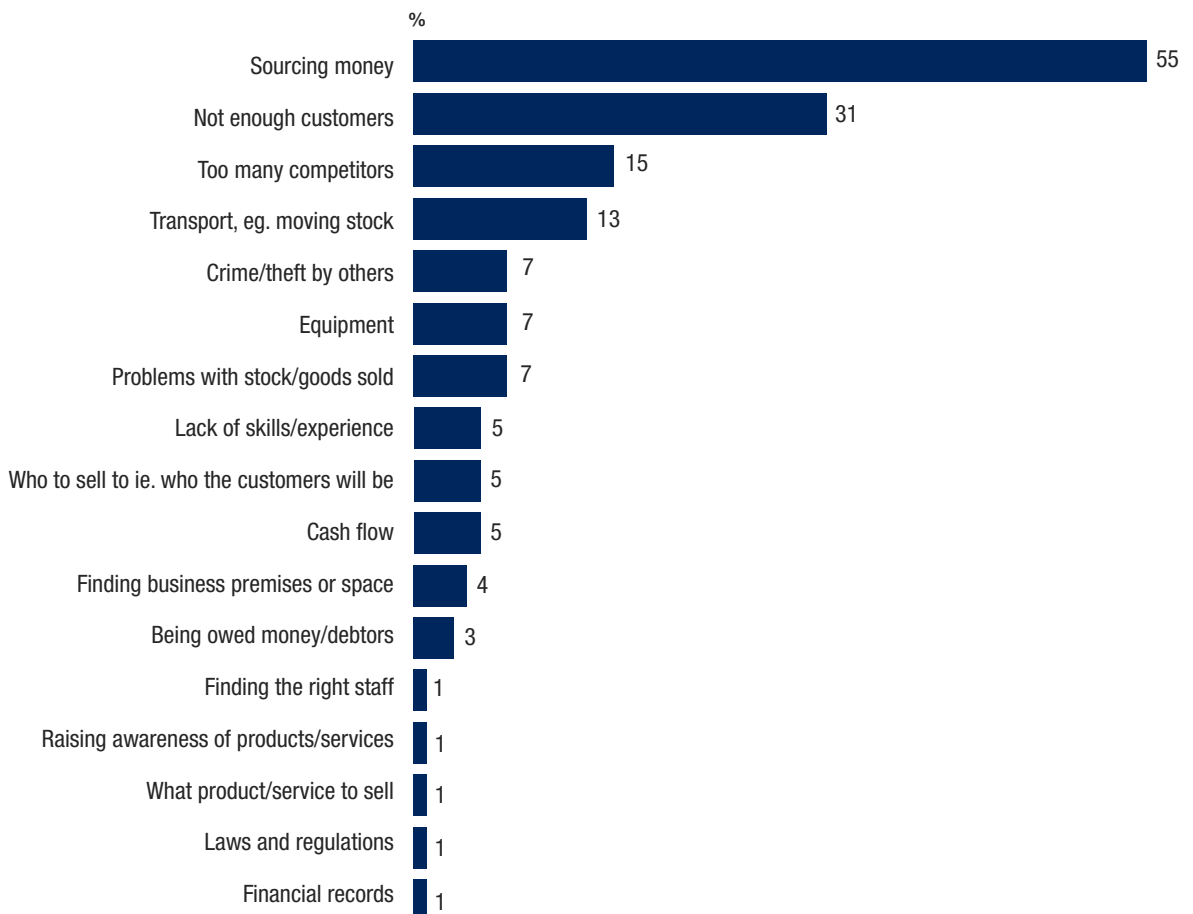
### 6.1 Overview

This chapter focuses on the constraints experienced by MSMEs at different stages of growth and development as well as awareness of the support from various agencies, organisations and government departments. MSME's growth and survival is dependent, to some extent on the easing constraints that are facing MSMEs at various stages of growth and development. Furthermore, boosting support and promoting awareness of agencies, organisations and government departments for MSMEs at various stages of growth and development is also integral to their survival. Information about constraints of starting a business, growing a business and customer base were collected from the respondents. MSME owners face a range of constraints in terms of starting, operating, and growing their businesses. The majority of them, however, do not use any support to overcome these challenges.

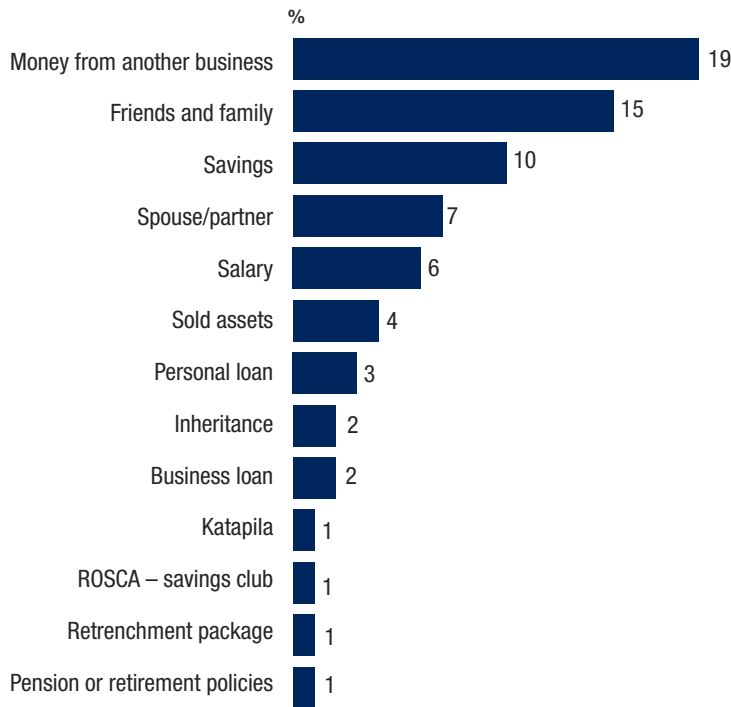
### 6.2 Starting the business

Sourcing money is perceived to be the biggest constraint that prevents MSME owners from growing their business (55%), followed by the concern of not having enough customers (31%). It is therefore not surprising that business owners acquire funds primarily from informal sources (e.g. 22% from friends/family/partner, 19% from other business, and 10% own savings) rather than from formal financial institutions.

**Figure 54: Challenges faced by business owners in terms of starting their business**



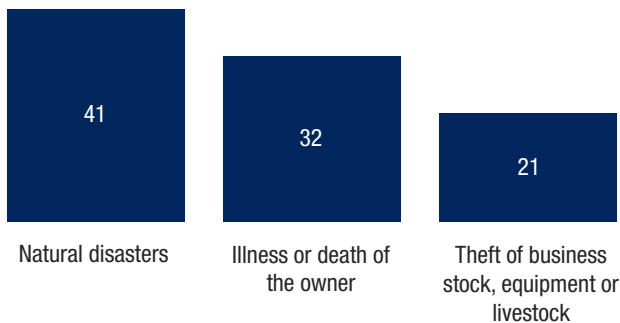
**Figure 55: Sources of money to start the business**



### 6.3 Operations

The main risks to operations or business income refer to natural disasters such as drought, fire, floods and rain damage (41%), illness or death of the owner (32%), theft of business stock, equipment or livestock (31%). In the event of incurring any such losses most small business owners have no coping strategy or safeguards in place to absorb the losses; and those who do, rely mainly on borrowing and savings.

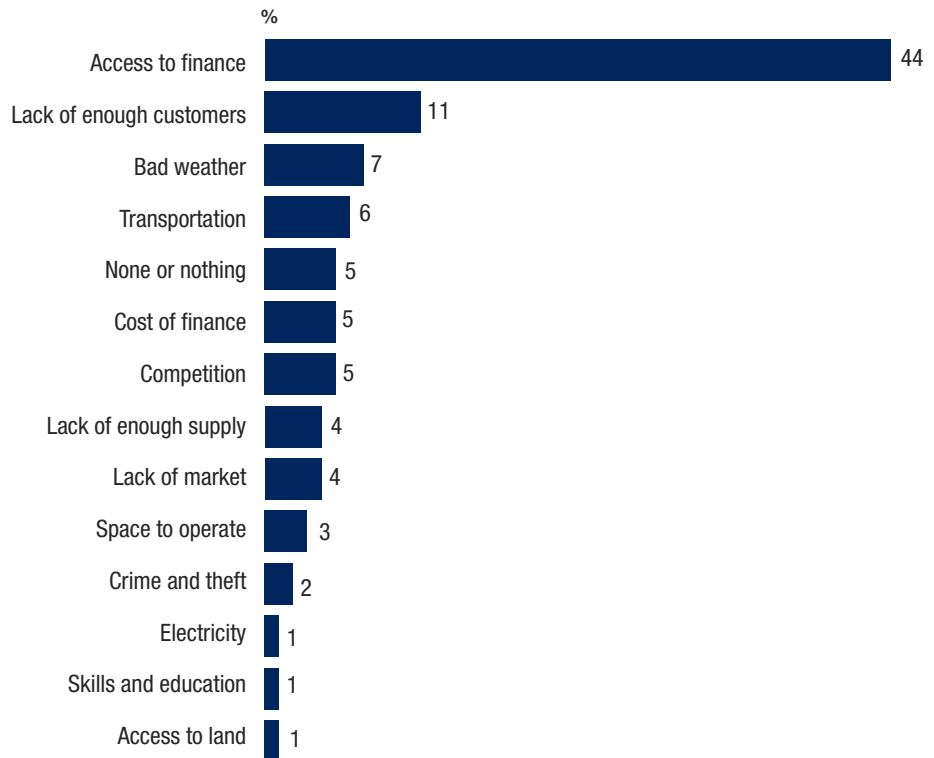
**Figure 56: Challenges faced by business owners in terms of operations**



## 6.4 Growing the business

Small business owners face a range of challenges to business growth ranging from lack of customers and supply, to weather and transportation related issues, etc. However, the biggest obstacle to business growth, as identified by small business owners, refers to insufficient access to finance (44%).

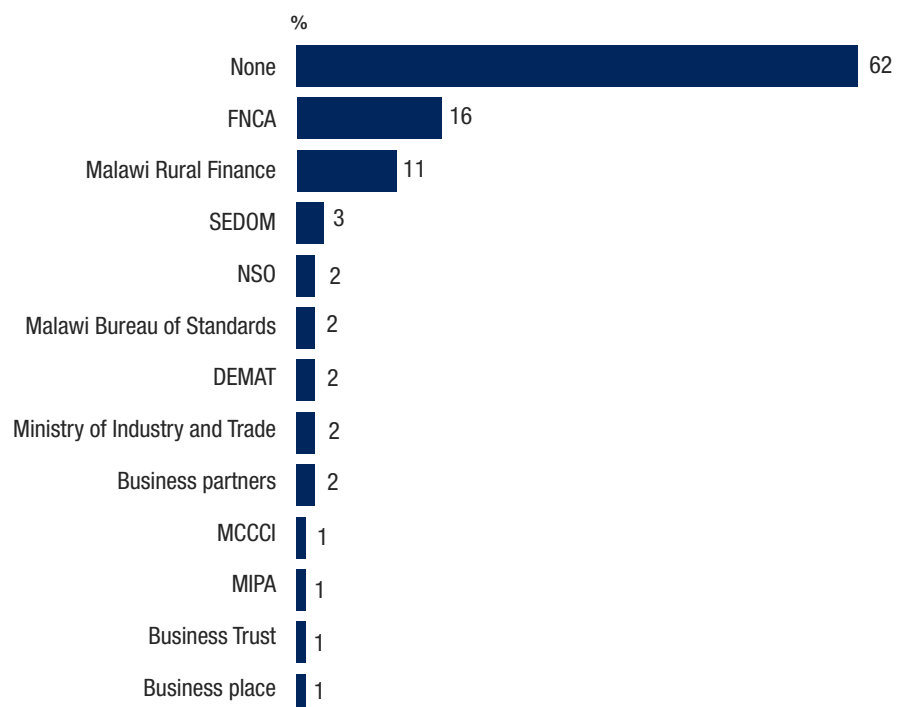
**Figure 57: Challenges faced by business owners in terms of growth**



## 6.5 MSME support

**Awareness of support:** The majority of small business owners (62%) are not aware of MSME support, and a large proportion of business owners (48%) claim to have no support network.

**Figure 58: Awareness of support**

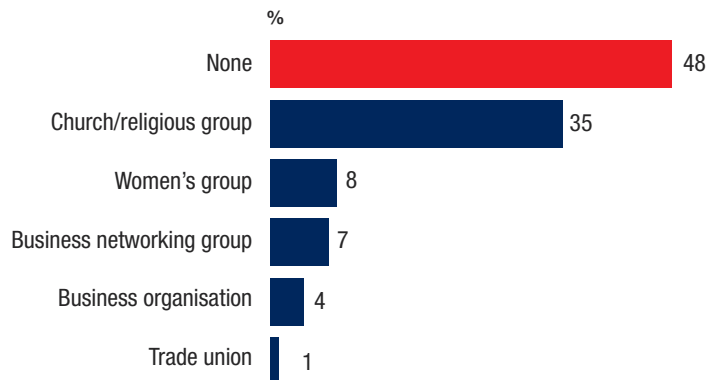




Small business owners, who did make use of support organisations, were most likely to get support and advice relating to starting up a small business. The sample of small business owners who did make use of these organisations is, however, too small for further analysis in this regard.

**Networks:** Almost every second MSME owner (48%) claims to receive no support for their business. The remaining 52% of MSME owners receive support mainly from church/religious groups (35%). Although only 11% receive support from business networks and groups, they are perceived to be most helpful.

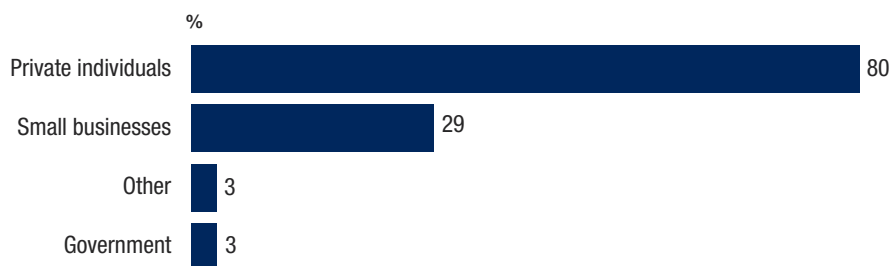
**Figure 59: Networks of support**



## 6.6 Customer base

The majority of small business owners (80%) reported that their customer base constitutes members of the public (i.e. they have private individuals as customers). Only 3% have larger businesses and government as a customer, whilst for 29% their customers included other small businesses.

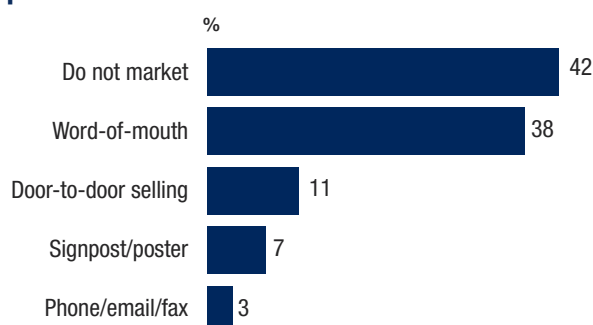
**Figure 60: Types of customers**



## 6.7 Marketing practices

There is a need to improve marketing practices of MSMEs. Most business owners do not market their business (42%), while others rely on word-of-mouth advertising (38%). Only 7% of business owners use some traditional marketing tools such as sign posts and posters.

**Figure 61: Marketing practices**



## 6.8 Key take-outs

The small business sector plays a vital role in generating income and creating employment opportunities. The sector is particularly important in creating opportunities for those who have low levels of education and are likely to be affected by unemployment. The MSME sector in Malawi is driven by individual entrepreneurs and micro-businesses, which tend to have few if any employees and very limited assets. In general, the business owners are relatively young and tend to work long hours.

Currently, the business activities in the MSME sector is largely characterised by either the sales of goods in the same form that it was purchased, or using the available natural resources to generate an income i.e. the growing of fruits and vegetables for purposes of sale or selling something collected from nature. The data shows that 87% are involved in very basic service provision i.e. car washing, taxi services, etc. Rendering more skilled services are limited to processing agricultural products, building, construction and tourism related activities. This could possibly be due to a function of market demand and the skill set available in Malawi. Within the MSME sector education levels are very low, with 68% having only primary education. Furthermore, 67% of business owners were either self-taught or were taught by family members. Very few received formal training or had previous job experience. 38% had started a business as they could not find a job or had lost their job. All of these factors indicate that MSME activity in Malawi is largely the result of the lack of opportunity in the formal work sector. However, as the largest proportion of business owners are aged between 31 – 40 years, it is likely that it will be difficult to enter the formal work force, especially as they lack formal education and training. The focus rather should be on assisting those entrepreneurs to grow and develop their businesses. That businesses are a significant contributor to livelihoods is adequately reflected by the fact that more than half of MSME owners indicated that the business was their only source of income, and this is particularly so as most business owners are the head of households.

MSME owners indicated that they faced major challenges in terms of starting their business. Arising from a broad analysis of these challenges, the lack of access to finance is highlighted as the biggest challenge facing small business owners, with 55% of business owners identifying this to be their biggest obstacle. This is verified by the fact that their main source of money, is friends/family, other businesses and their own savings. Another key challenge refers to the fundamental lack of operational expertise necessary for running a business and scaling up the business once it grows. All of this indicates the need for adequate capacity building and support programmes to assist MSMEs, particularly small individually owned MSMEs, in sourcing financing, and streamlining operations and building the business. As to the finding that the overwhelming majority of businesses have no risk (natural disasters and illness or death of the owner) cover, consideration must be given to include risk mitigation strategies into programmes. Finally, it was found that in addition to finance the biggest obstacle to growth was the lack of operational capacity e.g. lack of customers, lack of markets and inefficient supply. As the large majority of business owners tend to use civil society organisations or religious groups rather than formal programmes, any formal support programme should consider partnering with these organisations.

Despite the large national effort in creating support institutions for MSMEs, a large proportion of business owners are unaware of their existence. Those who do have a support network, mainly rely on church groups and other civil society organisations. Only a few MSMEs are currently formally registered, which could be a stumbling block in terms of identifying and designing appropriate support programmes; determining policy direction; and determining relevant financial products and services to address the needs of small business owners in Malawi.

## 7 Conclusions

The economy faced a number of challenges in the period leading to the MSME survey. This resulted in severe shortages of fuel, foreign exchange and drugs, a breakdown in manufacturing capacity and a contraction of businesses in general. These challenges remain significant to Malawi. It is within this broader context that these conclusions should be viewed.

The MSME sector is a significant contributor to job creation and employment in the Malawian economy and thus remains an important segment. Many business owners have been running their businesses for a number of years. There are a large number of MSMEs in Malawi, however; most of these businesses are small and tend to have few if any employees with very limited assets. This inhibits their ability to grow their businesses beyond the Small and Micro levels at which they currently run.

Individual entrepreneurs and Micro businesses also have the highest constraints facing their business and the highest levels of financial exclusion. These businesses are largely cash-based businesses yet there are high levels of credit extended to customers. They are characterised by low levels of business sophistication with limited marketing, use of information technology and record keeping.

As the largest constraints are faced with individual entrepreneurs and Micro-businesses, focus should be given to assisting these businesses to become more formal through encouraging registration of businesses, membership to MSME support institutions and using appropriate financial products and services.

Financial inclusion among business owners tends to be low, particularly for savings, borrowings and insurance products. The constraints faced by the businesses, their difficulties in accessing credit and inappropriate risk mitigation strategies all highlight the lack of availability of appropriate products and services for the small business sector. Appropriately priced, easy to use products/services, particularly products with flexible solutions that allow for an irregular income should be investigated.

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