



# Micro, Small and Medium Enterprises (MSME) Policy Strategy for the Republic of Malawi

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*“Enabling Enterprise Growth in Malawi”*

2012 - 2017

Ministry of Trade & Industry, Malawi

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This Micro Small and Medium Enterprise (MSME) Policy Strategy, 2012 entitled “*Enabling Enterprise Growth in Malawi: 2012-2017*” was initiated by Malawi’s Ministry of Industry and Trade in cooperation with the Commonwealth Secretariat, as an update of the earlier MSME Policy Statement first issued by the then Ministry of Trade and Private Sector Development in October 1998.

The purpose of this document, presented in draft final format pending Cabinet approval, is to institute a general policy framework that will provide for contemporary MSME development support initiatives. The MSME Policy Strategy, 2012 is a product of a thorough analysis of the sector in Malawi and an informed and extensive consultative process that involved representatives from government, business, civil society, MSME associations and international development agencies over fourteen months. The MSME Policy Strategy was led by policy research specialists, SBP and comprised a team including SBP’s Chief Executive, Chris Darroll principal author of the MSME Policy Strategy, and Garry Whitby who undertook the consultative process in Malawi. SBP gratefully acknowledges the co-operation of all the key stakeholders engaged in Malawi’s MSME sector who participated and gave their support to the project.

SBP, August 2012.



## Abbreviations

AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
BAM	Bankers Association of Malawi
BCA	Business Consult Africa
BDS	Business Development Services
BMO	Business Membership Organisation
CSR	Corporate Social Responsibility
DEMAT	Development of Malawian Enterprises Trust
DFID	Department for International Development
DPC	Development Planning and Cooperation
DWCP	Decent Work Country Programme
EEAG	Economic Empowerment Action Group
EU	European Union
FINCA	Foundation for International Community Assistance
FSTAP	Financial Sector Technical Assistance Programme
IBAM	Indigenous Businesspersons Association of Malawi
ID	Identity Document
ILO	International Labour Office
ISO	International Standards Organisation
JICA	Japanese International Cooperation Agency
M&E	Monitoring & Evaluation
MGDS	Malawi Growth & Development Strategy
MARDEF	Malawi Rural Development Fund
MAWIMA	Malawian Women in Mining Association
MBS	Malawian Bureau of Standards
MCCCI	Malawi Confederation of Chambers of Commerce & Industry
MDC	Malawi Development Corporation (now defunct)
MDC	Management Development Centre
MEDI	Malawian Entrepreneurs Development Institute
MEPC	Malawi Export Promotion Council
MIPA	Malawi Investment Promotion Agency
MTIC	Malawi Trade and Investment Centre
MIRTDC	Malawian Industrial Research & Technology Development Centre
MoIT	Ministry of Industry and Trade
MoL	Ministry of Labour



MRFC	Malawi Rural Finance Corporation
MSEPS	Micro and Small Enterprise Policy Statement
MSB	Malawi Savings Bank
MSME	Micro, Small and Medium Enterprises
NABW	National Association of Businesswomen
NASME	National Association of SMEs
NBS	New Building Society Bank, just called NBS Bank
NEEP	National Economic Empowerment Policy
NGO	Non-governmental Organisation
NSO	National Statistical Office
ODPP	Office of the Director of Public Procurement
OIBM	Opportunity International Bank of Malawi
OSH	Occupational Safety and Health
OVOP	One Village One Project
PPP	Public-Private Partnership
PSD	Private Sector Development
SADC	Southern African Development Community
SEDOM	Small Enterprise Development Organisation of Malawi
SMEDI	Small and Medium Enterprises Development Institute
SMEF	Small and Medium Enterprise Fund
SQAM	Standards, Quality Assurance, Accreditation and Metrology
TEVETA	Technical Education, Vocational and Entrepreneurship Training Authority
RBM	Reserve Bank of Malawi
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WEDGE	Women's Entrepreneurship Development and Gender Equity
YEDF	Youth Enterprise Development Fund



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**PART A - MICRO, SMALL & MEDIUM ENTERPRISES (MSME) POLICY**

## Part A

# Micro, Small and Medium Enterprises (MSME) Policy for the Republic of Malawi

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## 1. Introduction

1. This draft Micro, Small and Medium Enterprises (MSME) Policy for the Republic of Malawi aims to create a modern and effective framework to guide the development of profitable, competitive and sustainable MSMEs in Malawi.
2. It is intended to update the Micro and Small Enterprise Policy Statement (MSEPS), first issued in October 1998 and revised in 2000 by the Ministry of Trade and Private Sector Development (today known as the Ministry of Industry and Trade (MoIT)).
3. The draft MSME Policy is based on a thorough analysis of the MSME sector in Malawi conducted in 2011 and 2012. This analysis included a series of broad and in-depth consultations with all stakeholders with an interest in the MSME sector (government, business, civil society, development partners) across the country; a review of all major government, private sector and development partner initiatives in the MSME field; and an examination of the latest MSME policies in a number of developing countries whose policies could be relevant for Malawi (including Botswana, Lesotho, Rwanda, Tanzania, Zambia as well as the Philippines).
4. The draft MSME Policy is designed to operate along with Malawi's major medium – and long – term policy strategy initiatives, including the Malawi Growth and Development Strategy (MGDS II), which aims to reduce poverty through sustainable economic growth and infrastructure development. This document, which is the cornerstone of Malawi's economic growth policy briefly mentions MSMEs, but the sector is not given great prominence.
5. In her opening remarks at the National Dialogue Conference on the Economy held in late June 2012, President Joyce Banda stated that a key goal for her new administration is to eradicate poverty through initiatives that will enhance opportunities, reduce inequality and support wealth and job creation. This revised MSME policy and strategy aims to address this key national development objective.
6. *Part B* of this document suggests a draft time-bound strategy that builds upon the MSME policy proposals contained in this report. It also provides an implementation framework template where actions will need to be assigned and agreed with officials in the MoIT and in consultation with other relevant government departments that have the mandate to support MSME development.

## 2. Brief overview of the economic context

7. Malawi is one of the world's poorest countries. It ranked 171 out of 187 countries on the UN's 2011 Human Development Index. The *Africa Competitiveness Report 2011* ranked it 125<sup>th</sup> out of 139 countries surveyed, with extremely low rankings for infrastructure (131<sup>st</sup>), macroeconomic environment (135<sup>th</sup>), health and primary education (125<sup>th</sup>), higher education and training (120<sup>th</sup>), technology readiness (121<sup>st</sup>) and market size (127<sup>th</sup>).
8. Despite enjoying a steady growth since 2004, partly attributable to favourable climatic conditions and significant fertiliser subsidies, the last two years has seen a marked slowdown in Malawi's economy.



9. About 85% of Malawi's population of approximately 15 million live in rural areas with youth accounting for over 40% of the population. Agriculture is by far the dominant sector of the economy, employing some 85% of the labour force and accounting for about 90% of Malawian exports. Agriculture contributes about 38% of GDP. Yet total lending from the financial sector to agriculture is estimated at only 8.5%.
10. Approximately 84% of agricultural value addition comes from 1.8-2 million smallholder farmers owning on average 1-2 hectares of land per farm. They mainly grow maize, although one third grows cash crops (burley tobacco, cotton and groundnuts). At the other extreme, approximately 30,000 agricultural estates cultivate 1.1 million hectares, with an average holding of 10-500 hectares. They produce tea, flue-cured tobacco, coffee, sugar cane and about a third of Malawi's burley tobacco.
11. About 22% of GDP comes from trading and retailing activities, mostly linked to the rural economy. Malawi's small manufacturing sector is in decline, with low capacity utilisation and falling investment. Formal sector manufacturing accounted for just 10.8% of GDP in 2006, and just 14% of output being exported.
12. There is a marked "missing middle" of firms in between the very small and the very large. The 2009 Economic Empowerment Roadmap (EER) notes that previous efforts have fallen short and many Malawians remain in unprofitable businesses, while foreign investors dominate in larger, profitable firms, with a lack of vibrant businesses in between to link and eventually upscale enterprises across the country.
13. According to estimates, rural-based micro and small-scale economic activities support most of the population and generate nearly two-thirds of overall business turnover. These enterprises are, however, also poorly served by formal financial and microfinance institutions.

### 3. Defining MSMEs

14. There is no universal definition of micro, small and medium-size enterprises. Each country has developed its own definition to fit its context and economic circumstances. The table below draws on the findings of the most recent 2012 Malawi MSME survey:

<b>Enterprise size</b>	<b>No. of employees</b>
Micro	1 – 4
Small	5 – 20
Medium	21 – 100
Large	100 +

15. What is presented above should be considered a working definition, and Malawi should revise it in response to economic developments: in future, as current information shows changing dynamics, it should be reviewed. It should be noted that many countries have dispensed with turnover criteria and focused solely on number of employees, because this permits easier data collection and is not affected by the effects of currency fluctuations and inflation on turnover comparisons over time. Once this is done, it will be easier to develop and target specific policies for micro, small and medium enterprises.





16. It is also important to see small business as a continuum, from informal micro-enterprises all the way to formal medium-sized firms. What is most important is not the distinctions within the continuum, but the ease with which enterprises can move up or down the scale. This applies equally to micro-enterprises that wish to formalise operations and to larger businesses that may opt to downscale.

#### **4. MSMEs in the Malawian Economy**

17. The size of the MSME sector in Malawi was estimated by the Malawi National Gemini Baseline Survey, undertaken in 2000. It noted that, at that time, micro and small enterprises (MSEs) contributed income to about 25% of Malawian households, employed about 38% of the country's labour force, and contributed about 15.6% to GDP. The vast majority of these enterprises were located in the rural parts of the country.
18. The recent 2012 Malawi MSME Survey provides an up-to-date account of MSMEs in Malawi. It found that there were some 758 118 small business owners in the country, operating 987 480 enterprises. They are overwhelmingly involved in retailing; although around 1 on 8 (13%) were involved in service provision. They generate revenue of some US\$2bn.
19. It must be remembered, however that only a very small proportion of Malawians work in the formal economy. According to the Welfare Monitoring Survey of 2008, about 2.5% of the labour force works for private businesses and 1.1% works on estates, adding up to about 222,000 formal private sector employees, while another 3.6% works in the public sector. Hence, out of a labour force of close to 6,100,000, only 440,000 work in the formal sector, leaving over 5.5 million either unemployed, under-employed, employed in subsistence farming or in the informal sector.
20. The 2012 MSME survey found that around 41% of the country's MSMEs collectively employed total of 1 050 320 people, of whom 255 502 worked full-time for their employer. Over 80% of those employed in the sector worked for micro enterprises (those with 1-4 employees).
21. Due to Malawi's highly rural population most MSMEs in Malawi are linked in some way to agriculture, and operate on small pieces of land. Some 30% of these businesses sell agricultural products, and another 23% conduct general trade and vending. Many are rural, family-run, husband-and-wife firms that operate only on a part-time basis outside of the agricultural production cycle, and are largely stagnant, used to provide subsistence income. They are necessity driven. They are established mostly from a decline in formal employment and other incomes, rather than a response to opportunities in times of economic growth. Many such businesses have a short lifespan, and thus do not benefit from economies of scale and experience accumulated over time.
22. The 2012 MSME survey established that 59% of MSMEs were excluded from financial services, as opposed to 31% that are formally served by some sort of financial system, with the balance relying on informal services. Only 22% are banked. Over three quarters do not borrow funds, primarily because they doubt their ability to repay loans. Of those who borrow, informal credit systems tend to be the primary source of credit.
23. The 2012 MSME survey found that financial exclusion decreases as the size and formality of the business increases (although, interestingly, men tend to slightly be more excluded than women).
24. The Government of Malawi has established a number of statutory and other institutions to help produce a conducive environment for the private sector across government. Within the MoIT these include the Malawi Export Promotion Council (MEPC) which recently merged with the Malawi Investment Promotions Agency (MIPA) to form the Malawi Investment Trade Centre (MIPC), the Malawi Bureau of Standards (MBS), the Malawi Industrial Research and



Training Development Centre (MIRTDC), Small Enterprise Development Organisation of Malawi (SEDOM), Development of Malawian Enterprises Trust (DEMAT), and the Malawi Entrepreneurs Development Institute (MEDI) with the latter three organisations having been recently merged to form the Small Enterprise Development Institute (SMEDI). However, many of these institutions duplicate each others' functions and are seen to be ineffective. The 2012 MSME survey showed that for instance nearly two thirds of small businesses (62%) were unaware of institutional support.

## 5. Objectives of MSME Policy

25. It is widely recognised that MSMEs play a vital role in addressing rural and urban poverty, playing an important role in livelihood strategies, helping to diversify income sources, improving cash flow and providing help in difficult times, even if micro-enterprise activities are often considered a second or even third occupation.
26. The MSME sector has the potential to promote indigenous entrepreneurship. In an ideal environment, it can absorb labour, transfer modern technological skills, foster innovation and enhance international competitiveness. Successful MSMEs have the potential to uplift women, the youth and marginalised groups from poverty. The role of MSMEs is particularly important for Malawi, with its relatively undiversified, resource-poor economy and the need to promote exports.
27. This draft MSME Policy seeks to support the development of a vibrant local entrepreneurial sector and improve MSME competitiveness. It aims to enhance the operations of individual MSMEs, assist priority industries, and improve the MSME operational and regulatory environment. It also seeks to address the key shortcomings of previous policy, including the lack of measurable targets and monitoring and evaluation criteria and limited policy integration.
28. The MSEPS recognised that government should create “an enabling environment that combines minimum regulation with maximum openness and provides equal incentives for all enterprises.” This approach remains central to the new MSME Policy.
29. This draft MSME Policy seeks to avoid some of the shortcomings of previous endeavours in this field, including limited circulation, low levels of awareness and weak implementation.
30. While the policy deals with the MSME sector as a whole, it takes into account the special characteristics, circumstances and growth needs of different-sized enterprises.
31. Specifically, this draft MSME Policy aims to:
  - a. Increase the contribution of MSMEs to economic growth, employment creation and poverty alleviation in Malawi (including for women, youth and rural areas);
  - b. Improve coherence in policies that impact on MSMEs with measurable outcomes and robust monitoring and evaluation;
  - c. Ensure the better functioning of value chains;
  - d. Create incentives for the private sector to change behaviour and become more inclusive;
  - e. Strengthen the MSME business support infrastructure;
  - f. Develop a coherent, integrated and practical framework to guide stakeholders engaged in MSME development in Malawi; and
  - g. Offer differentiated approaches for strategies for micro, small and medium enterprises, as these types of firms have different needs, aspirations and expectations.



## 6. Addressing the challenges to MSME growth

32. Many studies have identified a range of challenges to the growth of MSMEs in Malawi. Common barriers to the development and growth of MSMEs include: a weak institutional and regulatory framework; high cost of doing business; weak value chain integration; lack of specific policies aimed at women and the youth; limited access to credit and business development services; lack of a strong, coherent and organised MSME voice to represent the sector; inability to meet production standards; and few opportunities to export.
33. The 2011 Private Sector Development Programme (PSDP) highlights the following as the key constraints to MSME growth in Malawi: a poor investment climate; weak culture of entrepreneurship amongst indigenous Malawians; lack of access to capital and the high cost of capital for MSMEs; weak private sector support institutions; outdated policy, legal and regulatory framework; and unreliable and costly infrastructure services.
34. The 2009 Business Environment Strengthening Technical Assistance Project (BESTAP) report suggests that the main reasons for small business failure are lack of capital for business expansion, lack of business management skills and lack of a level playing field that advantages foreigners over Malawians. Other factors include lack of skilled labour; low support by Malawians for Malawian businesses; high interest rates, costs and customs duty; and underhanded business practices in SMEs. As many players operate in the sector, competition is stiff. The report also noted: difficulties in accessing credit due to the requirement for traditional forms of collateral; low awareness of the policy environment, rules and regulations; low knowledge of quality and standards requirements; unfavourable government procurement practices; difficulty accessing export markets due to complex documentation and an inability to supply large orders; lack of export financing schemes; and lack of adequate production premises.
35. The BESTAP report also cites the lack of a national export strategy and citizen empowerment policy as constraints (although drafts of both exist). Unpredictable policy application – such as a ban on exporting some products earmarked for export – increases investment risk perception and uncertainty. Lack of transparency in procurement (for example in the construction industry) creates perceptions that contracts are awarded to the politically connected and not on merit.
36. Cultural and lifestyle factors also have a bearing on MSME development. Some behaviours include: a poor repayment ethos; poor customer service; overcrowded markets due to copycat entrepreneurs; the difficulty of family businesses collaborating with others; unethical business practices tarnishing the image of the sector; risk aversion and lack of strategic thinking; a weak savings and investment culture; and the stigmatisation of those operating small business as “failures”.
37. This draft MSME Policy outlines the key approaches and actions required to develop the MSME sector in Malawi. It first discusses a particular major obstacle to MSME growth, and then proposes measures to overcome it.
38. To address the challenges to MSME growth, this draft MSME proposes six key development pillars that will:
  - a. Enhance policy implementation integration;
  - b. Improve the operation of value chains;
  - c. Increase access to finance;
  - d. Improve business development services (BDS);
  - e. Improve information, skills, and standards; and
  - f. Promote an enabling legal and regulatory environment for MSME growth



## 6.1 Enhance policy implementation and integration

39. There are plenty of high-quality, thoughtful strategies, policies and blueprints in Malawi with ideas on how to develop the MSME sector. However, there appears to be a distinct lack of coordination between these efforts, poor integration and patchy implementation. Different ministries – often using well-meaning development-partner funding – have commissioned many reports and strategy documents to improve MSME support and growth that duplicate effort and cover similar issues. While a lack of resources is often blamed for lacklustre implementation, arguably, weak political will is a much more important limiting factor. It results in duplication of effort, turf battles and internal rivalries.
40. Insights from Malawi's own experiences in policy formulation, implementation and evaluation are valuable. The lessons learnt from the implementation of the MGDS, articulated in the MGDS II, are useful to bear in mind for MSME development:
  - a. Successful implementation of any national development strategy requires commitment from all stakeholders;
  - b. A strong indicator framework is critical for measuring progress toward defined goals, outcomes and targets;
  - c. Availability of data is crucial for monitoring progress of policy implementation;
  - d. Strengthened human and financial capacity is vital for successful implementation of policy;
  - e. The national development strategy must be aligned with the national budget and sector strategies;
  - f. Donor support must be aligned to the national development strategy.
41. The Government of Malawi recognises and appreciates the extensive development work and investment in the MSME sector by development partners in Malawi, in partnership with the Government of Malawi, including amongst others, the African Development Bank (AfDB), the United Nations Development Programme (UNDP), World Bank, European Union (EU), the UK's Department for International Development (DFID), the United States Agency for International Development and a number of other bilateral partners, and will endeavour to create a conducive environment to ensure the success of their endeavours. These include projects such as BESTAP, the UNDP and UNCDF's Financial Inclusion in Malawi (FIMA) Project, the proposed Financial Sector Technical Assistance Programme (FSTAP), and the Private Sector Development Programme (PSDP) (which includes the UNDP's Inclusive Markets Development and Challenge Fund instruments).
42. Policy coordination *within* government is as much of a priority as policy coordination between government, the private sector and development partners.
43. To enhance policy implementation and integration:
  - a. **Allow business scope to drive its own development.** Lessons from the MSEPS indicate that government's ideal role is in enabling, facilitating and supporting the MSME sector through setting and enforcing policy, while allowing the private sector the space that it needs for growth, in order to reduce poverty and unemployment.



- b. **Strengthen the capacity of the Ministry of Industry and Trade (MoIT) to implement policy and harmonise and align MSME development efforts across government.** This would entail filling vacancies with skilled personnel; creating an intergovernmental coordinating committee on MSMEs at Principal Secretaries' level that meets regularly to better coordinate policy, strategy and implementation; improving communication about MSME policy throughout government; and firm political leadership to champion MSMEs. At present, there are too many MSME support institutions, creating inefficiency, competition and confusion. Government should consider raising the profile of MSME support, by creating a Department for MSME Development, a specialised Ministry or even a separate statutory body with its own resources and strong leadership to implement this policy.
- c. **Build expertise.** Training for those officials in the public and private sectors driving this policy will be important. Long-term secondment of international experts to train indigenous Malawians through capacity building programmes in the MoIT should be supported, but with a clear strategy for the transfer of their skills and their timely departure in place.
- d. **Develop a sound implementation strategy.** The new MSME Policy can only be effective if it is matched with a coherent, realistic and measurable implementation strategy, developed in consultation with all major role players. It should develop appropriate SMART indicators (Specific, Measurable, Achievable, Relevant and Time-phased) and set progress targets against which it can be regularly measured. A major criticism of the MSEPS was its lack of tangible monitoring and evaluation criteria. Government should also develop a marketing and communication strategy to publicise the policy widely and promote implementation.
- e. **Ensure that development partners and the private sector closely align their MSME initiatives with the country's own MSME policy and development priorities, to maximise impact and effectiveness.** The Government of Malawi should undertake to support the work of these stakeholders, provide the necessary information and facilitate communication. There should be improved donor coordination and donor support aligned to national policy priorities; and predictable aid flows and timely distribution of resources.
- f. **Convene regular political and technical working groups between government (led by the MoIT), the private sector and development partners.** This should be done at least twice a year to map initiatives, discuss developments in the MSME sector, harmonisation of efforts and progress towards targets.
- g. **Institute a National President's Conference on MSMEs to be held every two years.** This should be a large, high-level event, led by the President, to examine the MSME sector thoroughly, with input from a variety of stakeholders on problems encountered, and solutions recommended. This will raise the profile of MSMEs, generate public interest, focus national attention on the issues, reinforce monitoring and evaluation efforts, and most importantly allow the head of state to hear first-hand from entrepreneurs.
- h. **Reward excellence and promote an entrepreneurship culture.** Government should institute an annual award for various categories of indigenous entrepreneurs. This would again raise the profile of MSMEs, celebrate success and create role models. The prizes could be financial in nature or involve mentoring for these firms.



## 6.2 Improve the operation of value chains

44. Modern development planning promotes holistic thinking about market systems and how they can be used to benefit the poor. This entails seeking new ways to involve and engage the private sector to act in a manner that supports systemic change while earning profits. This inclusive market development approach is demand-driven and focuses on specific market sectors identified as having substantial potential for impact, growth and profitability, while also benefiting the poor. It focuses on consultative decision making, aligning incentives and the capacity of local institutions and a finite role for development partners (substantial funding with a donor exit strategy).
45. Developing linkages between large and very small enterprises in Malawi is paramount to future growth and poverty alleviation. To provide better market access for small producers and MSMEs, these linkages must be sustainable and beneficial to all. This then requires an integrated and harmonised approach to holistically address market constraints such as trade barriers, capacity building, access to finance and technology, developing linkages and forming small producer cooperatives, and a policy framework to regulate the activity. This means addressing shortcomings in both the public and private sectors.
46. The proposed Challenge Fund instruments offer incentives to the private sector to engage in pro-poor and inclusive business practices through innovation, to address market failures. They will help mitigate risk by backing innovation models that combine potential commercial success with proven high social impacts. Instruments like these would promote business-to-business linkages, enhance entrepreneurial skill and challenge NGOs and businesses to provide cost effective support and mentoring services. Other initiatives coming on stream such as the National Export Strategy (NES) are also of importance in supporting the development of Malawi's domestic productive base and enhancing the capacity of MSMEs to engage meaningfully in local supply chains.
47. To enhance the operation of value chains:
  - a. **Foster business-to-business linkages.** Bigger businesses will have an interest and incentive to support and develop capacity and technology transfer to those MSMEs with whom they are connected through value chains as suppliers and distributors. Sometimes known as "embedded services", this model places responsibility with the businesses themselves, freeing up external BDS providers to concentrate elsewhere. In time, it allows larger firms to outsource some operations to the smaller businesses in the value chain, thus growing the latter. The Malawi Innovation Challenge Fund (MIFC) proposes to set up to provide grants to firms on a competitive basis for projects that build linkages, enhance competitiveness and benefit MSMEs, for activities including skills, information and technology transfer; and improving sourcing, product supply and access to markets.
  - b. **Focus to support high potential value chains in export promotion and import substitution crops.** Research for the PSDP identified pigeon peas a key export crop, given increasing demand internationally by the Indian diaspora (in its processed form, it makes Toor Dal). Returns are two-to-three times higher than for maize. Potentially lucrative export markets exist for all pulses grown in Malawi. It is estimated this market could grow to over \$100 million over five years, and would benefit small farmers in the value chain. The import substitution crop identified is soya, the second highest agricultural import in the country. Over 400,000 households produce it as a cash crop, but at very low yield because of poor seed and farming practices. The programme will also focus on other edible oils like groundnut and sunflower. The PSDP noted at the time, which is resonated in the new NES that the necessary success factors are in place – credible, capable players in the private and public sectors; and enough large businesses prepared to invest in innovative models and technologies that benefit the poor.





### 6.3 Increase access to finance

48. Consultations and research show that access to finance, including for start-up businesses, remains a formidable obstacle to growth in the MSME sector. For most financial institutions, rural households and MSMEs are unattractive as business propositions, with only 5% of Malawi's economically active population using formal banking services and another 5% accessing capital through microfinance institutions (MFIs).
49. Some perceptions of risk in this sector stem from low financial management skills among entrepreneurs; difficulty in providing evidence of a market for products in loan applications; lack of documentation to support loan applications (e.g. cash flow statements, valuation reports, legal fees); and the agricultural nature of many MSMEs (dependent on climate factors and market prices, and therefore seen as risky).
50. For the small percentage of Malawian MSMEs that do have access to formal financial products, it has proven difficult to meet collateral requirements. High interest rates also discourage borrowing. Recent research suggests that financial products available to MSMEs fail to recognise that a great many MSMEs are in the start-up phase and hence heavily under-capitalised. Loan repayment terms are short-term, while MSMEs need long-term finance and working capital. Banks offer standard terms and conditions, leaving little chance of refinancing if repayment problems arise. The mismatch leads to early foreclosures.
51. Another important constraint has been the politicisation of credit programmes. Research shows that default due to political interference has caused several credit programmes to collapse. Resources were misused for patronage and political campaigns. Borrowers were discouraged from repaying, affecting the funding available to genuine MSMEs to start and expand businesses.
52. However, while some banks and other financial institutions are beginning to recognise MSMEs as a viable sector, and lower interest rates and reduced government borrowing have increased lending, existing institutions lack sufficient funds to lend to MSMEs.
53. To increase access to finance and credit:
  - a. **Support an MSME Venture Capital Fund.** The PSDP is proposing a Venture Capital Fund to satisfy the appetite for longer term capital for small firms (5-20 employees), with 5-7 year loans for capital investments, to enable them to grow to medium-sized firms (20-50 employees). The funds would be awarded to commercial banks after a transparent competitive tender process.
  - b. **Support a Financial Innovation Challenge Fund.** Also proposed in the PSDP, a FICF would incentivise commercial banks to innovate solutions to providing more loans to MSMEs or reducing the costs of loans. It could finance activities such as banks setting up an MSME department, developing new loan products, better systems and partnerships with international MSME financing specialist institutions, and specialist funds for women, who are often crowded out of traditional lending.
  - c. **Provide tax incentives.** Informal businesses could be incentivised to register as taxpayers if tax breaks were offered for an initial period.
  - d. **Issue national identity documents.** The long-awaited introduction of national identity documents is vital to make lending and loan tracking easier.



## 6.4 Improve business development services (BDS)

54. Although the MSEPS emphasised the need for government to create MSME support institutions, research suggests that these organisations have had limited impact. The proliferation of government-run institutions to provide business development services for the MSME sector has led to duplicated efforts and unhealthy competition. The reclassification of government-owned SME support institutions as commercial parastatals made them ineligible for government subventions, and compelled them to concentrate more on commercial activities than on business development. This has led to BDS activities being reduced, and these support institutions entering the microfinance provision market in order to survive. Demand for BDS remains high and unmet, and there is little attempt to link business promotion efforts with measureable outputs to justify investments.
55. Over the years there has been a proliferation of diverse business associations representing the MSME sector. Some, such as the national associations like NASME, NABW, IBAM and EEAG have been formally incorporated under the Trust Act, governed by a board of trustees. Others, particularly at the local level, are less formal and fragmented and are often involved in “turf wars” to attract membership. Although they aim to represent the MSME sector, these organisations are poorly resourced and lack capacity to represent, support and advocate for their members’ needs so their contribution is limited.
56. To improve the provision of BDS:
  - a. **Finalise the merger of support bodies.** The long-standing proposal to merge DEMAT, SEDOM and MEDI announced in the 2010/11 national budget resulted in high staff turnover in MSME support institutions, low morale and institutional paralysis. However, since the announcement of the merger in January 2012, MoIT needs to ensure that the new Small & Medium Enterprises Development Institute (SMEDI) has clear mandates that are coherent with the MITC objectives, is properly resourced to ensure effective delivery of business development support services, and its establishment is in line with other initiatives such as the implementation of the National Export Strategy (NES).
  - b. **Provide more mentoring and counselling.** The absence of effective role models is cited as a reason that struggling MSMEs often collapse. Banks would be more likely to lend if there were counselling and mentoring services to improve financial management and corporate governance practices. The PDSP recommends establishing a Mentoring and Counselling Facility (within the MICF) to provide support for those MSMEs seeking loans, thus promoting more lending. Success stories should be widely publicised to encourage others to become entrepreneurial, and show that businesses can grow without needing political patronage.
  - c. **Improve access to work space.** Many stakeholders identified inappropriate or insufficient work areas as a constraint to MSME growth. The construction of factory shells and artisan shelters driven by the private sector, on appropriate land for industrial and commercial areas should be encouraged. This helps small businesses acquire loans, and makes it easier to formalise these enterprises, collect taxes and improve quality standards. Also encourage the private sector to build more business incubators, so that MSMEs can benefit from proximity to others and value chain advantages.
  - d. **Decentralise support services.** A strong recommendation from many stakeholders was to establish BDS incubators and “centres of business excellence” throughout the country, and not just at MEDI.
  - e. **Improve MSME representation.** Government should facilitate a coherent and strong voice for the MSME sector, through effective representation, accountability to members and encouraging the formation and development of cooperatives to increase the collective bargaining capacity of the informal sector.





## 6.5 Improve information, skills, standards and technology

57. There is considerable latent entrepreneurial ability in Malawi, but it will require coaching to set-up and start businesses, which in turn will need stable training institutions.
58. Technical colleges do not have sufficient, experienced entrepreneurship trainers, so graduates only acquire technical and vocational skills. Nor is entrepreneurship taught at schools. In rural areas, not enough training in business, management and financial literacy skills is supplied, with poor knowledge of available opportunities or the benefits of such skills by many rural entrepreneurs. Few MSMEs know about export opportunities and procedures, and are often intimidated by red tape and paperwork.
59. There is little usage of email and internet, despite growing mobile phone penetration. With new production and technologies not readily available in Malawi, MSMEs still tend to engage in traditional manufacturing practices. There is scant attention paid to quality, branding, packaging and aggressive marketing.
60. Corporate governance practices are poor: there are often no advisory boards, owners show little accountability, external audits are not conducted, and few institutional means exist to enforce better governance.
61. Quality standards of product and services are low, and customers have poor quality consciousness, making products and services uncompetitive and undermining export opportunities. The product certification by the Malawi Bureau of Standards is not currently accepted in Europe. Businesses have to go to considerable expense to have products certified in South Africa. The MBS is not educating MSMEs in matters of quality, a vital element for export purposes, and currently lacks capacity to do so.
62. To improve knowledge, skills, standards and technology:
  - a. **Provide information.** Create an effective communication and information strategy, to regularly provide the latest information (including national statistics, taxation and licencing regulations, details of international trade agreements and market information) to MSME stakeholders. This should include an effective website and a central repository for hard copies of all relevant information. This could be done through National Enquiry Points.
  - b. **Promote entrepreneurship.** It is important to change the mindset in Malawi that often sees those operating their own businesses as failures. Publicity efforts need to be made to build an enterprise culture in Malawi and raise the profile of entrepreneurship and self-development. Many stakeholders called for entrepreneurship education to be incorporated into all Malawian educational institutions – primary, secondary and tertiary – at all stages. More short courses and courses in other national languages should be developed, and kept current and modern as the sector develops. Mentorships and guidance for youth receiving start-up loans would be extremely beneficial.
  - c. **Develop a coherent and practical policy for technology transfer to MSMEs.** This will help to build awareness of technologies that can improve production efficiency, as well as how to acquire technologies and commensurate training.
  - d. **Review and improve SQAM infrastructure.** It is essential to strengthen the Standards, Quality Assurance, Accreditation and Metrology (SQAM) system in Malawi to develop exports of the requisite international quality and health standards, enhance competitiveness and benefit domestic consumers. This would entail a thorough review of the entire national quality system, including technical regulations, conformity assessments and voluntary standards. Also the current operations of the MBS to considerably improve its operations, management and output should be reviewed.



- e. **Create quality consciousness.** Assist those managing MSMEs to emphasise standards and quality in their operations, including those required to satisfy local consumers and export markets, and provide training in these areas.

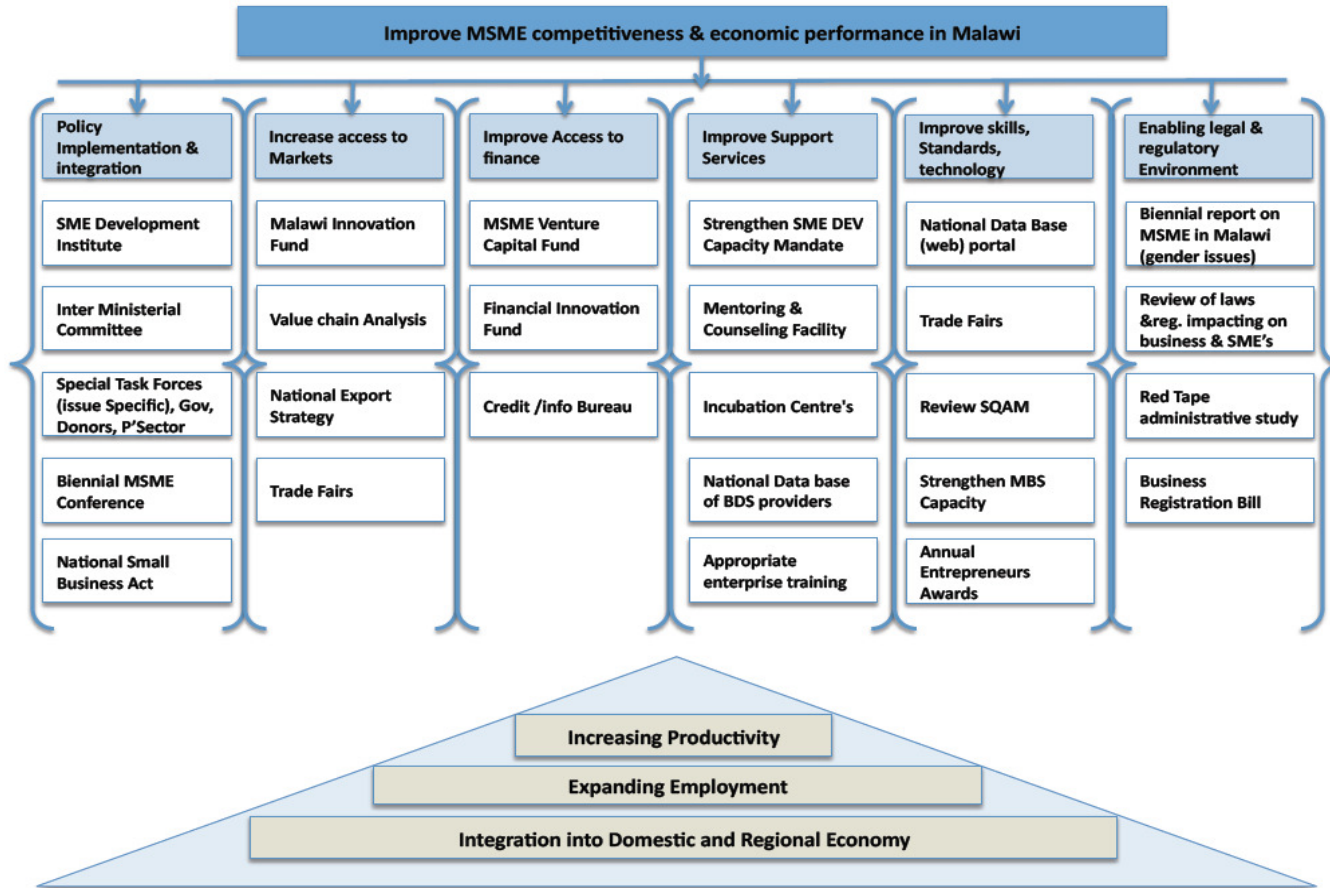
## 6.6 Develop gender differentiated policy

- 63. Many recent analyses reveal that women remain disadvantaged in virtually every economic dimension, and government has not been equipped to deal with their specific needs. They note that the MoIT lacks sufficient staff trained in gender issues to provide guidance on women's issues in relation to SME business management, and for young people, including girls, forced into trading due to death of parents.
- 64. Small trading has mainly been carried out by women in Malawi. However, the greater the level of formality businesses show, the fewer women are involved. (In other words, women are not formalising their businesses, and moving up the value chain.) This can be attributed to competition from established, male-run businesses; a dearth of accurate information, market support and finance; risk aversion; and domestic commitment and stereotyping.
- 65. Research also emphasises the difficulties faced by women to raise capital, despite a strong culture of repayment, due to a combination of the varied productive and reproductive roles women play in the family; men being primary decision makers over the use of household funds; the linking of credit to collateral, and a lack of a savings culture.
- 66. Other factors affecting female entrepreneurs include high taxes to operate formal businesses; exploitative rent-charging; lack of information on business issues, government tenders, grievance procedures; poor networking and business linkages among women; and low education levels hampering repayment and debt collection.
- 67. Understaffing in government is concerning (for example two departments at the MoGCCD showed a 40% vacancy rate in 2011), compounded by frequent movements of trained staff internally and outside of government, with no short courses on entrepreneurship for government staff dealing with SMEs in Malawi.
- 68. To implement gender differentiated policy:
  - a. **Remove barriers to equal access.** All players in this sector must be committed to eliminating the various obstacles to fostering gender equality in industry, trade and enterprise, and strive for gender parity in administration and board representation.
  - b. **Design loan products for women and disadvantaged groups.** Due to current extreme disparities, banks and MFIs must be encouraged to develop innovative financial instruments that target and benefit women and youth specifically, and find alternatives to prevailing collateral requirements. Longer repayment periods should be considered.
  - c. **Use the local language.** Banks and government departments should offer information relevant to MSMEs in other national languages, as many female small traders are illiterate and struggle with information and forms only available in English.
  - d. **Develop a comprehensive human resources plan for the MoIT and MoCCD.** This includes training on gender issues for all officials and especially those working on MSMEs.
  - e. **Collect and monitor gender disaggregated information on participation in the MSME sector.** This disaggregated data is critical to enable systematic review and evaluation of the impact of policies, strategies and programmes on gender mainstreaming objectives.



## 6.7 Promote an Enabling Environment

69. Extensive evidence shows that an appropriate regulatory environment is the single most important element of a country's economic growth strategy. An enabling environment for the growth of the private sector and especially MSMEs requires a reduction of the regulatory, policy and legislative obstacles and raise the domestic costs of doing business. Recent research, including the World Bank's *Doing Business* survey, shows that Malawi suffers from a poor legal and institutional regulatory framework for private sector growth and development, and in particular for micro, small and medium enterprises.
70. To promote an enabling policy and regulatory environment:
- a. **Build an adequate statistical base of the characteristics and nature of the MSME sector.** The 2012 MSME Baseline Survey offers an in-depth understanding of the characteristics, nature and challenges facing the MSME sector in Malawi. This should provide the basis on which to build targeted interventions.
  - b. **Conduct ongoing reviews.** This is as an important measure to ensure that targeted interventions to support MSME development are implemented and monitored. A Biennial Report on MSMEs in Malawi should be produced and presented at the presidential conference on small business. This is an important document, which will need to review the progress of the MSME policy for the past few years; monitor the implementation strategies and their impact, and produce a detailed programme of actions, including priorities, targets and timelines. The Study should aim to report against all recommendations proposed in the MSME policy and implementation strategy.
  - c. **Reduce red tape and compliance costs for doing business.** Government should aim to introduce measures to reduce red tape and compliance costs by implementing a regulatory impact analysis for all proposed legislation with the purpose of anticipating any adverse effects that proposed legislation might have on the private sector, and in particular MSMEs. To ensure quick business registration, MoIT should aim to introduce and implement the new Bill on Business Registration.
  - d. **Introduce a Small Business Act.** As an expression of commitment to the MSME policy, Government should aim to introduce a national Small Business Act which would establish the legal basis for all the elements of the MSME policy and implementation strategy including the necessary coordinating mechanisms within government, the preparation of the biennial Report on MSMEs in Malawi, and presidential conference. The Act should also provide for regulatory impact assessments on proposed legislation, with a specific focus on the likely impacts for MSMEs.



Overview of the Key Objectives and strategic pillars of the MSME Policy Strategy for Malawi

## Part B

# MSME Policy *Strategy* Malawi

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## Introduction

71. Micro, small and medium enterprises (MSMEs) make an important contribution to a country's economic and social development. In all economies, especially in developing and transitional economies, they constitute the vast majority of business activity and are acknowledged as the key drivers for employment creation. Over the last three decades, SMEs have been the major engine of productive output in many economies and make a significant contribution to a country's GDP, often accounting for one to two thirds of the turnover of the private sector.
72. The Ministry of Industry and Trade (MOIT) in Malawi is leading efforts to formulate and implement a new, modern and effective framework to guide the development of profitable, competitive and sustainable micro, small and medium enterprises in Malawi.
73. This comprehensive, time-bound strategy builds upon the new draft MSME Policy, Part A of this document, which outlines the broad objectives of the Government of Malawi. These objectives are captured in the following core policy statement:

**Policy Statement:** *To facilitate and create an enabling economic environment in which micro, small and medium enterprises prosper and become market competitive, generate sustainable employment, and stimulate the growth and development of Malawi's economy.*

74. **Governing principles:** The draft MSME Policy recognises that government should create “an enabling environment that combines minimum regulation with maximum openness and provides equal incentives for all enterprises”. This approach remains central to the new MSME Policy Strategy.
75. Specifically, in shaping this policy strategy, it is acknowledged that the MSME sector will thrive when the environment supports:
  - A culture of enterprise which rewards individual and collective initiative and innovation by all its citizens;
  - An economic, political and social climate that encourages a high rate of enterprise activity and business start ups, and where a significant proportion of these grow into quality, productive enterprises; and
  - An economic and social climate which encourages existing MSMEs to thrive and grow.
76. The conceptual basis for the new MSME policy strategy is that the government of Malawi has a clear view of the respective roles of government and its agencies, the private sector and other economic actors. It believes that the core role of government and its agencies is to get the enabling environment right for business, to allow businesses to thrive, create employment and reduce poverty. Successful private sector development relies on a productive partnership between the private and public sectors. The competitiveness of an enterprise may depend as much as on what government does as on what the enterprise owners and managers do. To maximise the full benefits of small business in the economy, government policy makers must review performance in partnership with the private sector, improve the policy framework that is conducive to enterprise growth and build practical, implementable strategic plans to achieve their goals.



77. The new MSME policy strategy is proposed against a five-year horizon. It provides for a framework within which changes can be made to reflect the economic and social realities and allows for regular review to help adjust planning, incorporating challenges encountered and new developments, and evaluation of initiatives implemented.
78. It is important to acknowledge that MSME development will not be instantaneous, nor does it happen within a vacuum. All role players within the economy are important to its achievement. If the policies embedded within this document are suitably implemented, the basic foundations will be in place towards achieving a thriving MSME sector in Malawi at the end of the decade.



## Addressing the challenges to MSME Growth

79. The following core objectives were highlighted in the new MSME Policy. These form the six fundamental pillars that drive the MSME Policy Strategy

### 1. Enhance policy implementation and integration

80. **Objective:** Provide an enabling institutional framework to support and facilitate MSME growth in Malawi

81. **Rationale:** Successful implementation of the new MSME policy strategy requires a fundamental restructuring of the institutional framework supporting the MSME sector in Malawi; greater coherence across all key government departments; better coordination between government and donor agencies engaged in MSME development initiatives; and deeper engagement with the private sector and MSMEs themselves.

82. **Proposed Activities:**

1. Establish SMEDI with a clear legal mandate to coordinate and facilitate the implementation of the MSME policy strategy. Ideally the governing board of the institution should comprise high-level government representatives and private sector individuals.
2. Ensure SMEDI is properly resourced, performance-driven and that adequate training on MSME development for key staff is provided, and annual plans to implement the MSME policy strategy are reviewed on an annual basis.
3. Establish a permanent high-level inter-ministerial coordinating body between key government departments at Principal Secretary level - chaired under the authority of the Minister of Industry and Trade – with the primary responsibility for managing, coordinating and evaluating the implementation of the MSME policy strategy.
4. Establish special, task-specific teams comprising key representatives of government, donor partners and the private sector to identify obstacles impeding the growth of the MSME sector and provide recommendations for action to the inter-ministerial committee.
5. institute a national biennial conference on MSMEs, with the first to be convened within eight months of the public adoption of the new MSME policy strategy, to focus public attention on the importance of the MSME sector in Malawi's economy; review the implementation and impact of support initiatives to the sector; and provide the platform for MSMEs to directly engage with government.
6. Institute a Small Business Act to provide the legal mandate for the establishment of the SMEDI; the inter-ministerial coordinating committee, preparation of the biennial report on the state of MSMEs in Malawi; review of the implementation of the MSME policy strategy; regulatory and administrative review of laws and regulations impacting on business in Malawi, with a particular focus on MSMEs; and the biennial national MSME conference.





## 2. Improve the operation of value chains

83. **Objective:** Support and monitor priority sectors for better integration of MSMEs in the domestic and regional economy.
84. **Rationale:** Developing linkages within the value chain between large and small enterprises in Malawi is paramount to future growth and poverty alleviation. Increasing these linkages addresses Malawi's "missing middle" phenomenon and provides better market access, particularly for small agriculturally-based producers and MSMEs engaged in various sectors of the economy. Successful implementation requires an integrated and harmonised approach to holistically address market constraints such as trade barriers, capacity building, provision of "embedded services" from large to small firms, access to finance and technology, and small producer cooperation.
85. **Proposed Activities:**
1. Support the establishment of the Malawi Innovation Challenge Fund instruments to promote business-to-business linkages, improve the competitiveness of local firms and transfer of skills and technology to MSMEs.
  2. Establish a dedicated, well-resourced professional research office within SMEDI to collect and facilitate research into the value chains operating within Malawi and identify key gaps, challenges and recommendations for support initiatives to expand these.
  3. Institute and implement a national export strategy for Malawi, with a particular focus on improving the value addition and integration of MSMEs that have high potential for engaging in agricultural export and import substitution crops.

## 3. Improve access to finance

86. **Objective:** To build sustainable financial systems in support of MSME development and growth
87. **Rationale:** Access to finance, including for start-up enterprises, remains a formidable obstacle to growth in the MSME sector. A variety of innovative, customised and commercially-based financial instruments are necessary to address a number of critical constraints to accessing finance and credit for MSMEs.
88. **Proposed Activities**
1. Support the establishment of the MSME Venture Capital Fund to provide for longer term capital for targeted small firms.
  2. Support the establishment of the Financial Innovation Fund to incentivise commercial banks to come up with innovative solutions for the provision of loans to the MSME sector, in particular to businesses owned by youth and women.
  3. Review the tax regime with a view to encouraging registration of informal businesses.
  4. Support the institutionalisation of a national identity documentation system.



#### 4. Improve Business Development Support Services to MSMEs

89. **Objective:** Create and provide effective MSME support programmes and initiatives adapted to the divergent needs of different groups.
90. **Rationale:** Recent and existing government-led support MSME support programmes have led to duplicated efforts, unhealthy competition with private sector providers and turf wars. Furthermore, classification of government-owned SME support institutions have made them ineligible for government subventions which has compelled them to concentrate on commercially based activities rather than business development. In the past few years, business development support (BDS) activities have drastically scaled down, while the demand remains high and unmet. The advent of the new SMEDI, merging MEDI, DEMAT and SEDOM, provides the platform for proper coordination of support services, reduced wastage of scarce resources and enhanced service delivery efficiency and measurable effectiveness.
91. **Proposed Activities**
1. Strengthen the newly-established SMEDI as the paramount body to provide and facilitate business development support services to the MSME sector in harmony with the MITC mandates
  2. Support the establishment of a Mentoring and Counselling Facility for new and faltering businesses.
  3. Support the establishment of sector-specific incubation centres in local districts, and development of artisanal shelters.
  4. Establish a coordinating facility with private sector providers, members of business associations and relevant MSME representative associations.
  5. Establish a national database of service providers and entrepreneurial training programmes.
  6. Introduce entrepreneurial training courses in a number of official languages.

#### 5. Improve information, skills, standards and technology

92. **Objective:** To bridge the information and knowledge gap for MSMEs and enterprise development
93. **Rationale:** With new production and technologies not readily available in Malawi, MSMEs tend to engage in traditional manufacturing practices which can be antiquated, inefficient and sub-optimal. Scant attention is paid to quality standards, branding and aggressive marketing which undermines MSME capacity to take advantage of export opportunities. The product certification of the Malawi Bureau of Standards (MBS) is not currently widely accepted and the outreach of its services to enterprises is weak, particularly in the rural areas.



#### 94. **Proposed Activities**

1. Establish a web-based national database and knowledge portal to provide information to MSMEs in Malawi including national statistics, latest policy documents and proposals, and export opportunities and market information.
2. Institute trade fairs at national and district level.
3. Institute entrepreneurship education modules in the Malawi curricula (primary, secondary and tertiary).
4. Review the national standards, quality assurance, accreditation and metrology (SQAM) system to become more acceptable for export purposes in targeted markets.
5. Review and strengthen the operations of the Malawi Bureau of Standards to considerably improve its operations, management and outreach to MSMEs.
6. Institute national training programmes on quality standards improvement.
7. Institute Annual Entrepreneur Awards in various categories to raise the profile of MSMEs, celebrate success, provide incentives for excellence and create role models.

## 6. **Promote an enabling legal and regulatory environment**

95. **Objective:** Create a conducive legal and regulatory environment for MSME growth and development

96. **Rationale:** Extensive evidence demonstrates that an appropriate regulatory environment that supports the private sector and in particular MSMEs is the single most important element of a country's economic growth strategy. An enabling environment requires a reduction of the policy, legislative and regulatory obstacles that inhibit enterprises and raise the domestic cost of doing business.

#### 97. **Proposed Activities**

1. Publish up-to-date statistics on the nature and characteristics of the MSME sector in Malawi on a biennial basis. Where appropriate, these should be disaggregated by gender and youth participation in the sector and reflect regional variations.
2. Review the economic laws, identifying and amending those which inhibit the MSME sector.
3. Review subsidiary legislation to determine where regulatory reform can be prioritised and achieved.
4. Conduct an analysis of the cost of compliance and administrative inefficiencies on doing business, with a particular focus on MSMEs and introduce ways to reduce the impact of red tape.
5. Institute and implement the new Bill on Business Registration and publicise this widely.
6. Develop and implement a national communication strategy to regularly inform MSME stakeholders of developments in the sector.



## Monitoring and Evaluation

98. To assess the impact of the MSME Policy Strategy, robust and measurable performance indicators are required. The following template suggests an implementation framework which details the core objectives of the MSME Strategy. Each of these objectives requires detailed planning activities, resource requirement and monitoring and evaluation targets to be developed by the relevant officials within MoIT. In so doing, cognisance must be taken to ensure coherency of the MSME Strategy with other initiatives – such as the NES – to avoid duplication of efforts. Once finalised, the MSME implementation framework should be integrated into Malawi’s national monitoring and evaluation systems to ensure that annual assessment of government’s performance in meeting the MSME policy strategy objectives is conducted and communicated on a regular basis.

### Implementation Framework Template for MSME Policy Strategy : Malawi

Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
<p><b>1. Enhance policy implementation and integration</b></p> <p>An enabling institutional framework is introduced to support and facilitate MSME growth in Malawi</p>									
<p>1.1 SMEDI is established with a clear legal responsibility for MSME policy strategy.</p>									
<p>1.2 SMEDI is provided with adequate resources, trained staff, and plans to implement the MSME strategy (to be reviewed annually).</p>									
<p>1.3 A permanent high-level inter-ministerial coordinating body is established at PS level to manage, coordinate and evaluate the implementation of the MSME policy strategy.</p>									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
1.4 Task-specific teams are established, comprising key stakeholders to identify obstacles impeding the growth of the MSME sector and provide action recommendations to the inter-ministerial committee.									
1.5 National biennial conferences on MSMEs are convened (first convened within eight months of the adoption of the new MSME policy strategy) to discuss MSME policy and policy implementation.									
1.6 A Small Business Act is introduced to govern the MSME policy and environment in the country.									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
<p><b>2 Improve the operation of value chains</b></p> <p>Support and monitor priority sectors for better integration of MSMEs in the domestic and regional economy.</p>									
<p>2.1 The Malawi Innovation Challenge Fund is established to promote business-to-business-linkages, improve the competitiveness of local firms and transfer of skills and technology to MSMEs.</p>									
<p>2.2 A dedicated, adequately resourced research office within SMEDI is established to facilitate research into the value chains operating within Malawi and identify make recommendations for expansion of support initiatives</p>									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
2.3 A national export strategy for Malawi is introduced, with a focus on improving value addition and the integration of indigenous MSMEs that have the potential for engaging in agricultural export and import substitution crops.									
<b>3. Improve access to finance</b> To build sustainable financial systems in support of MSME development and growth.									
3.1 The MSME <b>Venture Capital</b> Fund is established to provide for longer term capital for targeted small firms.									
3.2 The Financial Innovation Fund is established and supported to incentivise commercial banks to come up with solutions for the provision of loans to the MSME sector, in particular businesses owned by youth and women.									





Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
3.3 The tax regime is reviewed and reformed to encourage registration of informal businesses through tax incentives with sunset clauses.									
<b>4. Improve Business Development Support Services to MSMEs</b> Effective MSME support programmes are created and initiatives adapted to the specific needs of different groups.									
4.1 The newly established SMEDI must be recognised as the paramount, government supported body providing and facilitating business development support services to the MSME sector.									
4.2 A Mentoring and Counselling Facility for MSMEs is established.									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
4.3 Sector specific incubation centres in local districts, and development of artisanal shelters are established									
4.4 A coordinating task team with private sector providers, members of business associations and MSME representative associations is established.									
4.5 A national data base of services providers and entrepreneurial training programmes is established.									
4.6 Entrepreneurial training courses in additional national languages are introduced.									
<b>5. Improve information, skills standards and technology</b> To bridge the information and knowledge gap for MSMEs and enterprise development.									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
5.1 A web-based national data base and knowledge portal providing current and useful information to MSMEs in Malawi is launched.									
5.2 National and district level trade fairs are held regularly.									
5.3 Entrepreneurship education modules in the Malawi curricula (primary, secondary and tertiary) are introduced.									
5.4 The national standards, quality assurance, accreditation and metrology (SQAM ) are reviewed and revised.									
5.5 The operations of the Malawi Bureau of Standards are reviewed and enhanced, with a view to improving its operations, management and outreach to MSMEs.									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
5.6 A national training programmes on quality standards improvement is instituted.									
5.7 Annual Entrepreneur Awards in various categories to raise the profile of MSMEs, celebrate success and create role models are launched and institutionalised.									
<b>6. Promote an enabling legal and regulatory environment</b> Create a conducive legal and regulatory environment for MSME growth and development.									
6.1 Up-to-date statistics on the nature and characteristics of the MSME sector in Malawi on a biennial basis are published. These should ideally reflect the participation of youth and women in the sector.									



Objective	Core Activities	Monitoring & Evaluation	Timing (from 2012)					Responsible	Resources
			Y 1	Y 2	Y 3	Y 4	Y 5		
6.2 The backlog of economic laws is reviewed, and those inhibiting the MSME sector are identified and amended.									
6.3 Subsidiary legislation should be reviewed to determine where regulatory reform should be prioritised and could be achieved.									
6.4 An analysis of the cost of compliance and administrative inefficiencies on doing business is conducted, aiming at seeking ways to reduce red tape.									
6.5 The new Bill on Business Registration is implemented and publicised widely.									
6.6 A national communication strategy is developed, aiming to inform MSME stakeholders about developments in the sector.									