

FinScope MSME Survey Malawi 2012



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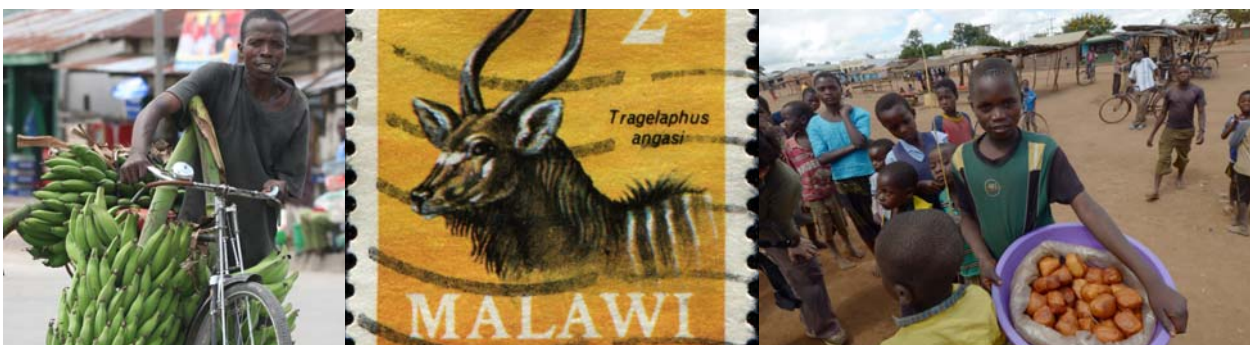
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Special thanks go to the donors of this study including the World Bank, the United Nations Development Programme (UNDP), UKaid (DFID), and the European Union (EU). Acknowledgements also go to the National Statistics Office of Malawi who implemented this survey, as well as the Steering Committee chaired by the Department of Industry and Trade, which comprised representatives from FinMark Trust, the Reserve Bank, the National Statistics Office, UKaid (DFID), UNDP, the EU and the World Bank.

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



Reserve Bank of Malawi



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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 analyse, 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 MSMEs 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 MSME 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 Centre
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 optimise 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 method 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

* MKW/US\$ exchange rate in January 2012 (start of fieldwork) equates to 163.55

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 (that is floods and/or fire), 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 (GoM) 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, through the Ministry of Finance (MoF) represented by the Ministry of Industry and Trade (MoIT), contracted the services of FinMark Trust (FMT).

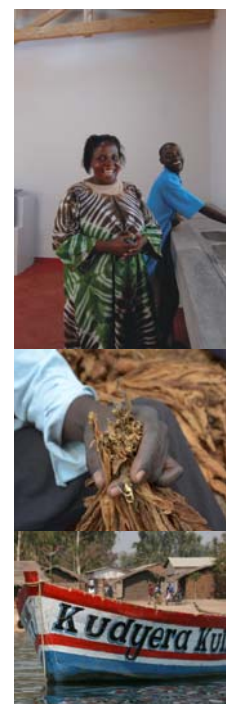
The aim of the FinScope Malawi 2012 MSME survey is to generate comprehensive data that will guide, inform and support the process of policy development and strategic financial interventions in the MSME sector. The overarching objectives of the survey, is two-fold: to inform on the size and scope of the 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.¹ 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 and National Statistical Office of Malawi.



¹ Sample size of sub-groups needs to be considered when analysing 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 Trust² 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 MSMEs 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"> • 18 years or older • Perceive themselves to be business owners/generating an income through small business activities • Employing less than 100 employees
Questionnaire length	± 75 minutes
Fieldwork	January 2012 to March 2012
Data management	Data capturing in CS Pro and analysis in SPSS, weighting was done on EA level, household and individual level, data validation against census data
Implementation	The study was funded by a number of donors and fieldwork implemented by the National Statistics Office Malawi

² 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 was intended to involve a range of stakeholders in a stakeholder committee, 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	Demographics Age, gender, education, language, nationality, etc.
B	Nature of the business Economic activity, ownership, location, etc.
C	Getting involved in your own business Reasons for opening the business, main constraints, etc.
D	Employees in the business Number of employees, nature of employment, labour relations, etc.
E	Customers Client base, marketing practices, etc.
F	Registration/compliance of business
G	Formal product penetration Usage of formal financial products
H	Banking penetration Usage of banking products, main constraints
I	Credit and loans Usage of credits and loans, reasons for borrowing, main constraints
J	Savings and investments Saving mechanism, reasons for saving and investments, main constraints
K	Risks and insurance Main risks (perceived and experienced) and coping mechanisms, usage of insurance products
L	Money management within the business Transactions, terms and conditions, etc.
M	Record keeping Methods of payment, financial record keeping processes, business turnover, etc.
N	Import and exports
O	Business support Awareness of and access to small business support mechanisms
P	Skills of the business owner/company resources
Q	Psychographics and business performance 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 100 and less 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.

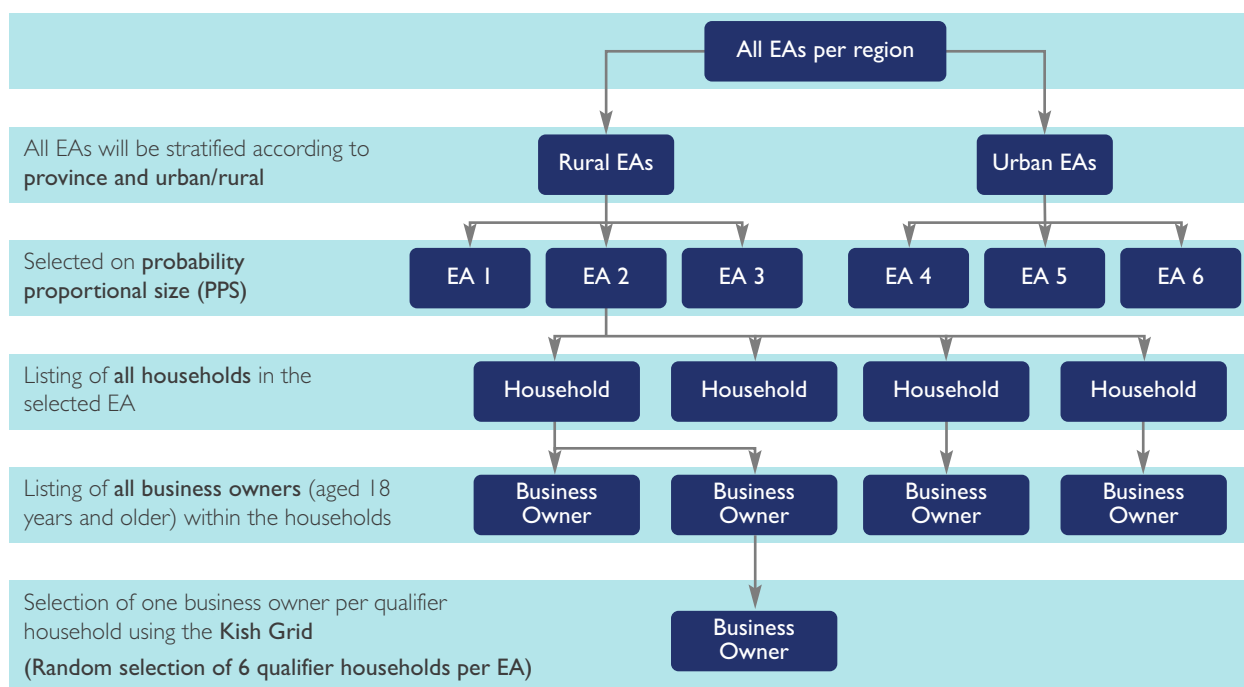
1.4.1 Sampling units

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 table 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

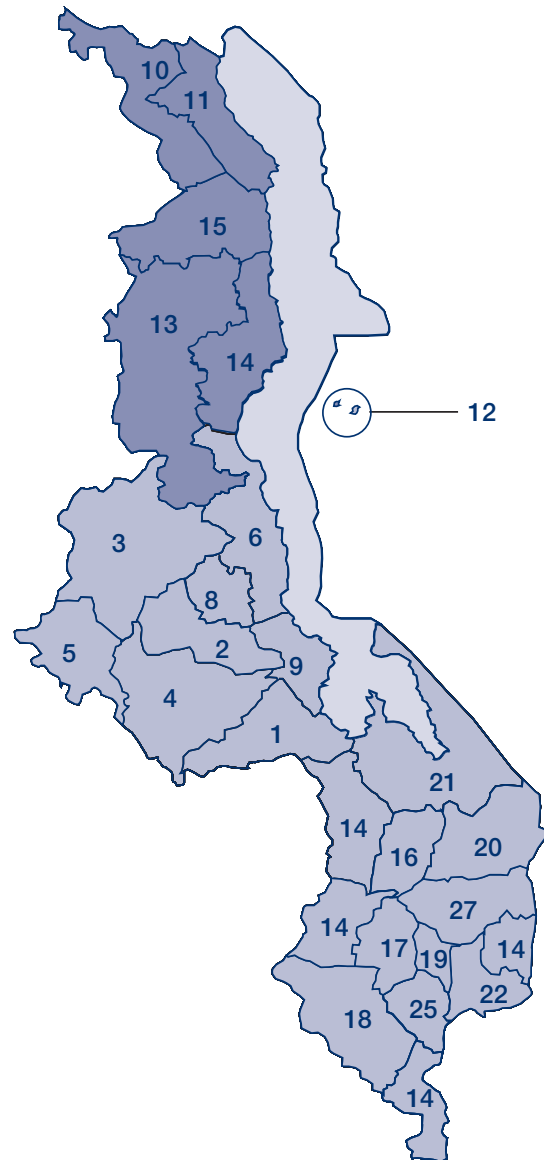
The initial sample frame (for the PPS sampling of EAs) was based on the 2008 official Census data. In addition, a listing exercise was conducted to determine the correct weights, i.e. all small business owners are listed in the selected EAs. Sample frame and weighting of the data was conducted by the 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
TOTAL	1 997



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, whereby enumerators undergo ten days of training. The questionnaire is tested internally (mock interviews) and through field pilots, and 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 procedure 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 stratum i th
- $\sum M_i$ – 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

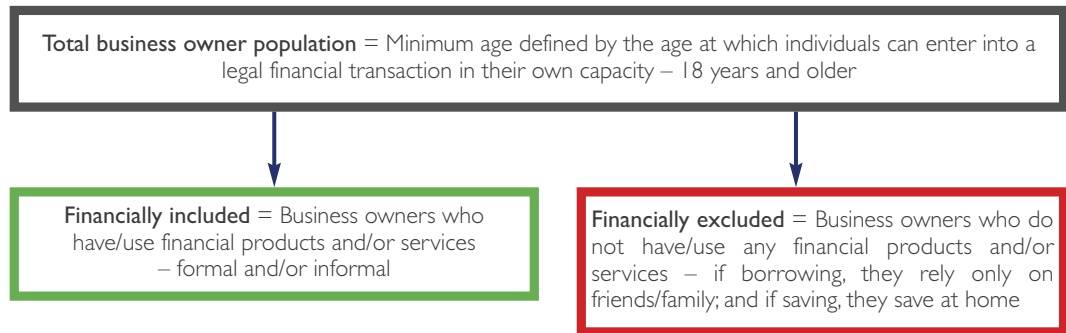
The basic weighting scheme involves reciprocating the design weights (sample weights) and is given as:

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

1.7 Financial inclusion 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.

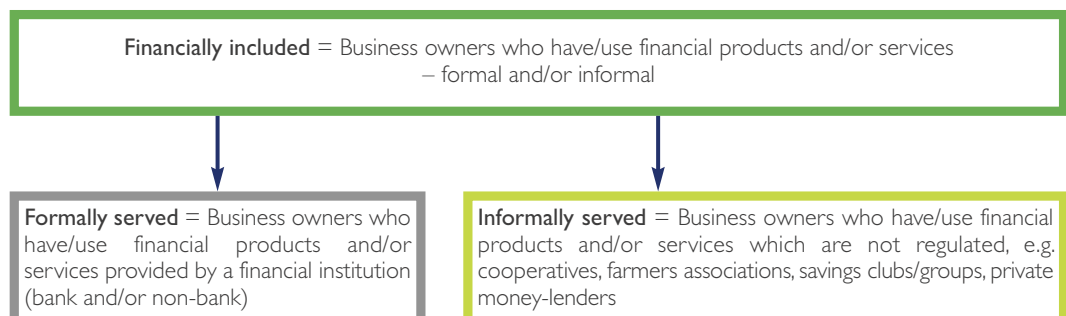
The concept “financial inclusion” is core to the FinScope methodology. Based on financial product usage, the business owners are segmented into two groups: the ‘financially excluded’ and the ‘financially included’:



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:

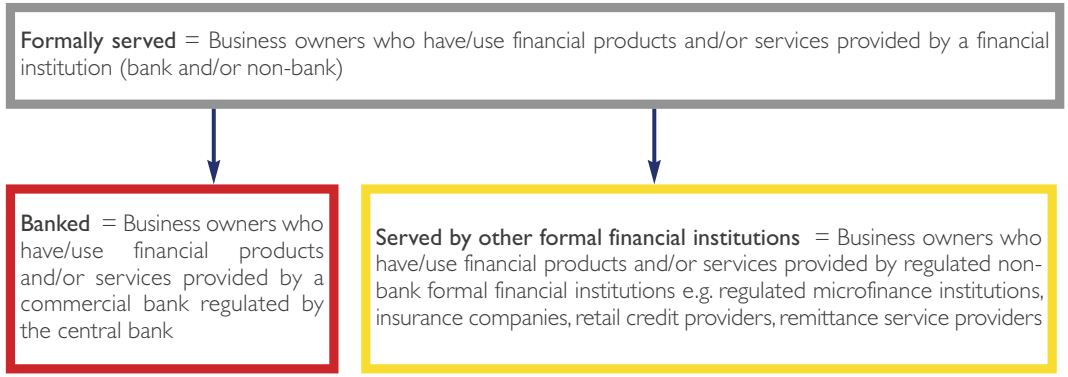
- Those business owners who have/use products/services from financial institutions that are regulated through an Act of law (formal financial institutions) – the ‘formally served’ segment of the population;
- Those business owners who have/use products/services from financial institutions that are not 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.



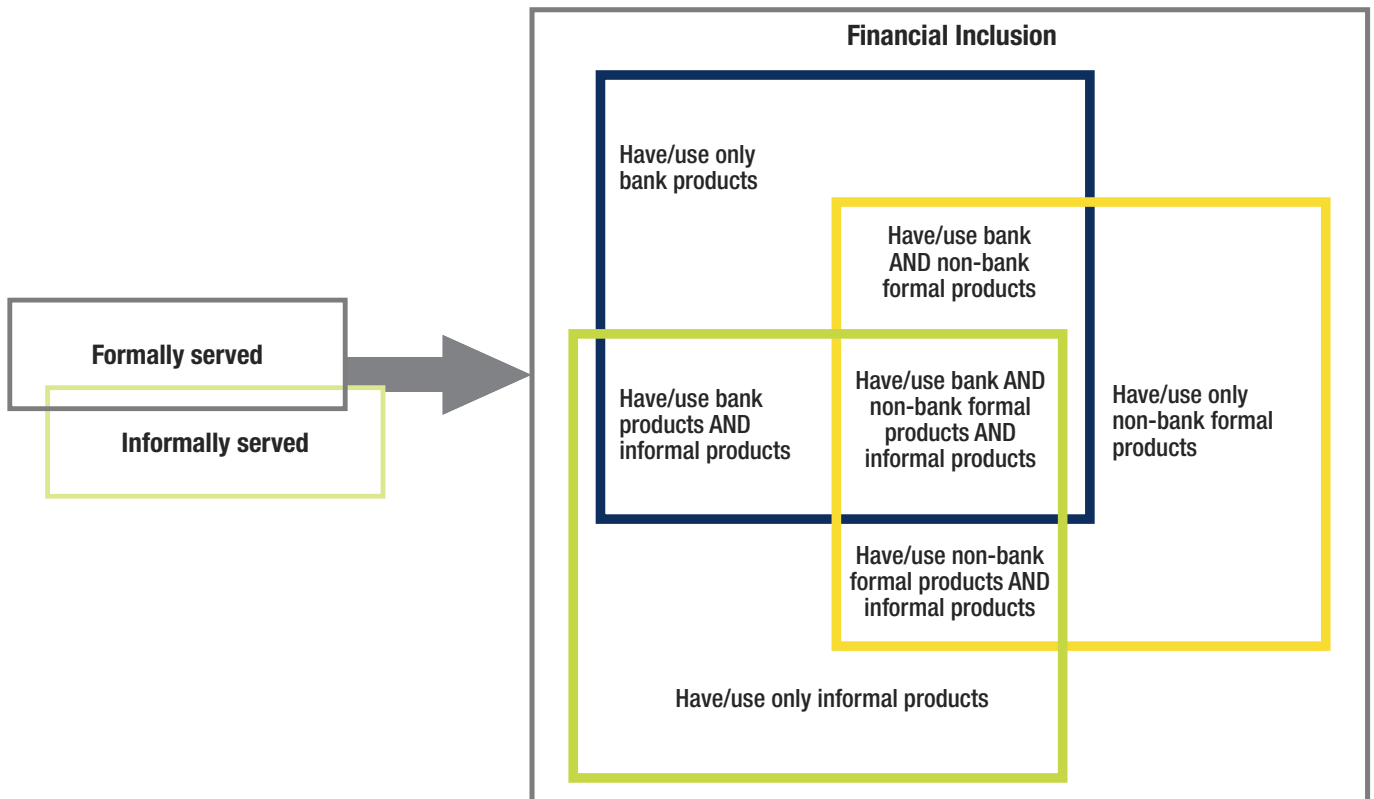
The next step in the segmentation seeks to better understand or unpack the ‘formally served’ segment – i.e. business owners who have/use products/services from financial institutions that are regulated through an Act of law (formal financial institutions). This step further segments the formally served 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 context³

2.1 Country profile

Malawi is a country in sub-Saharan Africa with an estimated area of 118,480 square kilometres. Lakes occupy about 21% 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 3% according to the recent 2008 Population and Housing Census conducted by the National Statistical Office. The population is distributed as follows: 45% (the majority) reside in the southern region; 42% reside in the central region; and 13% reside in the northern region. The majority of Malawi's citizens (about 85%) live in the rural areas.³ The literacy rate in Malawi is 64%.

Malawi is highly dependent on agriculture, with 85% of the population⁴ recording farming as their main source of income. With very low levels of urbanisation, 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)⁵. 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 flows⁶. 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 Mozambique 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 privatised 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

³ Population and Housing Census, 2008

⁴ Population and Housing Census, 1998

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

⁶ 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 categorising 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 characterised 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 minimising 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 MSME 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

* Please note that MEDI, DEMAT and SEDOM have since merged into SMEDI.

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-governmental 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. Furthermore, NGOs offer services in the area of capacity building through training and provide credit facilities to MSMEs. They have also 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, among others.

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 Stanbic 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. Stanbic
3. NBS Bank
4. First Merchant Bank
5. Nedbank
6. Indebank
7. Malawi Savings Bank
8. Opportunity International Bank Malawi
9. Ecobank
10. International Commercial Bank
11. FDH Bank
12. CDH Investment Bank

Table 7: Commercial banks

Classification	Commercial Banks
Large	National Bank, Stanbic
Medium	NBS Bank, First Merchant Bank
Small	Indebank, Ecobank, Nedbank, Malawi Savings Bank, Opportunity International Bank Malawi

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 recognised 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 has formed the Financial Inclusion Taskforce 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 2012) 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 MFIs 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, 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, establishing a separate and clear regulatory framework for SACCOs in Malawi. It ensures that the SACCOs operate in an environment that recognises 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 Size and scope of the MSME sector in Malawi

3.1 Overview

This chapter documents the high level outcomes of the survey, including the size and scope of the MSME sector in Malawi, the profile of MSME owners, constraints and support mechanisms of MSME owners.

There is still much analysis that could be performed on the data that has not been covered in this report. Stakeholders are recommended to review the data available in order to help them address financial and development questions that might be significant to them. The database is available from FinMark Trust and the NSO (National Statistical Office).

3.2 Size and scope of the MSME sector

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, among other indicators. 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 1: MSME sector in Malawi



There are 758 118 MSME owners in Malawi, owning about 1 million (987 480) businesses, and employing a total of 1.1 million people (excluding the business owners themselves). As such, the sector contributes significantly to job creation, with a total of 1.8 million people working in the sector. This contributes to poverty alleviation, as survivalist businesses play a vital role in preventing deeper poverty and as such contributes to reducing individual and household vulnerability. The turnover of the MSME sector in 2012 is estimated to be at least 326 billion MK.

3.2.1. Comparing the scope of the MSME sector across countries

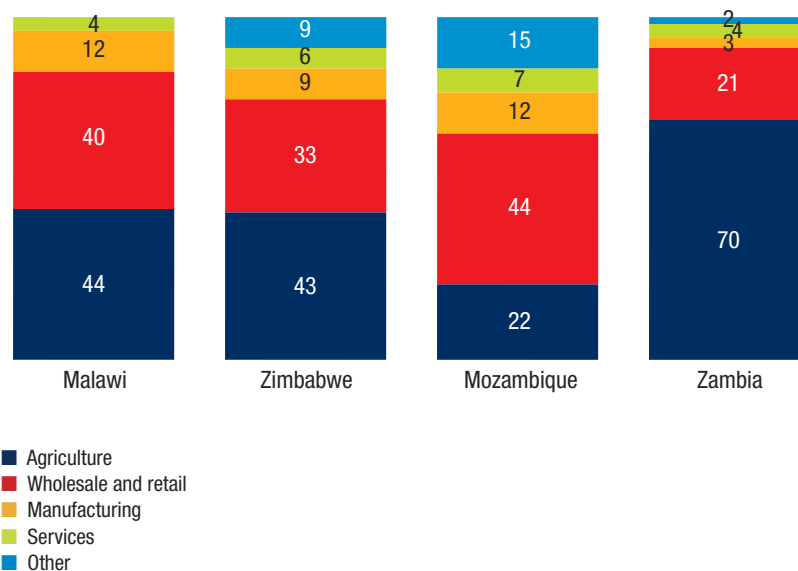
Table 8 provides an overview of the comparison of the scope of Micro Small Medium Enterprise sector in countries where the FinScope Small Business survey has been conducted. With only 13% of the adult population as business owners, Malawi is far behind Zambia, Zimbabwe and Mozambique. FinScope consumer 2008, however, shows that 25% of the adult population received their livelihood from their own businesses, suggesting that 1.5 million adults had small businesses in 2008. The Malawi MSME sector is however, doing well in creating employment in relation to its size, compared to other countries (South Africa, Zambia, Zimbabwe) which are largely dominated by individual entrepreneurs.

Figure 2 illustrates the dominance of agriculture in the region, particularly for Zambia, Malawi and Zimbabwe. However, agriculture continues to dominate the livelihood and employment for millions of Southern Africans.

Table 8: Size and scope comparison

	South Africa (2010)	Malawi (2012)	Mozambique (2012)	Zimbabwe (2012)	Zambia (2008)
	16 years and older	18 years and older	18 years and older	18 years and older	
Business owners	with 200 employees or less	with 100 employees or less	with 75 employees or less	with 75 employees or less	–
Estimated adult population	33,5 million	6.1 million	10.8 million	5.9 million	6.4 million
Estimated % of adult population that owns MSMEs	17%	13%	42%	47%	61%
Sample size	5 676	1 997	3 429	3 222	4 801
Number of MSME owners	5,6 million	760 000	4.5 million	2,8 million	3.9 million
Number of MSMEs they own	6 million	1 million	4.9 million	3,5 million	4.5 million
% of MSME owners with registered businesses	17%	3%	6%	15%	3%
Number of employees	6 million	1.1 million	850 000	2,9 million	–
% of individual entrepreneurs	67%	59%	72%	72%	–
% of businesses with employees	33%	41%	28%	28%	–

Figure 2: MSME sectors country comparison



3.2.2 Employees in the business

Most MSME owners are in fact individual entrepreneurs demonstrating the vital contribution to poverty alleviation for those who could not find employment in the formal sector. About 50% of individual entrepreneurs would take a paid job if they could get it. The research indicates that 1 in 2 individual entrepreneurs in Malawi do not have behavioural characteristics of entrepreneurs that include clear goal setting; money as a measure not merely an end; long-term involvement; drive and energy, among others.

As illustrated below, 59% of small businesses are run by individual entrepreneurs, while the remaining 41% of businesses 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). However, the small and medium scale businesses employ 66% of the paid labour force.

Figure 3: MSME classified by number of employees (using the MSME definition)

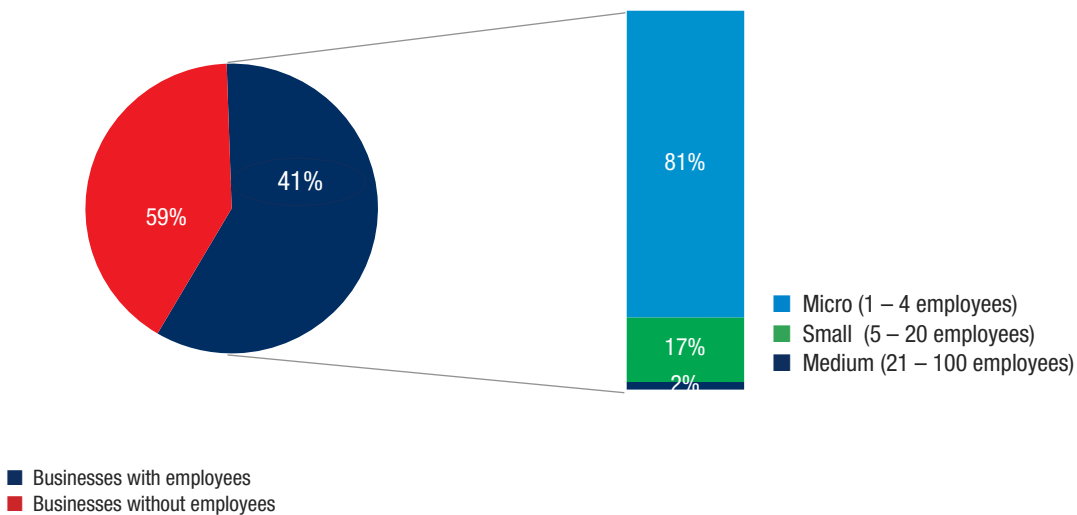


Figure 4: MSMEs by status of employees

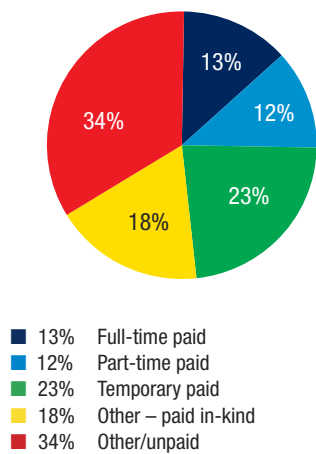
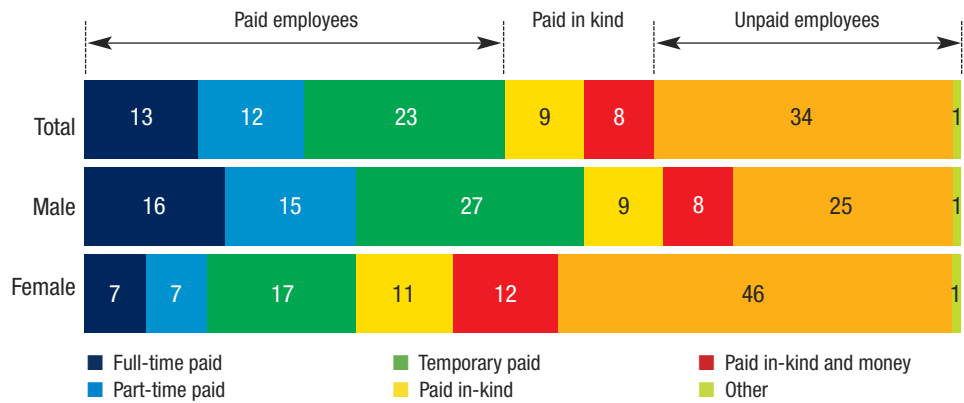
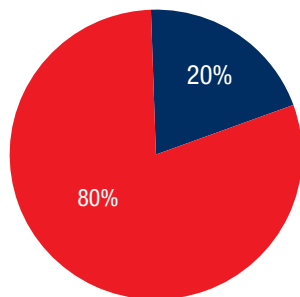


Figure 5: Employment status by gender



The survey found that, MSME owners are male (54%) and the majority of unpaid workers are female. This illustrates a gender bias, reinforcing the traditional gender roles within the household. 34% of employees (i.e. 353,803 people are under-employed/semi-employed) in the sector are unpaid of which the majority are female. On the other hand, 48% of the employees are paid i.e. full-time (13%); part-time (12%) and on-contract (23%), with the majority of paid employees being male.

Figure 6: Employment status – family members



■ Family member employees
■ Non family member employees

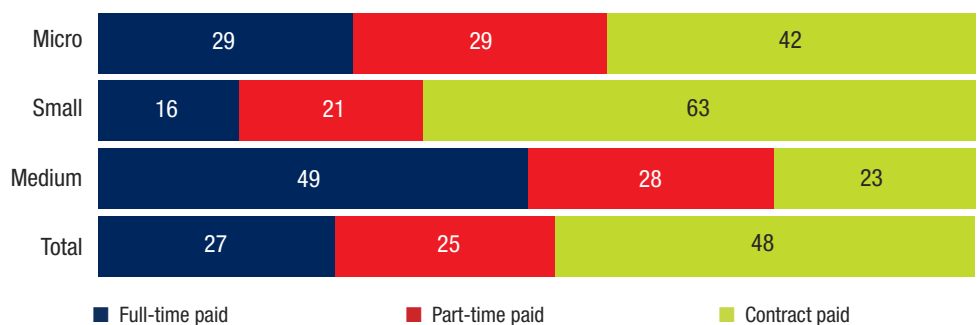
20% of employees are family members (207,582). Businesses hiring family members benefit whereby:

- They would never have survived without the hard work and energy of dedicated family members; and
- The majority of family employees sacrifice the payment benefit and are unpaid.

3.2.3 Employment by size of business

According to the recent Malawi labour statistics, the labour market in the formal employment sector is fewer than 500,000. The FinScope MSME findings indicate that the medium and small business sector absorbs 0.3 million (329,302) paid employees, while the micro-sector has 166 759 employees. Figure 7 illustrates that most full-time paid jobs are likely to be found in medium businesses.

Figure 7: Employment – size of business



3.2.4 Sector classification

The sector classification indicates that Malawi Micro Small Medium Enterprises sector is driven by agricultural activities. This is not surprising given the fact that Malawi is dependent on traditional commodities such as tea, coffee and tobacco. It is encouraging to note that the key driver in the agricultural sector is growing produce and selling (44%), compared to pure trading (37%).

The key driver in the retail sector is vending (buy and sell products/services in the same form), while manufacturing constitutes 12% of the sector which is mainly driven by selling products made from natural resources.

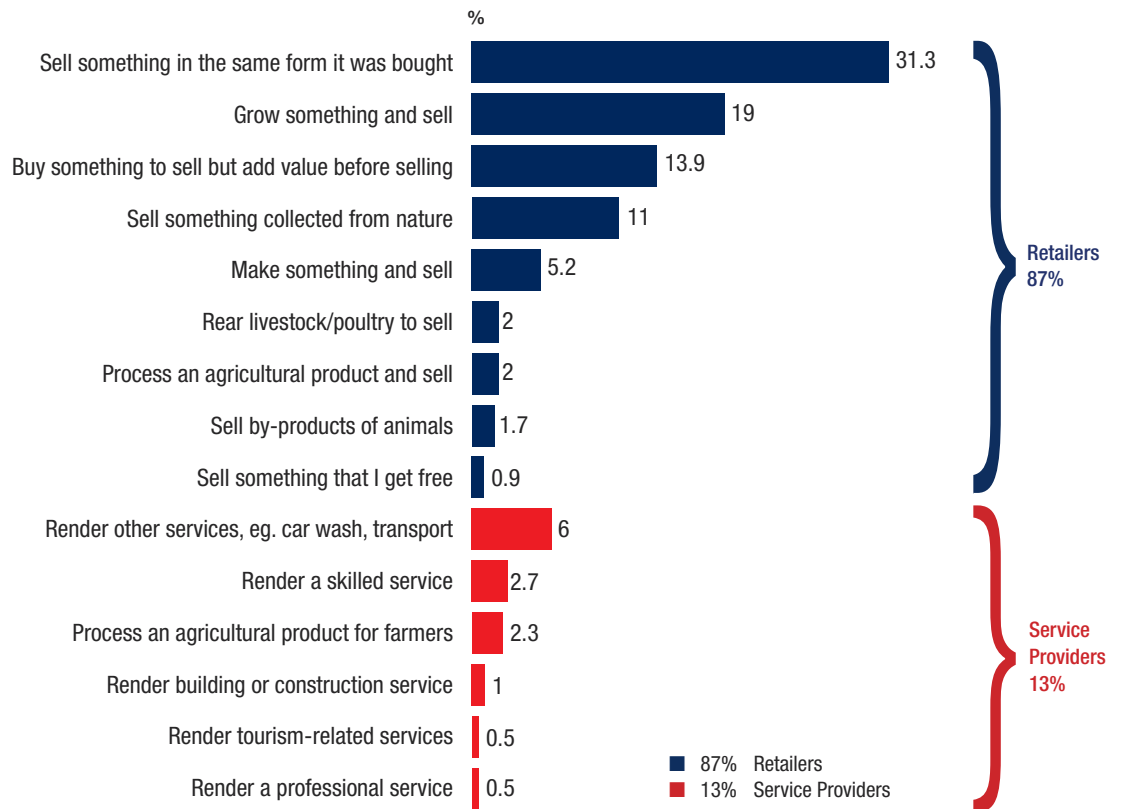
Figure 8: Sector classification and drivers within the sector



3.2.5 Specific business activities

A more specific business activities profile is constructed from the business activities question together with a set of options that emphasise the processes that MSMEs undergo rather than provide a description of their activities. Figure 9 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% indicated that they are re-selling products after re-packing, re-grading or cooking, which entails light manufacturing, especially given that trading in foodstuff is widespread.

Figure 9: Specific business activities

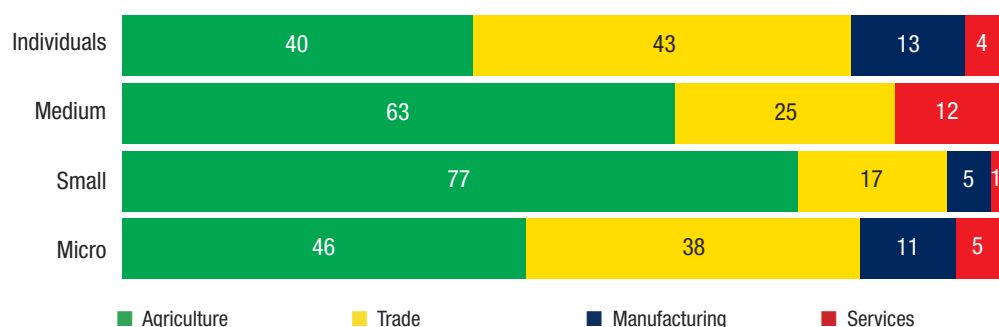


3.2.6 Sector classification by size of business

In order to understand the transformation processes taking place 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 grouped into ISIC classification.

Micro-businesses and individual entrepreneurs have presence in all ISIC sections; however, in manufacturing they are likely to be in light manufacturing with a low value-add. Medium and small businesses have a strong presence in the agricultural sector as opposed to micro businesses. Individual entrepreneurs have a presence in trade.

Figure 10: Classification of business owners by MSME sector



3.2.7 Sector classification by employment and revenue

The agriculture sector in Malawi creates 63% (648 957) employment opportunities in the MSME zone. 50% of these employees are paid; however, 30% are contractual employees - posing a difficulty in creating long term employment opportunities. 4 in 5 services sector employees are salaried and the majority are full-time staff.

Table 9: Classification of MSME sectors by employment opportunities

	%	No of employees	Full-time paid	Part-time paid	Contract/seasonally paid	No of paid employees
Agriculture	63	648 957	54 895	74 587	195 343	324 825
Wholesale and Retail (Trade)	23	241 861	36 515	25 582	26 560	88 657
Services	7	73 498	38 398	9 890	10 725	59 013
Manufacturing	7	67 780	9 519	16 972	10 288	36 779

The agricultural sector is experiencing difficulty in generating income given its size in the sector; contributing (table 10) only 91 billion MK, compared to 129 billion MK, generated by the services sector (service sector includes professional services like doctor; accountant etc. and skilled services and tourism). This could be attributed to low productivity in the sector; which among other things includes rapid environmental degradation and limited access. The focus by farmers may be on daily subsistence, giving minimal consideration to land degradation, soil fertility and the adoption of new land husbandry practices. Constraints on labour include generally low levels of education, limited off-farm employment, and gender inequalities.

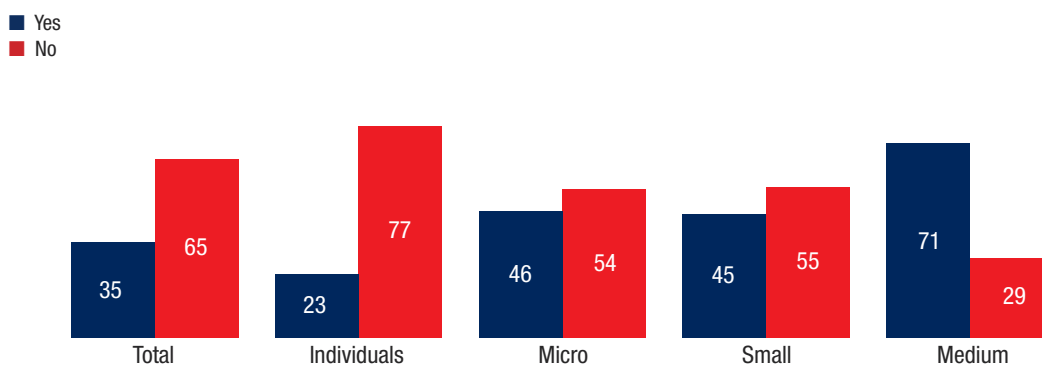
Table 10: Classification of MSME sectors by revenue

ISIC sector	%	Revenue in MK	Average
Services	39	128 865 538 640	2 500 804
Wholesale and Retail	29	94 298 878 290	330 608
Agriculture	28	91 053 311 299	271 145
Manufacturing	4	12 106 768 370	134 619

3.2.8 Financial records, revenues and profits

MSMEs' financial reports measure the size of MSMEs in terms of the revenue they collect from their activities and expenditure in terms of inputs and services acquired from other businesses. Estimation of revenues is not less than 326 billion MK* and 98 billion MK profit. 65% of business owners do not keep financial records.

Figure 11: MSME owners that keep financial records



* MKW/US\$ exchange rate in January 2012 (start of fieldwork) equates to 163.55

Table 11: MSMEs financial contribution*

Financials	Total
Revenue	325 550 230 329
Profit	97 655 752 757

Further analysis (table 12 and 13) shows that the small and medium sectors are the key economic contributors in the MSME sector; with the revenue average of 927 901 MK and 38 910 692 MK respectively. This is despite the fact that they constitute 19% compared to the micro sector with an 81% presence.

Table 12: MSMEs Revenue by size

Financials	Total Revenue	Average
No employees	54 344 409 780	125 483
Micro	59 308 295 920	246 466
Small	47 554 942 050	927 901
Medium	162 763 428 679	38 910 692

Table 13: MSMEs Profit by size

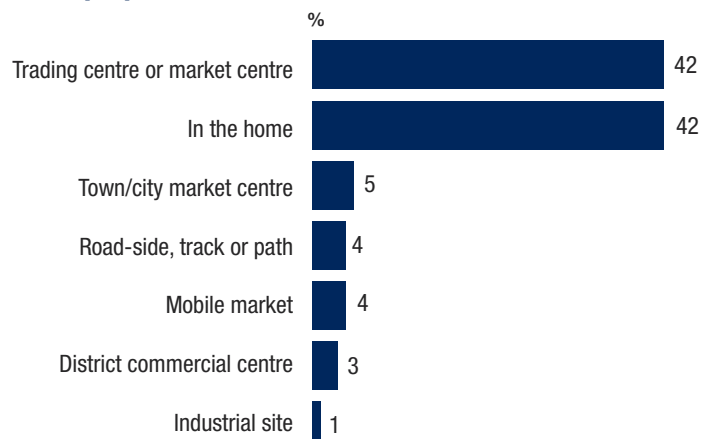
Financials	Total Profit	Average
No employees	35 842 110 469	82 761
Micro	31 363 935 505	130 338
Small	18 891 745 332	368 619
Medium	6 987 022 951	1 670 338

3.2.9 Operating location

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 MSMEs attitudes and willingness towards formalisation of the business operations.

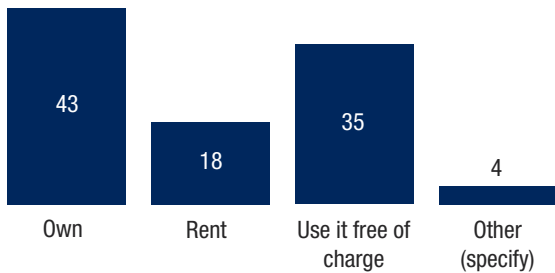
The large majority of MSMEs (84%) operate either from a trading centre/market or from home as illustrated in the graph below. This is to be expected given the fact that selling agricultural products and trading are the main activities of MSMEs.

Figure 12: MSMEs by operation location



Accordingly, only 18% pay rent for the places where they sell their products and services, while the majority owns the place of operation (43%) and 35% 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 13: Ownership of MSME premises



3.2.10 MSME life cycle

According to business life cycle analysis, a business less than 3 years old is considered to be in a start-up phase. Businesses more than 3 years old but less than 6 years, is said to be in growth stage and more than 6 years is at 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 14: Year of business establishments

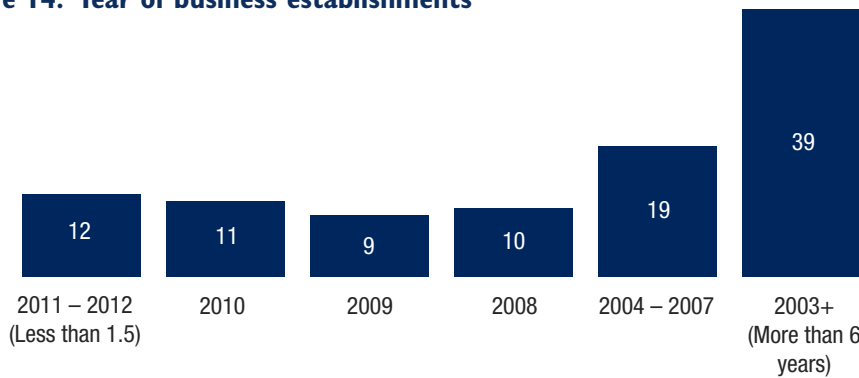
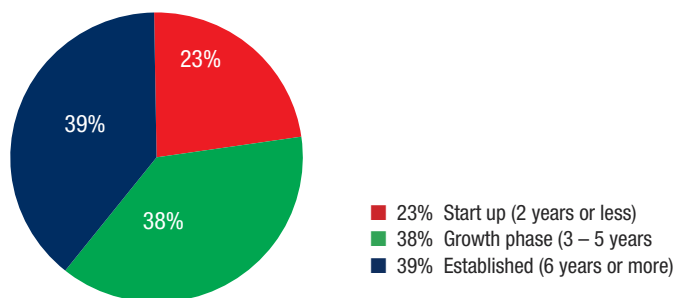


Figure 15: Age of MSME



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

Figure 16 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 16: Life cycle by classification of MSME

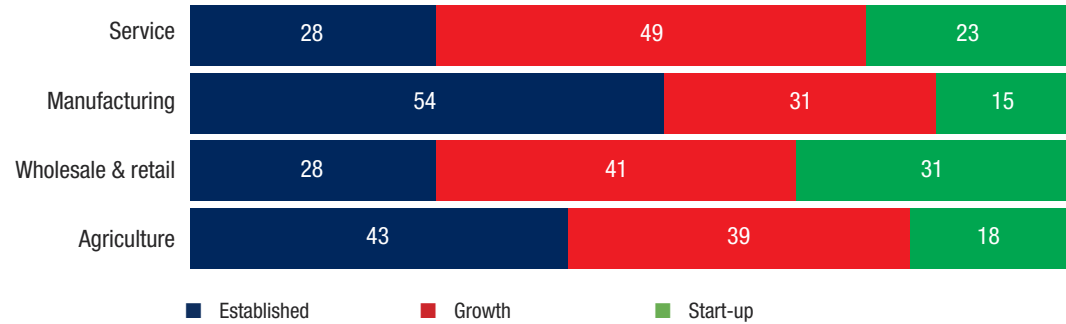


Figure 17 shows a consistent pattern through the MSMEs life cycle; that there is a decline in start-up across different spectra that is not explicit due to the different years that are used to define different stages. If that was the case we would expect the start-up and survivorship of the MSMEs in 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.

Figure 17: Life cycle by MSMEs size

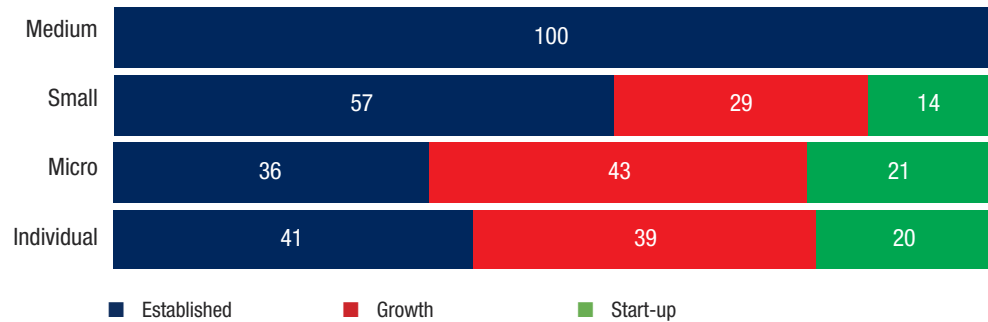


Figure 16 and 17 indicates that the manufacturing and agricultural sectors are driven by long-term investment resources (this may include manufacturing/agriculture, machinery/tools; land, etc.). These sectors dominate in the established stage compared to the wholesale and retail sectors, which focuses on quick returns with only 28% of the MSMEs in the established stage. The fact that medium sized businesses are not seen in the growth or start-up stages, confirms the need for a 'bottom-up approach' in terms of developing and supporting the micro and small scaled companies over time to get to the medium scale.

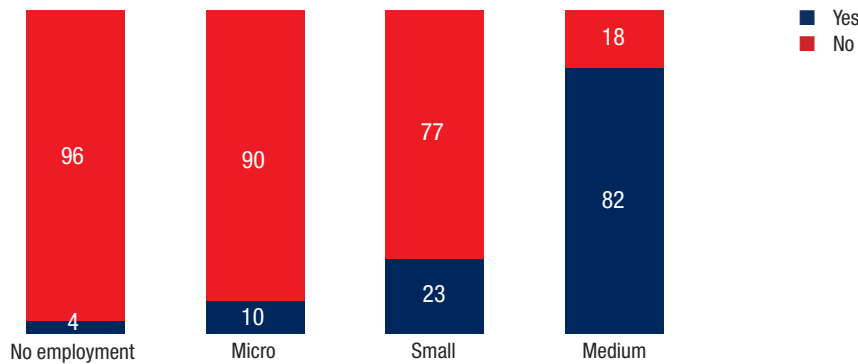
3.3 MSMEs compliance

This section reviews MSMEs compliance with laws and by-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.

3.3.1 Licensing and registration

The majority of MSMEs (98%) 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 for financial advice. MSMEs that have a license are close to 8%. Small and Medium businesses are more likely to be licensed than Micro businesses.

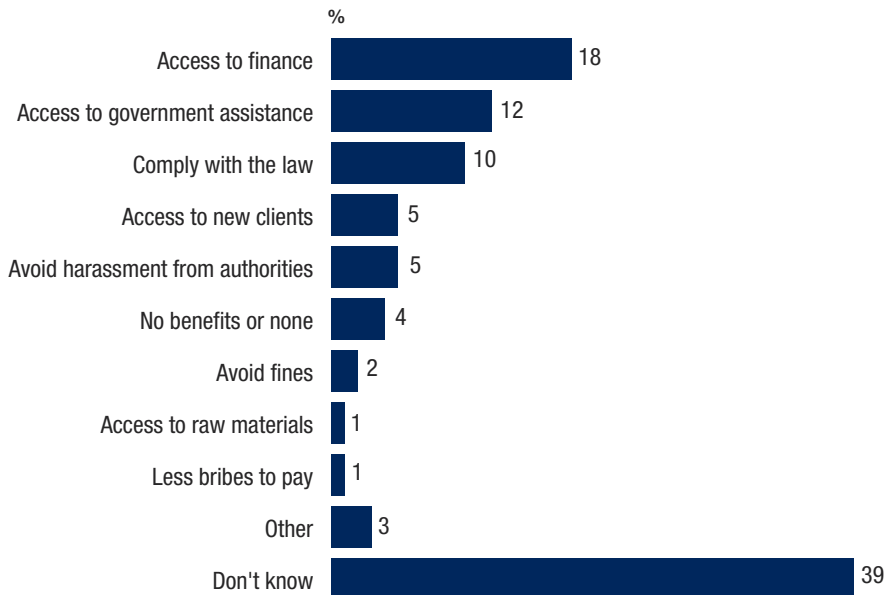
Figure 18: Licensed MSMEs



3.3.2 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 19: MSMEs perceptions on benefits of registering



3.3.3 Other compliances

There are other numerous compliance requirements for 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 taxes 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 20: Other compliance in MSMEs**



**Respondents were able to give more than one answer (multi-mention possible), hence does not add up to 100%.

3.4 Profile of small business owner

3.4.1 Demographics

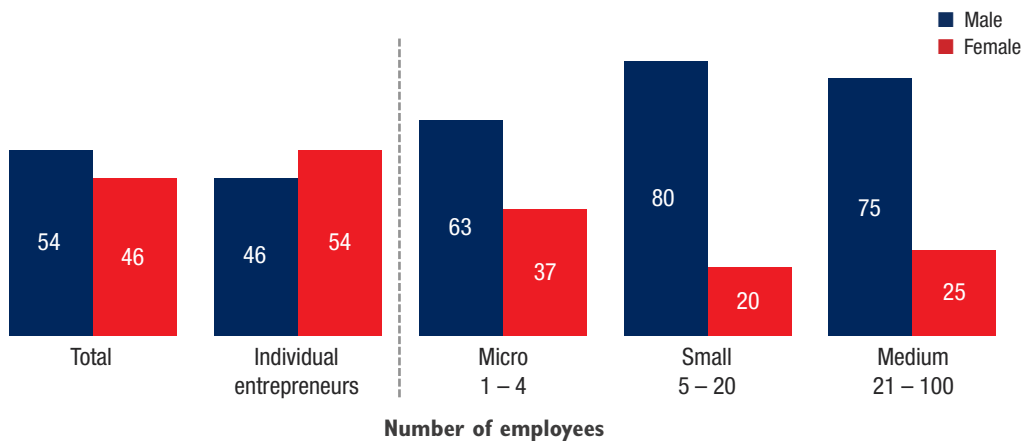
Although the survey focuses on MSMEs, the study of MSMEs would be incomplete without understanding the characteristics of the owners. The section on demographics focuses on the profile of the MSME owner’s characteristics like sex, age, people they employ, education, skill and training.

3.4.1.1 Sex of MSME owners*

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 – 100 people. Male owned businesses employ 1 – 4 people, four fifth employ 5 – 20 people and three quarters employ 21 – 100 people.

The figure below 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 21: Distribution of MSME owners by sex and employment size

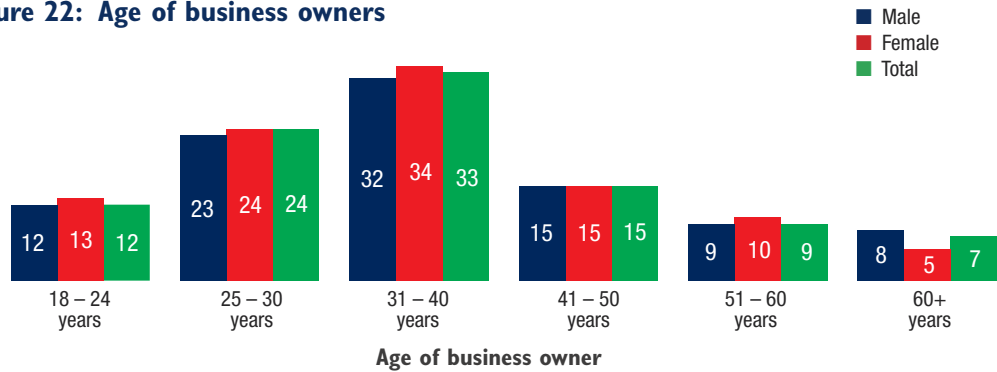


*Note that detailed analysis on women in business is appended as a separate report.

3.4.1.2 Age of business owners

According to the survey, the minimum age for one to enter into business was set to be 18 years. As such business owners were asked to state their age. Figure 22 shows that small business owners in Malawi are relatively young. About 12% of business owners are between 18 and 24 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 22: Age of business owners



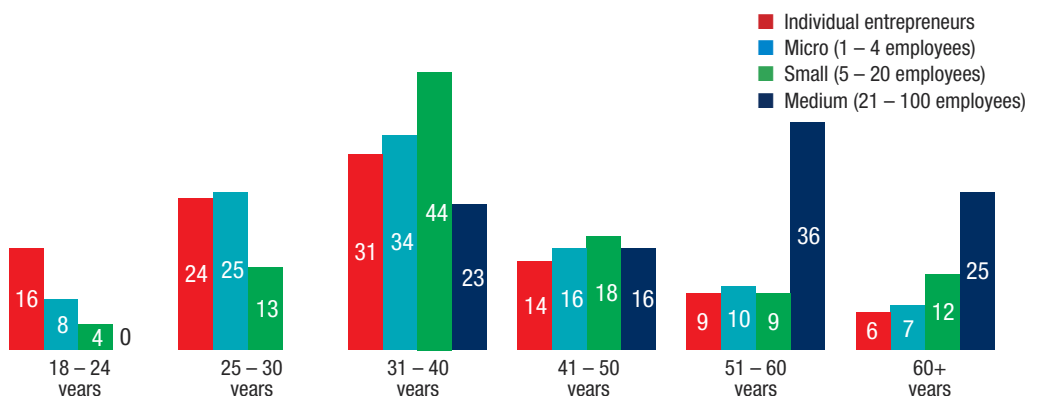
3.4.1.3 Age of business owners by business size

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 older.

The figure below 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 100 people and their owners.

Figure 23 further 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 23: Age distribution of MSME owners by number of employees



3.4.1.4 Education and skills*

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% no formal education), 19% have secondary education, while 3% have work-related, special technical diploma and other education levels.

Figure 24: Education levels of business owners

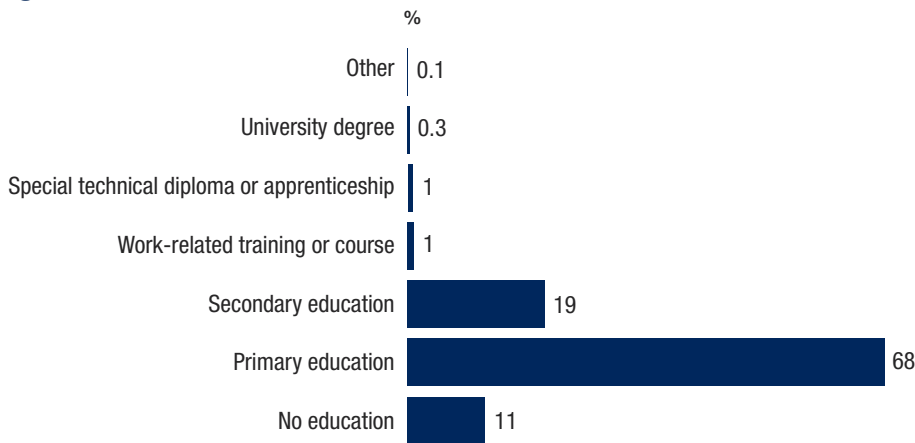
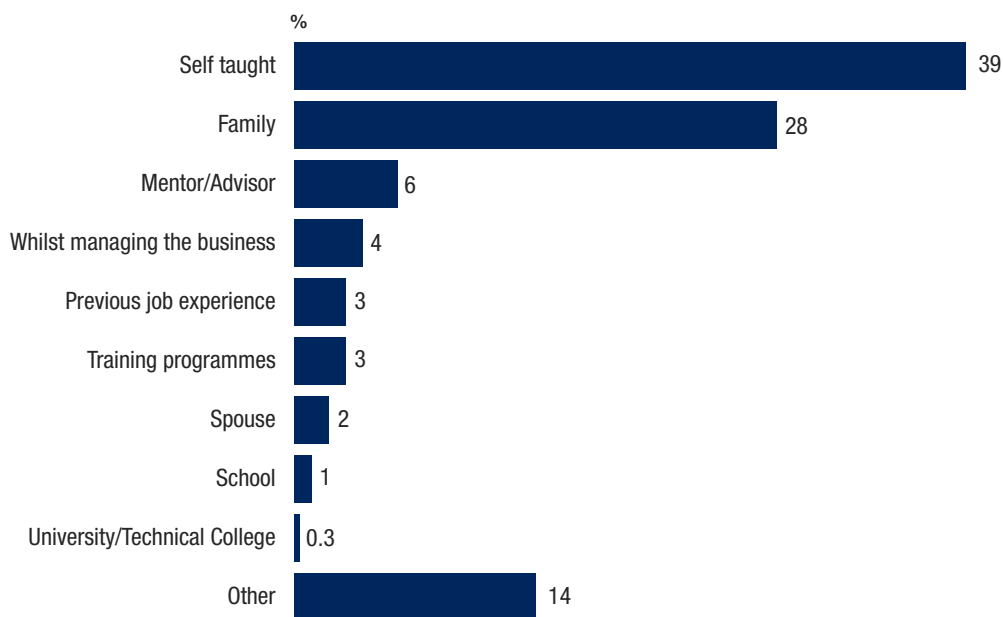


Figure 25 shows the distribution of business owners by skills training such as self-taught, family, mentoring, on the job training, previous work experience, training programs, etc. The study shows that, 68% of business owners acquired the necessary business skills informally, that is, through self-taught and family. Only 3% attended a training program and 1% 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 25: Skills training of business owners

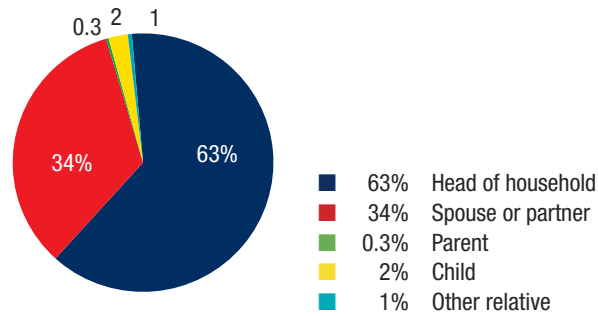


*Note that detailed analysis on education is appended as a separate report.

3.4.1.5 Position of business owners in the household

Figure 26 shows the distribution of business owners in 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 26: Business owner’s position in the household



3.4.1.6 Alternative sources of income

For 54% of MSME owners, the business is in fact their only source of income. The spouse's salary was the second largest contributor to the income. Considering that most business owners are the head of households as outlined above, the dependency of the household on the business is relatively high.

Figure 27: MSME as only source of income

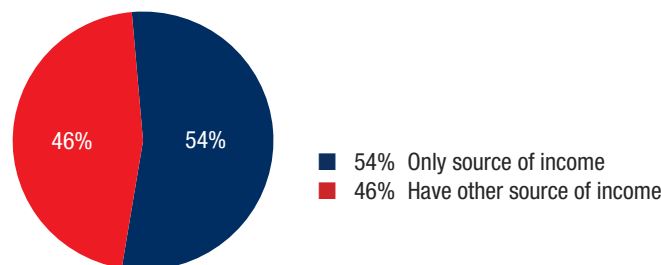
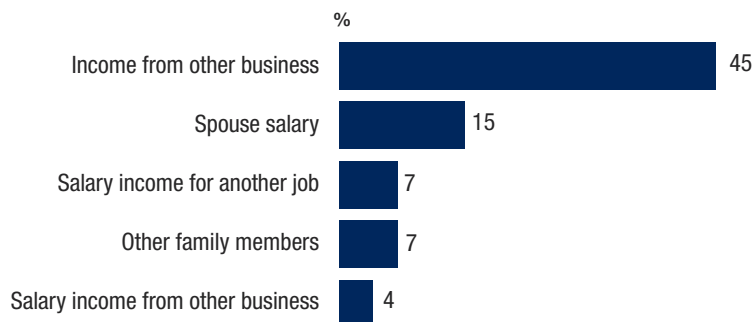


Figure 28: Other sources of income of business owners (Top 5)



3.4.1.7 Time spent in the business

Slightly less than one in two 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 29: Time spent in the business

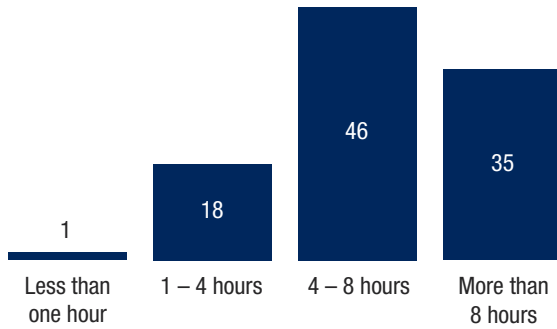
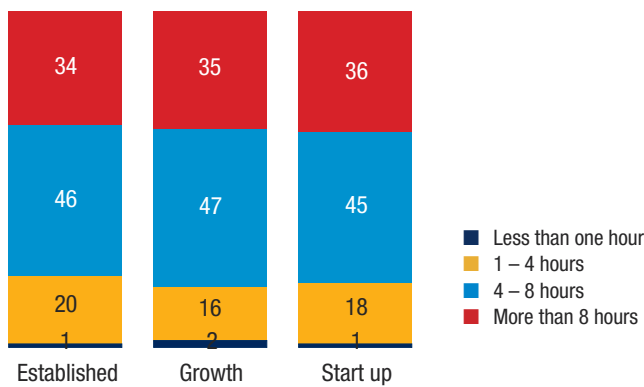


Figure 30: Time spent in the business by business stage



3.4.1.8 Area distribution

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 31: Percentage distribution of MSMEs across urban and rural residence

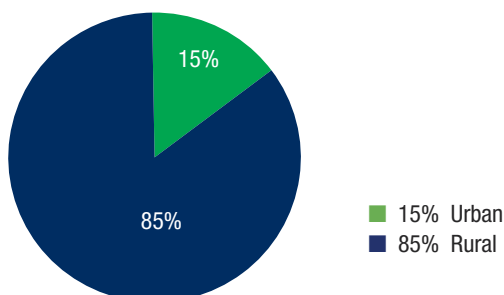
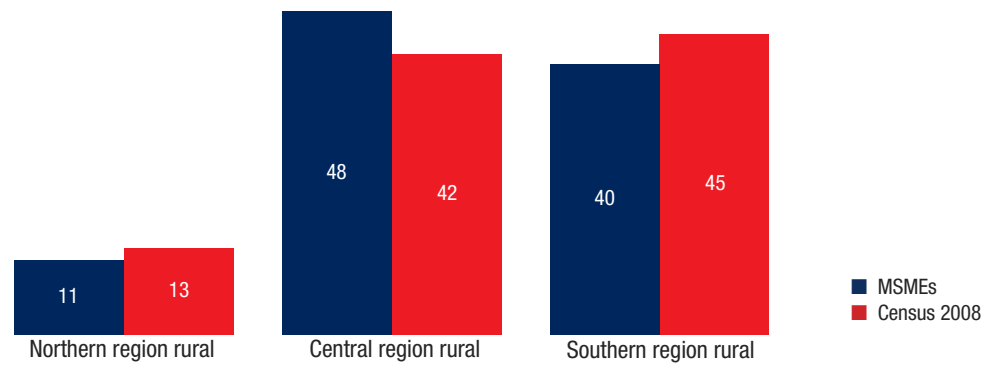


Figure 32 shows the percentage distribution of MSMEs across southern region rural, central region rural and northern region rural compared against the census population distribution on which the MSMEs sample is based. Overall, the MSMEs are proportional to the census frame with one exception; central region rural has a higher disproportionate number of MSMEs than the census population as well as the other rural regions.

Figure 32: 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.

4 Business operations, finance and management

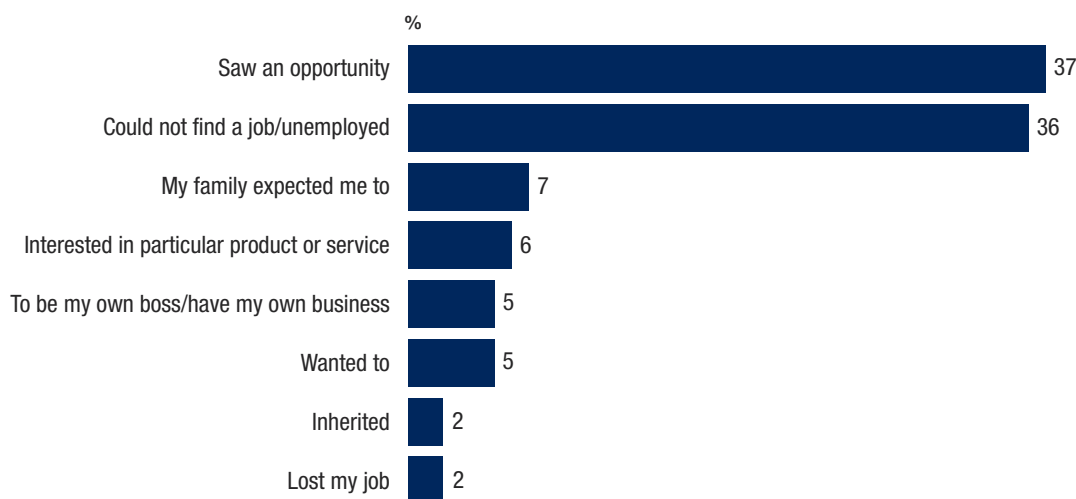
4.1 Overview

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

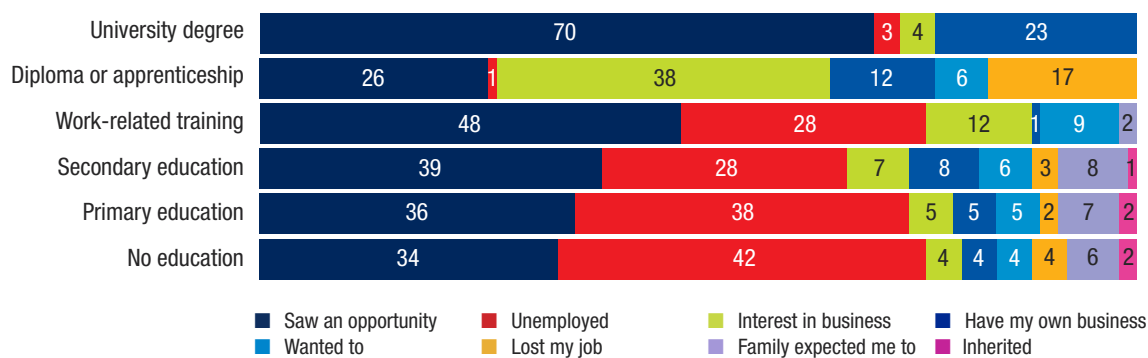
The main reasons for starting the business refer to opportunity (37%) and unemployment/couldn't find a job (36%).

Figure 33: Motivation to start MSME business



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

Figure 34: Motivation to start MSME business 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 of MSME owners 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, 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. As mentioned in figure 33, 36% of business owners started their businesses because they could not find a job. 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 35: Attitudes of MSME business owners towards the business**



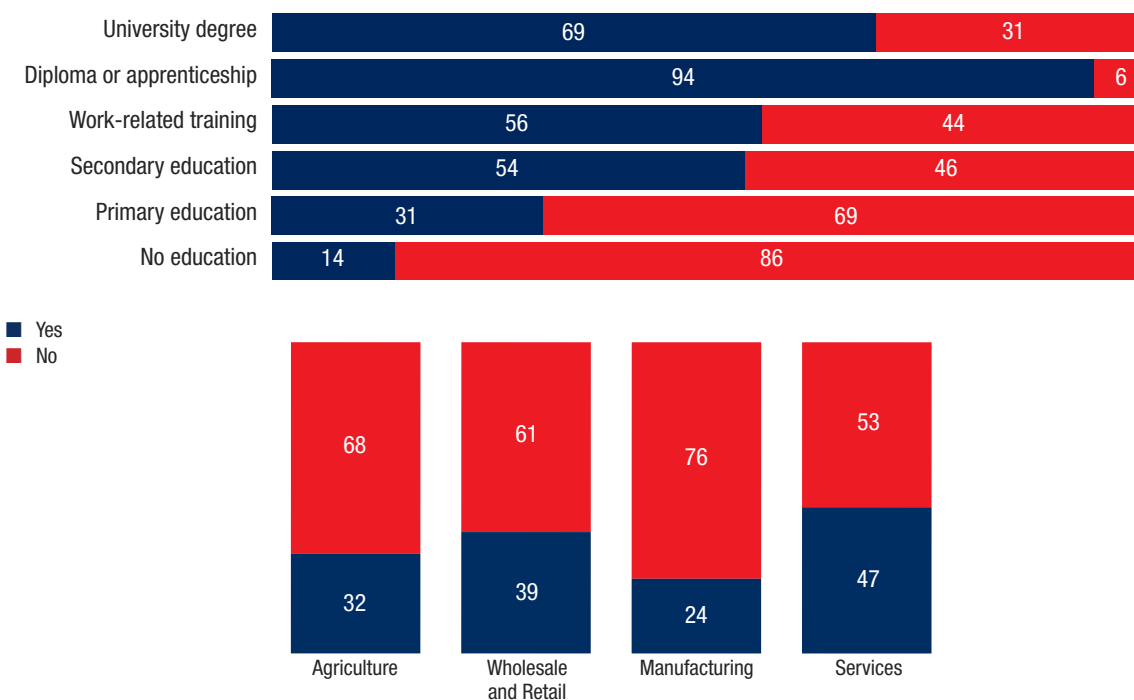
4.4 Financial capability and money management

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

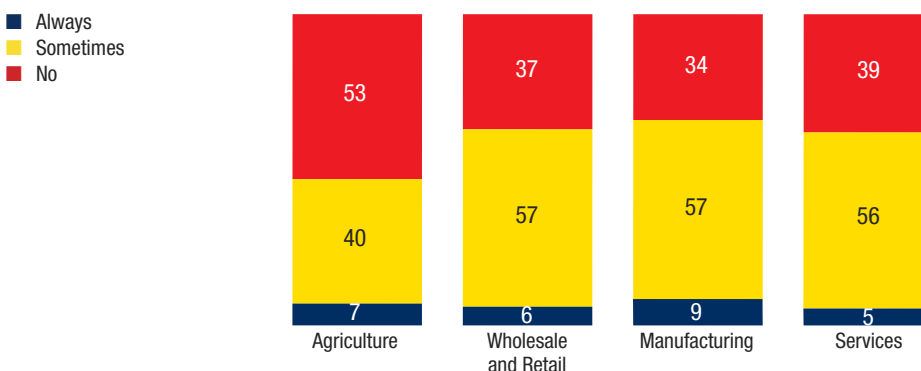
35% of MSME owners indicated that they kept financial records for their businesses, and 91% of these business owners do not get assistance to do so – it is done by themselves. Keeping financial records also seems to be positively related to the level of education given that 94% of business owners with a special technical diploma or apprenticeship keep records, compared to only 14% for those with no education.

Figure 36: Record keeping by education level and MSME sectors



MSME owners in the services sector are more likely to keep financial records than their counterparts in other sectors. This is not surprising given the fact that the services sector (4%) includes professionals; skilled services and tourism related services.

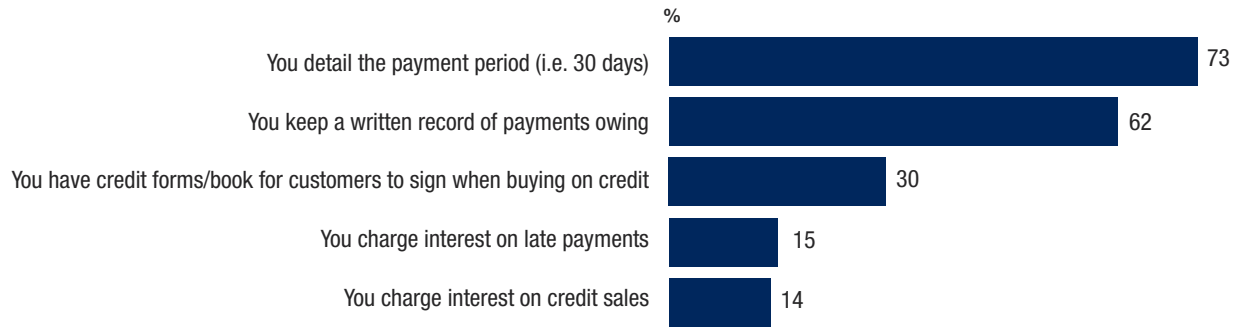
Figure 37: Record keeping by MSME sectors



Every second MSME owner, just over 56% offers a credit facility to their customers. The agriculture sector (53%) is less likely to offer credit to their customers as opposed to other sectors (with the average of 37% of owners who do not offer a credit facility to their clients).

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 in this study though.

Figure 38: Credit management**



5. Key take-outs

Individual entrepreneurs

The Micro Small Medium Enterprise in Malawi comprises mainly individual entrepreneurs (persons who work on their own). About 50% of individual entrepreneurs would take a paid job if they could get it, and were motivated by unemployment to start their businesses. Individual entrepreneurs play a vital contribution to poverty alleviation. The entrepreneur sector provides semi-employment, thus reducing individual and household vulnerability. This sector is particularly important in creating opportunities for those who have low levels of education and are likely to be affected by unemployment. In general, the business owners are relatively young and tend to work long hours.

Micro, Small and Medium Enterprises

Micro, Small and Medium sized Enterprises (1 to 100 employees) are the backbone of the economy, supporting growth and creating employment opportunities. The MSME employs 496 000 paid employees, with 66% of the paid workforce being absorbed by medium-and small-enterprises. Malawi's small -and medium-scale enterprises have a great potential for rapid economic growth, with revenues of 927 901 MK and 38 910 692 MK respectively.

MSMEs classification

Currently, the MSME sector is largely comprised of agriculture, wholesale and retail sectors, with 65% of the paid workforce employed by the agricultural sector. About a third of paid employees in the agricultural sector are on contract or are seasonal workers. The agricultural sector however, is having difficulty generating sufficient income given its size, with revenue in 2012 estimated to be 91 billion MK compared 129 billion MK from the service sector. The trade sector is driven by sales of goods in the same form that it was purchased, while the agricultural sector is mainly involved in growing its crops to generate income i.e. growing fruit and vegetables to sell. This could potentially be both a function of market demand and the skill set available in Malawi.

People (business owners profile)

Education levels are very low, with 68% having only primary education. Further, 67% 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. These factors indicate that MSME activity in Malawi is largely a result of entrepreneurs having a lack of opportunity in the formal 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, particularly as they lack formal education and training. Thus, the focus should be on assisting them to grow and develop their business. Businesses are a significant contributor to livelihoods as more than half of MSME owners indicated that the business was their only source of income, particularly as most business owners are the heads of households.

Challenges

MSME owners indicated that they faced significant challenges when starting their businesses. These challenges range from financial, with 55% indicating access to finance (which also correlates to business owners mentioning that they obtain money mainly from friends/family, other businesses and their own savings), to the operational expertise necessary for running a business and scaling up the business once it grows. This indicates the need for, adequate capacity and support programmes to assist MSMEs, particularly small individually owned MSMEs to source finance, streamline operations and build their business. As the largest risk to the business is natural disasters and illness or death of the owner, programmes need to consider risk mitigation strategies. Furthermore, the largest obstacles to growth (apart from finance) were identified as operational capacity e.g. lack of customers, market, 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.

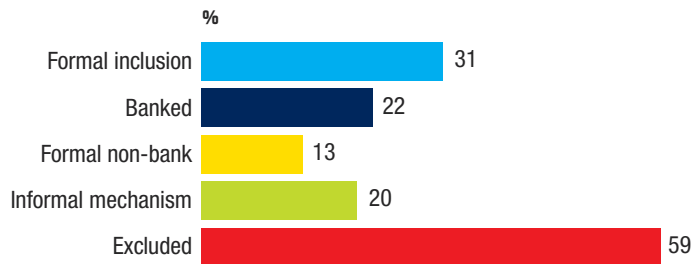
Despite the large national effort in creating support institutions for MSMEs, a large proportion of business owners are unaware of initiatives to provide support. Those who do have a support network, mainly rely on church groups and other civil society organisations. Only a few MSMEs are currently formally 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.

6 Financial inclusion

6.1 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 39: Financial inclusion overview*



6.2 Access Strand

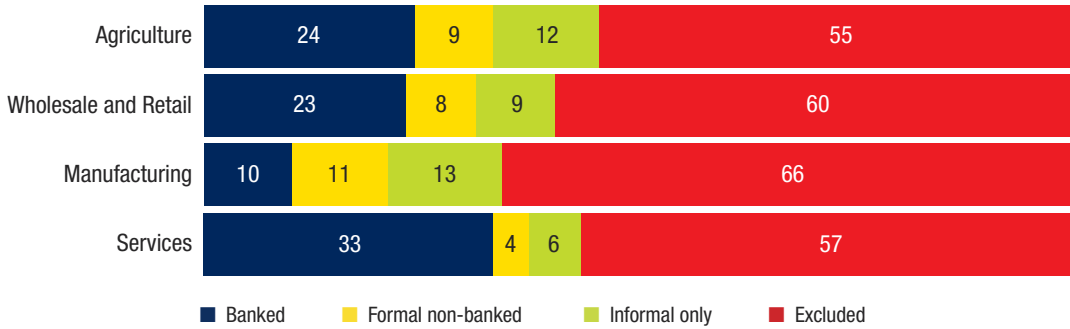
In calculating the Access Strand, a hierarchical approach is used in order to depict:

- 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 (= Formal non-banked) – 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 only (= Informal only) – business owners using informal financial products or mechanisms only. This is exclusive informal usage and does not include business owners who use formal products/services (10%).
- The percentage of business owners who are excluded or not served (= Excluded) – 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 40: Access Strand

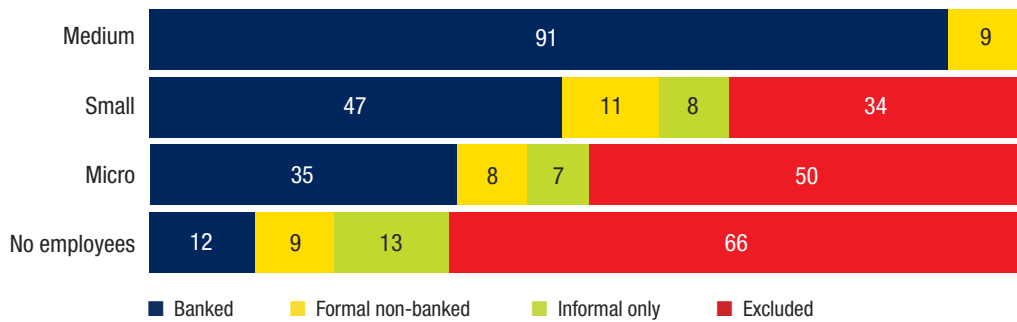


Figure 41: Access Strand by ISIC (Sector classification)



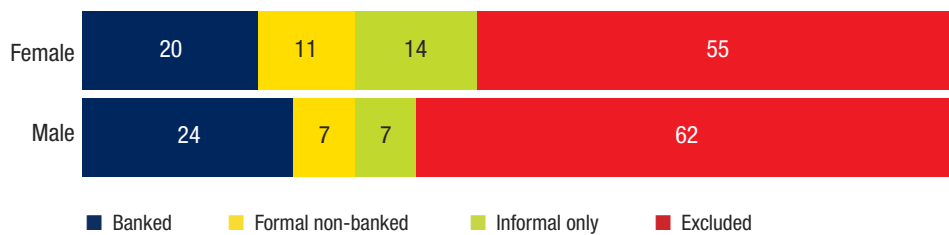
The proportion of banked business owners is higher for the services sector (33%) compared to the rest of the sectors (agriculture with 24%, wholesale and retail 23% and manufacturing 10%). Those that use formal non-bank products are slightly higher in the manufacturing sector (11%) compared to other sectors.

Figure 42: 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 43: 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 44: Access Strand across countries

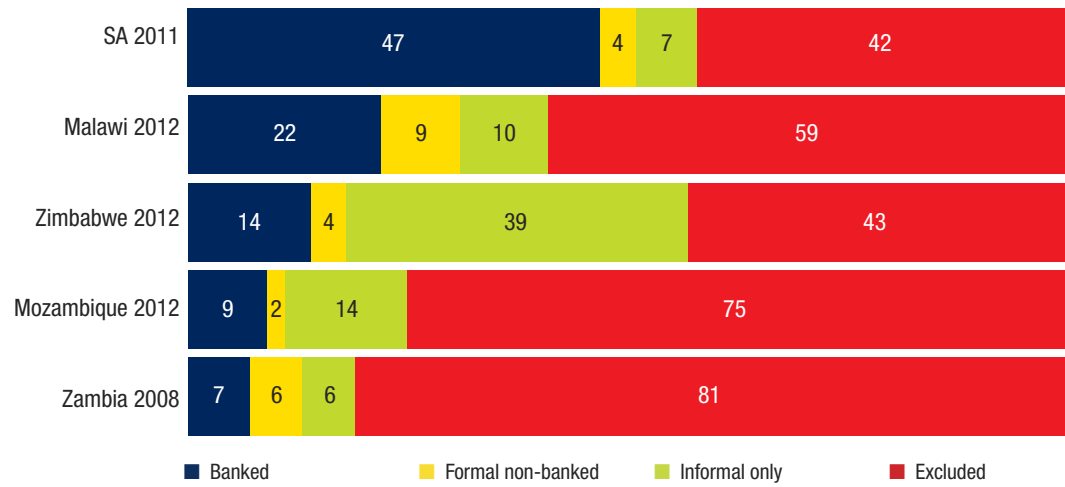
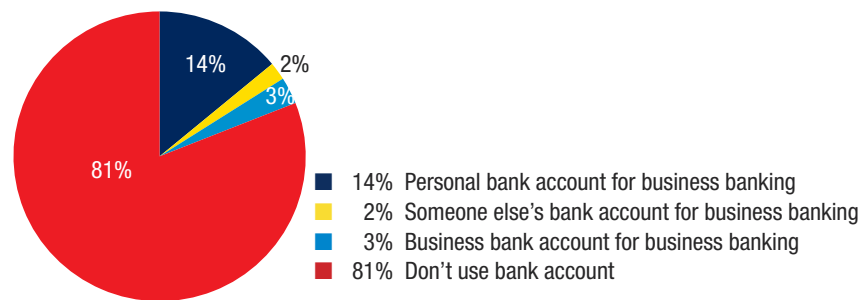


Figure 44 provides an overview of the comparison of the Access Strand of countries where FinScope Surveys have been conducted. With 22% of the MSME owners being banked, Malawi seems to be quite well positioned in comparison to other nations.

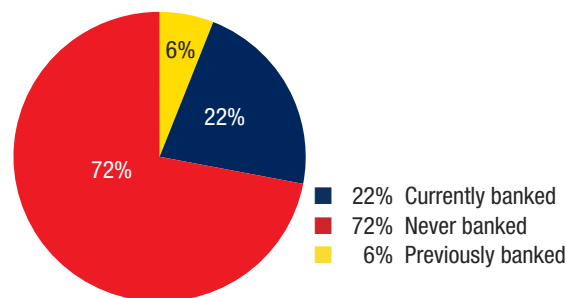
6.3 Banking

Figure 45: Account usage for business purpose



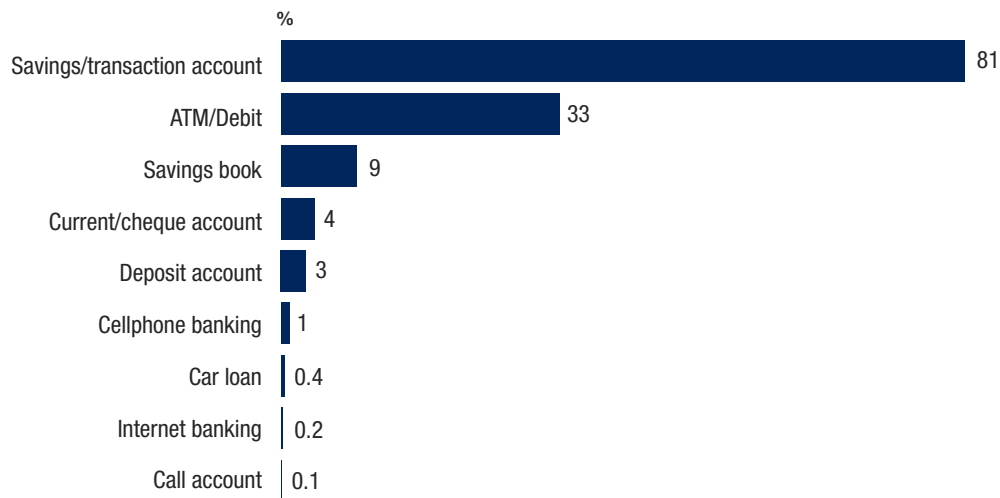
Accordingly, the majority of MSME owners (81%) do not use a bank account for business purposes. Those who have/use a bank account mainly use their personal account for business banking (14%). Only 3% actually have/use a business bank account, while 2% use someone else's bank account for business banking.

Figure 46: Banking status



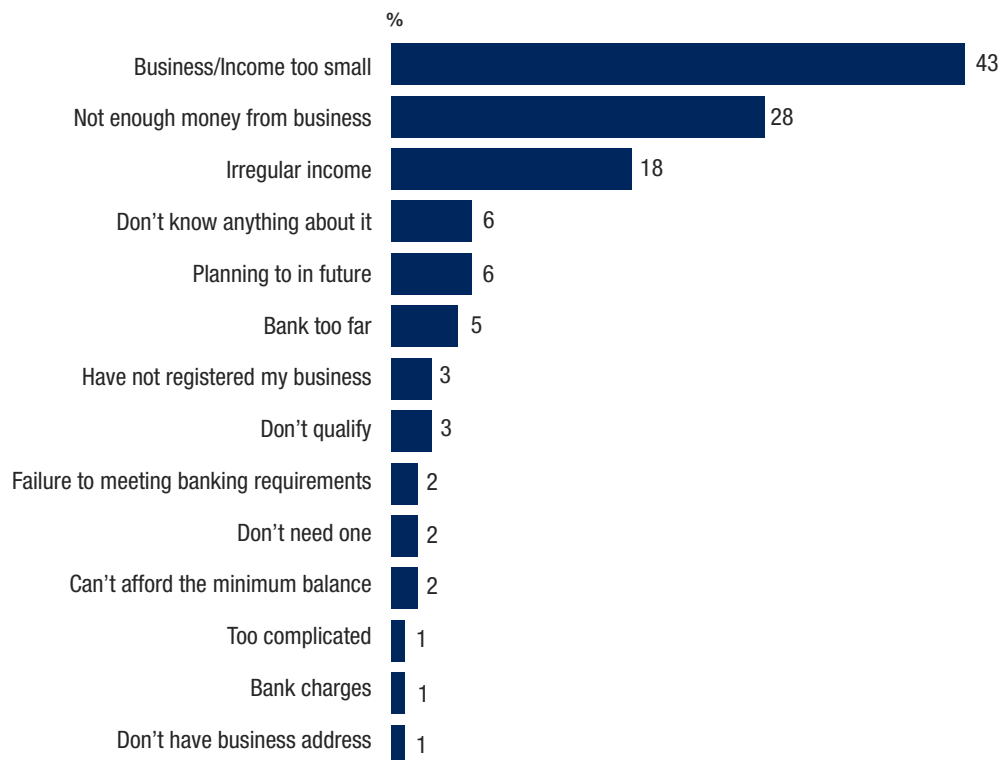
The majority of MSME owners (72%) have never been banked, while 22% are currently banked with 6% being previously banked.

Figure 47: 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 48: Key barriers to banking**



Insufficient income or not enough money from the business (43% and 28% 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%), it is interesting to note that 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.

**Respondents were able to give more than one answer (multi-mention possible), hence does not add up to 100%.

6.4 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 14: Banked and unbanked population

	(n=1997)*	Banked (n=469)*	Unbanked (n=1528)*
Gender	%	%	%
Male	54	58	53
Female	46	42	47
Age	%	%	%
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
Educational level	%	%	%
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
Description of business	%	%	%
Individual entrepreneurs	59	34	69
Micro	32	50	27
Small	8	14	5
Medium	1	2	0
Type of business	%	%	%
Retailers	87	83	89
Service providers	13	17	11

* All figures used are based on weighted data, while "n" refers to the base size of the respondents.

6.5 Savings Strand

The Savings Strand focuses on the usage of savings and investment products and savings behaviour 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; and
- 16% have/use formal savings/investment products.

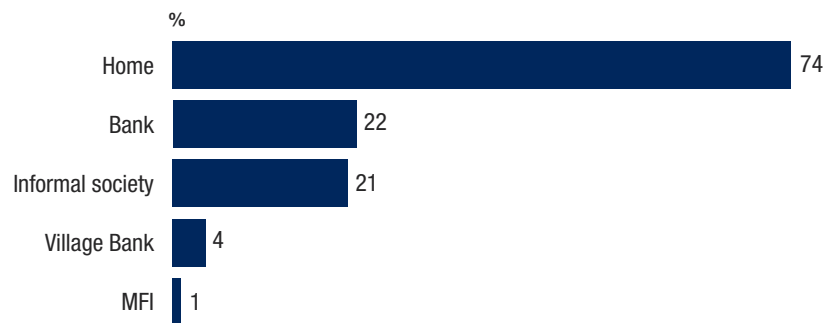
Figure 49: Savings Strand



6.6 Savings mechanisms (of those who save)

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

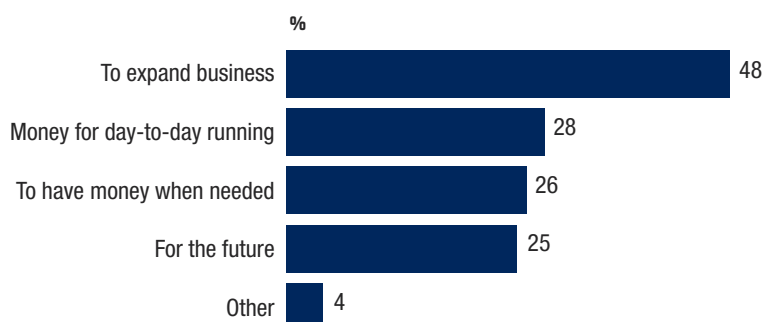
Figure 50: Savings mechanisms**



6.7 Drivers of savings (for those who save for business purposes)

Small business owners in Malawi are motivated to save in order to expand their businesses (48%). Access to finance (see figure 61) 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 51: Drivers of savings**

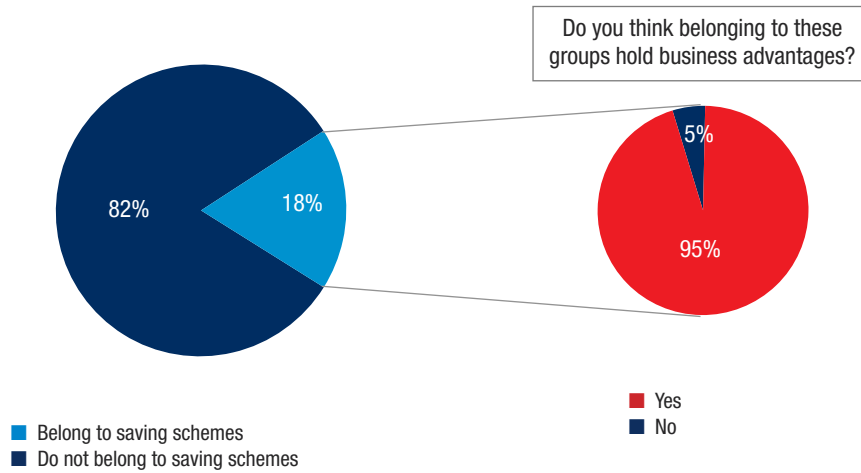


**Respondents were able to give more than one answer (multi-mention possible), hence does not add up to 100%.

6.8 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 52: Usage of group savings schemes



6.9 Borrowing and credit

6.9.1 Credit Strand

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

Figure 53: Credit Strand

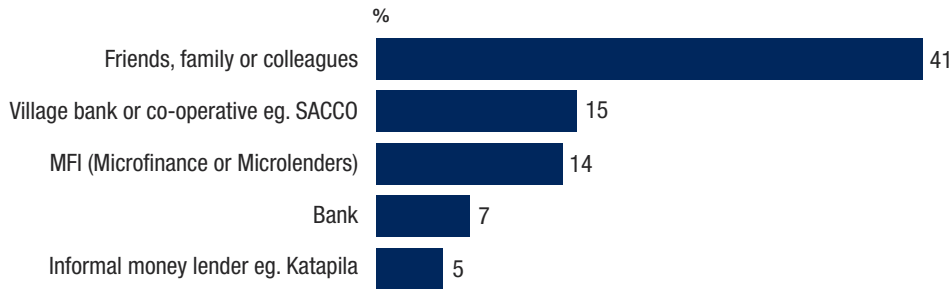


The large majority of small business owners (76%) did not borrow in the last 12 months – mainly because they are concerned that they will be unable to repay the debt. Those who borrow are most likely to do so from family and friends (10%). While 3% rely only on informal mechanisms such as informal money lenders, e.g. katapila, 9% 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% of small business owners have a credit/loan product offered by a commercial bank.

6.9.2 Sources of borrowing

Family, friends or colleagues are the biggest source of borrowing (41%) by small business owners. Village banks, cooperatives such as SACCOs (15%) and MFIs (14%) are also an important source of credit, while 7% have/ use commercial banks to borrow money.

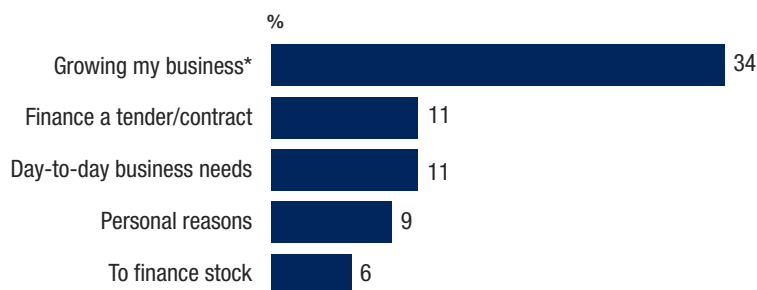
Figure 54: Sources of borrowing (Top 5)



6.9.3 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 only 0.1%.

Figure 55: Drivers of borrowing (Top 5)

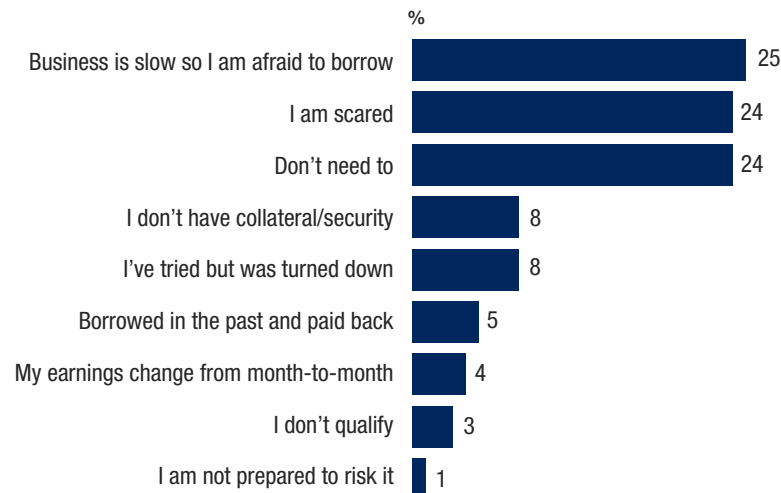


*Growing my business was not qualified (whether expansion or working capital) in the questionnaire.

6.9.4 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 56: Barriers to borrowing**



6.10 Risk and insurance

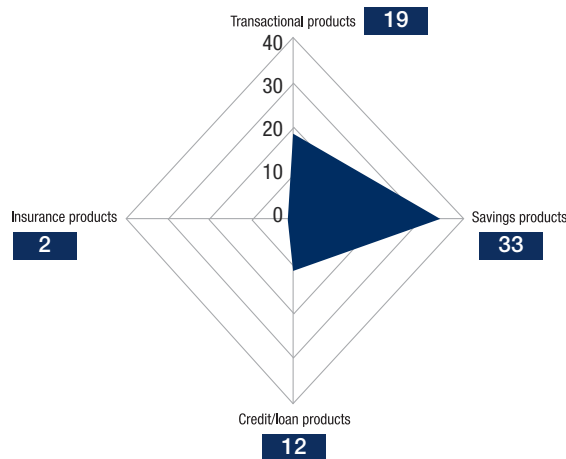
Only 2% of small business owners have/use a financial product covering risk, while the remaining 98% do not have/use any insurance. The main risks to operation or business income identified refer to natural disasters such as drought, fire, floods and rain damage (41%), illness or death of the owner (32%), 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.

6.11 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 57: 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.

6.12 Financial inclusion 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 MFIs 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.

7 MSMEs management, constraints and support

7.1 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. MSMEs 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.

7.2 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., from friends/family (15%) and partner (7%), 19% from other business, and 10% own savings) rather than from formal financial institutions.

Figure 58: Challenges faced by business owners in terms of starting their business**

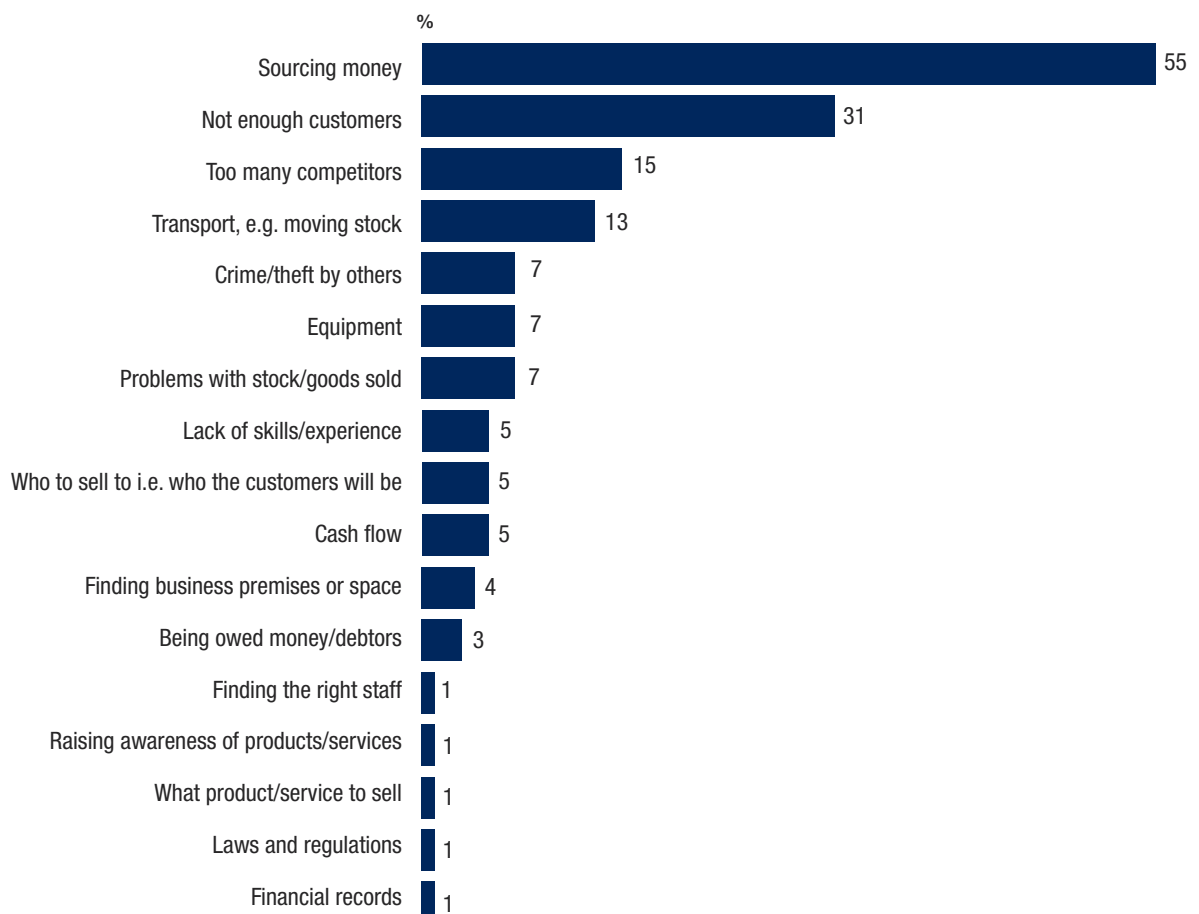
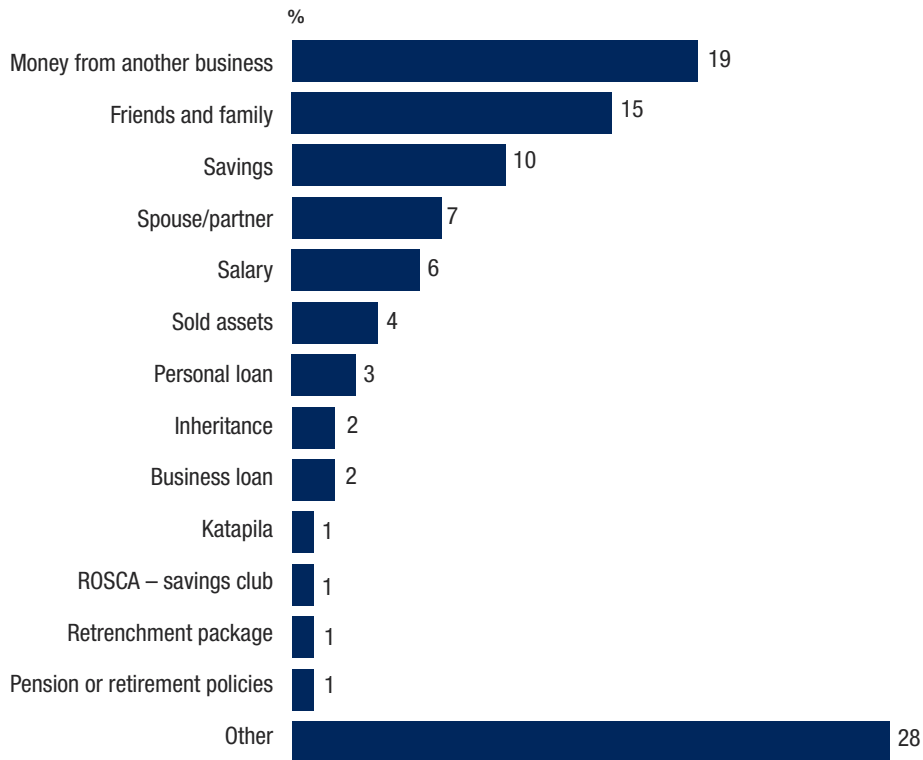


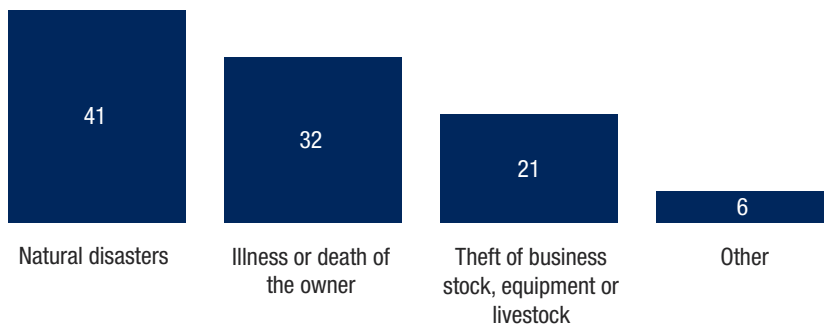
Figure 59: Sources of money to start the business



7.3 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.

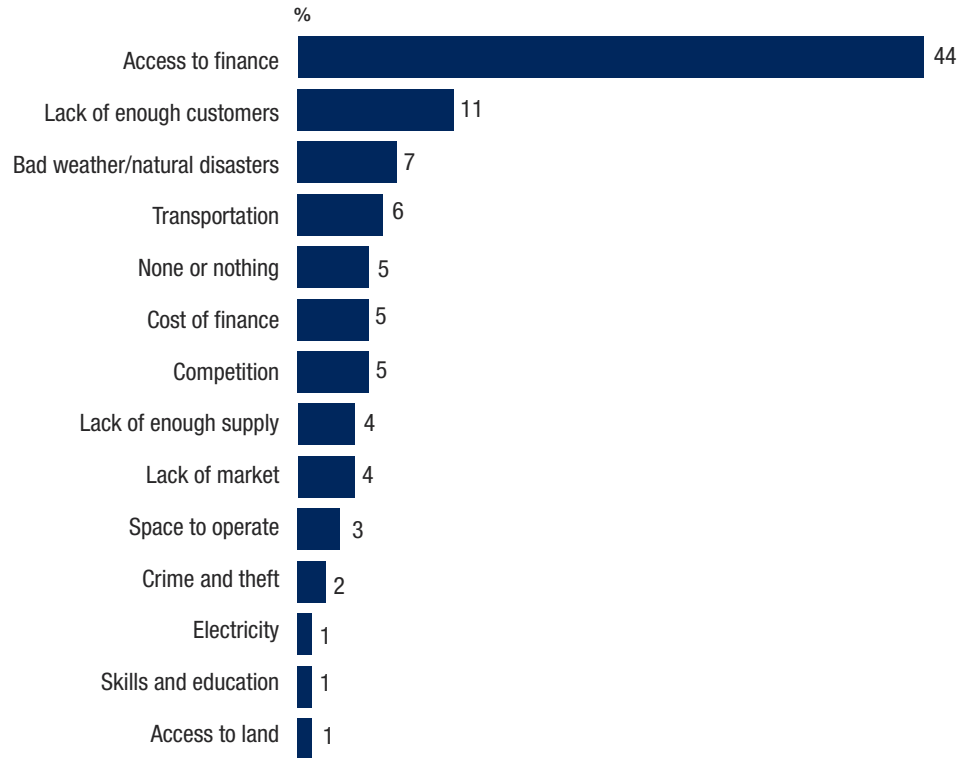
Figure 60: Challenges faced by business owners in terms of operations



7.4 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%).

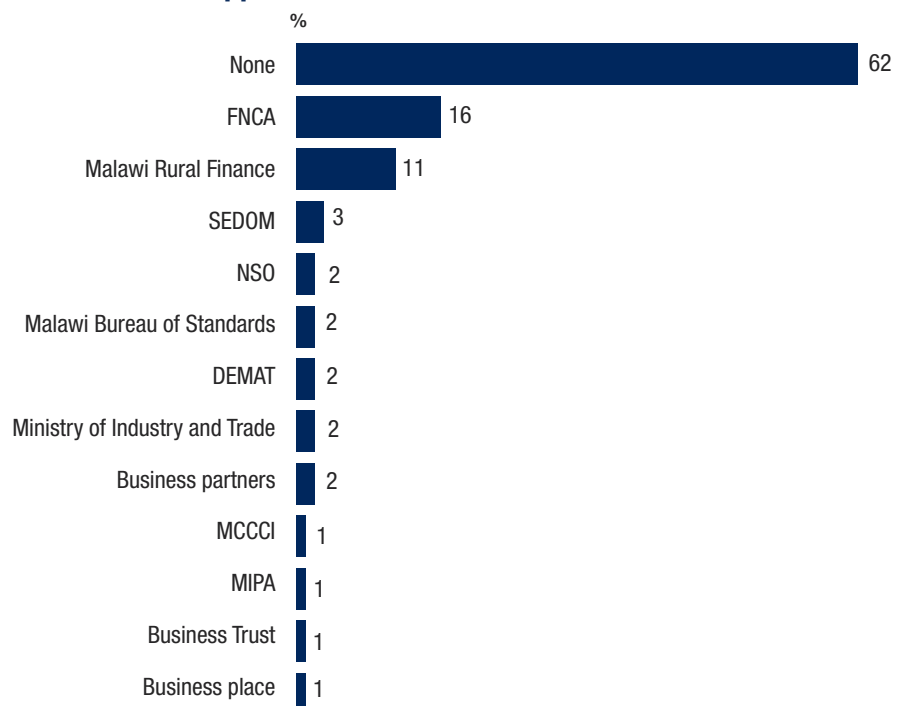
Figure 61: Challenges faced by business owners in terms of growth



7.5 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%, see figure 63) claim to have no support network.

Figure 62: Awareness of support**

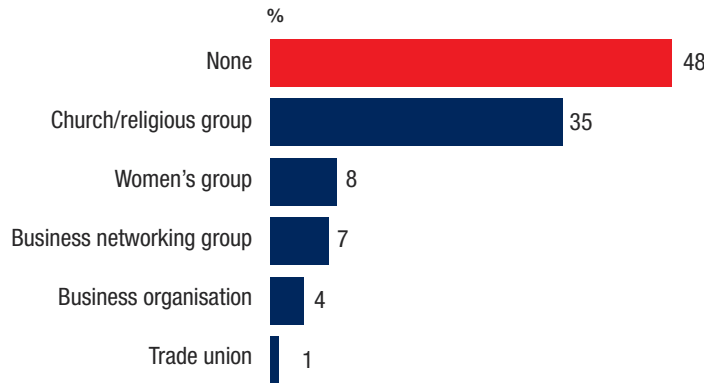


**Respondents were able to give more than one answer (multi-mention possible), hence does not add up to 100%.

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.

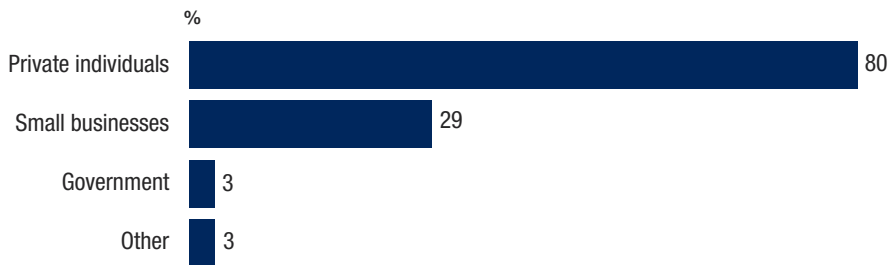
Figure 63: Networks of support**



7.6 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.

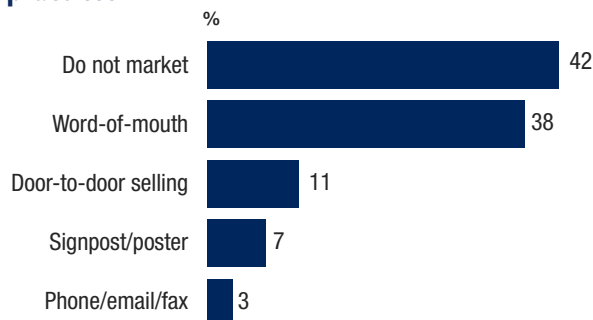
Figure 64: Types of customers**



7.7 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 65: Marketing practices**



**Respondents were able to give more than one answer (multi-mention possible), hence does not add up to 100%.

8 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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FinScope MSME Survey Malawi 2012

Women in small business



FINSSCOPE



FINMARKET TRUST

Making financial markets work for the poor

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Table 2	Financials of MSMEs*

I Introduction and background

This paper assesses the profile of women in the Malawian MSME sector and their use of financial products and services and compares access to financial services between men and women. Analysis is based on the FinScope MSME Survey Malawi 2012.

FinScope is a nationally representative survey, developed by FinMark Trust, focusing on small businesses and their financial services needs. As such, it aims to build a systematic body of evidence describing the size and scope of the sector; the levels and landscape of access to financial products and services, identifying the most binding constraints to growth, and proposing recommendations regarding financial assistance, policies, and interventions. It needs to be considered, however; that this study was not designed with a specific gender focus, but this paper uses the gender data from the broader FinScope study.

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

A total of 1997 face-to-face interviews were conducted with MSME owners (18 years and older, employing less than 100 people, including individual entrepreneurs) during January to March 2012.

The study was funded by a number of donors including the World Bank, the United Nations Development Programme (UNDP), UKaid (DFID), the European Union (EU), and implemented by the National Statistics Office.



Ministry of Industry and Trade
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Empowered lives.
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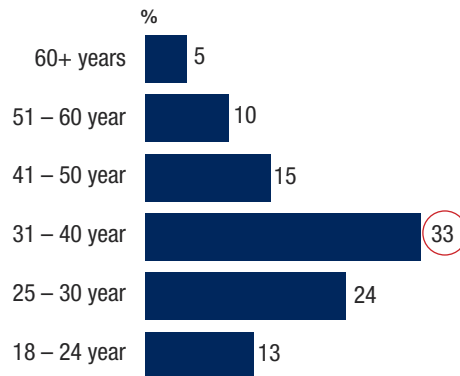
2 Profile of business women

This section describes the demographics of women in the Malawian MSME sector; including their age, their position in the household, alternative sources of income, and their levels of education.

2.1 Age of small business owners

Women in business are mostly aged between 31 to 40 years, similar in proportion to the overall population in business. Women in the 25 to 30 year old group form the next largest group who own MSME businesses.

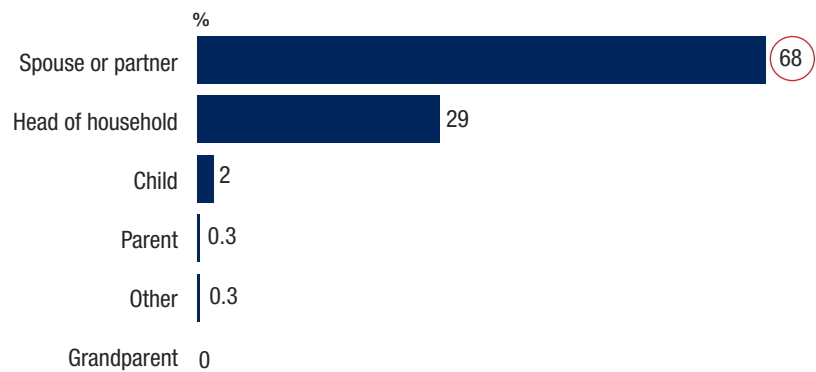
Figure 1: Age distribution of female entrepreneurs



2.2 Position in the household

Women in business are most likely to be the spouse/partner (68%) of the head of the household. Thus, gender roles might affect the division of the business. This also affects access to, and control over the allocation of resources, benefits, and decision-making.

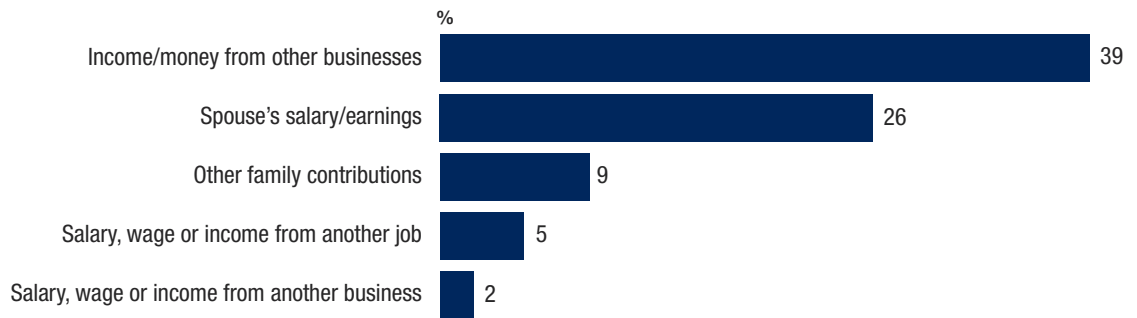
Figure 2: Position of women in the household



2.3 Alternative sources of income

For 52% of women, their business is in fact the only source of income. Of those who have alternative personal income (48%) in addition to their main business, 39% derive their personal income from other businesses and 35% receive money from other sources, i.e. 26% from spousal salary and 9% from other family contributions.

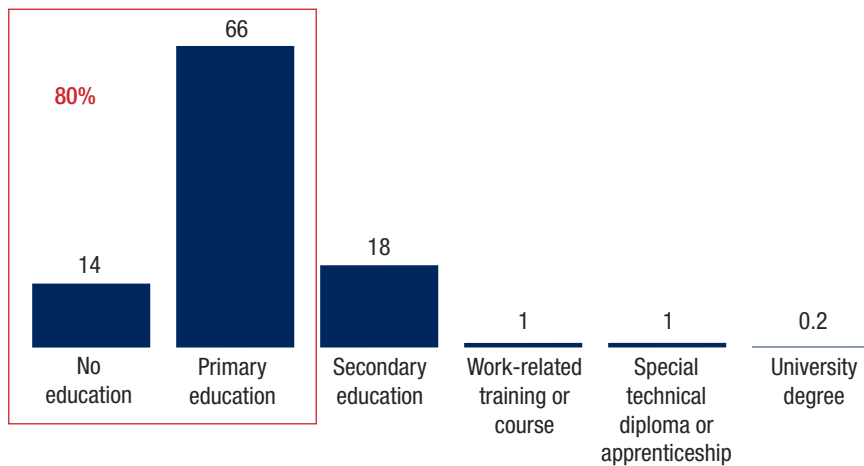
Figure 3: Other source of personal income (Top 5)



2.4 Education and skills training

The large majority of women in business have low levels of education (66% primary education, 14% no formal education).

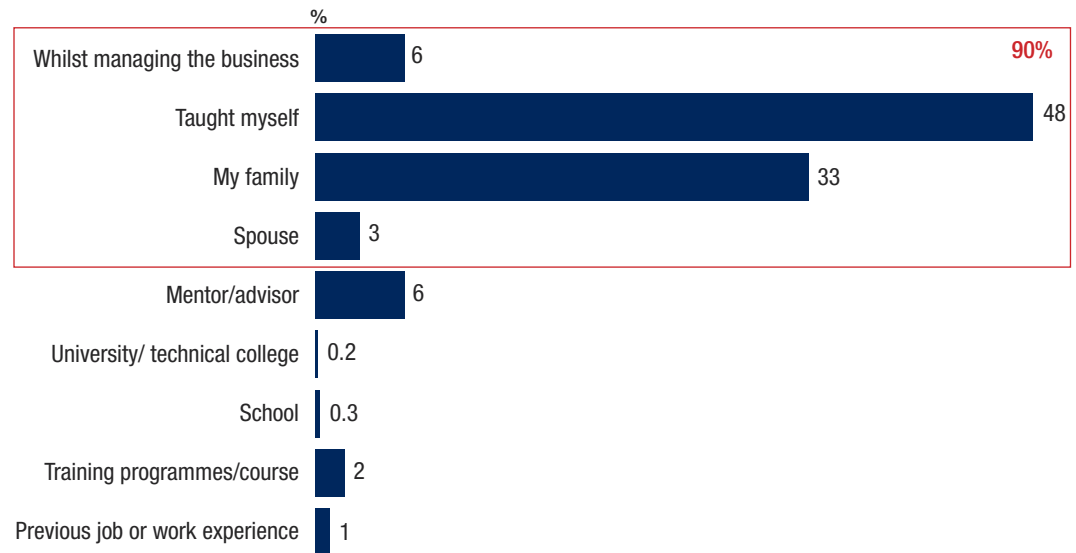
Figure 4: Education levels



Accordingly, the majority of these women (90%) acquired the necessary business skills informally. Most women taught themselves (48%) or were taught by family members/spouse (36%), while 6% learnt the required skills whilst running the business. Only 2% attended a training programme and 0.5% received their training from a formal educational institution such as a school or technical college. Circumstances have often limited women's access to a meaningful business experience (such as formal education and training, previous work experience). However, education and experience are critical in the management and development of their businesses.

FinScope figures indicate that there is a great need for educational interventions focusing on business skills for women to address backlogs arising from limited and insufficient formal education.

Figure 5: Skills training



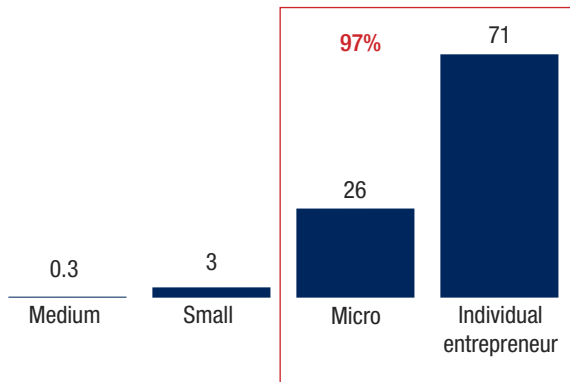
3 Profile of women-owned businesses

This section describes women-owned MSMEs in Malawi as well as the motivations, behaviour, and attitudes related to business ownership.

3.1 Type and nature of business

Most women (97%) are individual entrepreneurs or tend to be in small sector microenterprises, mainly in the informal sector.

Figure 6: Size of the business by number of employees

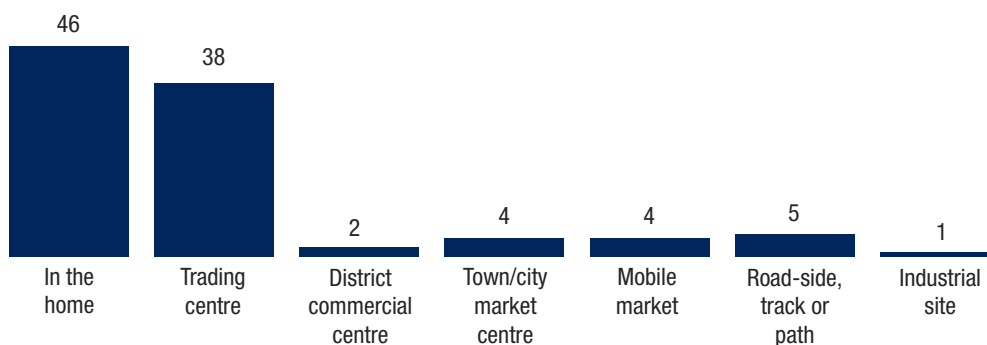


Most women-owned businesses (91%) operate in the retail sector; mainly trading at 49% (including agricultural products at 28% and vending at 21%). In fact, buying and selling agricultural products is the main activity of women-owned MSMEs in Malawi. It needs to be considered, however, that the proportion of women who sell agricultural products is probably much higher. This survey refers to business activity, only those who sell more than they consume, i.e. mainly produce for retail purposes and only consume a proportion of fruits/vegetables/livestock produced (less than 50%).

3.2 Location

Closely linked to the type and size of the business is the fact that the large majority of women-owned MSMEs (84%) operate either from home or a trading centre/market as illustrated in the graph below. Given the fact that selling agricultural products is the main activity of MSMEs, this is not surprising. The high percentage of home-run businesses might also be related to family responsibilities within the home. Pressure to run a home, look after children and care for the husband and family might limit women entrepreneurs.

Figure 7: Operating location



3.3 Financials

Given the fact that women-owned businesses are very small, it is not surprising that they generate limited profits. In total, women-owned businesses made sales worth 173 billion MK in 2011, and a profit of 33 billion MK.

Table 1: Financials of women-owned MSMEs*

	MKW	US\$
Revenue	1 13 256 025 294	692 million
Expense of the business	27 613 855 486	169 million
Cost of sale	88 855 724 955	543 million
Income after expenses	33 531 648 025	205 million

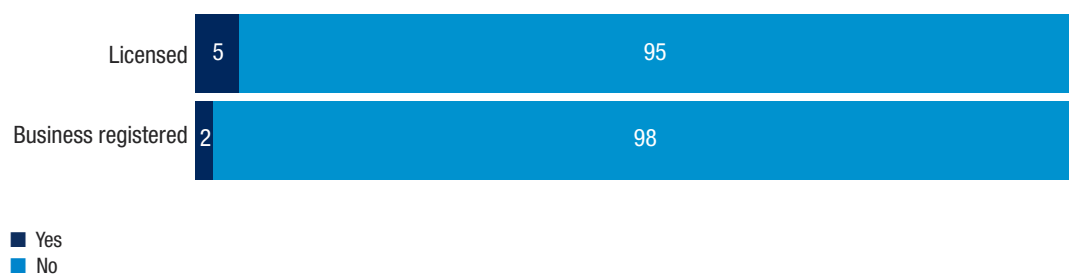
Source: Ministry of Industry, Trade and Private Sector Development

Note: Income and expenditure data was collected based on recall and hence there could be inaccuracies/ inconsistencies reflected in the financial records.

3.4 Registration and compliance

The majority of small businesses owned by women trade informally, i.e. they are not registered or licensed. In fact, only 2% of businesses are registered and 5% are licensed. Considering that most businesses are very small (mainly individual entrepreneurs or micro businesses) with very low turnover (survivalists) this is not surprising. The business is often not considered as an entity separate from the owner and hence personal and business matters are often not separated. However, compliance might increase access to finance and state support – which currently is very low.

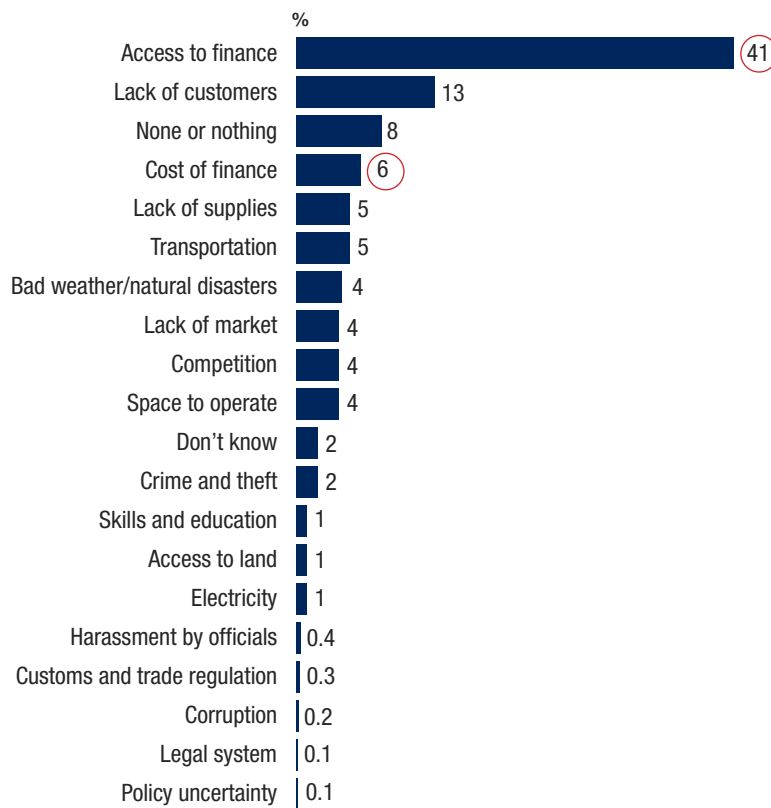
Figure 8: License and registration



3.5 Constraints

Women face a range of constraints in terms of starting, operating, and growing their businesses. The majority of them, however, do not use / have access to any professional support to overcome these challenges. The survey identifies that access to finance features as the single biggest constraint affecting the establishment as well as the expansion of women’s entrepreneurial activities. Women normally rely on personal income, and friends and family to provide the initial finance for their enterprises (see “Financial Inclusion” section). Although inadequate education was not mentioned, it is expected to affect business given the low levels of formal education and skills training for the majority of female entrepreneurs. This also relates to the ability to access resources in the environment, e.g. finance/capital, suppliers, and customers.

Figure 9: Key challenges in terms of growing the business



3.6 Business support

Informal networks seem to be a very important source of support for women, particularly women's (17%) and church/religious groups (35%) – which are most likely to provide emotional support. However, only 9% of women belong to a business networking group/organisation or to professional bodies, indicating the limited access to professional / operational support. In fact, the majority of women (62%) are not aware of MSME support and 45% of small business women do not belong to any group.

Figure 10: Groups female entrepreneurs belong to**

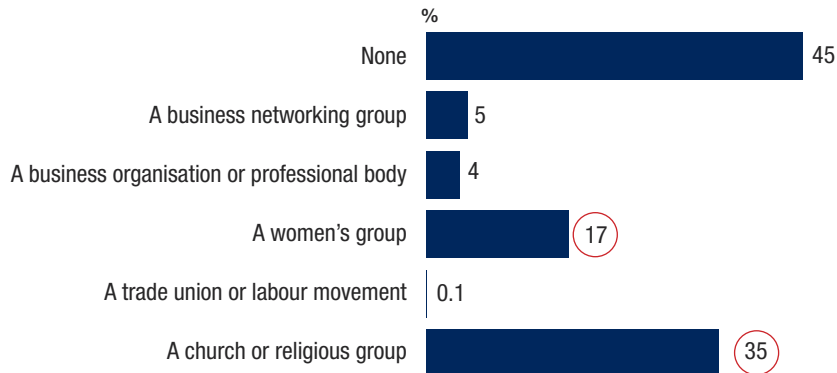
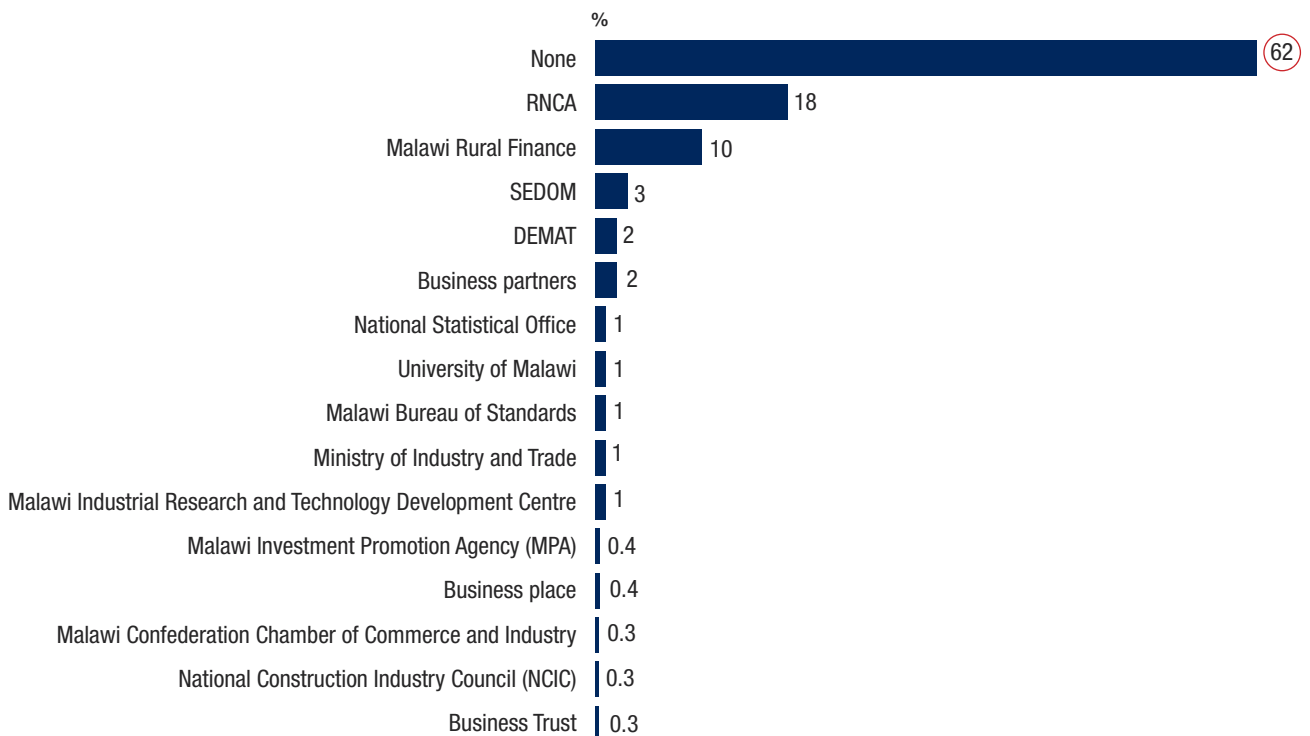


Figure 11: Awareness of support**



Given the fact that many women have low levels of education and business related training; low levels of access to and awareness of business support organisations; and are faced with considerable constraints, there seems to be a great need for targeted support interventions for female entrepreneurs in Malawi. This should include encouraging and assisting business activities through the provision of appropriate financial assistance combined with education, training and mentoring programmes, as well as professional networking opportunities.

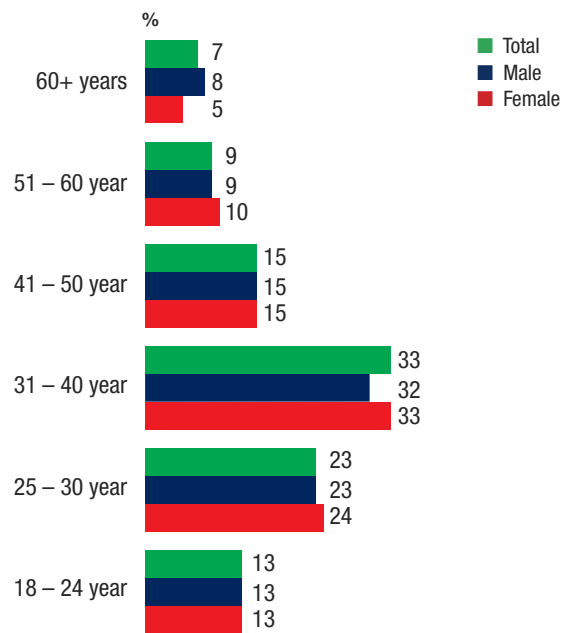
4 Gender comparison of business owners

This section looks specifically at whether there is a gender gap within the MSME sector by comparing the profile of business owners using gender. It also describes the demographics of MSME owners and includes age, position in the household, alternative sources of income, and levels of education.

4.1 Age of business owners by sex

There does not appear to be any significant differences in the age distribution between male and female entrepreneurs.

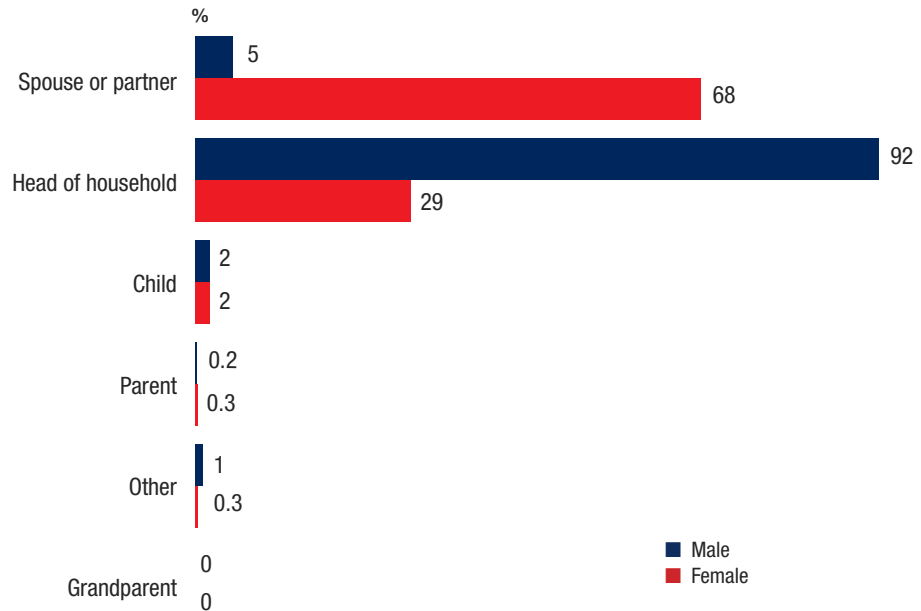
Figure 12: Age distribution



4.2 Position in the household

The position in the household follows traditional gender patterns. While female entrepreneurs are mainly spouses/partners of the household head, most men are the head of the household.

Figure 13: Position in the household



4.3 Alternative sources of income

Male and female business owners were asked if the main business is their only source of income. There does not appear to be a significant gender difference in this category except to say that women seem to rely a little less on the main business and substitute their personal income with spouse's salary/earning. This again reflects on traditional gender roles whereby the man is considered as the provider of the family.

Figure 14: Business as the only source of income

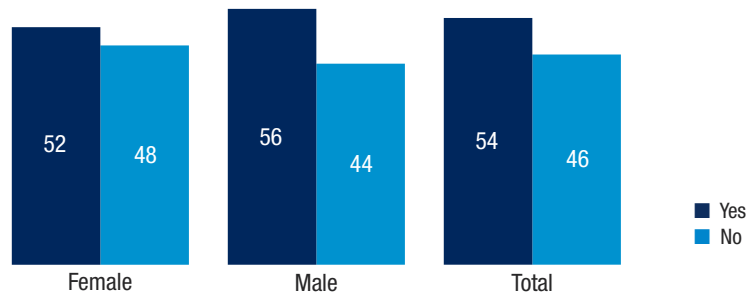
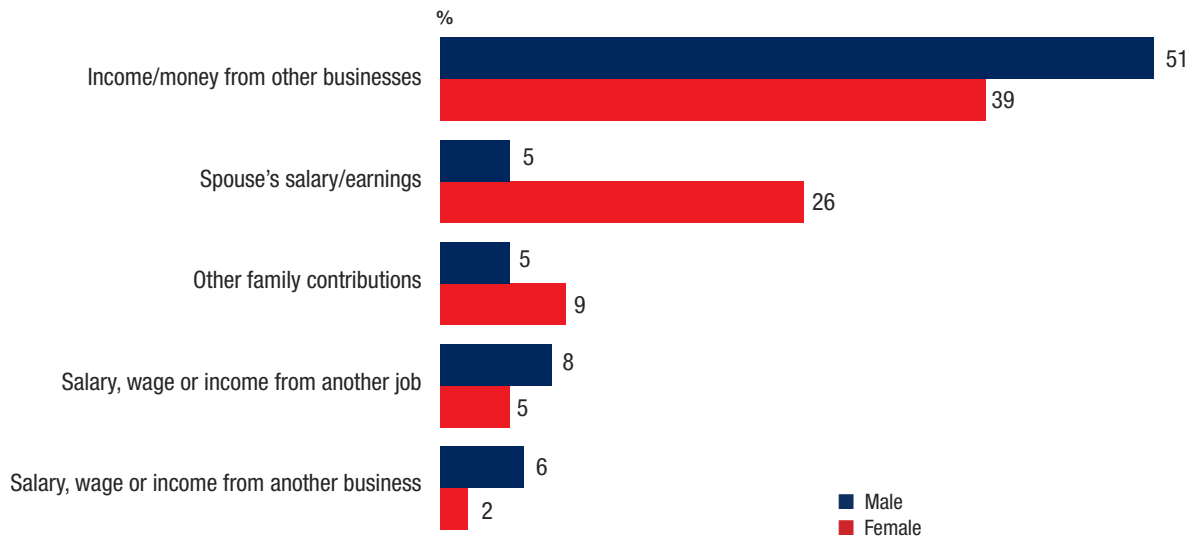


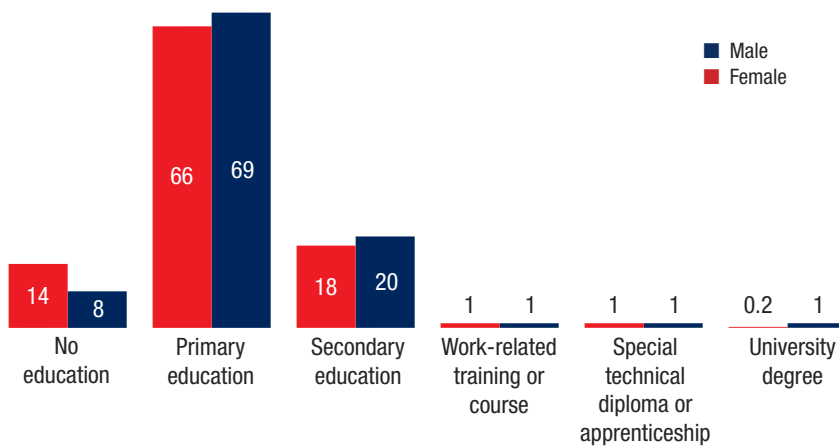
Figure 15: Other sources of personal income (Top 5)



4.4 Education and skills training

In general, female entrepreneurs have lower levels of education compared to their male counterparts, which is not surprising taking into account socio-cultural reasons that limit the access of education to girls.

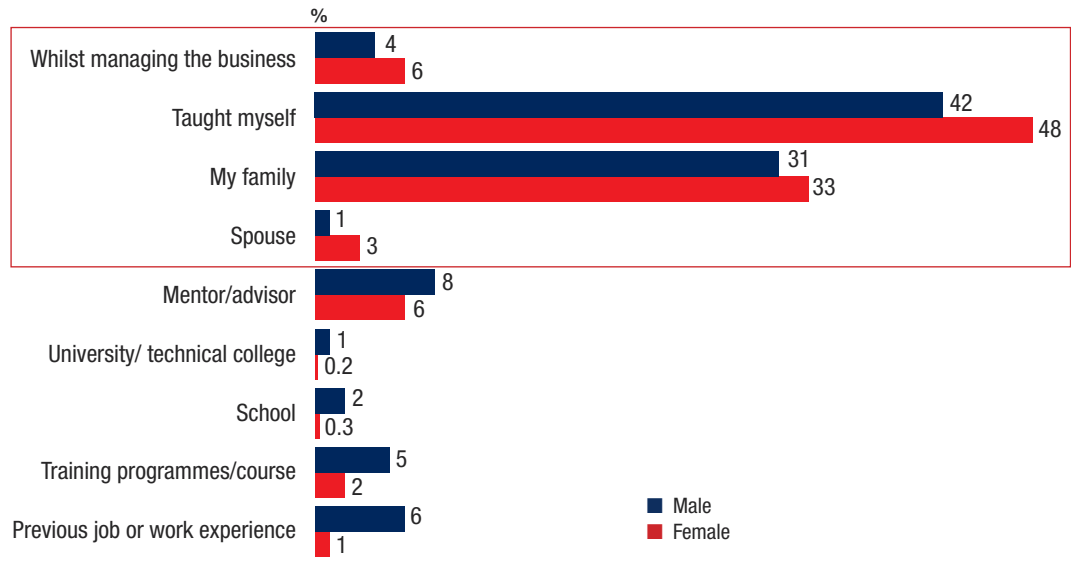
Figure 16: Education levels



Although both male and female entrepreneurs mainly acquire the necessary business skills informally (i.e. self-taught and family), men compared to their female counterparts, have a greater chance to acquire skills through formal methods such as educational institutions (schools etc.) and other mechanisms (training programme, mentor, previous work experience).

These figures indicate that there is a great need to improve access to formal training programmes, particularly for women.

Figure 17: Skills training



5 Profile of business owners

This section describes women-owned MSMEs in Malawi as well as the motivations, behaviour, and attitudes related to business ownership.

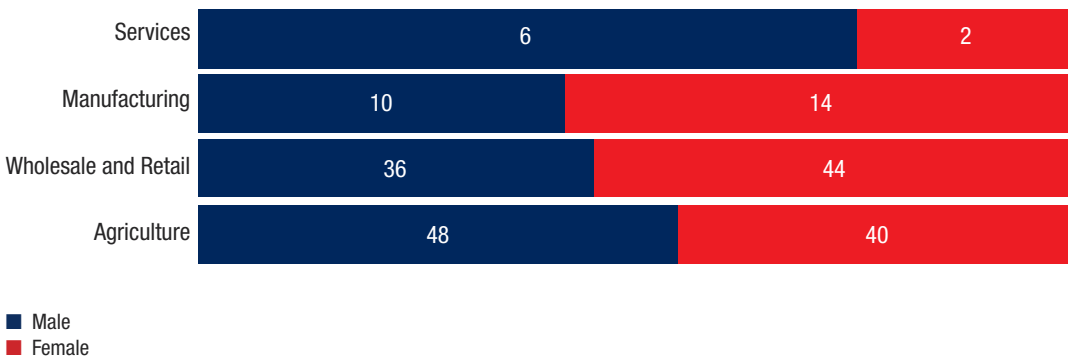
5.1 Type and nature of business

Women are much more likely to be individual entrepreneurs compared to their male counterparts. Men, in turn are more likely to own larger businesses, i.e. employ more people.

Figure 18: Size of the business by number of employees



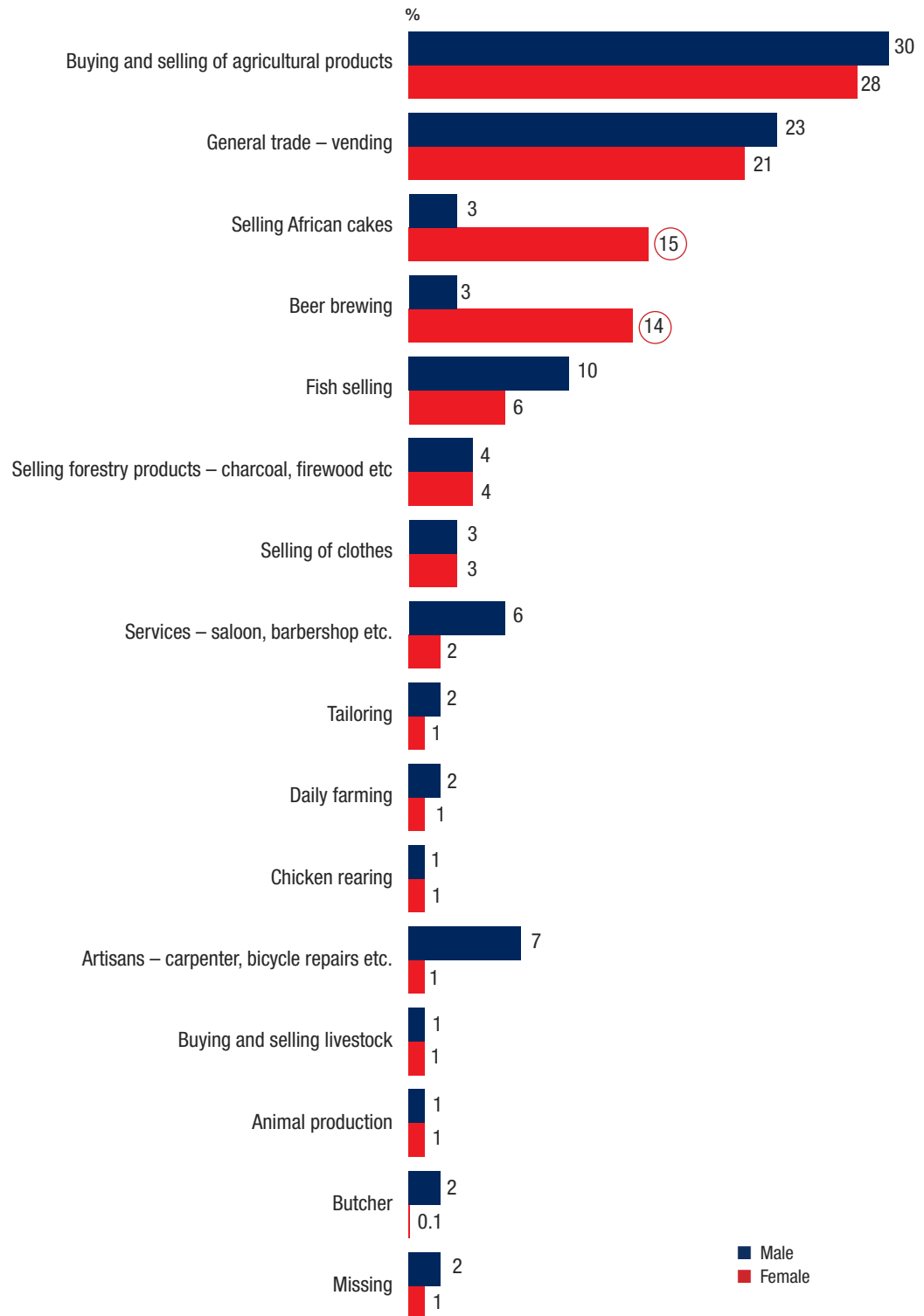
Figure 19: Type of MSMEs sector



Women are likely to engage in vending and light manufacturing (e.g. brewing beer and baking African cakes) than men are involved in those activities.

A strong gender defined influence is noticeable when looking at the types of products that are being sold, such as food and beer; e.g. 15% of women-owned businesses sell cake, and 14% sell beer. There might be an opportunity to scale-up production and hence grow the business. It must be noted that buying and selling of agricultural products, however, is essentially seasonal (see Risks). Only 9% of women-owned businesses provide services.

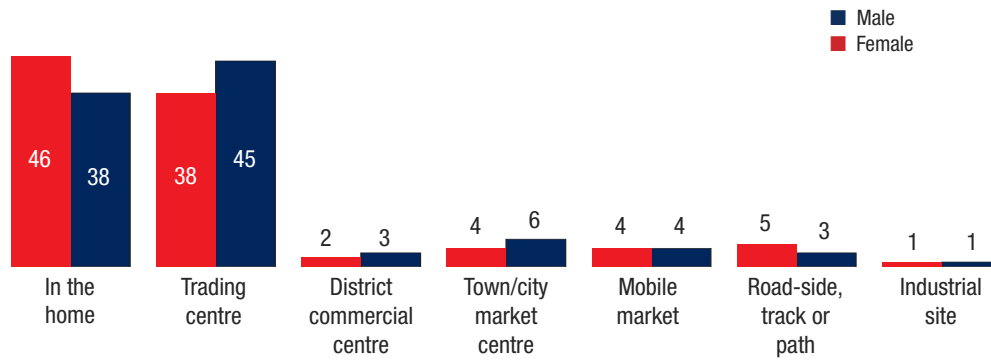
Figure 20: Nature of the business



5.2 Location

More women than men operate their business from home. The high percentage of women-owned home-run businesses might also be related to family responsibilities within the home. Pressure to run a home, look after children and care for the husband and family might limit women entrepreneurs.

Figure 21: Operating location



5.3 Financials

Given the fact that women-owned businesses are very small, it is not surprising that they generate less profit compared to their male counterparts.

Table 2: Financials of MSMEs*

	Female	Male
Revenue	113 256 025 294	212 052 016 335
Expense of the business	27 613 855 486	40 802 209 980
Cost of sale	88 855 724 955	168 837 623 690
Income after expenses	33 531 648 025	63 977 406 832

Source: Ministry of Industry, Trade and Private Sector Development

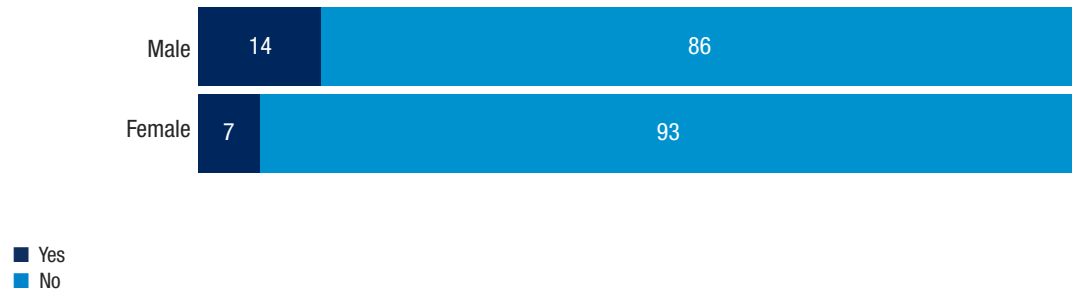
Note: Income and expenditure was collected based on recall and hence there could be inconsistencies reflected in the financial records.

* MKW/US\$ exchange rate in January 2012 (start of fieldwork) equates to 163.55

5.4 Registration and compliance

Female entrepreneurs are less likely to register/license their business than their male counterparts. In this regard, it needs to be considered that women-owned businesses are in general much smaller (i.e. no employees) and are often home-run.

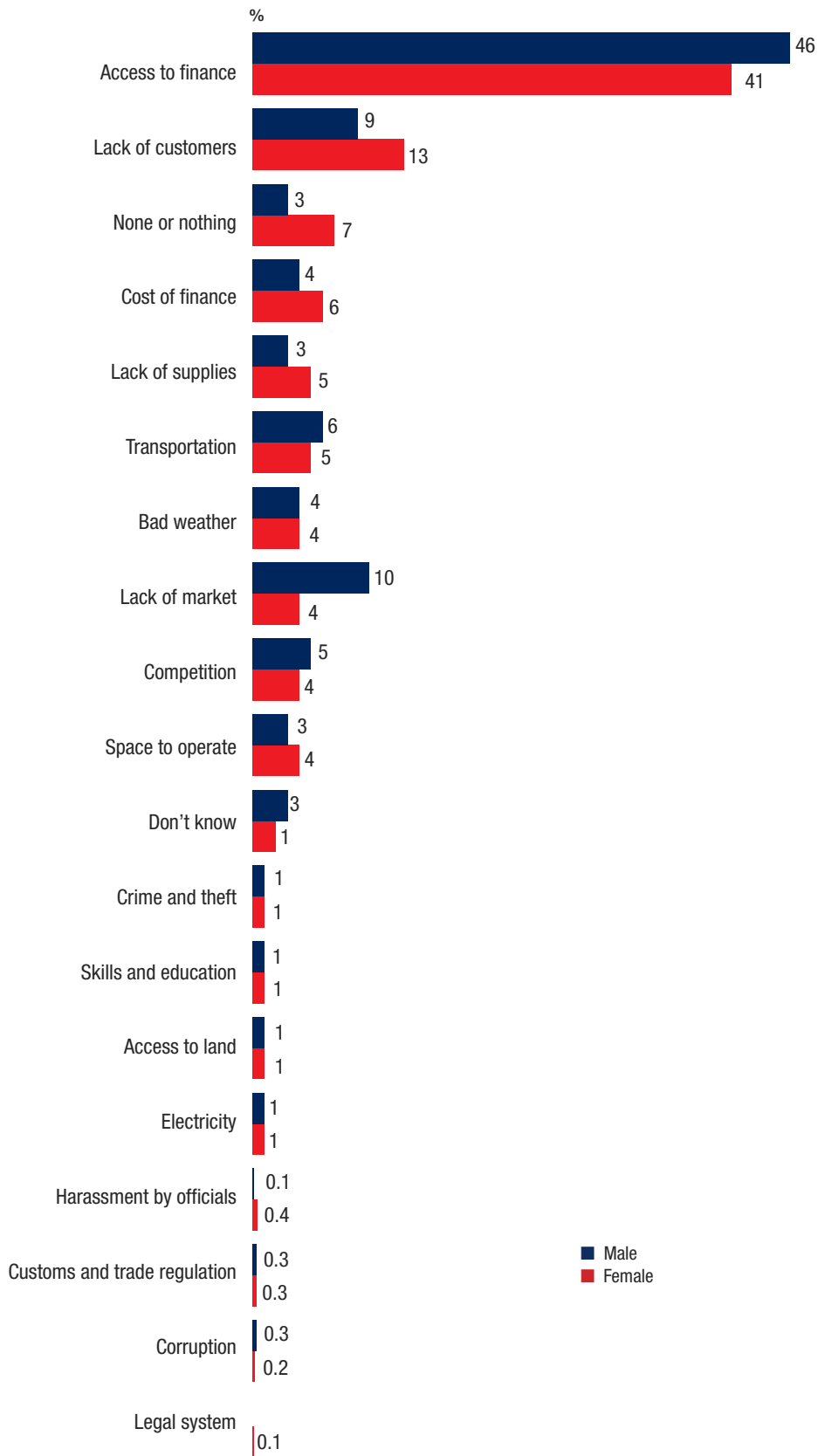
Figure 22: Is your business registered/licensed?



5.5 Constraints

Both, male and female entrepreneurs find it challenging to access finance, although men seem to struggle with this more than women. This might be accounted for by the fact that women have access to informal mechanisms (see Financial Inclusion section). Women, in turn, find it more difficult than men to access customers – which might be related to the high percentage of home-run businesses. Operations of men-owned businesses seem to be much more affected by bad weather, which again might be related to the place of operation.

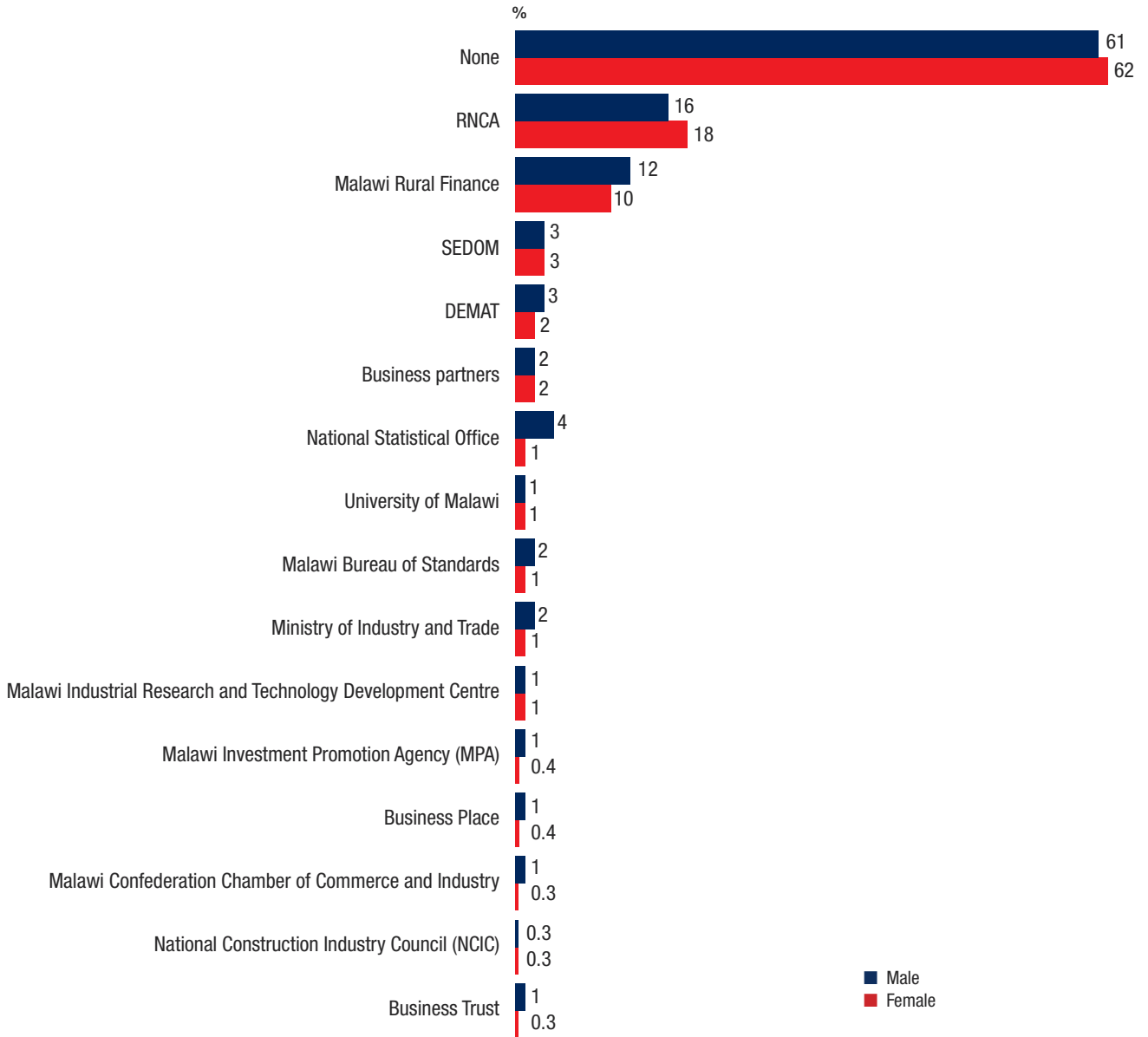
Figure 23: Key challenges in terms of growing the business



5.6 Business support

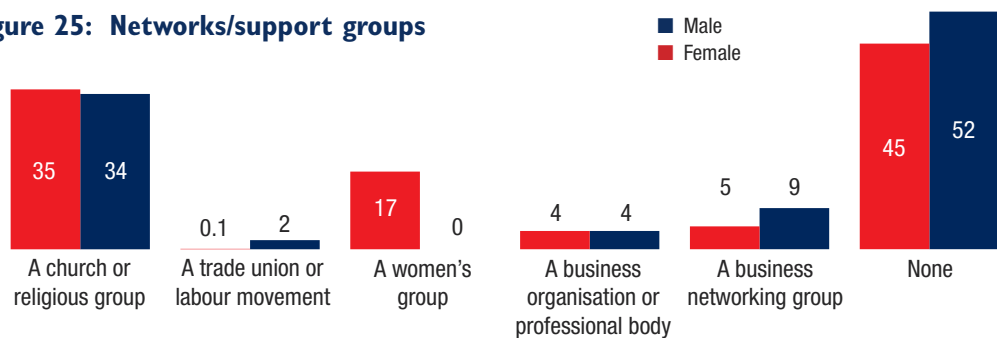
Female and male entrepreneurs do not seem to access very different business support organisations. Women are slightly more likely to use FINCA, while more men than women use Malawi Rural Finance.

Figure 24: Awareness of support



Women are more likely to engage the support of informal networks/groups, particularly women's and church/religious groups – which are most likely to provide emotional support. While more men than women access professional support such as a business networking groups, the majority of both men and women have no support systems.

Figure 25: Networks/support groups

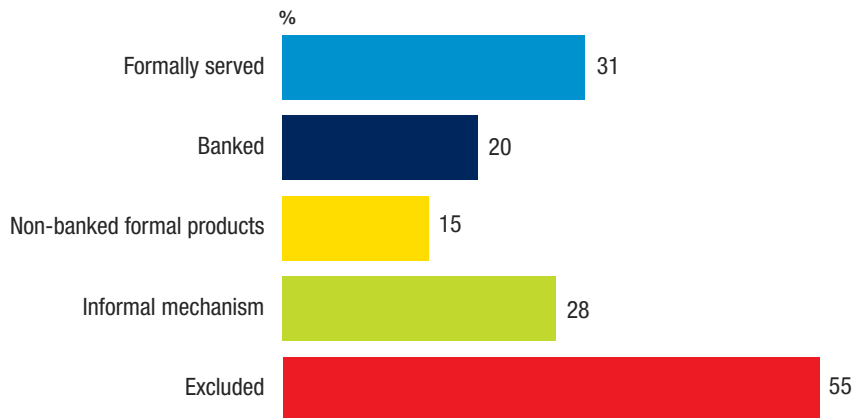


6 Financial inclusion

6.1 Financial inclusion – overview

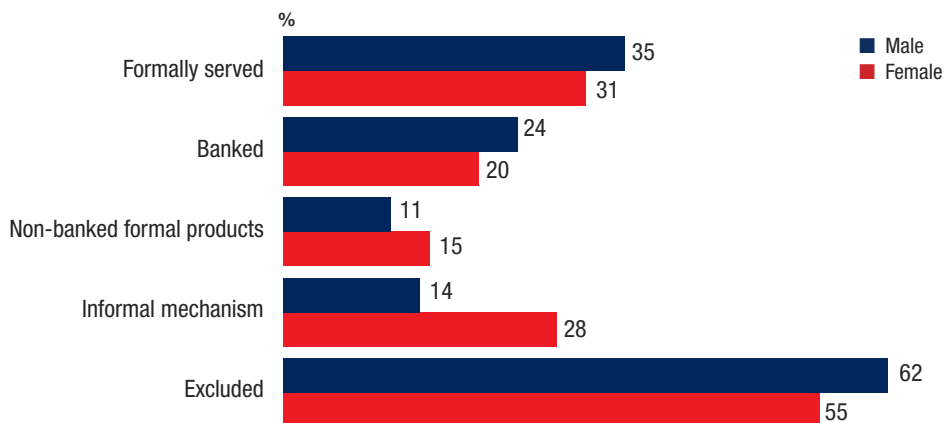
Women have little opportunity for capital accumulation seeing as more than half (55%) of female entrepreneurs are financially excluded, i.e. do not use any financial products/services to manage their business finances. If they save, they keep their money at home, and if they borrow they rely on family and friends. The use of informal mechanisms (28%), appear high, bringing down the levels of financial inclusion. A total of 31% of women are formally served, including those who are banked and those who use products/ services offered by other formal financial institutions.

Figure 26: Financial inclusion of female entrepreneurs – overview*



Male entrepreneurs are more likely than female entrepreneurs to be financially excluded (62% compared to 55% respectively). Informal mechanisms push out the boundaries of financial inclusion particularly for women – while men are more likely than women to be banked.

Figure 27: Financial inclusion – overview*

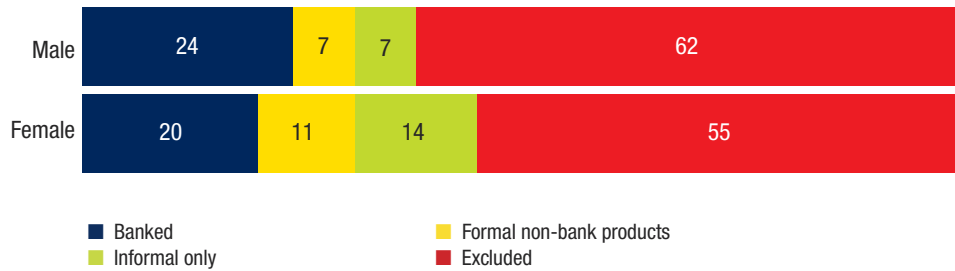


*Non-exclusive

6.2 Access Strand

Only 20% of female entrepreneurs are banked, while 11% use only other formal non-bank products and services. The use of informal services among female entrepreneurs is very high – 14% of women use only informal mechanisms to manage their business finances.

Figure 28: Access Strand



As mentioned above, more men than women are banked, but they are also more likely to be financially excluded. Women are more likely to use informal mechanisms. 14% of female entrepreneurs use only informal mechanisms, compared to 7% of men.

6.3 Banking

The majority of female entrepreneurs (76%) have never been banked, while 4% of women have left the banking system, i.e. they were previously banked. The large majority (83%) do not use/have a bank account for business purposes. Those who use a bank account mainly use their personal account for business banking (13%). Only 3% of women have a business bank account.

Figure 29: Banking figures

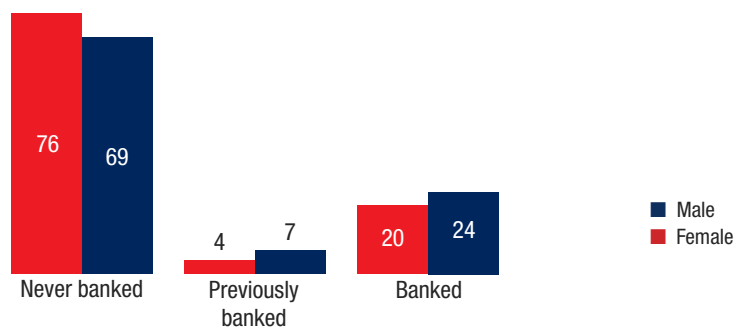
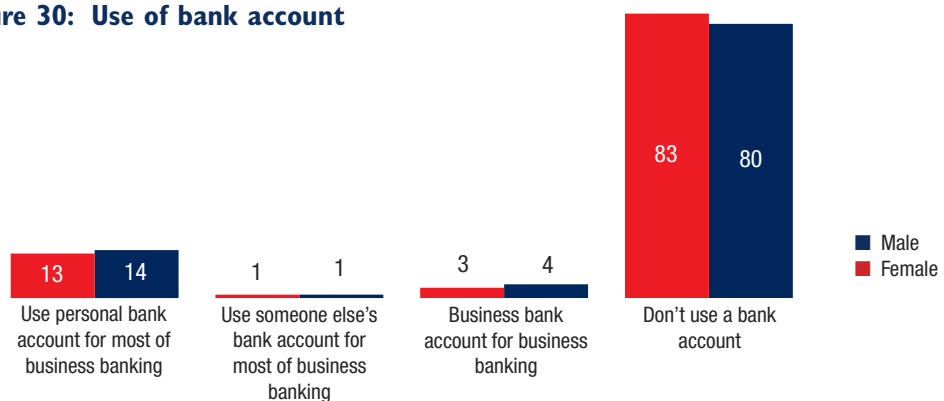


Figure 30: Use of bank account



Men are more likely to be banked. However, there are no major differences between men and women in the usage of accounts for business purposes.

6.4 Savings and investments

The majority of female entrepreneurs (77%) save. However, women mainly save at home or through informal mechanisms. 18% of women only save through informal mechanisms such as ROSCA and saving clubs for business purposes. Only 21% of female entrepreneurs use formal products and services (14% save through the bank, while 7% only use non-bank products for savings purposes).

Of those women who save for business purposes, the majority of female entrepreneurs (73%) save or keep money at home. This could be due to ease of access and convenience. About two in five women (38%) save through informal mechanisms.

Figure 31: Savings Strand

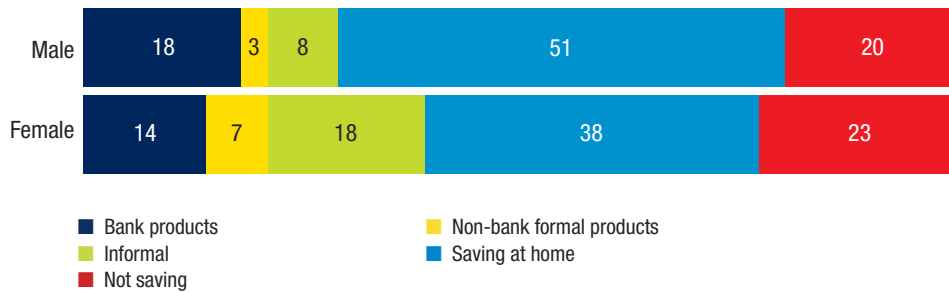
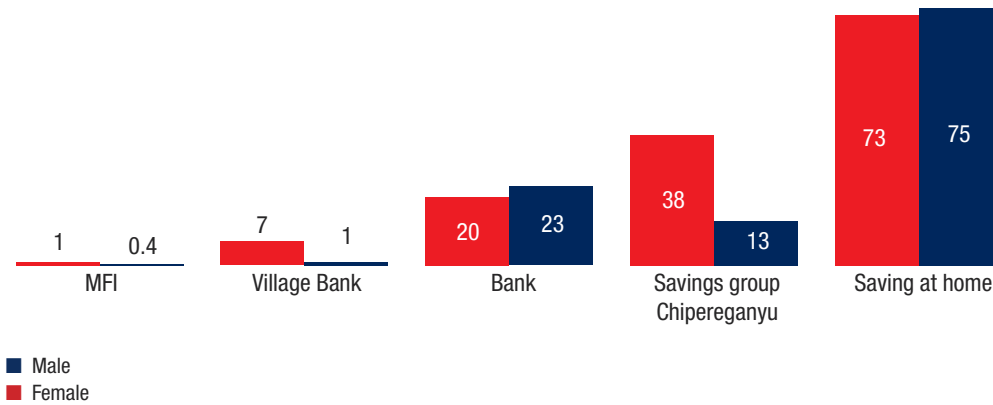


Figure 32: Savings mechanisms**



More men than women save money for business purposes – which might be related to the type of business. Overall, men-owned businesses are larger and generate more profit which might improve the chances of surplus money that can be put aside. Men are more likely than women to only save at home, and to save through the bank, while women are more likely than men to use informal mechanisms such as savings groups and village banks, for savings purposes.

** Respondents were able to give more than one source of savings

6.5 Borrowing and credit

Only 26% of women reported that they have borrowed money for business purposes in the past 12 months. This figure might underestimate the actual number of female entrepreneurs who borrow, given the reluctance of individuals to say that they borrow. The percentage denoted should therefore be viewed with caution.

Female entrepreneurs are more likely to borrow money than their male counterparts. While borrowing from family and friends applies significantly to all entrepreneurs (for men slightly more than women), women are more likely than men to borrow from the village banks/cooperatives and MFI/micro-lenders.

Figure 33: Credit Strand

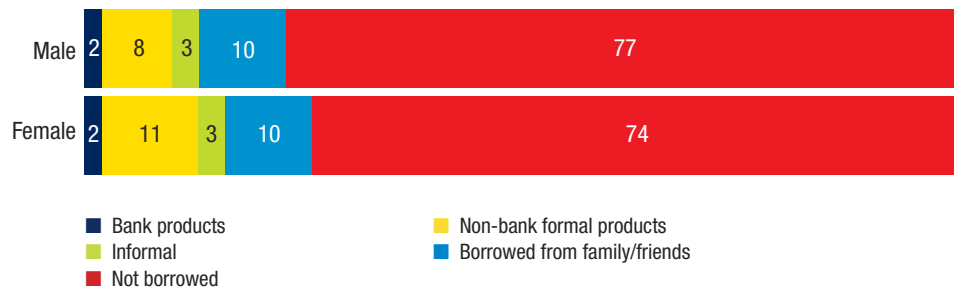
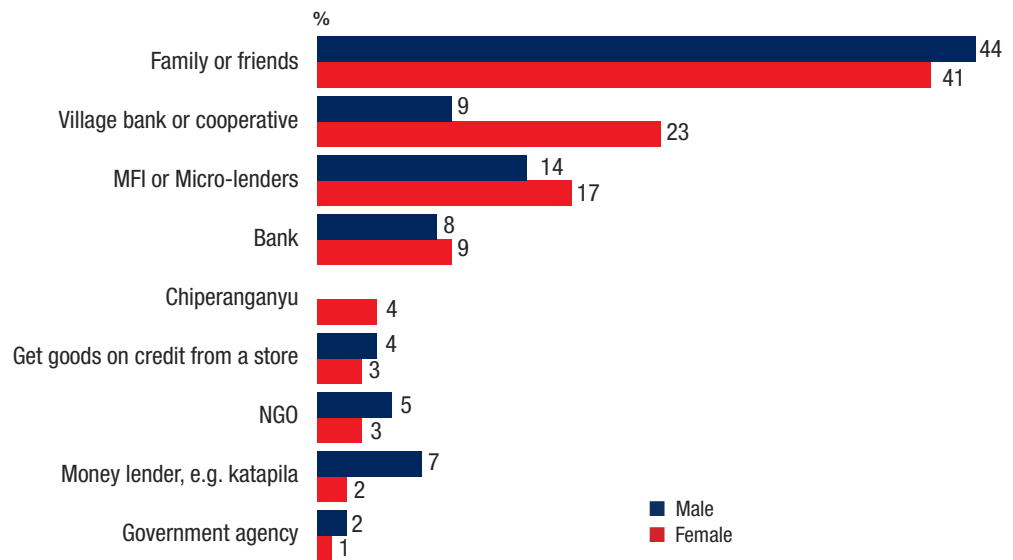


Figure 34: Borrowing mechanisms

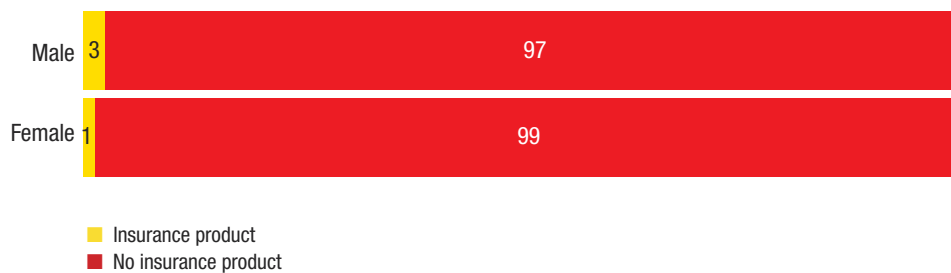


Nearly 41% of women who borrow money, do so from friends or family. This type of borrowing is not included in the formal or informal access categories, and if this were the only form of borrowing, these individuals would be classified as financially excluded (according to the FinScope definitions which regard friends and family as safety nets rather than service providers). Importantly, 40% of women who borrow do so from group cooperatives and micro-lenders (23% and 17% respectively), with another 9% borrowing from banks. It is likely though that banks would account for a higher proportion of money lent.

6.6 Risk and insurance

There are high risks inherent in producing agricultural products such as fruit, vegetables, grain, and livestock. The seasonal and environmentally sensitive nature of agricultural production makes it vulnerable to many risks e.g. unfavourable weather; insects/pests and disease. Despite this however; the huge majority of women in Malawi are without agricultural insurance. In total less than 2% of female entrepreneurs have insurance with the most common insurance products being motor; travel, life and personal insurance. Interestingly, there is a high degree of overlap - individuals that have insurance are likely to have more than one type of insurance.

Figure 35: Risk and insurance strand

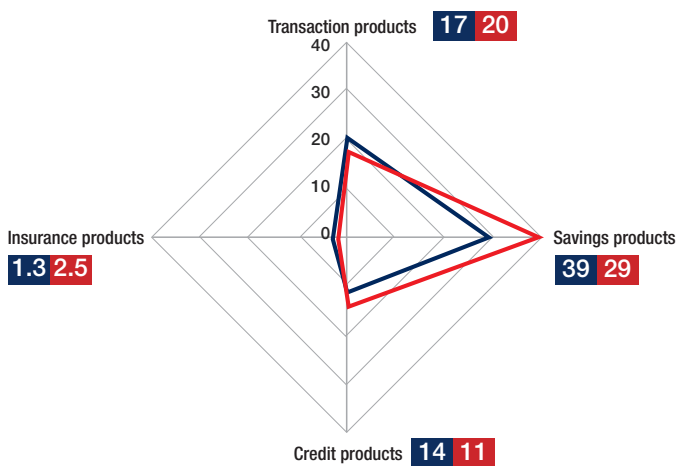


There is no major gender difference in the use of insurance.

6.7 Landscape of Access

There are high risks inherent in producing agricultural products such as fruit, vegetables, grain, and livestock. The Landscape of Access is largely driven by savings products. 39% of female entrepreneurs who have/use financial products/services have a savings product.

Figure 36: Landscape of Access



7 Conclusion

This study reveals that there are many women owning small businesses (349 094) in Malawi. In doing so, these women are contributing to the incomes (52% of small business women relied on these businesses as their only source of personal income) and well-being of themselves, their households and their communities. It is noted that, the majority of the women owning businesses are individual entrepreneurs.

The FinScope MSME Malawi 2012 survey has shown that women in business have low levels of education, which potentially affects their ability to start, operate, and grow their business. Female entrepreneurs have limited business and managerial experience prior to start-up. This observation is derived from the fact that 81% have taught themselves or relied on their families to learn business skills. This lack of experience (only 6% learnt skills while managing businesses and 1% from previous jobs) and low levels of education limit the abilities of women in business and their ability to access other assets. Due to these constraints, women are thus being effectively under-utilised as a resource in the MSME sector.

Women tend to be found trading (retailers) in businesses that are often described or labelled as “feminized” types of businesses. The markets in these areas of business are often more likely to be saturated and/or have low margins of return. Trading and retailing accounted for 91% of all businesses owned by women in the small business sector. The survey shows that women are more inclined to trading in agricultural products rather than in the growing and selling of agricultural produce, the latter being the model promoted by the Malawian government.

The fact that women lack networks outside of their family and close community might also be closely related to the lack of formal employment opportunities and business experience; together with constraints placed on their mobility and ability to interact with other business people (only 9% of women owning small businesses belonged to a business network group (5%) and business or professional group (4%)).

Clearly in some circumstances there are structural constraints and barriers to women obtaining money to start and grow their own business. 55% of the women in the small business sector had difficulties with sourcing money when starting their business, while 41% still view ‘access to finance’ as the single biggest barrier in growing their small businesses. Women in small business have less experience in using banks and other non-formal financial services, with almost a third using informal mechanisms to manage their business finances.

The relative lack of understanding of and exposure to banking practice may also add to the difficulties of accessing mainstream finance, with some women unable to formulate informed strategies for approaching banks. 31% of the women in small business think ‘it is difficult to open a bank account’ and 58% feel that they could ‘manage without a bank account’.

There is a great need to design targeted training interventions and improve access to business support structures for female entrepreneurs, given their low levels of education and skills training as well as their limited awareness of existing business support institutions and services. These interventions need to take the limited mobility and household and caring responsibilities of women into account.

FinScope MSME Survey Malawi 2012 EDUCATION



FINSSCOPE



Making financial markets work for the poor

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I Introduction and background

This study explores and assesses the relationship between levels of education and entrepreneurial activity and performance. It seeks to provide insight into the impact and influence of education and training on small business practice. In doing so, it looks at how the levels of education of small business owners relates to business size, performance, profits/outputs, owners' perceptions, etc. and their use of financial services and products. The analysis is based on the data made available by the FinScope MSME Survey Malawi 2012.

FinScope is a nationally representative survey, developed by FinMark Trust, focusing on small businesses and their financial services needs. As such, it aims to build a systematic body of evidence describing the size and scope of the sector, the levels and landscape of access to financial products and services, identifying the most binding constraints to growth, and proposing recommendations regarding financial assistance, policies, and interventions.

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

A total of 1997 face-to-face interviews were conducted with MSME owners (18 years and older, employing less than 100 people, including individual entrepreneurs) during January to March 2012.

The study was funded by a number of donors including, FinMark Trust, the World Bank, the United Nations Development Programme (UNDP), UKaid (DFID), the European Union (EU), and implemented by the National Statistics Office.

It must be noted at the outset, that while the survey was not designed with a specific education focus in mind this study draws on the data made available by the survey to relate to education in terms of its impact within the context of MSMEs in Malawi. As such, the sub-sample sizes are very few, especially for those with tertiary/post-school education i.e. those with university qualifications; work-related training; and other post-school education, and it is limited to the MSME sector.



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2 Education in Malawi

There are three levels of education in Malawi: primary, secondary and tertiary. Primary education is an eight year cycle from standard one to eight. Although primary education is compulsory in Malawi, only 46% actually complete primary school (UNESCO¹). This is mainly due to poor retention and high repetition rates within the primary cycle. Secondary education is a four year cycle from Form one to four. While enrolment rates have improved since 2002, it remains low. Tertiary education is post-school enrolment, which includes university, technical and vocational, as well as teacher education. The number of years for this level varies depending on the course being pursued and ranges from one year to five years. Tertiary education enrolment is among the lowest in the world. Given that few students go on to secondary school level or university, most begin work immediately after leaving primary school.

According to figures produced by UNESCO the youth literacy rate (aged 15 to 24 years) is 86%, and the adult literacy rate (15+ years) is 73.7%. The average years of schooling for adults (i.e. the years of formal schooling received by adults over the age of 15), is only 3.2 years in Malawi according to the World Bank².

Malawi's education system faces huge challenges, such as poor retention and high repetition and drop-out rates. The lack of qualified teachers is particularly severe at primary school level with only one teacher per 80 pupils on average. These challenges have negative impacts on educational outcomes and costs. Malawi's scores on student learning tests are among the lowest in the SACMEQ countries³.

3 Education and entrepreneurial activity

Previous research suggests important links between education and entrepreneurial activity. Weaver et al (2006)⁴ reviewed research related to what is known and not known about the links between general education and selection into entrepreneurship, and entrepreneurial performance. The research showed a significant and positive relationship between education and entrepreneurial performance. The link between education and selection into entrepreneurship, however, is more ambiguous. While Moutray (2007)⁵, for example, found that individuals with more schooling are more likely to start their own business, Weaver et al (2006) distinguishes between "necessity entrepreneurship" and "opportunity entrepreneurship".

¹ Source: <http://www.unesco.org/new/fileadmin/MULTIMEDIA/FIELD/Dakar/pdf/EFA%20country%20profile%20%202012%20-%20Malawi.pdf>

² Source: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/MALAWIEXTN/0,,menuPK:355878~pagePK:141159~piPK:141110~theSitePK:355870,00.html>

³ <http://www.sacmeq.org/education-malawi.htm>

⁴ Weaver, M., Dickson, P., and Solomon, G. 2006. "Entrepreneurship and Education: What is Known and Not Known about the Links between Education and Entrepreneurial Activity" Chapter 5. In: *The Small Business Economy: A Report to the President, 2006 Edition*. Tobias, K. (ed.). U.S. SBA Office of Advocacy. Available [online] at URL: http://www.sba.gov/advo/research/sb_econ2006.pdf

⁵ Moutray, C. 2007. *Educational Attainment and Other Characteristics of the Self-Employed: An Examination using Data from the Panel Study of Income Dynamics*. U.S. SBA Office of Advocacy. Available [online] at URL: <http://www.sba.gov/advo/research/rs313tot.pdf>

4 Educational profile of business owners

4.1 Education level and skills training

The majority of small business owners have low levels of education (68% primary education, 19% secondary education, 11% no formal education). Most business owners acquired the necessary business skills informally. Only 3% attended a training programme and 1.3% received their training from a formal educational institution such as school or technical college. Constituting the majority are those that are self-taught (39%) and those taught by family members (28%).

Figure 1: Skills training

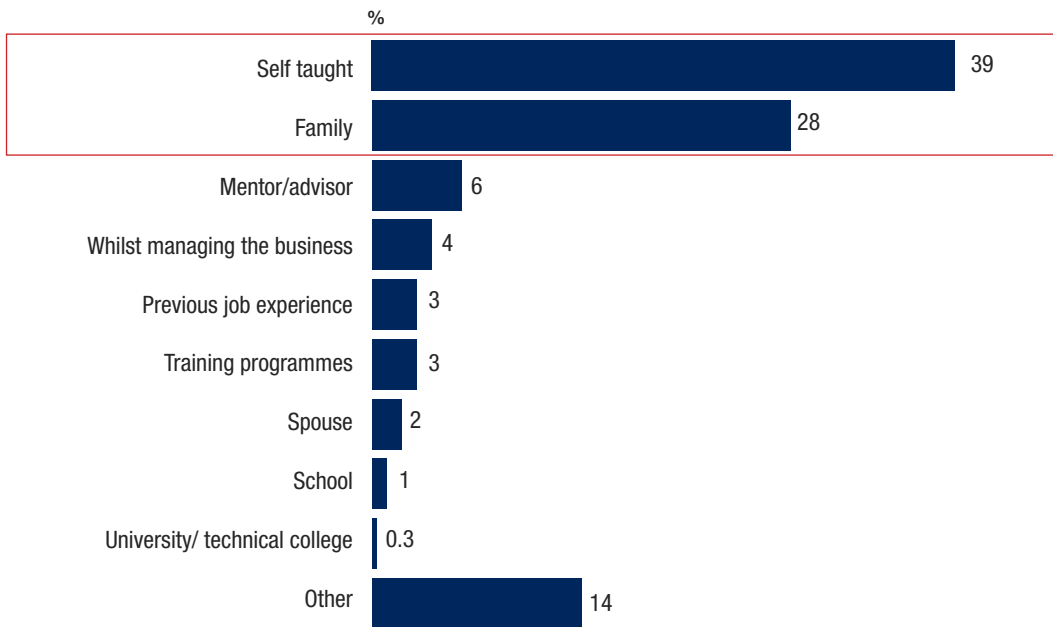
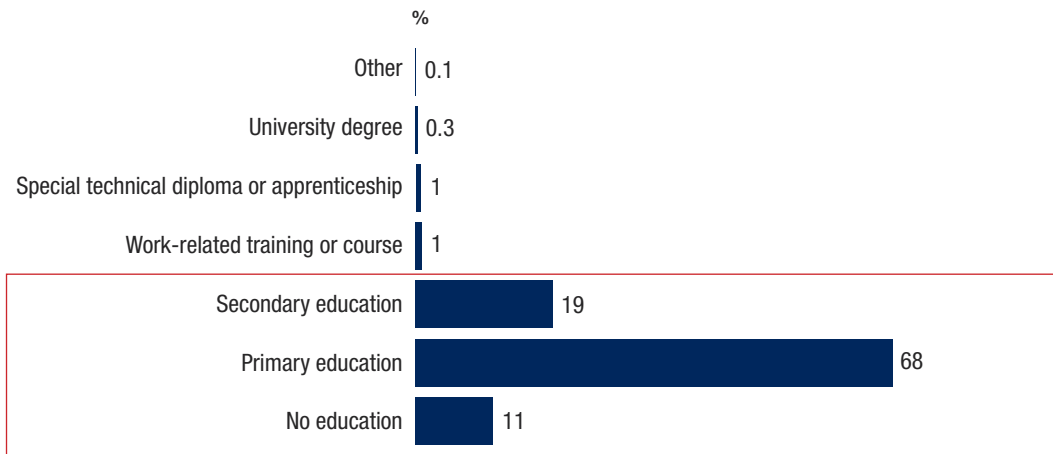


Figure 2: Education levels



The following factors relating to entrepreneurial activities, behaviour, and performance are taken into account when assessing the relationship between levels of education and entrepreneurship in Malawi:

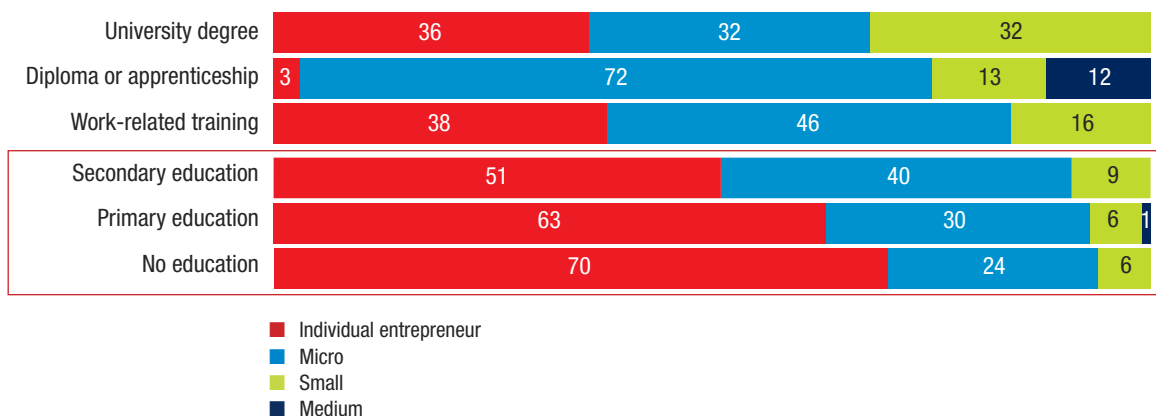
- Type of business/size of the business (i.e. the number of employees)
- Profitability of the business
- Entrepreneurial orientation (i.e. seeing the opportunity)
- Perceptions regarding the business' success
- Record keeping
- Financial inclusion

4.2 Type and size of business

The level of education relates positively to the size of the business/entrepreneurial performance, i.e. number of employees and profitability. That is to say the higher the education level of the owner⁶, the more likely it is that the business employs more people and generates more profits.

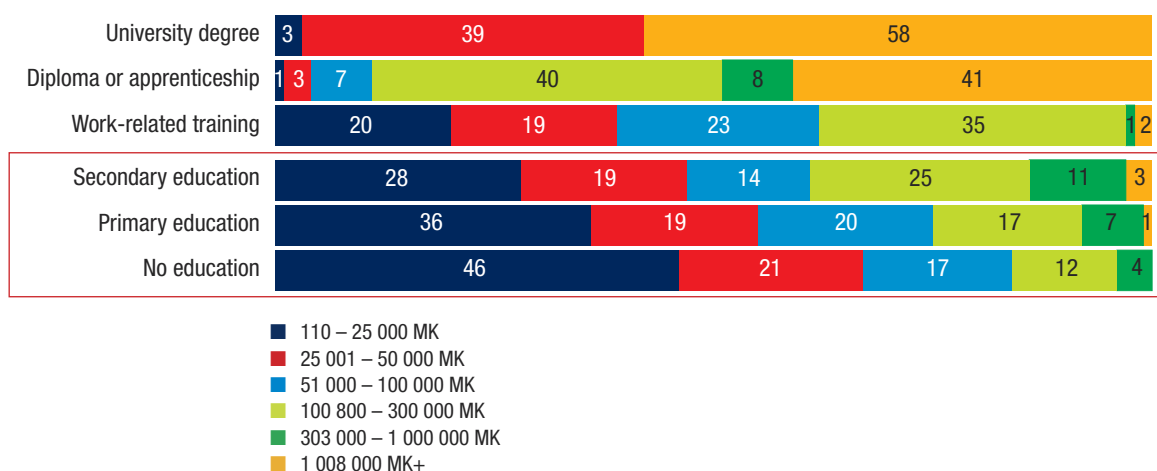
While 70% of individual entrepreneurs have no education, 24% of micro, and only 6% of small business owners have no education. Accordingly, businesses owned by people with higher education levels appear to generate more income.

Figure 3: Education levels of business owners by business type



There is a relationship between education and net profit potential. Small business owners with a higher level of education made more net profit than those with a low level of education (university degree recorded 58%, while the diploma or apprenticeship recorded 41% for net profit of more than one million MK a month).

Figure 4: Education levels of business owners by net profit



⁶ Please note: only those without education; with primary and secondary education are considered here as the sub-sample sizes for MSME owners with work-related training diploma, and university degree are, too small for stable analysis.

4.3 Starting and managing the business

People with higher levels of education seem to be better equipped to manage and run their business. They are more likely to keep financial records and to have a more positive outlook on their business' success.

Only 14% of business owners without formal education keep financial records, while 31% of business owners with primary and 54% of business owners with secondary education keep financial records, such as revenue, income, customers, and stock.

Figure 5: Financial record keeping

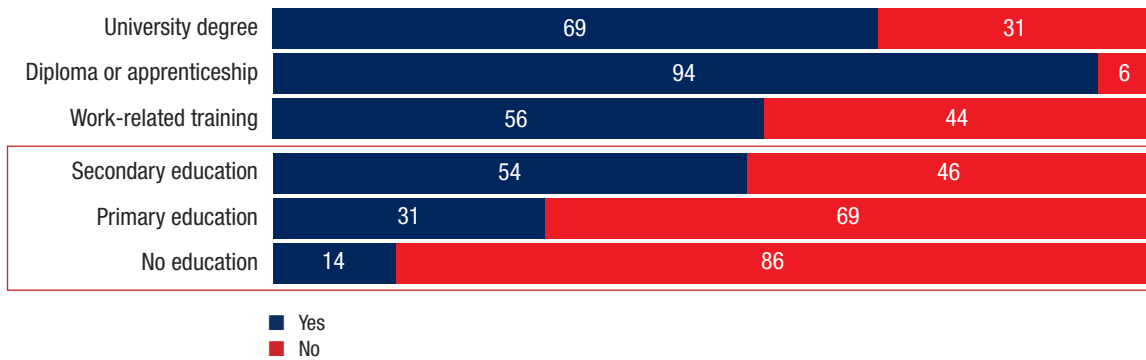
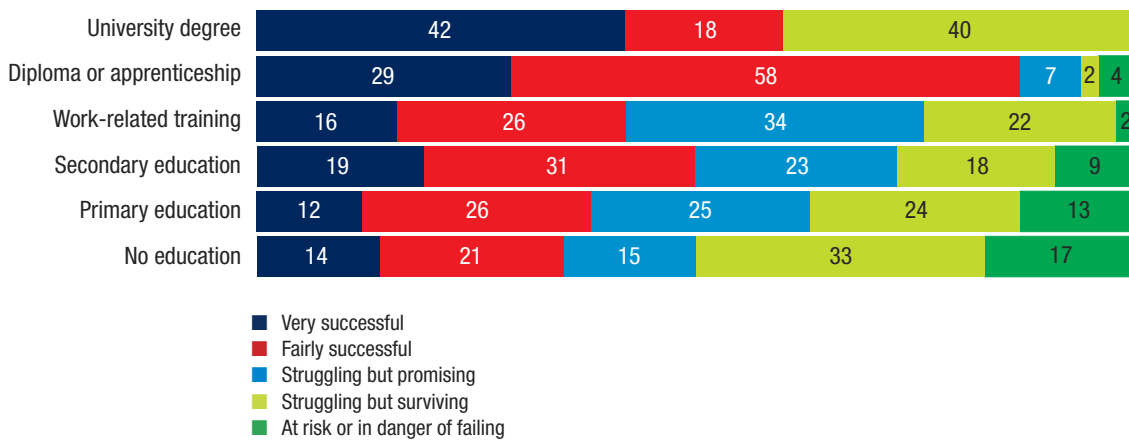


Figure 6: Perceptions regarding business success

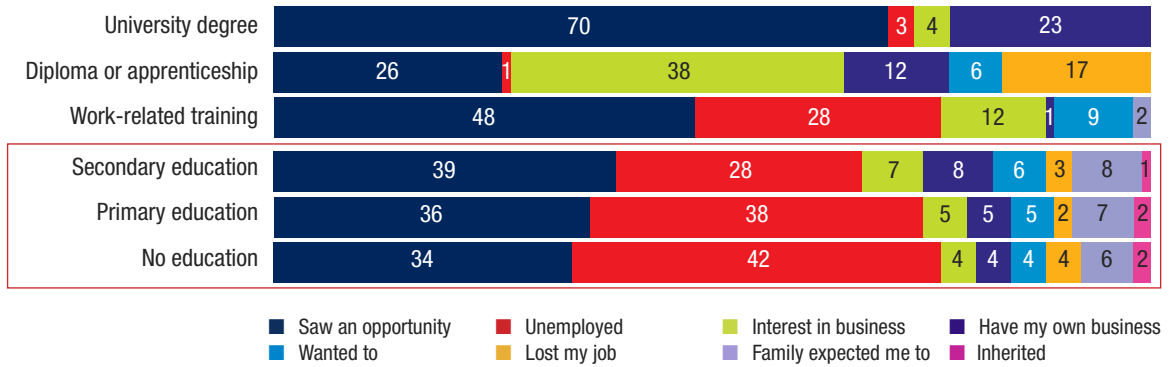


Business owners with lower levels of education seem to be less successful with their business, as 17% of those with no education indicated that their business is at risk of failing, compared to 13% with primary education, and 9% with secondary education. 35% of business owners without education said their business is successful, compared to 38% with primary education, and 50% with secondary education.

In addition, there appears to be a relationship between the level of education and entrepreneurial orientation, i.e. seeing the opportunity ('opportunity entrepreneurship'). Those with higher levels of education are also less likely to start a business due to unemployment ('necessity entrepreneurship').

One must take into account however, that only business owners are included in this analysis. The relationship between education levels and selection into entrepreneurship/entrepreneurial intentions (i.e. are those with higher levels of education more likely to become entrepreneurs?) could not be explored further.

Figure 7: Reasons for starting the business

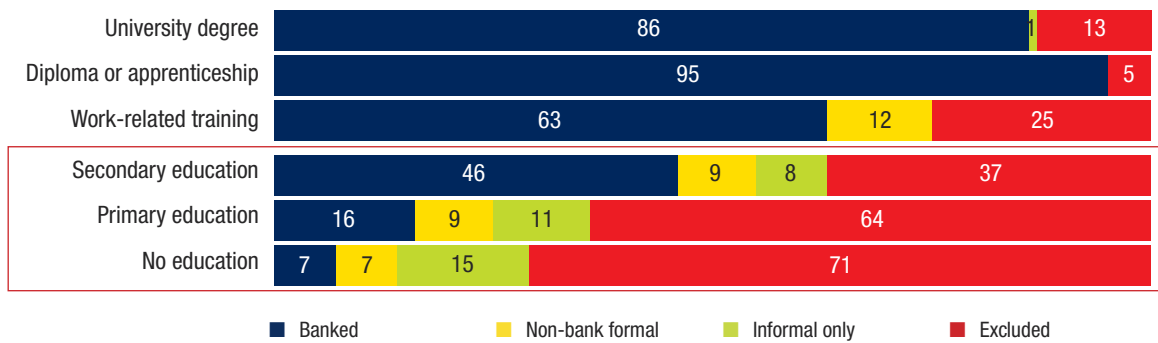


5 Financial inclusion

5.1 Access Strand

Those with higher levels of education appear more likely to use formal financial products and services to manage their business finance. Among those without formal education only 7% are banked, compared to 16% of business owners with primary education and 46% of those with secondary education.

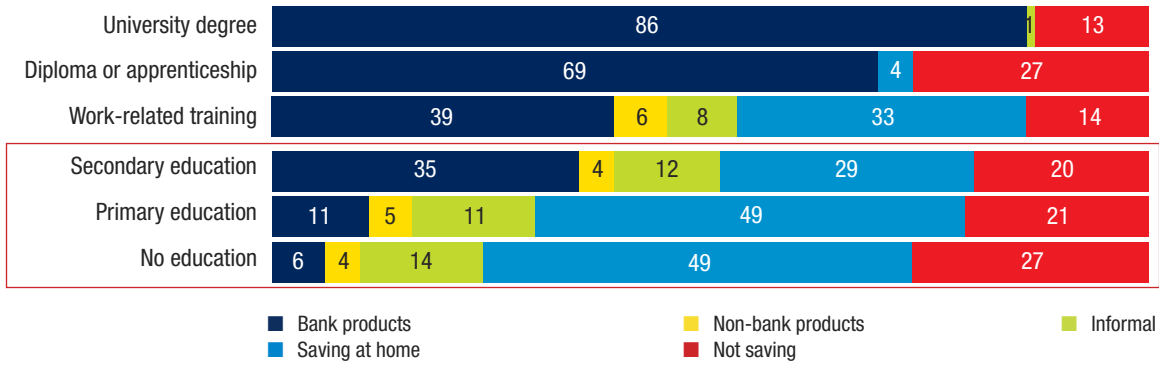
Figure 8: Access Strand by education level



5.2 Savings and investment

Those with higher levels of education seem more likely to use banking products for savings purposes and are, in general, more likely to save for business purposes.

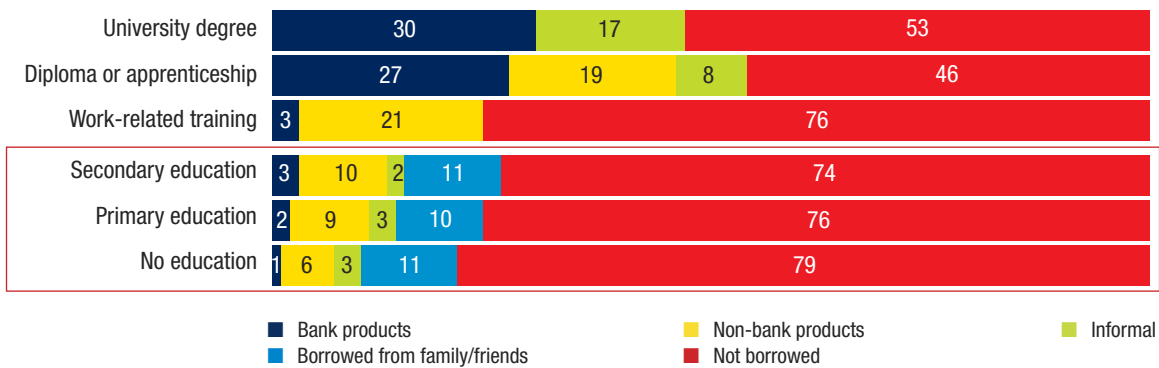
Figure 9: Savings Strand by education level



5.3 Borrowing and credit

Those with higher levels of education are more likely to use credit from a commercial bank. However, credit usage from a formal institution is low. Considering that income is generally low and irregular it might be difficult for MSME owners to access credit – and this should therefore be seen independently of their education levels.

Figure 10: Credit Strand by education level



6 Conclusion

This paper set out to explore the relationship between education and entrepreneurial activity and performance in the MSME sector of Malawi and to what extent education or the lack thereof impacted on and influenced entrepreneurial attitudes, behaviour, activities, performance and the use of financial services and products.

An important finding from this research is that the majority of small business owners have low levels of education. Only 8 678 of the business owners have post-secondary education. A further 6 755 small business owners reported to have a work-related training or course; this is defined as any training course or other activity which is designed to impact, instil, improve or reinforce any knowledge, skills or personal development. Further, the Malawi FinScope Consumer Study conducted in 2008 indicated that there are only 135 243 of adults (18 years and older) who had achieved a university degree or further higher education. This does not auger well for the development of the local small business sector; and are likely to have undesirable consequences for the enterprise performance and the business community.

Levels of education of small business owners – primary, secondary and tertiary, were used and cross referenced with the following variables: type/size of a business; net profit of the business; financial record-keeping, perceptions regarding business success; entrepreneurial opportunity; and usage of financial services and products. The results demonstrated that levels of education impacted on and influenced business performance and outcomes, affirming that low levels of education disadvantage business owners, while higher levels of education and training equips them better in business.

The findings reveal that business owners with higher levels of education own businesses that are larger, employ more people and generate more profit than those with lower levels of education. Furthermore the study also found that they were better equipped to manage their own business and tended to have a positive outlook as to the success of their business. They were found to use the products and services of financial institutions to manage, and invest in their business and utilise savings and credit facilities.

On the other hand, those business owners with lower levels or no education tend to be financially 'excluded'. There are several reasons for this arising essentially from the lack of education; inexperience in negotiating with banks and lack of financial confidence to argue for what they are entitled to. Lack of understanding and knowledge of banking practice and products and services on offer may also add to the difficulties of accessing mainstream finance.

The above results and findings show a strong relationship between education and entrepreneurial activity and performance within the MSME sector in Malawi. It demonstrates that education and training play an essential role in determining the potential for success in business, and financial inclusion. Moreover it highlights that the lack of or low levels of education, is an obstacle and key constraint to growth and development within the MSME sector and recommends intervention that will improve and promote education and training in the country and within the sector. Such programmes should focus on building capacity and training and include business management skills; financial knowledge, among other things.



FinScope MSME Survey Malawi 2012 Rural Development



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I Introduction and background

This paper explores rural development within the context of entrepreneurial or MSMEs activities in the process of improving the quality of life and economic wellbeing of people living in relatively isolated and sparsely populated areas. The analysis is based on the data made available by the FinScope MSME Survey Malawi 2012.

FinScope is a nationally representative survey, developed by FinMark Trust, focusing on small businesses and their financial service's needs. As such, it aims to build a systematic body of evidence describing the size and scope of the sector; the levels and landscape of access to financial products and services, identifying the most binding constraints to growth, and proposing recommendations regarding financial assistance, policies, and interventions.

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

A total of 1997 face-to-face interviews were conducted with MSME owners (18 years and older, employing less than 100 people, including individual entrepreneurs) during January to March 2012.

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2 Rural development in Malawi

Malawi is one of the least urbanised countries with 85% of the population living in rural areas. All-inclusive, poverty generally has a rural face – the rural regions are often in extreme poverty and without adequate means to achieve food security for themselves and their families. According to the NSO Welfare Monitoring Survey, slightly less than 2 in 5 of the population lives below the national poverty line.

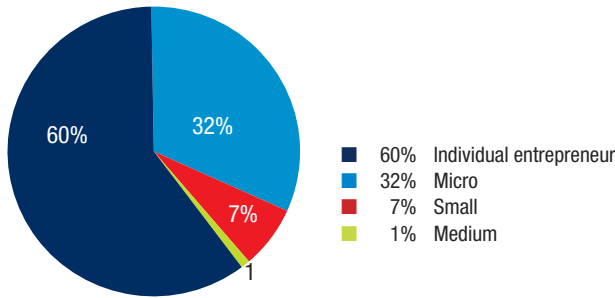
With such a high rural and poor population, the Malawian economy is inevitably dominated by agricultural activities. According to the FinScope Malawi 2008 survey, over 89% of the adult population have some involvement in farming, with 46% only involved in farming with no other means of income.

Therefore, in order to improve living conditions in the long term in Malawi, it is necessary to develop the rural MSMEs to secure access to land and water and put in place adequate infrastructure. This includes educational opportunities, as well as access to markets, which is essential for economic activity. Agricultural development contributes to better nutritional security and health in developing countries and to the sustainable management of natural resources. It also helps generate income and jobs, and is therefore a fundamental prerequisite for successful economic development.

3 Size and scope of the MSMEs sector in the rural regions

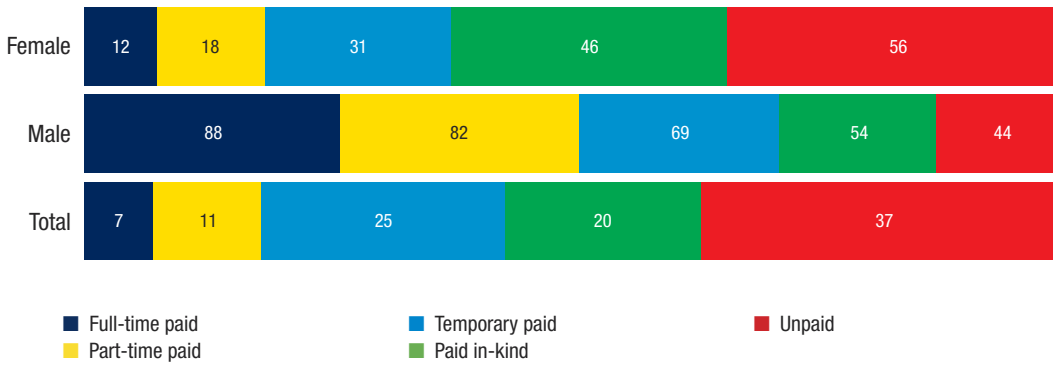
FinScope MSME 2012 estimates that there are 642 685 business owners in the rural areas, owning 800 000 businesses and employing 863 038 employees (82% of the employment generated by the MSMEs in the country).

Figure 1: Size of rural businesses



Comparable to the national trend, the rural MSME landscape illustrates that 60% of small businesses are run by individual entrepreneurs, while the remaining 40% of businesses generate employment (for a total of 863 038).

Figure 2: Employment status by sex in the rural regions

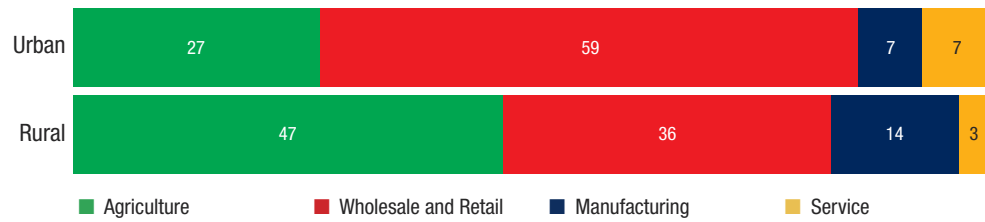


The majority of unpaid workers are employed by MSMEs in rural areas (88%) as opposed to MSMEs in urban areas, and about 4 in 7 of unpaid workers are female. This has huge implications for decent rural employment and rural work-force development. It is important to note that the rural work-force contributes to the production of food, and the amount of income that they generate from work determines the amount and quality of food that workers and their families can purchase.

4 Sector classification

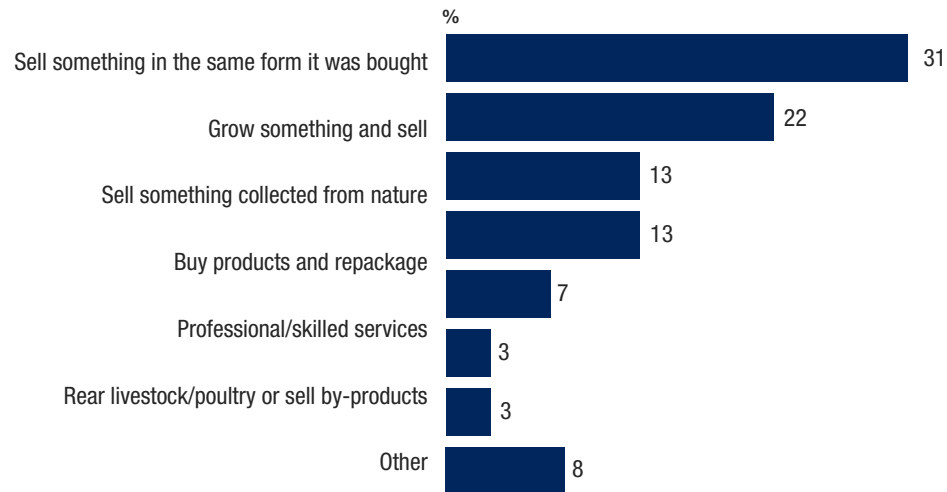
In the rural areas of Malawi, sector classification is driven by 0.3 million agriculture MSMEs (47%). Slightly below 1 in 2 agricultural MSMEs grow and sell their crops. This is not surprising as the poorest populations are dependent on land and water for their livelihood. It is therefore critical that these natural resources are maintained, that people are able to grow a variety of crops, so that they are not dependent on a single crop in case of crop failure or lack of market demand, and are able to access markets to sell their products.

Figure 3: Sector classification by sex



About 0.2 million (197 000) MSMEs in the rural areas of Malawi buy and sell products in the same form that they are bought. This is expected because trading requires low investment and it guarantees quick returns for those depending on small businesses for their livelihoods.

Figure 4: Specific business activities



5 Sector classification by financials

The turn-over of MSMEs from the rural areas of Malawi in 2012 was estimated to be at least 101 billion MK – contributing only 31% of the country's MSMEs revenue. The agriculture sector in rural areas generates 43% of the revenue for the MSME sector and creates 68% (583 040) employment opportunities.

Table I: MSMEs sector classification by revenue*

ISIC	Revenue
Agriculture	43 807 313 820
Wholesale and Retail	39 687 655 790
Manufacturing	11 216 056 570
Services	6 597 755 840
Total	101 308 782 020

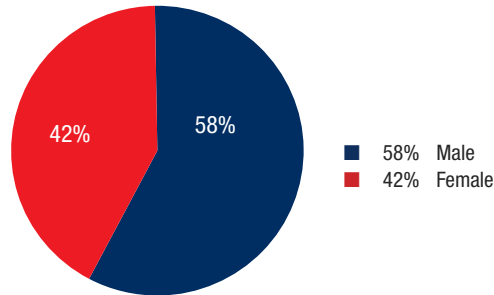
* MKW/US\$ exchange rate in January 2012 (start of fieldwork) equates to 163.55

6 Profile of small business owners in the rural areas

6.1 Small business owners by sex

The proportion of rural small businesses owned by men (58%) is higher than those owned by women (42%).

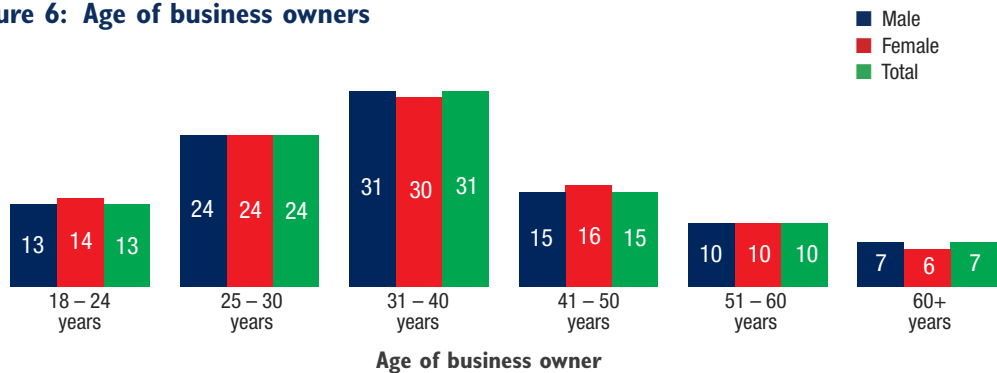
Figure 5: Specific business activities



6.2 Small business owners by age

The average age of MSME owners in rural areas is 37 years old. About 36% business owners are relatively younger (30 years and younger).

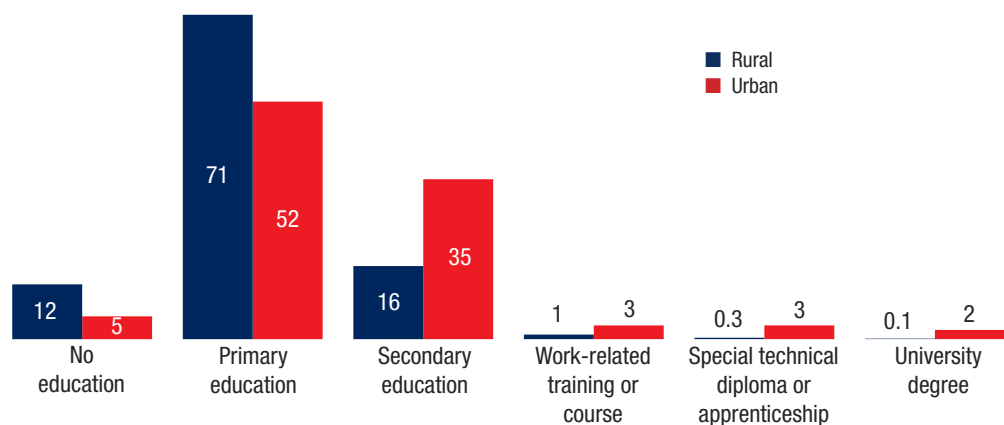
Figure 6: Age of business owners



6.3 Education and skills

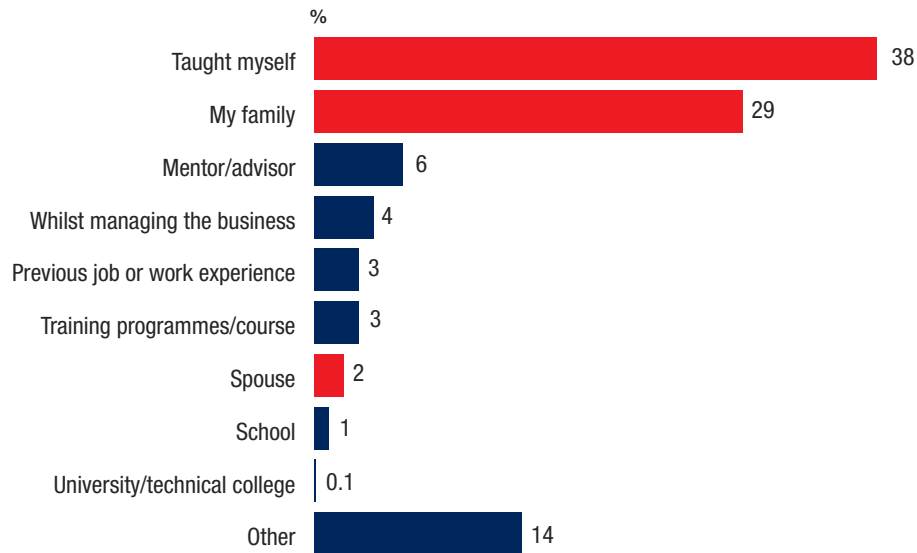
The following figure shows the distribution of business owners by education levels. The majority of business owners have low levels of education, however, the rural-urban disparity is significant, with 83% of owners in rural areas having primary or no formal education compared to 57% small business owners in urban areas of Malawi. Only 16% rural small business owners have secondary education and less than 2% have work-related and or special technical diploma and other education levels.

Figure 7: Education levels of business owners



The majority of small business owners (69%) in rural areas acquired the necessary business skills informally; self-taught (38%), taught by family/spouse (31%). Slightly below 1 in 3 small business owners received formal or semi-formal skills, i.e. mentorship (6%), formal work experience (7%) and only 3% attended training programs.

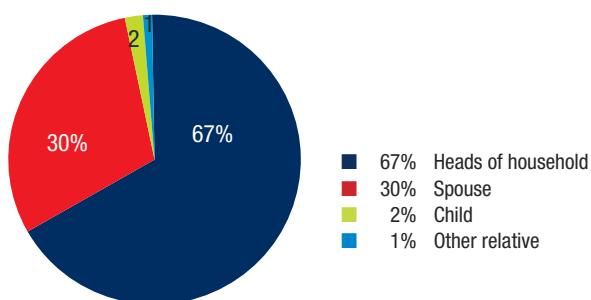
Figure 8: Skills training of business owners



6.4 Position of the business owner in the household

The distribution of small business owners in the rural areas of Malawi shows that 2 in 3 small business owners are heads of the household, thus small businesses in rural areas are a significant contributor to household livelihoods.

Figure 9: Position in the household



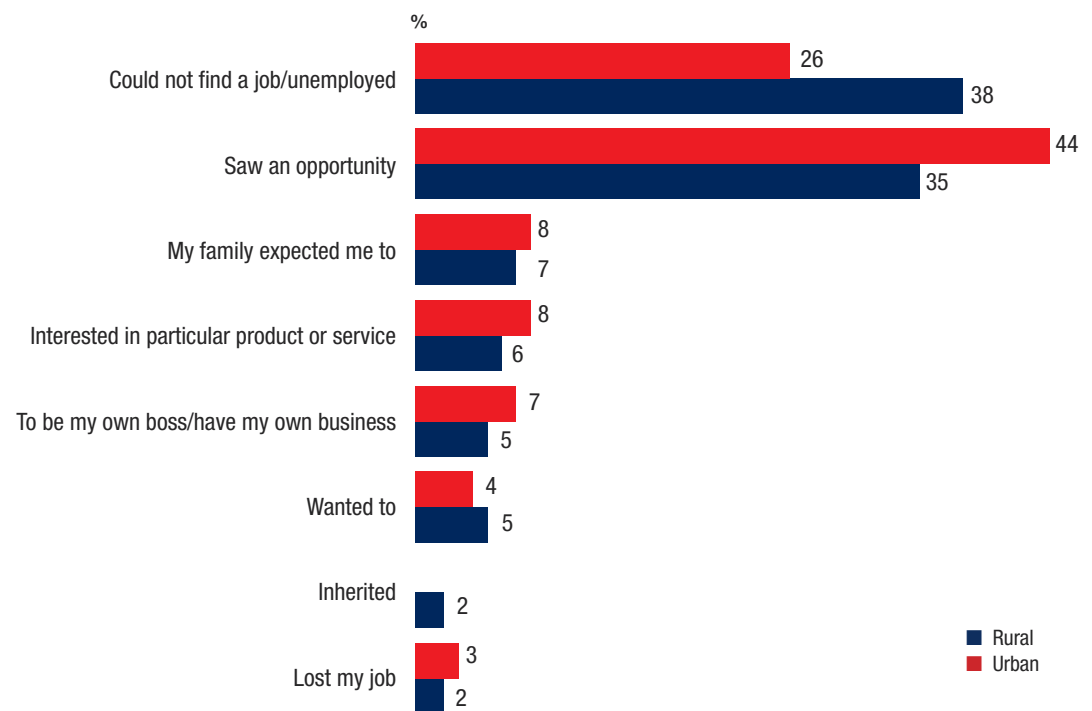
7 Business operations, constraints and management

This section focuses on MSMEs motivation for starting their small businesses, and constraints experienced by owners at different stages. MSMEs growth and survival in rural areas is dependent, to some extent on easing constraints that are facing MSMEs.

7.1 Motivation to start a business

Two in five small business owners in rural areas started their MSME activity because they could not find formal employment (38%) or have lost their job (2%).

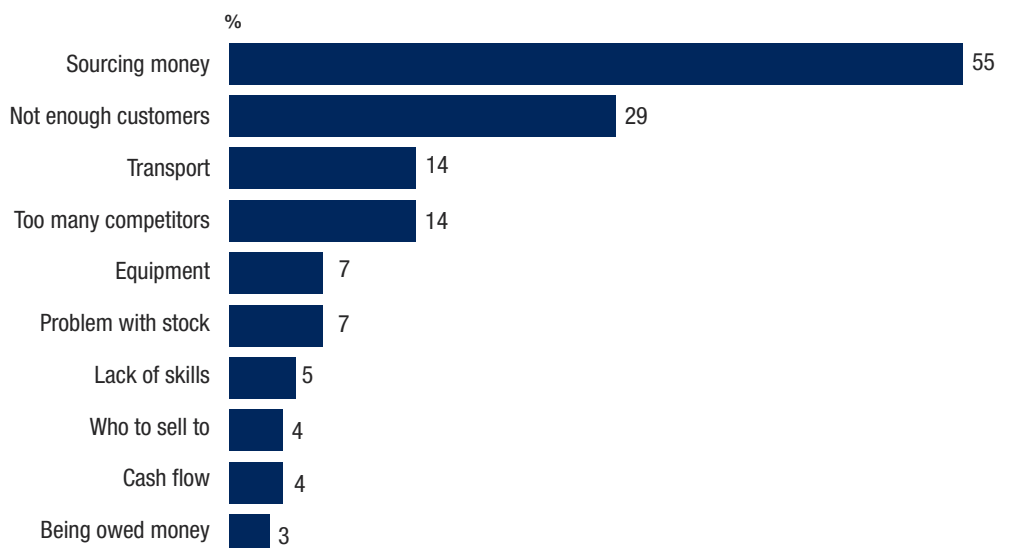
Figure 10: Motivation to start the business by rural/urban split



7.2 Starting the business

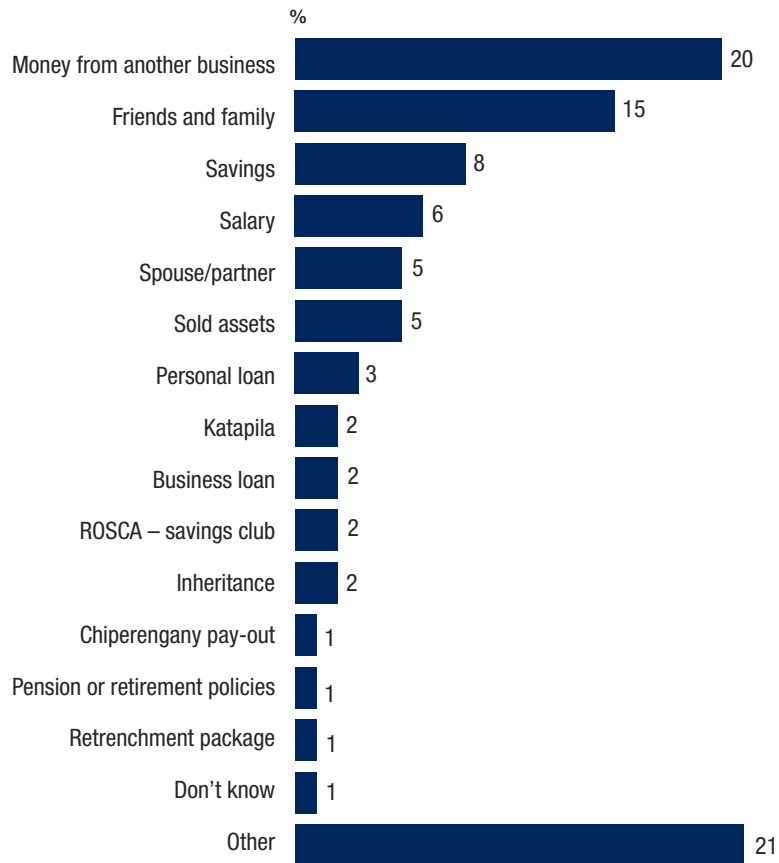
Sourcing the money (55%) is perceived to be the biggest constraint that prevent MSME owners in the rural areas from growing their business. This is followed by the concern of not having enough customers (29%).

Figure 11: Challenges faced by the business owners in terms of starting their business



The majority of small business owners have started their business activities using money sourced from other businesses, friends and family, or from their savings or salaries. Overall, this suggests limited access to borrowing by rural business owners from formal sources, and relatively higher access to informal sources or to their savings.

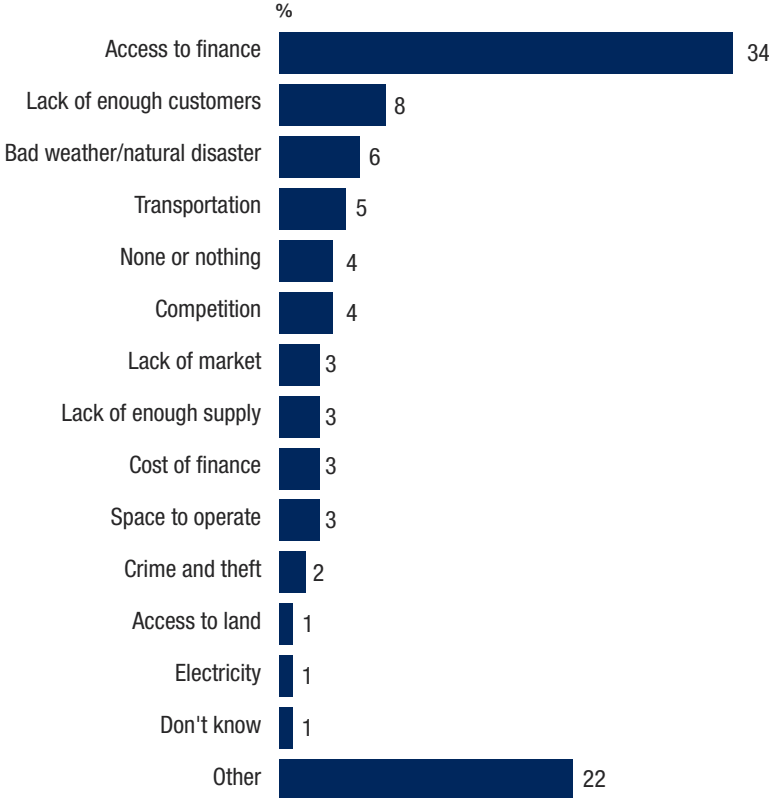
Figure 12: Sources of money to start their business



7.3 Operations

Rural small business owners face numerous challenges relating to business growth, ranging from lack of customers, natural disasters (such as drought, floods, fire) and transportation related issues. However, the biggest obstacle to business growth is insufficient access to finance (34%).

Figure 13: Challenges faced by business owners in terms of growth

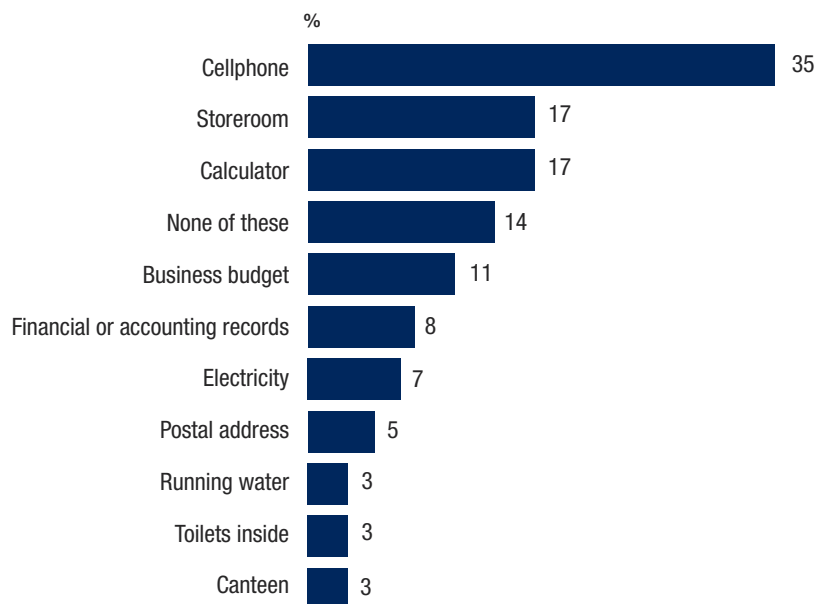


7.4 Access to infrastructure

Interacting with rural markets is an important aspect of the livelihood strategies of many rural households. Markets are where producers buy and sell their products; and where, as consumers, they use their income from the sale of products/services, or other activities, to buy their food requirements and consumption goods. In order to ensure developed rural access to markets, an improved rural infrastructure is sought.

Access to infrastructure and connectivity remains a challenge for small business owners in the rural areas of Malawi. Only 35% of small business owners have access to cellphones, and only 7% have reported connection to electricity. There has been low claim of running water inside the businesses (3%), access to calculators (17%) and up-to-date financial or accounting records. This finding confirms the lack of basic controlling systems in the rural small business. There is the need for proper operational and capital budgeting to ensure that a small business meets its goals.

Figure 14: Access to resources



8 Financial Inclusion

8.1 Financial inclusion – overview

Considering the rural-urban disparity, a high proportion of adults and small business owners in rural areas are financially excluded. Slightly below two-thirds of small business owners in rural areas are excluded, meaning that they do not use any formal or informal financial products/services to manage their business financial needs. These business owners depend on family or friends for borrowing, and keep cash at home or in a secret place if they want to save.

Figure 15: Financial inclusion – overview

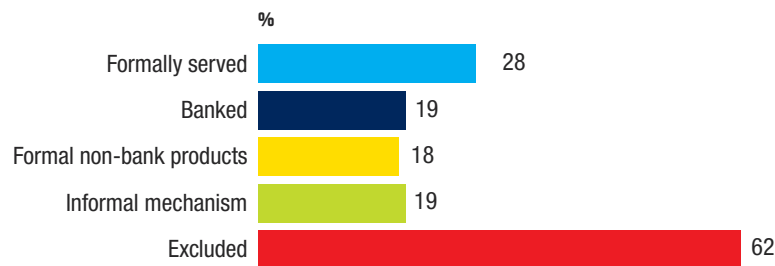
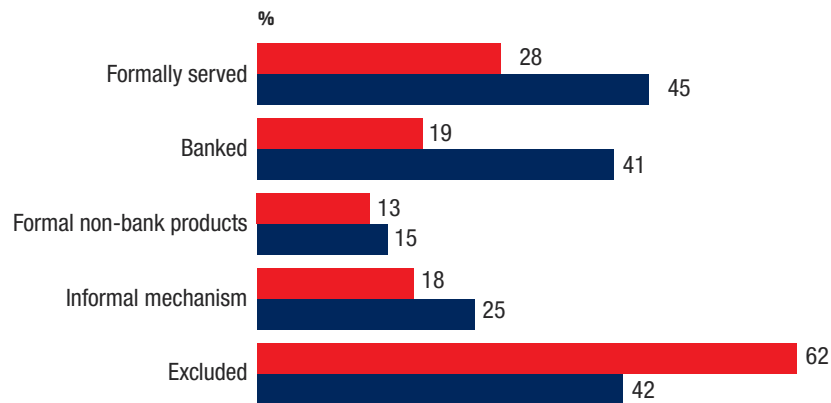


Figure 16: Financial inclusion – Rural/urban split

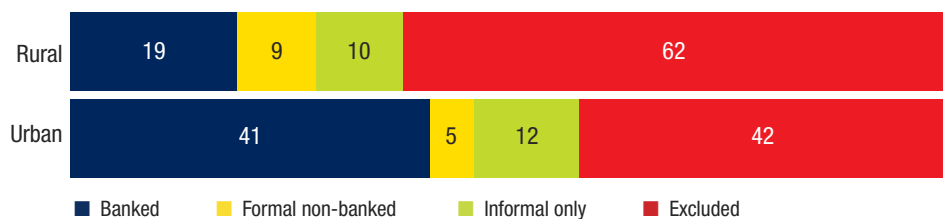


Comparing urban and rural shows that rural access is limited:

The most significant difference between rural and urban usage of financial products lies in the use of bank and informal products:

- Bank penetration is 41% higher among urban business owners as opposed to rural business owners with slightly below 1 in 5 penetration rate;
- The formal non-banking products/services seems to be an important driving force of financial inclusion among rural adults, recording a 9% penetration rate compared to 5% of urban adults who are relying on other formal mechanisms.

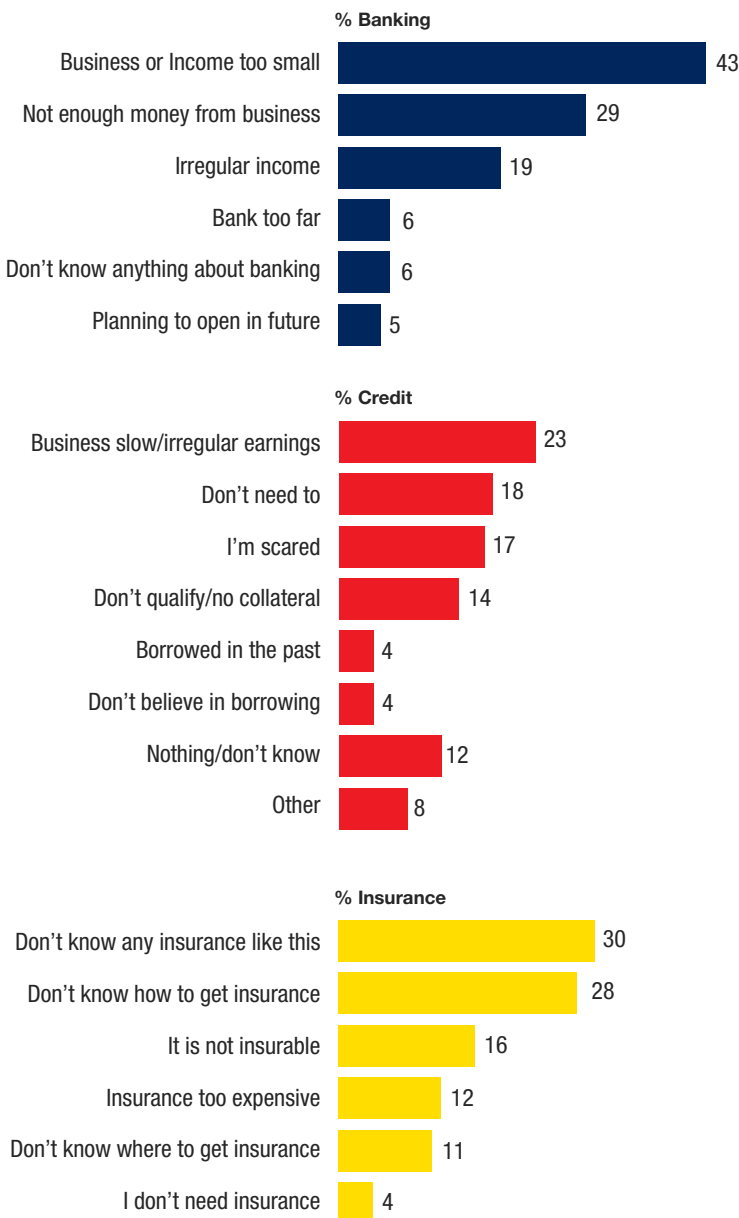
Figure 17: Access Strand – Rural/urban split



8.2 Financial inclusion barriers

The main access barrier is that a large proportion of business owners in rural areas are too survivalist to have sufficient income/money to hold in a bank account or to borrow. The three most common responses were: 'income too small', 'not enough money from the business', and 'business slow/irregular income'. These barriers relate to rural poverty or economic challenges, which may be beyond the scope of financial inclusion to address.

Figure 18: Barriers: Banking, Credit, Insurance and Savings**



**Respondents were able to give more than one answer (multi-mention possible), hence does not add up to 100%.

9 Conclusion

This report reveals that the needs of small business owners in the rural areas of Malawi are that of survival, social (social gender imbalances, low levels of education), infrastructural and economical (income generating activities and employment).

The significant finding in this analysis indicates that the rural regions of Malawi are not only involved in agricultural activities, but there are also wide ranges of sector activities such as wholesale and retail, though this may be stemming from agricultural production. This therefore provides the demand for rural development to focus on a broad range of developmental goals rather than merely creating incentives for agricultural or resource based businesses. Education, entrepreneurship attitude and physical infrastructure all play an important role in developing rural regions.

The demand for rural MSMEs finance is key for starting and growing a small business. The barriers to borrowing and that of using banking products/services indicates that small business owners in rural areas have limited assets compared to urban business owners. However, good organisation of even the smallest assets can be crucial to survivalist business owners, who are threatened by the lack of business income and/or irregular income from businesses. To overcome the constraints relating to access to finance, they need to be able to borrow, save and invest, and protect their business against risk.

Overall, the findings suggest that business owners in rural areas have limited access to borrowing from formal sources, and relatively higher access to borrowing from friends and/or families. About 90 000 small business owners from rural areas of Malawi tried to borrow money for business purposes, but their applications were turned down or they did not qualify or had no collateral.

The above results and conclusions show a strong relationship between the development of MSMEs in rural areas and the eradication of poverty. It demonstrates the need for rural finance, education and training in the sector and concentrated rural development strategies.



Making financial markets work for the poor

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