

**The Capacity of the Small and Medium Enterprise
Support System in Malawi to Support Small Business
Expansion**

John Masten
College of Business
Tennessee State University
330 10th Avenue North
Nashville, Tennessee 37203-3401
Phone: Home: (615) 883-1414;
Office (615) 963-7150

Benson Kandoole
Malawi Institute of Management

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Abstract

Malawi, located in Southern Africa, was ranked as one of the poorest countries in the world in 1992. Small business development was being emphasised by government and donors to expand employment and income. Numerous agencies, financed by government and foreign donors, existed in Malawi to assist the small business sector to expand. This paper presents results from a study to determine the capacity of these organisations to assist small business and carry out national employment objectives. Numerous capacity constraints were identified and suggestions were made to improve agency effectiveness.

Introduction

Malawi, located in Southern Africa, was ranked as one of the poorest countries in the world in 1992 (per capita income was \$200). More than half the population of 11 million lived below the poverty line. The United Nations Development Program ranked Malawi, in terms of economic well being, at 157 out of 174 countries (UNDP 1997). Adult literacy was a low 39% and income inequality was extreme. Agriculture supported 85% of the population but represented only 35% of the GNP.

It was estimated that one fifth of the population 15 years of age or older (one million people) were engaged in the small and medium enterprise sector (SME). This sector included 570,000 firms employing 20 workers or less. Two-thirds of these firms contributed 50 percent or more to household income (Daniels and Ngwira 1993). Recognizing that large businesses employed only a small fraction of the labour force, since the mid 1980's the Malawi government and international development agencies have emphasised the creation and expansion of micro, small, and medium-sized businesses to create jobs and reduce poverty. During the period a host of institutions financed both by government, foreign donors, and the private sector were established to assist in starting and expanding small businesses. Some of the organizations financed by the private sector and foreign donors were beyond governmental control. These organizations provided the foundation of assistance for future small business expansion.

In 1996, to assist in the growth of the SME sector, the Malawi government developed national policies dealing with industry, competition, co-operatives, and trade (Ministry of Commerce and Industry 1996). This paper presents results from an empirical examination of the ability of SME assistance agencies to carry out these policies. Specific attention was given to examining the heterogeneous nature and size of the SME assistance sector in Malawi and the ability of the sector to act in an effective co-ordinated fashion. Specifically, institutional objectives, core programs, inter-institutional co-ordination and capacity were examined. The

data, collected by a team of researchers, involved structured interviews with officials from government ministries and all the major assistance organisations.

Methodology

The study defined capacity as the process by which individuals, groups, organizations, and institutions develop their abilities, individually and collectively, to perform functions, solve problems and achieve objectives. Capacity involved the organization's ability to implement some or all of the strategies suggested in the policy statements.

A semi-structured questionnaire was developed to identify the capacity of the institutions to carry out SME assistance programs. The factors included organizational mission, long and short term objectives, target beneficiaries, size of market, core programs, output and costs, and organizational competencies. Within the organization, data was collected dealing with financial management, information systems, human resources, facilities and equipment, and monitoring and evaluation systems. This information was used to assess competence.

There were variations in the detail and quality of information between institutions. Some of the variations were attributed to the availability of program staff, program size and history. Triangular verification techniques were used in an effort to overcome some of the limitations involved in the open-ended survey. Techniques included multiple interviewers and interviewees, and verifying responses by independent reviews of other supporting materials.

There were 18 institutions included in the study that comprised the SME support system in Malawi. Two of the organisations were government ministries and five organizations represented government sponsored SME support institution; one was a non-governmental organization involved in co-ordinating and advisory services, 5 were business associations, 2 were banks and 3 were business training institutions. The two government ministries were the Ministry of Commerce and Industry (MCI) and the Ministry of Women and Youth Services (MOWYS). MCI was mainly a policy-making and co-ordinating agency, while MOWYS provided services directly to small business.

After the institutions were identified, the 4 policy initiatives were reviewed and key strategies identified. These strategies were matched with the strategic plans of the organizations. From this analysis the importance of the sector, both individually and collectively, in implementing policy initiatives were assessed. Lastly, the results from the field interviews were utilised to provide an assessment of the sector's ability (capacity) to provide services.

The names and acronyms of institutions included in the study were as follows:

Government:

1. Ministry of Commerce and Industry (MCI)
2. Ministry of Women and Youth Services (MOWYS)
3. Development of Malawian Traders Trust (DEMATT)
4. Malawi Bureau of Standards (MBS)

5. Malawi Export Promotion Council (MEPC)
6. Malawi Industrial Research and Technology Development Centre (MIRTDC)
7. Small Enterprise Development Organisation of Malawi (SEDOM)

Training Institutions

1. Malawian Entrepreneurs Development Institute (MEDI)
2. Malawi Institute of Management (MIM)
3. Staff Development Institute (SDI)

Associations

1. Gemstone Association
2. Malawi Chamber of Commerce (MCCI)
3. National Association of Business Women (NABW)
4. National Association of Small and Medium Enterprise (NASME)
5. Women's World Banking (WWB)

Non-Governmental Organisations

1. Council of Non-Governmental Organisations in Malawi (CONGOMA)

Banks

1. Indefund
2. Commercial Bank

The SME Support System

The pattern of institutional assistance to small businesses in Malawi was similar to that found in other developing countries. As suggested in **Table 1: The SME Support System** in Malawi below, many of the SME assistance organizations were started in the 80's and 90's. These starting dates reflected the increased attention given to small businesses in reducing poverty at that time. As the service commitment evolved, the pattern of services changed from an emphasis on training to credit and, more recently, to specific attention on women and micro businesses.

Table 1: The SME Support System in Malawi: Year Established, Services, Budgets, Employees and Service Levels of the Organisations

Agency	Year Established	Core Services for MSMEs	Budget 1996 (K) (\$)	Employees 1996	Service Levels 1996
Government					
Ministry of Commerce & Industry	1965	Co-ordinate Policy	K13,000,000 \$74,285	20	NA
*Ministry of Women & Youth Services	1986	Co-ordinate Policy Credit Training	K62,500,000 \$3,600,000	120	NA
DEMAT	1979	Business advisory Lending	K18,000,000 \$102,800	60	2000 loans 10,367 trained
Malawi Bureau of Standards	1972	Standards Quality assurance Technical services	K12,000,000 \$68,570	30	300 firms certified.
Malawi Export Promotion Council	1971	Training Trade fairs Extension	K15,000,000 \$85,714	9	40 workshops 2 trade fairs 36 firms matched with buyer. Assisted 3 associations
MIRTDTC	1993	Industrial research Technology transfer	K11,200,000 \$64,000	26	Estimate the creation of 500 jobs.
SEDOM	1982	Loans Advise Estates Training	K16,000,000 \$91,486	42	About 2,000 outstanding borrowers.
Associations					
Gemstone	1993	Training Advisory	K20,000 \$1,143	1/2	200 members
*Chamber of Commerce & Industry	1892	Advisory Business services Trade promotion Certification of origin	K5,000,000 \$28,571	7	500 members
Association of Business Women	1990	Loans Advisory Training	K1,500,000 \$8,571	15	15,000 members
Association of Small and Medium Enterprises	1994	Training Group lending Group sales	K685,000 \$3,914	1	15,000 members
Women's World Banking	1987	Training Loans	K1,500,000 \$8,571	10	10,000 members
Non-Government Organisations					
CONGOMA	1992	Lobbying Co-ordinating	K3,000,000 \$17,143	5	co-ordinate 16 business support ngos.
Training Institutions					
MEDI	1981	Business training	K6,600,000 \$37,714	17	93 students trained
MIM	1989	Business training	K13,400,000 \$76,571	16	6.9 thousand man days of training.
SDI	1914	Business training	K3,000,000 \$17,143	26	500 trained
Banks					
Indefund	1981	Loans	K10,000,000 \$57,143	12	Funded 47 projects
Commercial Bank	NA	Group loans	NA	NA	Loans to 49 groups

* The ministry of woman began in 1961 but did not assist small businesses until 1986 and assistance programs are mostly donor funded. The Chamber was not broad based until after independence

The government funded organizations tended to have larger budgets, employ more staff and, in some cases, have greater national coverage. However, associations tended to have ongoing contact with larger numbers of small business owners through membership requirements. Lower budgets and fewer staff required associations and the other private sector organisations to rely heavily on volunteers and consultants to deliver services. In some cases the associations utilised the government funded agencies to help provide credit and advisory services.

The associations and NGOs generally had less capacity and the sustainability of their services was more dependent on member satisfaction and, thus, payment of dues and fees. Banks were reluctant to provide services to the SME sector because of a perceived higher default risk. Consequently, services to the SME sector by banks

represented a small part of bank operations and were considered community service rather than as a profit center. For that reason some of the information in Table 1 was not listed for the Commercial Bank.

The government's ability to influence national policy through the operations of non-governmental organizations were less direct. But, as suggested in Table 1, the non-governmental institutions played an important role in SME service delivery. In most developing countries the existence of a strong non-governmental sector with built-in self-help initiatives were a significant factor in healthy national development. For these reasons the organizations in the Table were categorized by sector. The government sector includes government supported organisations since they receive most of their operating budgets from government and government staff serve as board members. The training institutions could have been included in the governmental category since they were also supported by the government, but it was decided not to do so. Business associations, banks and NGOs were placed in the private sector since they relied on member subscriptions, fees and donors for operating funds. NGOs were usually donor sponsored organizations and in some cases their policies and services were influenced by the objectives of the sponsoring organisation. An effective national policy to reduce poverty and create employment required focused and efficient effort from all the institutions.

Key Strategies

In Malawi, as in most African countries, the role of government in supporting small businesses was larger than simply setting policies, monitoring organisational achievement of employment targets, disbursing funds, and providing the enabling environment for employment, trade, and industry to expand. The larger role was partially the result of the relative size and program breadth of the government funded assistance and training institutions. From **Table 1** it was observed that, except for the Ministry of Women, these institutions had the largest budgets, most professional staff, and the largest program responsibility. Notwithstanding differences in capability between the institutions, program duplication existed.

Seven key strategies to promote employment and long-term poverty alleviation were identified from the policy statements. The primary objectives of these strategies were to create an economically stable environment, a stronger private sector, broad based growth, better targeting of resources, and institutional capacity building. It was hoped that successful implementation of the strategies would allow the poor to have better access to markets, technology, credit and information.

The 7 key policy strategies along with selected activities are listed below:

- *Training:* Providing entrepreneurial development skills, human resource development, and promotion of small enterprise and entrepreneurship in schools.
- *Finance:* Promotion of private sector investment in the SME sector and providing trade and industry financing.

- *Marketing*: Promotion and development of co-operatives, improvement in the operations of government purchasing schemes for small businesses.
- *Infrastructure*: Promotion of cottage industries and providing basic infrastructure.
- *National Data Base*: Development of an information base and network on trade and industry that includes the SME sector.
- *Appropriate Technology*: The technology capability development of small business.
- *Institutional Reform*: Strengthening private sector organisations, instituting a small claims court and developing new competition polices and legislation.

The strategies as outlined in the policy statements were diverse and, except for DEMAT, no one organisation offered programs in all 7 areas. The policies and activities were compared with each organisations strategic plan and programs and were listed in **Table 2** below.

Table 2: Identification of Policy Initiatives by Organisation and Sector

<i>Agency</i>	<i>Training</i>	<i>Finance</i>	<i>Marketing</i>	<i>Infra-structure</i>	<i>National Data Base</i>	<i>Appropriate Technology</i>	<i>Institutional Reform</i>
Government							
Ministry of Commerce & Industry			X	X	X		X
Ministry of Women & Youth Services	X	X	X		X	X	
DEMAT	X	X	X	X	X	X	X
Malawi Bureau of Standards			X		X		X
Malawi Export Promotion Council	X		X	X	X		X
MIRTDC	X		X	X	X	X	X
SEDOM	X	X	X	X	X		X
Associations							
Gemstone			X				
Chamber of Commerce & Industry				X	X		X
Association of Business Women	X	X	X		X		X
Association of Small and Medium Enterprises	X	X	X		X		X
Women's World Banking	X	X	X		X		X
Non-Government Organizations							
CONGOMA					X		X
Training Institutions							
MEDI	X						
MIM	X						X
SDI	X						
Banks							
Indefund		X					
Commercial Bank		X					

Programs offered by the public sector came the closest to offering the services required of all the strategies. Since all of the agencies offered services that fit some of the strategies, implementing national policies would require co-ordination by MCI.

The government sector offered more services to achieve the strategy of increasing SME growth. Most of these institutions were involved in more than one strategy and at least one of the institutions was involved in all of them. The last 4 strategies, infrastructure, information technology, appropriate technology and institutional reform reflected the need to provide an

enabling environment and were important services for ministry and government supported agencies. These agencies were offering services in all four areas. Services listed in the first 3 strategies were also offered by the government agencies but were similar to services offered in the non-government sectors. As the Malawian economy matures, co-operation from non-governmental organisations will be needed to achieve the infrastructure, database, and institutional reform strategies.

The non-government sector was heavily involved in those strategies that were directly related to serving entrepreneurs and businesses. As observed in Table 2 these organizations were involved in offering training, finance, and marketing services. These agencies were also providers and users of information that might be contained in a national database. The strategy of institutional reform would be achieved when the non-governmental agency's services were sustained. Achieving sustainability may be difficult since in all cases the resources available to these institutions were less than those available to the government supported institutions.

Given the missions and services offered by each organisation, the achievement of national policy goals required closer co-ordination of program plans and outcomes between the private and public sectors. Effort must be made to assure that programs complement rather than duplicate SME services. Given the scarcity of resources in Malawi, co-ordination must also assure that public resources were allocated to those sectors (non-government, training institutions, banks, etc.) and organisations that were the most productive. Close monitoring and evaluation, an important role for government ministries, will be essential to determining relative effectiveness.

Implementing all of the national strategies required linkages between institutions and sectors. For example the promotion of cottage industries involved training (DEMAT), appropriate technology (MIRTDC), export markets (MEPC), estates (SEDOM), and credit (several organisations). Encouraging expanded government purchases from SMEs, a marketing strategy, involved linkages between all of the government supported organisations and several of the associations. The promotion of a more competitive environment involved the linkage of government organisations (MCI, DEMAT and MEPC) with some of the associations. From the interviews it was found that organizational linkages within and between sectors were not well organised, understood, and smooth functioning. Many organisations were not aware of the national strategies and did not understand the integrated roles of the various agencies. In fact, competition for funding rather than co-operation and linkages were common between the organisations. Besides the desire to "build the organization," the alternative sources for funding also reduced the incentive to create linkages. Funding sources included the Malawi government, foreign governments, world development organisations, and international private relief groups and few of them strongly encouraged local program co-ordination.

The budget for SME services in the Ministry of Women for 1996 was larger than the sum of the budgets for all of the remaining SME assistance providers. The funding imbalance for the Ministry of Women was caused by the priority given to women by foreign donors (Germans, World Bank and etc.). Like other less developed countries, women are disproportionately represented among the very poor. The interviewers found that the extent of the MOWYS involvement in SME assistance was little understood by the other agencies. The uneven allocation

of assistance resources provides more evidence for improved linkages and co-ordination. Ironically, Ministry of Women programs were not fully recognised or integrated in the national strategies.

Capacity

Through the field interviews an effort was made to assess the ability of the institutions to carry out their programs. Particular attention was given to finance, information systems, human resources, equipment and facilities, and evaluation concerns. In the finance area, questions were asked dealing with budgeting procedures, accounting systems, financial control, audits, and resource base. Information system issues, besides the level of technology employed, included the type and use of data collected for management decision-making. Human resource concerns included staff qualifications, unfilled positions, work planning, performance management, salary administration, communications, and diversity. The interviews also focused on methods and frequency of program monitoring and evaluation.

From an analysis the data, institutional strategies and capacity needs were identified. The responses were summarized and are listed in **Table 3** below. In this study, effort was not made to comparatively rank the institutions according to capacity deficiencies. Furthermore, program impact on the SME sector in terms of employment, new businesses start-ups, and business expansion was not measured. These questions would need to be answered before an appraisal of organisational effectiveness was complete.

Table 3: Strategies and Capacity Needs of SME Assistance Organisations

<i>Agency</i>	<i>Strategies</i>	<i>Capacity Needs</i>	<i>Agency</i>	<i>Strategies</i>	<i>Capacity Needs</i>
Government			Associations		
<u>Ministry of Commerce & Industry</u>	Systems Manager Co-ordination Information network Policy formulation and legislation	Computers Qualified accounting staff Common service Finance Training	<u>Gemstone</u>	Beneficiary	Finance Marketing Credit Office Staff training
<u>Ministry of Women & Youth Services</u>	Technology Group lending Networking	Finance Vacancies Training	<u>Chamber of Commerce & Industry</u>	Policy Information Network	Staffing Offices Vehicles Computers Finance
<u>DEMAT</u>	Advising Group purchasing Credit Marketing Networking Training Group loans Co-operatives	Internal income Offices Vacancies Staff Training Equipment Conditions of service	<u>Association of Business Women</u>	Credit Advisory Co-operatives Group purchasing Network Marketing	Staffing Computers Visibility Training
<u>Malawi Bureau of Standards</u>	Quality of products Networking	Program funds for SMEs Incentive packages Vacancies Equipment up-grading Qualified staff Training	<u>Association of Small and Medium Enterprises</u>	Credit Advisory Co-operatives Networking Group purchasing Marketing Training	Staffing Computers and vehicles Offices Finance Training
<u>Malawi Export Promotion Council</u>	Cottage industry Co-operatives Information base Marketing Product development Policy Training	Finance Offices Showroom Number of staff Vehicles and computers Visibility in rural areas Training	<u>Women's World Banking</u>	Credit Tainting Information Marketing	Staffing Visibility Training
<u>MIRTDC</u>	Technology Co-operatives Policy Network Training	Office space Equipment Workshops Vacancies Finance Incentive packages Training	Non-governmental Organisations		
<u>SEDOM</u>	Credit Co-operatives Network Loan guarantee scheme Estates	Finance Charge mkt. rate of interest Increase field staff Increase visibility Incentive package Training	<u>CONGOMA</u>	Beneficiary	To be determined for participating members
Banks			Training Institutions		
<u>Indefund</u>	Credit to medium scale entrepreneurs Referral of small bankable projects	Training	<u>MEDI</u>	Training	Finance Vacancies Training Credit for graduates
<u>Commercial Bank</u>	Group lending	Regional offices Priority	<u>MIM</u>	Training Policy	Participant fees
			<u>SDI</u>	Training	Finance Computers Training Vacancies

The organizations comprising the government sector shared many capacity needs. Most all of the organizations had unfilled positions and were experiencing difficulty in motivating and retaining staff due to inadequate incentive packages. Adequate operating budgets were a common concern in the sector. The Malawi government had recently gone to a cash budget system and a reduction in 1998 operating budgets was a distinct possibility. All of the institutions needed new equipment including computers and vehicles. In some cases office facilities were inadequate. For example, the MEPC had offices to house half of their current staff. Staff in all of the organizations needed.

additional skills training. The ability of the sector to effectively implement their strategies, as part of the national plan would be in doubt given the incentive and budget problems discovered from the interviews. For example, even though receiving a large share of SME assistance funds, staff from the MOWYS indicated that lack of petrol for motor cycles stopped regional SME service providers from carrying out their responsibilities.

The business associations and NGOs interviewed had more focused strategies dealing with small business training, credit and marketing activities. The budgets in most of the organisations were not sufficient to operate the programs at desired levels. Consequently, there were staff shortages and inadequate equipment. The Gemstone Association upon reflection was considered a beneficiary of service rather than a service provider. Staff incentive was not considered a major problem in the private sector. Both financial institutions had adequate capacity but their commitment to serving small business was low. All 3 training institutions were interested in serving the SME sector but participant fees would need to be paid. In the case of MEDI, loans to start business were needed before the enrolment in their entrepreneurial course improved.

The Ministry of Commerce (MCI) capacity problems are also summarized in **Table 3** above. The problems, such as inadequate facilities, equipment and unqualified staff might raise serious questions about the ability of government to provide an enabling environment and co-ordinate SME system efforts. Even though the MOWYS received the largest share of resources they also identified severe inadequacies.

Conclusion

The SME support sector in Malawi was spending at least \$4,275,000 U.S on services and employing over 416 professional staff members. Not counting the training institutions and the government ministries, 77% of the funds and 79% of the staff were utilised by government supported institutions. Including the Ministries, the non-government sector only represented 2% of the funding and 11% of the staff. Based on the budget and staff figures, an examination of agency effectiveness must begin with the public sector. The amount spent on SME support was small by Western standards but represented a significant resource commitment for a poor country like Malawi.

National policies toward creating more jobs through small business expansion required effective use of all the support institutions. Additionally, little was known about the impact on SME development from implementation of national policy strategies. The results from the interviews indicated that policy formation should involve all sectors including the ultimate beneficiaries. Information about the impact on beneficiaries was lacking by all of the institutions.

Improved infrastructure and co-ordination through government was emphasised in the 7 strategies. The findings of this study indicated that capacity constraints exist through out the system, which may limit the ability of institutions to follow-through on service delivery as specified by the strategies. Linkages between institutions were critical but strong formal linkages did not exist and there was little reference as to how linkages occurred.

Capacity limitations in the ministry, especially MCI, may retard the key role given to government in policy formation, co-ordination and provision of infrastructure as also suggested by the strategies. A separate unit within MCI may need to be created for the specific purpose of providing leadership to the SME sector. This leadership should include minimizing service duplication throughout the system and establishing a common data bank for all to use. The findings of the study also suggested that policy formation activities should involve all sectors including the ultimate beneficiaries.

The capacity deficiencies mentioned by all of the agencies pointed to a need for greater funding of the SME sector. However, the support institutions also needed a self-reliance mechanism for instances charging appropriate fees for services.

Further study is needed to determine institutional effectiveness. The study would concentrate on determining the agency impact on small business success and meeting national policy objectives. Funds from government and donors could then be focused on effective agencies that should increase the impact of SME support institutions on small business.

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