

# MALAWI NATIONAL GEMINI MSE BASELINE SURVEY 2000

Prepared by



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On Behalf of:



With the Assistance of:



Wadonda Consult

## **PREFACE**

This report contains the results of second Malawi nationwide GEMINI Micro and Small Enterprise (MSE) baseline survey that was carried out between October and December 2000. The survey was conducted by a multi-disciplinary team from Ebony Consulting International, the National Statistical Office (NSO), Kadale Consultants, and Wadonda Consult and was funded by the British Department for International Development (DFID).

The general objective of this survey was to provide an overview of the MSE sector in Malawi, a sector that has often been missed by more conventional survey methods. This survey has therefore captured business start-up, employment growth, and reasons for business closure, impact of HIV/AIDS and the contribution of the sector to the national income. The results from this survey will be of great use by the government as well as non-governmental organisations in developing programmes and policies that support the development of the private sector as well as projects initiated to alleviate poverty through income generating activities.

The survey team visited over 26,000 households and enterprises throughout the country. They collected data from both rural and urban areas through a stratified random sampling methodology. It involved a complete enumeration of any household or enterprise income-generating activity within the selected Enumeration Areas.

I am very grateful for the support and cooperation received from the households that participated in the survey. My gratitude also goes to all those who took part in the design and conduct of the survey.



**Charles Machinjili**  
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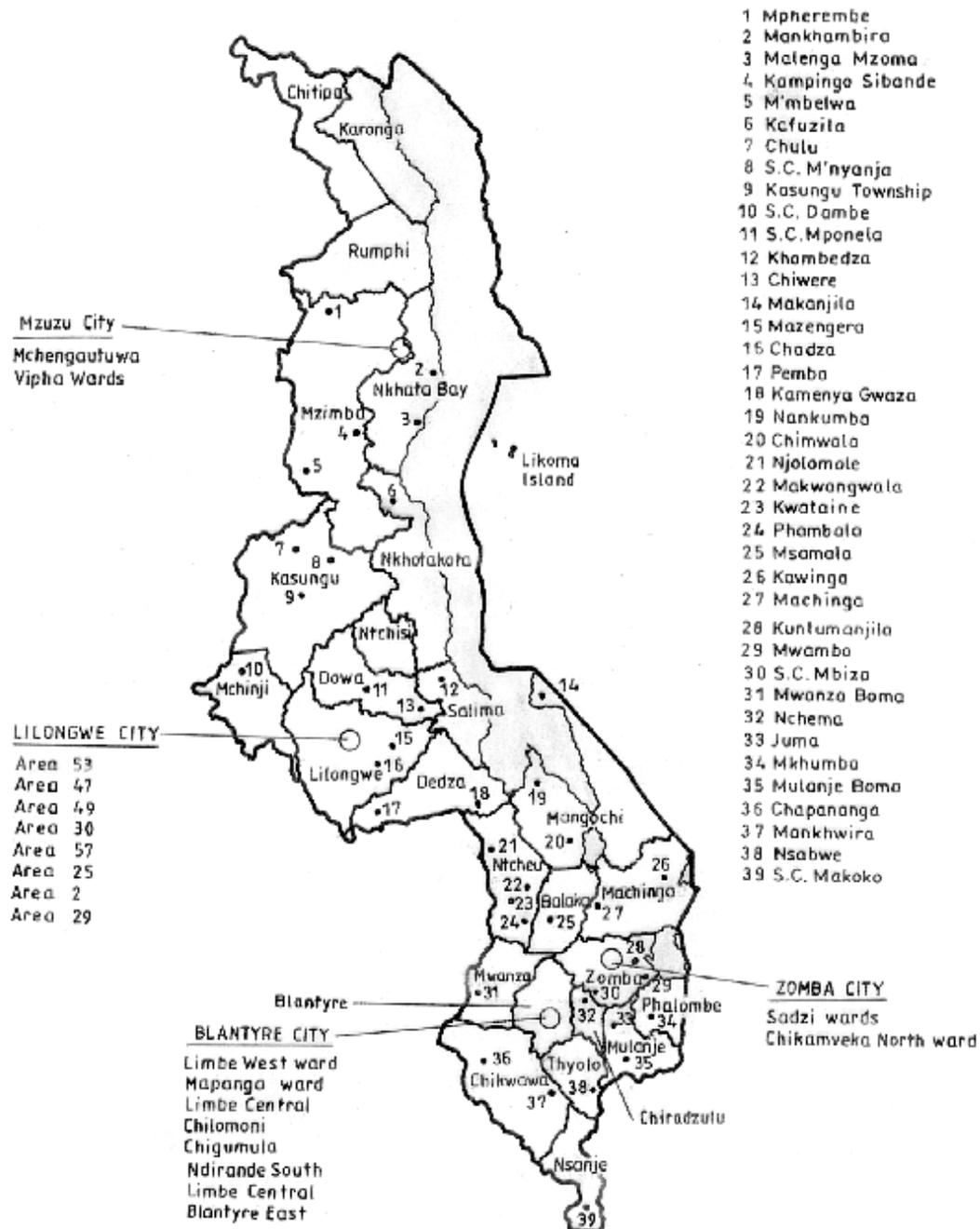
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## ACRONYMS

DFID	Department for International Development
BEED	Business Expansion and Entrepreneurship Development
CBNRM	Community Based Natural Resource Management
CBQ	Closed business questionnaire
EA	Enumeration Area
EBQ	Existing business questionnaire
ECI	Ebony Consulting International
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
GEMINI	Growth and Equity through Microenterprise Investments and Insitutions
GNP	Gross National Product
HH	Household
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immuno Deficiency Syndrome
IB	Identified business
IUCN	International Union for the Conservation of Nature
MK	Malawian Kwacha
MSE	Micro and Small Enterprise
MPC	Marginal Propensity to Consume
NEC	National Economic Council
NGO	Non-Governmental Organisation
NSO	National Statistical Office
SADP	Small Holder Agricultural Development Programme
SLA	Sustainable Livelihoods Approach
TEEM	Training for Enterprise and Exports for Malawi
TOR	Terms of Reference
UB	Unidentified business
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WHO	World Health Organisation

## Executive Summary

This second Malawi Nationwide GEMINI Micro and Small Enterprise (MSE) baseline survey was carried out between October and December 2000 by a multidisciplinary team from Ebony Consulting International, the National Statistical Office (NSO), Kadale Consultants, and Wadonda Consult. The survey team visited a stratified sample of over 22,000 households and small businesses to identify active business activities of all kinds employing fewer than 50 employees. This study also enumerated on-farm agricultural activities, as long as 50 percent of the production was sold and the household earned more than MK 6,000 from the sale of the produce. More than 6,000 data points were enumerated from randomly selected enumeration areas around the country.

This survey complements the survey carried out in 1992. As the methodology has evolved and improved, we have been able to get a better feel for the entire sector as well as how it has changed over the last 8 years. In addition, we have a new picture on several other issues: primary production activities as MSE and the question of which MSE are being most affected by HIV/AIDS in Malawi.

The survey reminds us of the importance of the MSE sector in Malawi:

- When looking at the overall number of MSEs and owners, we see that MSE contribute income to about 25 percent of the Malawian households;
- By employing over 1.7 million people, MSEs employ about 38 percent of the total Malawian labour force.
- The off-farm enterprises employ about 22 percent of the total labour force.
- In the whole sector, women account for 42 percent of the total employment;
- The MSEs contribute about 15.6 percent to the GDP; and
- Over 80 percent of the MSE are located in the rural areas.

When contrasting the results of this survey with the 1992 survey, it is clear that there have been some important shifts.

- Off-farm MSE have decreased in overall numbers, though there has been an increase in the number of urban enterprises, more than matching the marginal increase urbanisation of the country. Survey results reveal that over the past two years, more MSE have been closing than have been opening. This may be due to a number of factors, though HIV/AIDS may be playing an important role in this phenomenon.
- It is not possible to provide a detailed comparison with the agribusiness sector, but the change in government and policies has certainly had an impact on stimulating agricultural cash crop production, especially burley tobacco.
- Though there are fewer firms overall in the off-farm sectors, those with two to 10 employees have increased in number. Since employment is often considered a proxy for strength of the firm, this indicates that there might be a higher percentage of more dynamic firms.

In terms of enterprise dynamics, we see that about 80 percent of the firms are stagnant and serve primarily as additional sources of income for the household. However, as many as 20 percent of these firms are growing and are reinvesting some or all of their profits into the firms.

Women own about 34 percent of the firms outright, but they are also very active participants in husband and wife owned firms. These latter tend to be farm based activities, but it still means that women are whole or partial owners of more than half of all MSEs in Malawi.

The review of agribusiness MSE reveals that these are the sectors with the greatest potential for employment, growth and profitability. Natural resource based sectors (fishing, mining, livestock, and crop production) are growing at faster rates and usually yields more profits to the owners and employees. In terms of total firms and employment, burley tobacco dominates all firms in the country with over 15 percent of the total MSEs (and 25% of total MSE employment), followed by vending farm products, vending fish, distilling, food preparation and beer brewing. In addition, these firms tend to last longer and represent more stable growth patterns.

In terms of the effects of HIV/AIDS on Malawian MSE, 12 percent of the firms were aware of being affected by the disease, answering a direct question on the subject. The sectors where the effects are most felt are construction, services, forestry, and commerce and trade. In terms of proportional representation, the urban industrial and urban low-income firms bear the brunt of the impact. The lake shore regions are the least affected. However, when reviewing responses to proxy questions that provide more information on the firm, the numbers of firms being affected increase substantially, with more than 37 percent indicating that they were likely to be affected. This has important implications for the country as a whole, and for the kinds of programmes that could be developed to assist the MSE.

Relatively few firms in Malawi are able to access business support services. The heavy rural orientation of the enterprises may be one reason, but the nature of the businesses may also be a factor. What is disappointing is that from among those firms that did receive support, there is a mixed set of results in terms of increased sales and employment. Given that training programmes and other direct support mechanisms are often very expensive per firm serviced, especially in relation to their overall turnover, this has important implications for the future of support services. This provides some incentive to change the focus of the support programmes to a sectoral level, focusing on strengthening linkages and achieving greater leverage through market oriented activities. Subsector or Cluster type programmes present some interesting opportunities in Malawi, especially based on the natural resources subsectors and focusing on the firm linkages from the production/harvesting through processing and marketing of the products.

When looking to sectoral development programmes, one should target sectors that show strong market growth potential, as that will be the “pull factor” to stimulate and absorb increased production. In a country like Malawi, which has a very low per capita income, there is limited internal purchasing power, so products for export will offer stronger possibilities for growth. Within the natural resource based sectors, fishing, tobacco and other export crops stand out. Within the rest of the economy, construction and transport get a large portion of the marginal increases in expenses, so they are also good markets to target.

## I. INTRODUCTION

The objective of Malawi's 2000 GEMINI style-based survey of micro and small enterprises (MSE) is to provide a relatively complete and detailed understanding of the current status of the sector. MSE are defined as businesses with less than 50 employees and selling at least 50 percent of their goods or services. Although this sector has been addressed in various enterprise related statistical surveys, it has not received thorough investigation since the last similar MSE survey in June-July, 1992. In between, there have been isolated studies done under different efforts and by the economics division of the National Statistical Office (NSO), as well as minor investment programs especially in institutional support. In addition, in 1999 USAID funded a study on the MSE contribution to rural incomes (G. Simons, 1999) and thereafter, together with the National Economic Council commissioned a qualitative study on Micro Entrepreneurship in Malawi (Orr and Makawa, 2000). The knowledge gained through these more recent studies has been brought into this survey mainly by reviewing the reports, and having several of the above mentioned researchers on the team.

In spite of these efforts and increasing recognition of the potential role this sector can play in Malawi's economy and especially in the livelihoods of the relatively poor, Malawi's MSE sector remains small compared to other countries in the region. The country still lacks a national strategy and policy that can push the sector significantly forward, but the intention is there and progress is underway. For example, in 1997 the Ministry of Commerce and Industry created a special Small and Micro-Enterprise Unit. UNCDF has also worked closely with the government to create an enabling environment for MSEs under the 1<sup>st</sup> Country Co-operation Framework. Activities have included support of an SME strategy which will be finalised this year, capacity building of entrepreneurs through other service providers, and funds for microfinance through Pride Africa.

Thereafter, Malawi formed a joint government and multidonor working group to look into and develop an investment plan for supporting this sector. At the same time, donors are supporting a range of new non-government business development organisations such as Business Expansion and Entrepreneurship Development (BEED) supported by GTZ and two DfID funded programmes: Training for Enterprise and Exports in Malawi (TEEM) and Usiwa Watha Credit Trust. In addition, DFID is undertaking a scoping exercise with the objective to map out current donor activities and processes, and identify constraints and opportunities for collaborative private sector development in Malawi, with MSEs being central to the strategy. Progress on all these efforts requires updated data and a better understanding of the current MSE sector, a purpose towards which this survey contributes significantly.

A review of several recent studies and documents on MSE issues revealed that national level knowledge of the empirical facts or the changes that might have occurred in the MSE sector since the 1992 GEMINI-style survey is incomplete, tentative or vague. It has been widely expected that significant changes would occur, as Malawi shifted towards a more democratic government in 1994 and has adopted more market oriented economic policies. However, most quantitative analyses referring to MSE sector performance at the national level have quoted the same 1992 figures for the last 8 years. There has been little investigation into changes specifically focusing on small and micro enterprises, or what factors may be driving any changes that might have occurred.

DIFD commissioned this survey to gain insights into these questions and identify the current situation in this sector. This includes: the distribution of MSEs in the country by sector, size and ownership; business characteristics and economic performance; actual contribution to employment and incomes; key problems and the effect of current business support services including credit. These findings are compared to the 1992 findings (see TOR in Annex 2).

The results of the study show variations between rural and urban areas, between sectors of the economy including agriculture and natural resources production, manufacturing, trade and services, and between gender ownership of enterprises.

Similar studies have been completed in other countries in the region including Zimbabwe, Zambia, Kenya, and Mauritius. However, the Malawi 2000 study includes specific sub-sector analysis methodology to identify MSE sub-sectors of highest potential growth, and opportunities for future MSE development under Malawi's conditions. The study also pays particular attention to two new areas not explored in the 1992 survey or in most MSE studies: 1) MSE involved in primary production (crops, livestock, forestry products and fishing) and 2) the effects of HIV/AIDS on the MSE sector.

In micro-enterprise studies, primary production in agriculture and the natural resources sectors have traditionally been addressed in the context of providing raw materials for the off farm activities, but not as enterprises in their own right. In 1992 for example, the Malawi GEMINI study covered manufacturing, trade and services (including processors and traders of crops, forest products and fish), but did not include the producers of these products, even if they were businesses. This survey has examined primary production as an enterprise in itself, if the products are produced primarily for sale or the sales exceed a certain value. This provides some more insights into the role of farming enterprises, as well as the off-farm enterprises as sources of income for the family. This provides useful insights into Malawi's persistent attempts to effect the transition from subsistence production as a traditional way of life to agricultural production as a business and income generating activity, especially among the rural populations.

This transition, for example, has been the focus of programs such as the Small Holder Agricultural Development Program (SADP), which supports farmers to operate as businesses, and also a long-term objective of Malawi's agricultural policy reforms towards a market-oriented economy. Similarly, Malawi's Community Based Natural Resources Management (CBNRM) program is making major efforts to promote forestry, wildlife and fisheries-based rural enterprises, and to develop linkages with the formal private sector. This is based on the belief that running primary production as a business, rather than as a survival or subsistence strategy, will contribute more to improving rural livelihoods.

While one can address the issue of the impact of HIV/AIDS within the context of how it affects households' coping strategies, the data collected in this survey focused on how HIV/AIDS affects MSE in Malawi and the extent of its spread. The survey provides some information that begins to show the prevalence of this disease and its possible effect on economic development. It highlights where (geographic as well as income strata) the disease is affecting most businesses and the distribution across enterprises by type of owner. To do this, it uses both direct and indirect approaches. The former provides concrete evidence of the types of effects that are occurring within a limited number of firms. The latter provides us with a better idea of the true spread of the disease and which types of enterprises are most likely to be affected.

Another key objective of this study was to strengthen the National Statistical Office (NSO) staff capacity to undertake similar studies in the future. This includes their general capacity for undertaking field surveys, processing and presentation of survey based information to technical users and to policy makers. For this purpose and for the valuable contribution based on their past experience, the NSO staff have been involved substantively in all steps of the survey from design through training of enumerators, field supervision, data analysis and preparation of the report. The survey also included a local data-consulting firm, Wadonda

Consult based at Chancellor College who did most of the survey management work. ECI provided international consultants to work hand in hand with the local teams.

The rest of this report covers the survey methodology, results of the primary survey, and the conclusions. The results of the primary survey are organised into various sections:

- 1) Malawi's MSEs in a national context.
- 2) A look at the enterprises and their contribution to the economy.
- 3) MSE dynamics, constraints and current support services.
- 4) Changes in the MSE sector, 1992-2000
- 5) Findings on HIV/AIDS and impact on MSEs
- 6) Implications for the future: Approaches to strategic development
- 7) Conclusions

## **METHODOLOGY**

### ***The Survey Team and Capacity Building***

The Malawi 2000 MSE survey was conducted as a collaborative effort between Ebony Consulting International (ECI), the National Statistical Office (NSO), Wadonda Consult, a local consulting firm based at Chancellor college, and Kadale Consultants. ECI had the overall responsibility for the product, and provided the international experts to design the survey, train the local staff, and ensure the final deliverable. The NSO staff members were involved in the entire exercise from design, data collection, data analysis and report writing. Wadonda was responsible for managing the data collection and delivering the cleaned data to ECI and the NSO. Kadale, which specialises in MSE development in Malawi, provided specialised knowledge of the situation in Malawi and in understanding current MSE constraints and support programs here.

One of the key objectives of this survey was to build NSO's capacity for similar studies in the future and for conducting their regular surveys including the Integrated Household Survey (IHS), Medium Scale Business Survey and the Annual Economic Survey. For this purpose, the NSO team included 5 staff from the Economics Division and were involved in all the key steps in this process including: country stratification, selection of enumeration areas, design of survey instruments, training of enumerators and field supervisors, field supervision, data processing, analysis and report writing. In addition, the issues surrounding the different approaches to data collection and the strengths and weaknesses of this methodology have been discussed at length with the NSO staff. They will attempt to integrate the findings from this exercise into their other surveys. Much data from their other surveys is used in this report to help with the analysis of the implications, especially the IHS data.

### ***Definitions***

In this survey *Micro and Small Enterprises* (MSE) include those businesses that employ 50 or fewer employees including working owners. The employment-based definition has been used by many related studies in the Southern African region and outside Africa and has been found easily measurable, relatively inexpensive and not necessarily less reliable than the more complex definitions (see Parker 1996 on advantages of this definition). Employees include working owners, paid workers, unpaid workers and trainees, full and part time workers. The survey excluded businesses that have multiple branches even when any one encountered branch had less than 50 employees. A *business* was considered an activity that sold 50 percent or more of its goods or services.

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As in the 1992 Malawi GEMINI survey, this survey includes all businesses in the manufacturing trade and services sectors. However, in addition this survey also includes primary production of crops, livestock, forestry products, fishing and mining categorised together as *agriculture and natural resource*. While the secondary activities related to this sector were covered in the 1992 survey either under manufacturing or trade, the primary production activities were not included. However, crop production activities were only considered enterprises if they had an annual sale of at least MK6,000 (US\$ 75)<sup>1</sup>. Using this cut off point, the survey found that in Malawi only 7.9 percent (160,805) of the total agricultural households and 6.7 percent of all households (2.4 million as per the 1998 national Census) can be classified as crop producing *enterprises*.

***Country Stratification and sample selection***

The 2000 Baseline Survey in Malawi is part of an established method of carrying out surveys of micro and small enterprises known as the GEMINI approach. GEMINI-style surveys generally employ a stratified cluster sampling approach. This means that enumeration areas (EAs) are randomly selected within each stratum. To maximise the precision of the survey estimates, two issues present themselves. First, the strata should be as different from each other as possible. Second, the differences between enumeration areas within each stratum should be relatively small.

In Malawi, seven strata were selected in consultation with the NSO, Wandonda, and other local experts. Urban areas are defined to include Malawi's four main cities: Blantyre, Lilongwe, Mzuzu, and Zomba. Small towns are considered to be district headquarters and trading centers. Because rural areas bordering on lakes are thought to be very different from all other rural EAs, these were put into a separate stratum. Within each stratum, a sample of EAs was selected using simple random sampling.

Urban commercial and industrial areas were sampled in a slightly different manner. Because the EAs that comprise these areas are large in size and small in number, these EAs were subdivided. Once this subdivision was accomplished, areas were randomly selected.

Because the sampling procedure was conducted in accordance with established statistical methods, the results can be extrapolated to accurately represent the country as a whole. Details about the stratification and survey coverage can be seen in Table 1.

**Table 1 Stratification Information, Malawi 2000**

Stratum	Total Households	Total Population	# of EAs in Stratum	# of EAs in Sample
Urban High Income	55,382	256,446	174	5
Urban Low Income	208,139	891,465	606	10
Urban Commercial	*	**	36	7
Urban Industrial	**	**	15	3
Small Towns	142,161	637,570	542	15
Rural Areas	1,827,976	7,955,873	7,300	36
Rural Areas (Lakeshore)	99,909	427,005	344	5

*SOURCE: NSO and Survey Data*

<sup>1</sup> In the Zimbabwe study using a similar definition of agricultural enterprises, the cut off point was US \$100 per year. This was too high for Malawi where incomes are much lower and a big proportion of farmers involved in subsistence farming.

During the fieldwork, each household and shop in a selected EA was visited. Some sites had one or more income-generating activity, others had none, and other sites were closed to our enumerators (either because no one was there who has knowledge of the business, or because the respondent refused to cooperate). This information, taken in conjunction with the information that is known about the total number of households in each stratum, allows the sample results to be extrapolated to the national level.

### ***Data Extrapolation and Weighting***

Because of the method employed, it is possible to calculate weights for each stratum and apply these to the data from the survey. Briefly the procedure involves weighting each stratum, taking into account both the probability of a household's being selected, and the fact that in each enumeration area certain households and shops were closed to enumerators. Once these weights are calculated, survey results can be extrapolated to the national level, and an estimate of the total number of MSEs in each stratum can be made. Estimates of the total number of enterprises involved in each activity (e.g., tailoring, selling curios, repairing electronics, etc.), the total number of MSEs run by female proprietors, the number of MSEs by location, etc. will be accurate.

A more comprehensive discussion of the weighting and extrapolation procedures can be found in Annex 5.

### ***The Survey Instruments***

This survey used three different instruments to collect the data. An *existing business questionnaire* (EBQ) was the main instrument and a *closed business questionnaire* (CBQ) covered businesses that had closed in the last 5 years. In addition, a tally sheet recorded the number of businesses that were identified (IBs) but not fully enumerated; those were not unidentifiable (UBs), non-responses (NRs) and no activity (NA) households and sights.

The 2000 Baseline Survey instruments are similar to those used in other GEMINI-style surveys conducted in the region. With the participation of the NSO, and local consultants, the questionnaire was adapted to a certain extent to suit national conditions. Field experience suggested that for future surveys some further adaptation would improve the efficiency in enumeration. The main questionnaire is eight pages in length, and covers questions about the distribution of MSEs by size, geographically by type of ownership it also contains questions that help estimate contribution to employment and incomes, business economic performance (births and deaths, costs, sales and profits). It also includes questions on current and start up constraints, as well as services (including credit) that are available to the MSE owners. In addition the questionnaire includes 4 indirect questions that help estimate the likelihood that a business is affected by HIV/AIDS and a direct question on whether the respondent believes the business is affected. This section has previously not been included in similar studies done in the region.

### ***Data Collection and Processing***

The data collection was undertaken in the seven weeks from October 23<sup>rd</sup> to December 8<sup>th</sup>. This coincided with a busy agricultural period (mainly planting), which meant that a certain number of potential survey respondents were out in the fields during enumerator visits, and consequently an underestimation of the number of existing MSE especially in the rural areas may have occurred.

The field survey was organized in 5 phases starting with Zomba area and the southern and problematic districts. The annual rains being around November / December in the southern regions of the country and thus the initiation of the survey here. To enhance data quality, 46 candidates received an intensive one-week training followed by a competitive process and intensive evaluation exercises to select the 28 staff to undertake the fieldwork. Then remuneration for all staff in the field and local survey managers was based on basic pay plus an additional bonus based on performance- a strategy that worked extremely well and to be recommended for future surveys of this kind.

Phase I of the fieldwork started in the Zomba area and allowed senior researches to provide further field based intensive supervision and guidance to the field teams. After that the teams started phase II further south in Nsanje and in difficult locations (due to accessibility during the rainy season) such as Makanjira. The team progressed north and finished an initial 71 Enumeration Areas just north of Mzuzu around 3<sup>rd</sup> of December. An additional 10 EAs spread throughout the country and mainly from the rural strata (see second tier EA in the attached EA summary sheet) were completed in the following five days.

While in the field, all teams received regular and intensive supervision and support from senior researchers and survey managers from NSO, Wadonda Consult and ECI. For example, each of the four field teams was visited at least once in each of the five phases and in most cases once every week. During these visits the senior supervisors used a structured and commonly agreed supervision guide which covered both administrative and technical aspects of the survey. The supervision reports were sent back to the Principal Investigator after each visit in order to resolve any on-going problems in the course of the survey. This guide is included in a training manual also developed during the design and training phase of the survey. In addition, NSO staff brought invaluable experience on field conduct and dealing with resistance and difficult field situations. Wadonda Consult primarily did the data entry, cleaning and processing. This started in the first week of November and continued through to mid December. Data analysis started in November and continued to the end of January.

### *Estimating the Effects of HIV/AIDS*

In Malawi, where few people who are infected with HIV/AIDS are aware of it, it is very difficult for respondents to give definite answers about incidence of infection or the exact ways in which HIV/AIDS has affected them or their businesses. The survey therefore used both a direct approach and an indirect approach to investigate this problem. In the direct approach, the survey asked the owner of the firm outright whether the firm had been affected by HIV/AIDS, and then asked follow-up questions about the specific types of effects. Given the close ties of most MSE to the household budget, internal family health and expenditure issues can affect the MSE just as much as direct effects on the business. Therefore, in the indirect approach we asked questions focusing on issues such as sickness of proprietor or workers, additional financial burden due to caring for loved ones or having to take care of additional dependants (children who are sick or those who have who have lost their parents), additional funeral expenses, or increased absenteeism from work.

Taken together, the responses to these questions helped calculate the likelihood that a given firm has been affected by HIV/AIDS, either from internal or external factors. A variable was then created to indicate the degree of likelihood that a firm was affected. For example, those firms that answered all the questions negatively were categorised as “unlikely” to be affected. Those who answered one in the affirmative were categorised as “least likely” two as “less likely” three as “likely”, four as “very likely” while those who answered “yes” to five or more of the questions were categorised as “extremely likely” to be affected. This data was then examined against the performance of firms in terms of size, sales and profits? While we were

able to determine which types of firms were most affected (by size, gender, location, and volume of sales), the data was not sufficient to allow us to determine the actual impact of the disease on the firms. While the firms were able to give us some insights into the impacts from their perspectives, a true quantitative impact would require a longitudinal study with proper control groups.

### ***Calculating Business Profits***

The survey included several questions designed to allow calculation of a crude profit measure for each firm. Each respondent was asked what average sales were in good, bad, and average months. Data were also collected on how many good, bad, and average months the business had in the previous year. From these an estimate of annual sales can be constructed. Respondents were also asked to list business expenses, and from this an estimate of annual expenses can be made. The difference can be taken as a rough approximation of annual MSE profits. Several steps were taken to improve the accuracy of these measures: these are presented in Annex 6.

Three things should be noted about our calculation of profit. First, no effort was made to establish the opportunity costs, so this measure is more a measure of accounting profits than of economic profit. Second, no effort was made to account for asset depreciation, as this would require accurate current valuation of assets, as well as knowledge of the real value at purchase. Third, the reader is cautioned that this measure is at best a crude indicator of profitability. A more accurate accounting of revenues and expenses than is conducted in our survey would be required if anything more than a crude indicator is desired.

### **Some Limitations of the GEMINI-style Methodology**

The GEMINI methodology is excellent for a study that focuses on the *enterprise* but is limited in generating information geared towards taking action concerning *households*. It enumerates business, not the households, as the unit of analysis. For example, this methodology will identify quite accurately the number of business in the country, their location, size, profitability, ownership etc, but cannot identify the household circumstances that lead to the observed facts or trends. This is important because most MSEs are a family or a household affair and their birth and performance are affected by household circumstances. In this regard, the Malawi 2000 survey had some advantage in having senior team members who have conducted extensive household oriented research in Malawi. However, these past surveys were not specifically designed for this purpose, which posed some limitations. A study that wishes to use GEMINI based results to design programmes for the MSE sector as a source of economic growth and livelihood support for the poor needs to generate additional and equally high quality data covering certain aspects of the households. This can be done either by an extension of the GEMINI methodology, or additional studies designed specifically for that purpose.

## **II. Malawi MSEs in the Macro-Economic Context**

### **Overview of the Role and Distribution of Micro and Small Enterprise in Malawi**

Micro and Small enterprises (MSE) are recognised as an important source of employment and income to many people at the bottom of the economic ladder. But MSEs are rarely evident and are often quite difficult to identify and count, let alone identify their dynamics. This problem is compounded in Malawi, one of the poorest and highly populated countries in Africa, and where 85 percent of the population resides in the rural areas. This means the MSEs are likely to be purely informal in nature and consequently more difficult to identify. As part of Malawi's current efforts to support the MSE sector, this survey provides valuable information and a clearer picture of the status and structure of the sector, as it stands in the year 2000. It first summarises the contribution of the sector to the entire economy, and then looks more specifically at the MSEs themselves. This includes their distribution geographically and by sector, specific MSE sector contribution to employment and incomes, and then a special look at the agricultural and natural resources-based MSEs typically left out of enterprise studies.

### **MSE CONTRIBUTION TO THE MACRO-ECONOMY**

#### *Size of Malawi's MSE Sector*

Malawi's MSE sector (firms up to 50 employees) consists of approximately 747,000 income-earning activities.<sup>2</sup> These are split between the traditional off-farm employment activities (manufacturing, construction commerce & trade, and services) which account for 557,848 MSEs, and the agriculture, mining and natural resource sectors (on-farm activities) which account for an additional 189,548 enterprises. Most (83 percent) of these activities are based in rural areas including the most rural areas (71 percent), small towns (8.8 percent) the lakeshore (4.3 percent). The remaining 17 percent are in the four cities in the country – Blantyre, Lilongwe, Mzuzu and Zomba.

#### *National Sales and Profits from the MSE sector*

On average, the country's MSEs together generate an annual gross sales value of MK 47 billion (US \$790 million using 2000 exchange rates), which is substantial for a relatively poor country. They have a total annual profit (more equivalent to GDP) of MK 16.7 billion amounting to about 15.6 percent of Malawi's GDP, adjusted to 2000 prices<sup>3</sup>. This is a substantial contribution to the economy by a sector that has largely been ignored in the past. In the last two years, however, this sector has begun to receive serious attention by policy makers and a number of donor agencies and NGOs.

#### *Contribution to Employment*

The entire MSE sector employs over 1.7 million people, of whom approximately 42 percent are women. This accounts for about 38 percent of the total economically active population of 4.5 million<sup>4</sup>. Of this 38 percent, the off-farm sectors (manufacturing, commerce and services)

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<sup>2</sup> The GEMINI survey identified 747,396 MSEs, but when comparing with the Medium Enterprise Survey carried out by the NSO an extra 5,000 larger enterprises between 10 and 50 employees were identified, which accounted for an additional 80,000 employees.

<sup>3</sup> Calculation is based on a 1999 average per capita GDP of US\$190 and a 1998 population estimate of 9.9 million at an average exchange rate for the year of 59.5 kwacha to the dollar.

<sup>4</sup> NSO. 1998 Population and Housing Census, December 2000

together account for 22 percent. Though comparable to the findings from other countries in the region, this percentage indicates a slight drop since the 1992 survey.<sup>5</sup> The remaining 16 percent of total national employment comes from the primary production MSEs including crops, livestock, forestry, fishing and mining.

The GEMINI-style methodology, upon which this survey is based, often undercounts the medium sized enterprises, and consequently underestimates their contribution to employment and incomes. Supplementary information from the 1998 NSO Medium Enterprise Survey (MES) suggests that the NSO captured about 5,000 more medium scale enterprises in the 10-50 employee range than were captured by the GEMINI survey<sup>6</sup>, adding approximately 80,000 employees. While this has only marginal impact on the total number of employees in the country, these additional employees will be from the larger firms. See Annex 6 for comparisons of these two surveys.

#### ***Earnings by workers and owners***

Among the 1.7 million people employed by the MSE sector, 60 percent are working owners and 15 percent are paid workers. If one does not include the owners, and simply compares the unpaid workers to the paid workers, the unpaid workers outnumber paid workers by 50 percent. The unpaid workers are usually family members. In addition, apprentices and trainees comprise four percent of the labor force, and are also unpaid. Calculations done on the basis of the profits per employee (including those who are unpaid) indicated that individuals earn between MK 5 and MK 20 MK per hour, with an average of about MK 14/hour.

#### ***Household Reliance on MSE Incomes***

MSE activities provide profit-based income to about 25 percent of all of the households in the country.<sup>7</sup> They are significant, and critical, sources of income for both rural and urban households. This survey shows that, on average, the rural households derive more incomes from MSEs than do urban households. For example, in the small towns, rural areas, and lakeshore areas, MSEs provide more than half of the household incomes (62, 64 and 73 percent respectively). This is similar to the findings in other countries. However, MSEs operating in the urban areas meet less of their household income needs from MSE activities. For example, in these strata only 45 percent of the MSEs provide more than half of the owners' household incomes.

In addition, about 75 percent of the households go into MSE activities to enhance household incomes. These households also use most of the profits for household sustenance rather than re-investing in business or savings. Apart from the direct income, earlier household studies have shown that households in addition rely on MSE activities as a risk management and diversification avenue. Especially at the micro level, many households go in and out of MSE activities as the need and opportunities arise, a situation that creates unique business dynamics in this sector.

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<sup>5</sup> The rate of 22 % excludes the agricultural and natural resources based activities, which are not counted in these earlier surveys.

<sup>6</sup> In contrast the GEMINI survey estimated four times as many enterprises in the 5- 10 employee range than the MES.

<sup>7</sup> This calculation is based on approximately 600,000 MSE owners identified by this survey, NSO' 1998 population census estimating 2.4 million households in the country, and the assumption that each distinct owner came from a different household.

## **Changes Since 1992**

Since 1992, there has been a net (considering births and deaths) increase of MSE in the urban areas, but a net decrease in the rural areas. Overall, there appears to have been a decrease in the off-farm (manufacturing, commerce and trade, and services) MSE activities. However, since the primary production (agricultural and natural resources) based enterprises were not covered in the 1992 survey, it is difficult to tell whether in the last eight years there has been a shift from the secondary to primary production based MSEs. This might be the case if the increased returns to agricultural production reported by several studies on agricultural trends have actually occurred.<sup>8</sup>

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<sup>8</sup> Another factor to consider might be the timing of the survey, which took place during the planting season. When contrasted with the 1992 survey, which took place during the off-season, more individuals were involved in off-farm activities at the time of the interview. This factor, plus the fact that more people were away preparing their fields, may account for some of this difference.

### III. A Look at the Enterprises and Their Contribution to the Economy<sup>9</sup>

This section provides additional detail on issues summarized in the last section, which placed the MSE sector within the context of the entire country. It discusses the specifics of the firms encountered throughout the country, including their geographic and sectoral distribution, as well as distribution by size and gender of owner. It then examines profitability levels and contribution to incomes for the owners, workers and the households, observing difference between sectors, urban and rural areas, and between male and female owned enterprises. The last part of this section is a special look at the agricultural and natural resources based MSEs. The section after this one looks at the MSEs' dynamics, constraints and current support services

#### MSEs Geographical and Sectoral Distribution

##### *Distribution by Location*

Currently, the rural areas as a whole host about 83 percent of the total number of MSEs in the country (see table 2). This reflects a decrease from 1992 (see Section V).

**Table 2: Distribution of MSEs by Economic Strata**

	MSEs	
	No. of MSEs	% of Total
<b>URBAN</b>		
Urban high income	22,840	3.1
Urban low income	92,781	12.4
Urban community	7,498	1.0
Urban industrial	1,095	0.1
<b>Subtotal</b>	<b>124,214</b>	<b>16.6</b>
<b>RURAL</b>		
small town	65,532	8.8
Rural areas	525,599	70.9
Lake shore areas	32,051	4.3
<b>Subtotal</b>	<b>623,182</b>	<b>83.4</b>
<b>ALL</b>	<b>747,396</b>	<b>100.0</b>

*Source: Malawi Micro and Small Enterprises Survey, 2000*

Given that 85 percent of the population lives in the rural areas as defined here, we can conclude that the national MSE distribution at the moment more or less follows the population distribution pattern. Of the 83 percent rural MSEs, 71 percent are in what in this study are identified as the "rural areas" stratum, 8.8 percent in the "small towns" stratum, and 4.3 percent along the "lake shore areas" stratum. The urban areas host 17 percent of total

<sup>9</sup> The enterprise distribution and total employment analysis is based on the total number of identified MSEs including about 40,000 that were identified (IBs) but not fully enumerated. Further analysis providing more detailed MSE information is based on approximately 700,000 firms that were fully enumerated, while the profit calculation is based on a slightly lower figure excluding MSEs that provided unreliable profit data. These are non-sampling errors without any systematic bias such that the information from the fully enumerated firms can be confidently applied to the other MSEs, especially when estimating average values and percentages .

MSEs, the bulk (12.4 percent) of them being in the “urban low income” stratum followed distantly by the “urban high income” stratum (3 percent). There were very few MSEs identified in the “urban industrial” (0.1 percent) and “urban commercial” (1.0 percent) strata, but they account for a sizeable portion of the urban employment. The concentration of urban MSEs in the low income areas is consistent with the understanding that MSEs in general are an important part of the survival and income diversification strategy of the poorer segment of the society.

### *MSE Distribution by Sector*

Prior surveys, including the 1992 GEMINI survey, focused on the off-farm MSEs activities in manufacturing, commerce and services (the traditional definition of MSEs). They excluded the primary production activities in the agricultural and natural resource sectors. Including the primary production sector this time increases the total number of firms, as well as overall value of the MSE sector as a whole. The traditional MSE sector (manufacturing, commerce and services) still dominates in terms of numbers of firms, together accounting for about 75 percent of the total MSEs in the country (see table 3).

**Table 3:** Distribution of MSEs by Sector

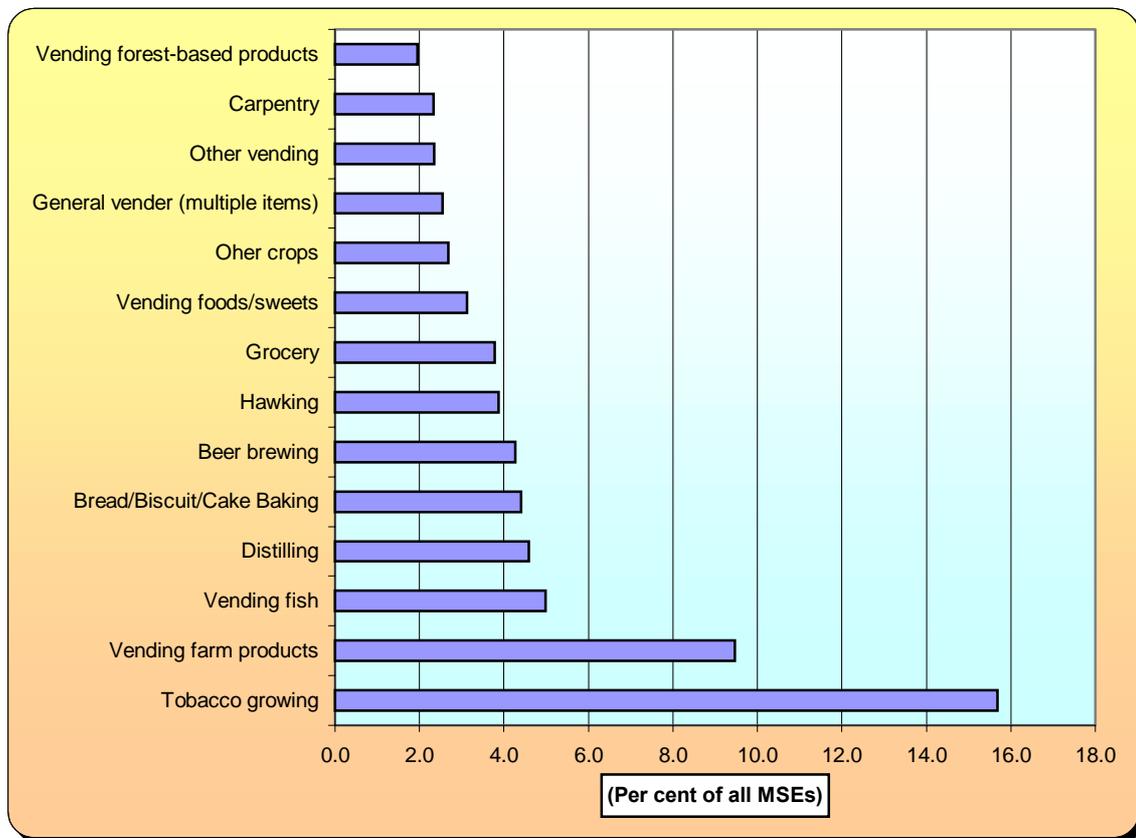
		No. of MSEs	% of Total
Agriculture, Mining and Natural Resources	Crops	160,805	21.5
	Livestock	7,286	1.0
	Forestry	9,571	1.3
	Fishing	10,997	1.5
	Mining	888	0.1
	<b>Subtotal</b>	<b>189,548</b>	<b>25.4</b>
Manufacturing, Commerce and Services	Manufacturing	206,397	27.6
	Construction	6,475	0.9
	Commerce and Trade, Hotels	306,682	41.0
	Transport	4,701	0.6
	Services	33,594	4.5
	<b>Subtotal</b>	<b>557,848</b>	<b>74.6</b>
<b>All</b>		<b>747,396</b>	<b>100.0</b>

*Source: Malawi Micro and Small Enterprises Survey, 2000*

The leading sectors are commerce and trade (41 percent) and manufacturing (27.6 percent). Crops take a close third position (21.5 percent). Service based MSEs account for 4.5 percent, distantly followed by forestry (1.3 percent) and fishing (1.5 percent), with the remaining sectors (livestock, construction, transport and mining) accounting for less than 1 percent each. Among these, livestock leads with about 1 percent.

Figure 1 demonstrates that, when looking at specific activities, agriculture, natural resources, and related MSE activities dominate. For example, tobacco production leads with 15.7 percent of all MSEs, followed by vending farm produce, vending fish, and local distilling, food preparation, and brewing. It is interesting to note that all of the dominant subsectors depend directly on local natural resources including the lake for fishing, and land for farm produce which may be sold directly, processed and sold as food, or used for local brewing.

**Figure 1: Dominant MSE Activities**



***Distribution by Size and Strata***

This study, along with others in the region and around the world, has used *number of employees* to measure the size of businesses. Malawi’s national classification of this sector identifies firms with 0-4 employees as “micro”, those with 5-20 as “small” and those with 21-100 as “medium” size. Within a similar framework, this study targeted businesses with 1-50 employees and classified them all as “micro and small” enterprises (MSEs).

The results show that 91.3 percent of all the MSEs are “micro,” belonging to the 0-4 workers category (see table 4). Among these, 44 percent have 1 employee, usually the owner, 30 percent have 2 employees, 10 percent have 3 employees, and 6 percent have 4 employees (see table “employees, by category and sector, Annex 4).

**Table 4: MSE Distribution By Size (#employees) and Strata**

No. of Employees	0-4 Percent	5-20 Percent	21-50 Percent	All MSEs
<b>URBAN</b>				
Urban high income	95.5	4.2	0.3	100
Urban low income	96.1	3.9		100
Urban commercial	95.9	4.0	0.1	100
Urban industrial	90.7	7.8	1.6	100
<b>RURAL</b>				
small town	91.2	8.6	0.2	100
Rural areas	90.5	9.3	0.2	100
Lake shore areas	85.1	14.9		100
<b>All</b>	<b>91.3</b>	<b>8.5</b>	<b>0.2</b>	<b>100</b>

Source: Malawi Micro and Small Enterprises Survey, 2000

Generally, the rural agricultural MSEs tend to be slightly larger in terms of number of employees. For example, a higher percentage of the rural MSEs are in the 5-20 employee category. The lake shore leads with about 14.9 percent of its MSEs in this category. In the urban centers, the firms in the industrial sites tend to have more employees, for example, 7.8 percent of them in the 4-5 category and 1.6 percent in the 21-50 category. In the other strata few firms have 21-50 employees. However, the proportion of this top category of firms identified in this study is extremely small (0.2 percent of total MSEs). Thus, even by the strict national classification of MSEs, the ones covered by this study fit into the “micro” and “small” enterprises with few firms in the “medium” category.

#### *Distribution by Size and Sector*

Within sectors, the primary production activities including fishing, crop production, livestock production, and mining tend to have more employees (see table 5). These sectors respectively have about 38 percent, 29 percent, 29 percent and 14 percent of their MSE activities in the 5-20 employees category, and have comparatively fewer firms with a single worker (see table “employees, by category and sector in Annex 4, showing higher disaggregation of firm sizes).

**Table 5: Distribution of MSEs by Size by Sector**

	0-4	5-20	21 – 50	
Crops	70.5	29.1	0.4	100.0
Livestock	70.9	29.1		100.0
Forestry	100.0			
Fishing	62.1	37.5	0.4	100.0
Mining	86.4	13.6		100.0
Manufacturing	97.2	2.8		100.0
Construction	78.9	21.1		100.0
Commerce, Trade and Hotels	96.8	3.1	0.2	100.0
Transport	92.9	7.1		100.0
Services	93.5	6.5	0.0	100.0
<b>ALL</b>	<b>91.3</b>	<b>8.5</b>	<b>0.2</b>	<b>100.0</b>

Since these larger MSEs are primarily located in the rural areas, the size-by-sector results are consistent with the above size-by-strata distribution. On the other hand, single employee (in

most cases the owner) dominate the manufacturing and trade sectors. Construction based MSEs however tend to be relatively large with 21 percent of MSEs in the 5-20 employees category, probably owing to the nature of their work where several people need to work hand in hand.

***Distribution by Gender of Owner***

For all enterprises, there were 606,245 owners. Overall, 34 percent of MSEs are owned by women, 35 percent by men and 30 percent by married couples (See table 6). For African countries, this represents an unusually low proportion of women-owned MSEs. For Africa as a whole, on average women own about 75 percent of the micro and small businesses. However, with the majority (46 percent) of women’s enterprises in commerce and trade, and manufacturing (43 percent), Malawi’s sectoral distribution of women’s MSEs is similar to other countries. In most cases woman only MSEs are concentrated off the farm since husbands typically claim to own the farms and have a tendency to give women limited control over farm incomes, especially if there is not perfect cooperation between them.

**Table 6: Distribution of MSEs by Gender of Owner**

	Female	Males	Husband and Wife	Multiple Proprietors
Crops	4%	12%	53%	54%
Livestock	1%	1%	1%	
Forestry	2%	2%	0%	
Fishing	0%	3%	1%	
Mining	0%	0%	0%	
Manufacturing	43%	27%	13%	5%
Construction	0%	2%	0%	
Commerce and Trade, Hotels	46%	44%	28%	37%
Transport	0%	1%	0%	
Services	4%	8%	3%	4%
<b>All</b>	<b>34%</b>	<b>35%</b>	<b>30%</b>	<b>1%</b>

*Source Malawi Micro and Small Enterprise Survey, 2000*

In contrast, male owned firms are spread out through more sectors. In Malawi, as elsewhere, MSEs owned by husband and wife are predominantly in agricultural or family farms, with 53% of married couples’ businesses being in crop production. The rest of their businesses are in commerce and trade (28 percent) and in manufacturing (13 percent). Similarly, multiple partners’ MSEs are primarily based on crop production (54 percent) and commerce and trade (37 percent).

As shown in table 1 in Annex 4, women dominate three trade areas: vending farm and forestry produce, and vending fish. Overall, women are poorly represented in the services sector as a whole, though they seem to dominate the moneylenders and hair salons.

In manufacturing, women dominate the brewing, food processing/preparation, and textile related activities. They are also surprisingly active in block making.

Women own (or in many cases are hardly allowed to claim ownership) few crop-farming businesses, but in the primary production sector are better represented in the goat production-based businesses, river sand collection and harvesting forest products.

***MSE Distribution by Value of Sales and Sector***

Malawi's MSEs in general are characterized by low value of sales. The sales distribution pattern is concentrated in the middle, with 60 percent of the firms selling between MK6,000 and MK 50,000 a year. But 15 percent of MSEs sell more than MK 100,000 a year.

**Table 7: Distribution of MSEs by Annual Sales and by Sector**

	Less than MK 2,000	MK 2,000- MK 6,000	MK 6,000- MK 10,000	MK 10,000- MK 20,000	MK 20,000- MK 50,000	MK 50,000- MK 100,000	Above MK 100,000
<b>Crops</b>		0.37%	32.22%	34.31%	24.12%	6.51%	2.46%
<b>Livestock</b>			15.03%	30.06%	26.91%	13.03%	14.98%
<b>Forestry</b>	7.66%	31.44%	20.68%	23.76%	11.46%	1.62%	3.38%
<b>Fishing</b>	1.10%	2.70%	1.10%	12.00%	19.21%	17.61%	46.28%
<b>Mining</b>				28.90%	28.90%		42.20%
<b>Manufacturing</b>	2.15%	14.88%	15.31%	21.08%	25.94%	11.38%	9.27%
<b>Construction</b>		2.06%	14.72%	13.78%	13.70%	41.74%	14.00%
<b>Commerce and Trade, Hotels</b>	2.90%	7.24%	8.45%	16.33%	22.40%	18.22%	24.46%
<b>Transport</b>			9.78%	12.26%	9.41%	11.02%	57.52%
<b>Services</b>	3.89%	15.98%	11.72%	20.63%	28.03%	7.72%	12.03%
<b>Total</b>	<b>2.19%</b>	<b>9.01%</b>	<b>15.11%</b>	<b>21.31%</b>	<b>23.71%</b>	<b>13.32%</b>	<b>15.36%</b>

*Source: Malawi Micro and Small Enterprises Survey, 2000*

Thus, nearly half of MSEs have a sales value of less than Mk 20,000 a year. On average, the primary production sector firms have larger sales than off-farm enterprises. The MSEs doing best in terms of sales value are those based on fishing, with 46 percent having annual sales value exceeding MK 100,000 and 64 percent with over MK 50,000. Also doing relatively well in the primary production sector are crops and forestry based activities, each of them with over half of the MSEs in the MK 5-20,000 category. Among the other sectors, transport based MSEs are doing best with 44 percent earning over MK 50,000 sales category.

***MSE Distribution by Value of Profits and Sector***

In terms of profitability, we see that the firms with the most sales also have the most profits. Fishing Transport and Mining have the most firms in the higher profits range (greater than MK50,000). However more importantly 54 percent of the firms earn less MK 10,000 in profits per annum. This translates to about U.S. \$125 per annum. The largest percentage of businesses under 2,000 are in the services sector, but the largest absolute numbers of firms are in the Commerce & Trade (61,000) and Manufacturing (55,000 MSE) sectors.

**Table 8: Distribution of MSEs by Annual Profits and by Sector**

	Less than MK 2,000	MK 2,000- MK 6,000	MK 6,000- MK 10,000	MK 10,000- MK 20,000	MK 20,000- MK 50,000	MK 50,000 MK 100,000	Above MK 100,000
<b>Crops</b>	2.99%	24.78%	28.21%	25.55%	13.91%	3.42%	1.15%
<b>Livestock</b>		15.03%	30.06%	12.84%	17.34%	15.31%	9.42%
<b>Forestry</b>	12.38%	45.90%	17.05%	16.07%	5.22%	0.63%	2.75%
<b>Fishing</b>	2.70%	4.40%	6.00%	17.51%	23.11%	13.70%	32.58%
<b>Mining</b>				36.42%	21.38%	13.58%	28.62%
<b>Manufacturing</b>	10.80%	30.66%	19.14%	18.42%	12.78%	4.74%	3.46%
<b>Construction</b>		18.92%	9.50%	13.70%	42.94%	11.37%	3.56%
<b>Commerce and Trade, Hotels</b>	11.20%	22.93%	15.50%	16.93%	19.62%	8.32%	5.51%
<b>Transport</b>		19.55%	2.49%	9.41%	12.26%	20.08%	36.20%
<b>Services</b>	36.31%	12.65%	17.19%	13.72%	8.98%	5.29%	5.86%
<b>Total</b>	<b>10.49%</b>	<b>25.06%</b>	<b>18.78%</b>	<b>18.65%</b>	<b>15.92%</b>	<b>6.33%</b>	<b>4.78%</b>

### *Business Operating Premises*

Nearly three quarters of the MSEs are located within or near the home, and about 10 percent on the road side or village path. Therefore, over 80 percent of the businesses operate in proximity to the home.

**Table 9: Business Place of Operation**

	%
In the home (or near home)	73.3
Traditional market place	7.7
Roadside, track or path	9.7
Commercial district	2.4
Industrial site	0
Mobile business	3.4
Mobile market	2.9
Other	0.6
<b>Total</b>	<b>100</b>

Only 8 percent of the MSEs are located in traditional markets, while 3.4 percent are owned by ambulant vendors - people who move their goods or services from place to place, typically on foot or on bicycle. With a majority of the MSEs located near the home or ambulant reminds us of the very informal nature, limited size and financial outlay of this sector.

### *Summary*

Overall, Malawi's MSEs in the off-farm sector have shrunk slightly. As can be expected, the vast majority, 83 percent of MSEs, is located in the rural areas (including small towns and lakeshore areas) where approximately 85 percent of the population lives. The 17 percent located in Malawi's four cities (Blantyre, Lilongwe, Mzuzu and Zomba) are concentrated in the urban low income areas. The low-income urban stratum accounts for about 12 percent of the total number of MSEs. In terms of sectoral distribution, 75 percent of the MSEs are off farm activities including manufacturing, commerce and trade and services, though the

services sector itself is relatively small. The remaining MSEs are based on crop production (22 percent), with just 3 percent on other primary activities such as livestock production, fishing, forestry and mining.

About 91 percent of these firms fit into the “micro” category of 0-4 employees according to the national enterprise size classification. Given this, the primary production sectors, especially fishing, but also mining and crop and livestock production, tend to have more employees. These sectors, more than the others, have a relatively higher proportion of their firms in the 5-10 employees category. This survey found few MSEs with more than 10 employees, and those few present are mostly in fishing and the urban industrial sector.

About 34 percent of all the MSEs are owned by women, a proportion that is significantly low compared to the average of 60-75 percent recorded in most other African countries. Women’s MSE activities are concentrated in the off-farm sector, primarily in commerce (mostly vending farm produce) and in manufacturing (most processing foods and brewing beer). On the other hand, the married couples and multiple owners of businesses tend to be concentrated in crop production and trade. These ownership patterns, also observed in other studies, are determined not only by economic factors but also by certain social and cultural relations.

## MSE Profitability and Contribution to Employment and Incomes

Recent household studies have examined the role of MSEs in urban and rural household incomes, livelihoods and food security. As result, the role of the sector and the farm off-farm linkages are relatively well understood, at least at the conceptual level<sup>10</sup>. However, there has been less attention to the empirical facts and understanding the MSEs. This study provides an opportunity to *quantify* information on commonly asked questions about the profitability and economic significance the MSE sector and its contribution to employment and incomes. The findings of this study are consistent with the general argument that in Malawi, MSEs are intricately inter-woven with the livelihood strategies of especially the poor. They make a significant contribution to the overall national employment and provide income to business owners, their employees and households. This section presents quantitative measurements of these relationships as observed in 2000.

### *MSE Sales and Profitability by Sector*

The firms with the highest annual average sales are based on transportation (MK 179,368), fishing (MK 139,478), and mining (MK 87,167). The category “Commerce, trade and hotels”, manufacturing, construction and services follow in that order, as shown in table 10, below.

**Table 10: MSE Average Annual Sales and profits by Sector**

	<b>Average Annual Sales(MK)</b>	<b>Average Annual Profit(MK)</b>	<b>Profits as a percentage of sales</b>
Crops	17,024	11,058	65
Livestock	37,465	19,260	53
Forestry	39,685	21,582	66
Fishing	139,478	74,112	53
Mining	87,167	60,247	69
Manufacturing	68,083	26,492	43
Construction	47,925	27,274	63
Commerce, Trade, Hotels	78,019	21,652	22
Transport	179,368	77,104	52
Services	42,638	18,114	43
<b>Total</b>	<b>63,318</b>	<b>22,396</b>	<b>32</b>

The other sectors including crops, livestock and forestry have relatively low level of sales. As such, families involved in transportation, fishing and mining MSEs realize significantly higher incomes than other households, on average. However, as we saw in the last section, there are relatively few firms in each of these three sectors, together accounting for 1.4 percent of all the MSEs in Malawi. This could imply the existence of serious barriers to entry into these sectors.

<sup>10</sup> See, for example, Pauline Peter’s longitudinal studies on household farm and off farm production dynamics and commercialization process; Steven Devereau’s work on rural livelihoods and the role of MSEs in coping strategies of the poor; Gacheke Simon’s extensive survey work on rural household production and incomes and the overall MSE contribution to the rural economy, and Sheena Orr’s analysis of urban and rural MSEs within the context of the household, gender dynamics and their effects on MSE development and the problems and services available to the sector.

However, the high profit levels are not necessarily a reflection of the relative efficiency or resource productivity of the transportation and fishing firms. For example, examining the profit/sales ratio, the firms based on agriculture and natural resources take lead. As shown in table 10, the highest profits/sales ratio is in mining (69 percent), followed by forestry (66 percent), crops (63 percent), and construction (63 percent). A most plausible explanation to this trend is that these high profitability sectors are largely dependent on the use of naturally occurring resources that they do not pay for. Quarrying and the harvesting of forest products mostly occurs in communal or public lands and rivers and thus would have relatively low cost structure. Construction may also fit into this category to the extent that in Malawi most of the MSE level construction activities involve constructing tobacco and fish drying sheds, food storage structures and rural houses (G. Simons, 1999 and 1997). In this they use materials such as clay, poles and grass many times collected from rivers and communal forests<sup>11</sup>. By the same token, fishing, primarily done from the lakes, also has a relatively good profit/sales ratio of 53 percent.

One might assume that these profitable rural based sectors use more family and unpaid labor but data presented in table 11 shows the rural MSEs especially in the small town and lake shore strata have a high proportion of paid employees, only second to urban industrial areas. However, among these high profitability sectors, only crops production has a significant representation, at the moment accounting for 22 percent of all the country's MSEs. In spite of high profitability, by being so few, the contribution of the others to national employment and incomes is relatively small. Though not as profitable, apart from crops, commerce and trade (accounting for about 40 percent of all MSE) and manufacturing (accounting for 28 percent) are the key sources of MSE employment and incomes (see table 1 in Annex 4 for sectoral profitability at a more disaggregated level).

### *MSE Contribution to National Employment<sup>12</sup>*

MSEs employ about 1.7 million people (including owners, paid and unpaid employees), amounting to 38 percent of total working age population (see table 11). Women comprise 42 percent of this employment.

**Table 11: MSE Employment by Strata**

	Ave. Firm size (# employed)	Total Employees	% of Total	Proportion of male and female employees		
				% Males	% females	Total
Urban High Income	2.06	47,050	2.8%	48.5	51.5	100.0
Urban Low Income	1.92	178,140	10.5%	47.7	52.3	100.0
Urban Commercial	1.75	13,122	0.8%	84.6	15.4	100.0
Urban Industrial	2.86	3,132	0.2%	79.6	20.4	100.0
Small Town	2.29	150,068	8.8%	67.5	32.5	100.0
Rural Areas	2.35	1,235,158	72.6%	57.4	42.6	100.0
Lake Shore Areas	2.40	76,922	4.5%	73.8	26.2	100.0
<b>All</b>	<b>2.28</b>	<b>1,700,688</b>	<b>100.0%</b>	<b>58.0</b>	<b>42.0</b>	<b>100.0</b>

*Source: Malawi Micro and Small Enterprises Survey, 2000*

<sup>11</sup> In this study calculation of profits included only cash expenses.

<sup>12</sup> Employment estimates are based on the total number of counted MSEs (including about 40,000 identified but not fully enumerated MSEs-IBs) and the average firm sizes calculated from the fully enumerated MSEs.

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Employment is largely proportional to the distribution of the population and the firms, though there are some minor differences. Naturally, most of this employment is created in rural areas where the majority of the MSEs are located. The rural sector as a whole (rural, small town and lake shore strata) has created 85.9 percent of the current MSE employment in Malawi. With exception of the very few firms in the urban industrial stratum, the average firm size is slightly larger in the rural areas than the urban areas, with a particular concentration on the rural and lakeshore firms.

Women account for a slight majority of the MSE employment in the urban areas, though are most heavily represented in the urban low income. They account for a relatively small percentage of the more formal urban commercial and industrial employment. The gender balance is particularly biased against women in the lakeshore and small towns. This can be expected given that men traditionally do the actual fishing. Urban commercial and industrial areas and small town based MSEs can be expected to employ more men as they are usually located further from home and men are generally freer to travel. Earlier studies (for example by G. Simons 1997 and 1999) and S. Orr et al. (1999) found that this to be a major constraint to women's participation in Malawi's MSE development.

***MSE Employment Creation by Sector***

Table 12 shows that among the total MSE employment (representing 38 percent of Malawi's total working age population), 59 percent are employed in the off farm activities including manufacturing, trade and commerce, construction, transport and services. The remaining 41 percent are in the primary production based MSEs including crop and livestock production, harvesting forest products, fishing and mining.

**Table 12: Share of MSE Employment by Sector**

		MSEs		Employment		
		Number of MSEs	Percent of Total MSEs	Ave. firm Size #employed	Total Employment	Percent of Total Employment
<b>Agriculture, Mining and Natural Resources</b>	Crops	160,805	21.5	3.8	615,435	36.2%
	Livestock	7,286	1.0	3.1	22,251	1.3%
	Forestry	9,571	1.3	1.1	10,543	0.6%
	Fishing	10,997	1.5	3.4	43,786	2.6%
	Mining	888	0.1	2.3	2,058	0.1%
	<i>Subtotal</i>	<b>189,548</b>	<b>25.4</b>	<b>3.7</b>	<b>694,073</b>	<b>40.8%</b>
<b>Manufacturing, Commerce and Services</b>	Manufacturing	206,397	27.6	1.7	354,395	20.8%
	Construction	6,475	0.9	2.9	18,964	1.1%
	Commerce and Trade, Hotels	306,682	41.0	1.8	556,907	32.7%
	Transport	4,701	0.6	3.0	14,233	0.8%
	Services	33,594	4.5	1.9	62,116	3.7%
	<i>Subtotal</i>	<b>557,848</b>	<b>74.6</b>	<b>1.8</b>	<b>1,006,615</b>	<b>59.2%</b>
<b>Total</b>		<b>747,396</b>	<b>100.0</b>	<b>2.3</b>	<b>1,700,688</b>	<b>100.0%</b>

Crop production is the single most important employer (36), though it accounts for only 22 percent of the firms. Similarly, fishing accounts for 1.5 percent of the firms but 2.6 percent of the employment. Thus, we can conclude that crop production and fishing are relatively high

employment creation sectors, accounting for more than a proportionate share of employment. On the other hand, manufacturing, trade and services, as is the case with urban low income MSEs, account for less employment than their proportional representation in terms of numbers. Total employment in the forestry, livestock and mining sectors is relatively significant primarily because these sectors are rather small.

As we saw earlier in table 4, 91 percent of the firms 4 employees or less, fitting into the national classification of “micro” enterprises. By this classification, 8.5 percent are “small” (5-20 workers) and 0.2 percent “medium” (21-50 workers) level enterprises. However, there are some noticeable variations in employment patterns, with the average number of employees per MSE generally increasing as we move towards rural areas and towards primary production. For example, 38 percent of fishing based businesses have 5-20 employees. Similarly, in each of the livestock and crop production sectors on average 29 percent of the MSEs in the category of 5-20 employees, while in the mining sector 13 percent fall in this category. This trend is only reversed in the case of forestry where 100 percent of the firms fall in the 0-4 category and in construction where a relatively high 21 percent of MSE’s fall in the 5-20 category.

Consistent with what is found in rural areas, the primary production sectors record relatively higher employment growth rates as shown in table 13.

**Table 13: Sectoral Variations in Employment Growth Rates**

SECTORS	Average Annual Employment Growth Rate (Percentage)
Crops	12.8
Livestock	18.3
Forestry	-2.9
Fishing	22.8
Mining	26.9
Manufacturing	5.8
Construction	7.8
Commerce and Trade, Hotels	7.1
Transport	8.7
Services	3.4
<b>Subtotal</b>	<b>7.7</b>

MSE employment in the agricultural and natural resources sectors is growing more rapidly than in the off-farm MSEs. The mining sector is growing at a relatively high rate of 26.9 percent a year<sup>13</sup>. Fishing (22.8 percent), livestock (18.3 percent), and crops (12.8 percent) follow this. On the other hand, MSE employment in the off-farm activities has grown at less than 10 percent a year in all sectors. With employment actually decreasing, forestry presents a unique case in the primary production sector at about negative 3 percent a year. This may be related to high levels of forest degradation and scarcity of forest products or perhaps that Malawi’s forest protection policies and laws are beginning to take hold.

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<sup>13</sup> Several development agencies considering support to the private sector growth in Malawi have often cited mining, and the textile industry as potential growth areas.

*Employment variations by gender Of MSE Owner*

On average, businesses owned by husband and wife have a larger employment share (44 percent of total MSE employment) than the other ownership categories (see table 14).

**Table 14: Employment by Type of owners**

Owners of Firms	Percentage of total MSE employment
Females alone	24.4
Males alone	29.9
Husband and Wife	44.1
Multiple Proprietors	1.6

In contrast, 30 percent of all employment is generated in the businesses owned by males while the female-owned firms account for only 24 percent of total MSE employment.

In terms of business size, single male and female owned MSEs tend to be smaller than those owned by husband and wife or those with multiple owners. Among husband and wife owned MSEs, 19 percent can be classified as “small” and 79 percent as “micro.” Among women’s only enterprises, 97 percent (93 percent for male owned) are “micro” and 2.5 percent (6 percent for male owned) “small,” with hardly any firms in the “medium” or over 20 employees category. So female owned firms contribute the smallest amount of employment among MSEs.

These findings are consistent with the results of other studies that found women’s enterprises to be generally smaller than the others. In addition husband and wife owned businesses tend to do better than those owned by single individuals (for example G. Simons, 1997; S. Orr and Makawa, 2000). Women’s businesses are smaller primarily due to lack of resources and limited re-investment into business. On the other hand, husband and wife owned business have a stronger financial profile and are likely to be larger mainly from pooling resources. Multiple owners too have larger businesses from pooling resources, but also because all working multiple owners are counted as employees.

*MSE Employees characteristics*

About 59 percent of total employees are working owners, as shown in table 15. The next largest category is unpaid workers (22 percent) followed by paid workers (15 percent) and apprentices/trainees (4 percent) who are typically unpaid.

**Table 15: Status of Employees, by Strata**

	Working owners (%)	Paid workers (%)	Unpaid workers (%)	Apprentices/trainees (%)	Percent of total
Urban high income	57.9	17.1	24.3	0.8	2.4
Urban Low Income	61.9	11.2	25.5	2.4	10.3
Urban Commercial	66.3	20.4	11.6	2.0	0.7
Urban Industrial	41.4	49.4	8.5	0.7	0.1
Small Town	55.5	23.3	16.7	5.1	8.7
Rural Areas	59.5	13.8	22.3	4.5	73.5
Lakeshore Areas	53.1	22.3	22.5	2.2	4.4
<b>All</b>	<b>59.1</b>	<b>14.9</b>	<b>22.1</b>	<b>4.1</b>	<b>100.0</b>

Source: Micro and Small Enterprises Survey, 2000

The employment structure varies somewhat between the economic strata. For example, paid employees account for about 50 percent of total employment in the urban industrial stratum while this figure is smallest in the urban low income. The small towns and lake shore also have the next highest employment of paid workers which implies that these two areas are important for generating rural based cash incomes.

Consistently, the MSEs with fewer paid workers rely more heavily on unpaid workers. Table 15 shows the order to be more or less reversed, with unpaid employees now most important in the urban low and high income strata, followed by rural areas, lake shore, urban commercial, small towns and least important in the urban industrial MSEs.

While we see many unpaid employees and trainees in the MSE sector as a whole, it can be expected that they get non-cash remuneration. This would especially be the case in family businesses through use of business profits for family members' needs. MSEs in addition offer other informal types of support including general subsistence needs for trainees who also improve their chances for future earnings.

### *Working Patterns*

On average MSEs operate 8 months a year, 24 days a month and 7 hours a day (see table 16), though there is differentiation by stratum and type of employment.

**Table 16: Time Spent on Business Operations by Economic Strata**

<b>Economic Stratum</b>		<b># of months per year</b>	<b># of days per month</b>	<b># of hours per day (last week)</b>
Urban high income	Mean	9.39	26.99	10.64
Urban low income	Mean	9.75	26.35	10.81
Urban commercial	Mean	10.92	25.95	10.14
Urban industrial	Mean	9.78	23.70	9.66
Small town	Mean	9.41	24.62	9.04
Rural areas	Mean	7.57	22.48	6.29
Lake shore areas	Mean	8.75	24.01	6.72
<b>Total</b>	<b>Mean</b>	<b>8.17</b>	<b>23.59</b>	<b>7.34</b>

In general, working time tends to decrease as we get into rural areas, with rural areas and lake shore on average working for less than 7 hours a day and less than 9 months a year. This may be explained by the nature of fishing and farm/rural production and seasonality such that activities cannot go on throughout the year. In general urban businesses are open longer – over 9 months a year, working for about 10 hours a day on average. This is true for urban poorest groups as well.

### *MSE Contribution to Incomes*

According to this survey, the MSE sector involves and provides additional incomes to about 26 percent of the households. As many development agents and private sector support programs increasingly recognise, MSEs play a critical role in the livelihoods of those households that are involved.

With the limitations imposed by land scarcity, low living standards for households depending on subsistence farming, the lack of formal sector jobs and skewed income distribution, Malawi's government, donors and NGOs are increasingly looking at MSEs as a possible tool in the fight against rural and urban poverty. Though relatively low sales and profits may dominate this sector, it serves as a significant source of increasing incomes and fighting poverty. According to the IHS data, on average one person in Malawi needs MK 19.50<sup>14</sup> (lower in rural areas than urban areas) to meet basic needs -including meeting basic food calories and non-food needs. Table 17, below, shows that 65 percent of the people live below this poverty line, so even small additions to income are important.

**Table 17: Poverty Levels in Malawi<sup>15</sup>**

Region	Poverty Line (MK/day)	Percentage Below
Southern rural	14.2	68%
Central Rural	17.2	63%
Northern Rural	20.7	63%
Rural	-	67%
Urban	47.2	55%
National weighted average Poverty Line	19.5	65%

*Source: profile of Poverty in Malawi, 1998 : Poverty Analysis of the Malawi Integrated Household Survey (IHS), 1997-98. National Economic Council, 2000.*

#### ***MSEs Potential Income Contribution to Owners and Employees***

Table 18 shows that people owning MSEs or just employed in them on average make an average daily profit of MK 100. This alone suggests that in spite of their low profits by the standards of many countries, Malawi's MSEs have potential to fight poverty and to bring many people well above the poverty line. This data shows that having an MSE as defined here and in any of the current sectors can help individuals to cross the poverty line. This is particularly the case in the relatively high labour intensive firms such as mining, fishing, commerce and trade, construction and transport based MSEs. At the macro level, the MSE sector generates annual profits worth US \$281 million equivalent to 15.6 percent of the country's GDP at 2000 prices.

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<sup>14</sup> This figure represents consumption from cash expenditure as well as in-kind consumption. It is important to note that the MSE contribution is always calculated in cash terms, as we are trying to measure the contribution of the MSE to income as a business, and the contribution of businesses across sectors can only be measured equally based on similar financial terms.

<sup>15</sup> The poverty line calculation is based on cost-of-basic-needs method and is the sum of food and non food items. For each area the poverty line is simply the cost in Malawi kwacha of acquiring a set of daily basic food (based on calorie needs) and non food requirements (HIS expenditure data).

**Table 18:** Returns to Labor and Employee earnings

	Average Firm hourly Sales (MK)	Average Firm Hourly Profit (MK)	Monthly Employee profits	Hourly profits/ Employee
Crops	36.34	22.58	1,046	5.94
Livestock	28.40	12.36	702	3.99
Forestry	17.81	10.75	1,721	9.78
Fishing	368.06	195.57	8,826	50.15
Mining	53.74	38.28	2,929	16.64
Manufacturing	74.95	30.51	3,158	17.95
Construction	29.03	16.52	1,003	5.70
Commerce and Trade, Hotels	77.96	24.46	2,392	13.59
Transport	107.07	44.12	2,677	15.21
Services	30.93	13.62	1,332	7.57
<b>All</b>	<b>76.34</b>	<b>28.61</b>	<b>3,390</b>	<b>14.50</b>

*Source: Malawi Micro and Small Enterprises Survey, 2000*

It would be nice, but not necessarily correct, to say that the 26 percent of the households with MSEs are among the 35 percent living above the poverty line. However, these average profits are concentrated among a few firms. Only 27 percent of the MSEs earn more than MK 20,000 profits per annum, which still only represents only MK 55 of net earnings per day or MK 11 per household member.<sup>16</sup> This income alone cannot help these households cross even the ultra poverty lines shown in table 17, except perhaps in the case of the Southern region where cost of living is lower.

On the other hand, MSEs with over MK 50,000 worth of sales, comprising 20 percent of all Malawi's households, generate enough income to put their households members well above any poverty line identified by the IHS study. These are most common among the fishing MSEs (with over 47 percent of firms in this category), transport (45 percent), construction (30 percent) and mining (28 percent). For the majority who cannot, or just don't, rely exclusively on MSE incomes, it is generally known that MSE activities are usually undertaken as part of a broader livelihood strategy.

An earlier survey (G. Simons, 1999) indicated that few people, especially in rural Malawi, who consider off farm MSE activities their primary occupation. For many, this is usually a second or even third occupation, but playing a critical role in their overall livelihood strategy. The case may be slightly different in the urban areas (not covered in that survey) where opportunities for farming and other primary production activities are limited. Apart from the direct income, many households use MSEs to help them diversify income sources, improve cash flow, and as a fall back during hard times. This also offers an opportunity to invest when they have a little extra income. In any case, the significance of MSEs based household incomes varies by area, type and scale of business, as well as by the income class of the household. This is discussed more fully below.

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<sup>16</sup> Assuming on average of one household has one MSE and 5 people (common among the poor according to the IHS, 2000 study)

***Significance of MSE in Household Incomes:***

Table 19 indicates that about 63 percent of the MSE owners report that more than half of their household incomes come from their businesses. This table provides some interesting insights into the role of MSE in the household and the overall income diversification strategy.

**Table 19:** MSE Contribution to Household Incomes by strata (percentage)

	Urban high income	Urban low income	Urban commercial	Urban industrial	small town	Rural areas	Lake shore areas	All
All or almost all of income	24.8	26.9	68.8	58.8	36.4	33.9	40.3	33.6
More than half of income	19.9	20.8	15.5	14.0	26.4	31.8	33.0	29.6
About half of income	7.7	8.5	4.0	4.4	11.3	9.7	7.9	9.6
Less than half of income	41.3	41.8	10.5	20.6	23.9	22.6	16.5	25.2
Don't know	2.9	1.1	0.8	2.2	1.7	1.9	1.9	1.8
Not applicable	3.4	0.9	0.5		0.4	0.1	0.3	0.3
<b>All</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000*

In the urban areas, the residential areas rely on MSE as a source of income diversification. With fewer than 50 percent of the MSE providing more than half of the income to the families, this implies that other members of the household are earning money elsewhere, most likely as salaried employees. It also indicates that those salaries might not be enough to live on, necessitating additional income generating activities to make ends meet. Related to this, about 20 percent of the business owners have 2 or more businesses, while 75 percent said they add new businesses in pursuit of additional money to support their household needs.

Meanwhile, in the rural areas, 65-75 percent of the MSEs provide more than half of the household income. This implies that the MSEs are able to generate more income, are less survivalist oriented, and are less important as an income diversification strategy than they are as a primary activity.

To provide some additional understanding of the relationship between MSE's and household sustenance, we asked MSE owners to identify the most important thing they did with profits. As shown in table 20, 75 percent them said "use for household needs", while only 15 percent "re-invest in same business."

**Table 20: MSEs reporting household needs as most important use of profits by Strata**

<b>Economic Strata</b>	<b>Use for household needs</b>
	%
Urban high income	70.4
Urban low income	73.5
Urban commercial	67.6
Urban industrial	74.4
Small town	63.0
Rural areas	77.8
Lake shore areas	69.9
<b>Total</b>	<b>75.4</b>

In all types of firms, a substantial part of the profits is used to meet immediate household needs. However, there are noticeable differences in the way men and women use business profits (see table 21). Among the businesses owned by females, about 85 percent of them reported their most important use of business profits to be “household needs” with 7 percent reporting re-investment in business as the most important use. On the other hand, husband and wife and multiple owner business use less of the profits for immediate household needs and make more investment in business development.

**Table 21: Household needs as Most Important use of profits by Gender (percent)**

	<b>Use for household needs</b>
Female	85.1
Male	72.8
Husband and Wife	68.1
Multiple owners	45.6
<b>Total</b>	<b>75.4</b>

These results confirm the findings of other studies that women do not re-invest as much business profits back into businesses, but instead spend a higher proportion on meeting immediate household needs. This has commonly been used to explain why women’s businesses are generally smaller and grow more slowly.

***Summary of results and Conclusions on MSE contribution to Employment and Incomes***

*Employment:*

This survey has shown that MSEs alone employ about 1.7 million people of working age, accounting for approximately 38 percent of national employment. These employees work on a near full-time basis, with the MSEs operating on average 8 months a year, 24 days a month and 7 hours a day. Most (86.5 percent) of this employment is created in rural areas including the lakeshore and small towns as this is where majority (83 percent) of the firms are located. On sectoral basis, the highest MSE employment comes from crop production based MSEs, alone accounting for 36 percent of the total. Second to crops, 33 percent of the total MSE employment is in commerce and trade, 21 percent in the manufacturing sector and 4% in the services sector. The other MSEs including fishing, livestock, forestry, and mining in the primary production sector and construction, transport in the secondary sector contribute very little each, not so much because they are poor at creating employment, but because they are much fewer in number.

In general, the primary production sectors previously left out of MSE studies are relatively more profitable. For example, mining leads with a profit/sales ratio of 69 percent followed by forestry (66 percent), crops (65 percent) construction (63 percent) and fishing (53 percent). All the other sectors have lower ratios. This would suggest that the primary production sectors may have a high employment creation and income potential. Consistently, this survey shows that at this time in Malawi, the primary production sectors (other than forestry) offer good opportunities for increasing MSE based employment. Though fewer in number than the trade, manufacturing and services based MSEs, on an enterprise by enterprise basis they create more employment, and are growing at a much higher rate.

For example, the fishing sector is relatively small (about 1.5 percent of all MSEs) but accounts for 2.5 percent of total MSE employment, with an average annual employment growth rate of over 23 percent, second only to mining (27 percent). Fishing businesses are relatively large in size, in fact, larger than any other sector in terms of average number of employees per business. Crop and livestock production also have a relatively high employment creation capacity and high employment growth rates nearly double those of commerce, manufacturing and services based MSEs.

Overall, fishing and mining seem to offer uniquely good potential for employment and income generation. But they remain relatively few in numbers, growing more in size. On the other hand, MSEs from the urban low income stratum dominate urban area, but tend to be small, one person activities focusing on vending goods. Thus, while urban MSEs are critical for the survival of poorest urban groups, in relation to other areas they are not creating as much employment and may have only limited potential to do so. Overall, rural areas and primary production (especially fishing and mining, and perhaps livestock) may offer the best opportunities for achieving employment creation objectives as part of Malawi's MSE development strategy.

*Incomes:*

There is no question that MSEs in Malawi make a significant contribution to incomes of their owners, employees and their households, as they do in other countries. Their potential to reduce poverty is evident in the fact that on average 65 percent of Malawi's people live below a poverty line of about MK 20 per day while on average an MSE worker earns profits worth MK 100 a day. The main limitations on the poverty reduction impact this sector can make are that it is relatively small (serving only a quarter of the working age population compared to

over 70 percent involved in farming) and the distribution of MSE sales and profits is extremely skewed, with most MSEs earning less than MK 20,000 per year. At this level of operation, households rely on MSEs to help them cross the poverty lines or even the ultra poverty lines identified in the last Integrated Household Survey (1997/98), but not much more. But it is also clear that few households rely exclusively on MSE incomes.

Three quarters of business owners say that the primary objective of engaging in an MSE activity is to generate income to meet immediate household needs. For the smaller urban low income households, MSEs provide less than half of the household needs, in contrast to the rural areas where MSEs provide well over half of the household income. MSEs, especially the traditional ones based on off-farm activities, play an additional critical role of helping farm households cope at difficult times. They generally help diversify incomes and improve cash flow by coordinating on and off farm activities. Thus, for most households, MSEs are primarily used to meet immediate household needs and as risk management and coping strategies.

## **A Special Look at Agriculture and Natural Resources Sector**

The large majority of Malawi's people depend on the direct use of land and water resources for their livelihood. This is particularly true for the 85 percent of its population that lives in rural areas. On a national average, crop production (done by over 70 percent of the population) is the nation's major income base, on average providing 73 percent of rural household incomes (see Simons 1997, 1999a and 1999b). Crop sales is also the primary source of cash income for 86 percent of rural households (Peters, 1999). The next most important source of rural livelihoods is the extraction of natural resources primarily forest products and fish. Several studies including IUCN research series in the region have shown that the use of natural resources products (usually left out of income studies) to generate subsistence incomes is particularly important for the poor households. Alone this accounts for close to 80 percent of the total incomes for the poorest 20 percent (see Emerton 1999 and Simons 1997 and 1999). Livestock (including value of stock) follows, accounting for about 15 percent of total household incomes. The rest comes from wage employment, gifts and remittances, off-farm economic activities (low on the list), and sale of assets (see studies by Devereux 1999, Peters 1999)

Given this situation, most of Malawi's development programs focusing on improving the economic welfare rural populations include improved productivity of the resource base and increased household incomes as primary objectives. To achieve these objectives, many programs recognise the need to develop the private sector and improve trade in rural areas. The long term goal is to progressively shift from production as a way of subsistence life to production as a business that provides better returns to productive resources, including labour. Especially with the current land shortage in Malawi, it is critical to add value to the primary products through processing and marketing. This remains the long-term goal of the agriculture and livestock sectors, of forestry and wildlife sectors, and of the fisheries department. Especially with the re-orientation of several development programs towards a market oriented strategy and under Malawi's Community Based Natural Resources Based (CBNRM) programs, some progress has occurred in each of these sectors.

However, although there are isolated project-by-project efforts to assess progress in natural resource related income activities, little has been done within a national context to identify businesses that already exist in each sector, or their features, dynamics and problems. This, to an extent, is explained by the fact that these aspects fall between the production oriented studies of rural households, and the off farm orientation of people focusing on enterprise development. For example, the 1992 GEMINI based MSE study (and more recent ones in other countries in the region) counted people who buy and sell or process farm produce, forest

products or fish as business people - but excluded farmers, forest harvesters and fishermen who also trade and process their goods as an extension of their primary production activities<sup>17</sup>.

The inclusion of primary producers (majority in the country) in this survey begins to bridge the existing conceptual and information gap about primary production based enterprises. The results presented throughout the report can help identify opportunities and direction for assisting at least a proportion of the primary producers to make the desired improvements and transitions. This particular section adds some detail on the various agriculture and natural resources based sub-sectors including crops, livestock, forestry, fisheries (See table 1 in Annex 4).

### ***Crop production based businesses***

In this survey, a crop production activity was identified as an *enterprise* if the farmer sold at least 50 percent of the produce, and if what was sold was worth at least MK 6,000 or US \$75.

### ***MSE Distribution by Crop Type***

Based on this definition, crops account for 22 percent of all the country's small and micro-enterprises. However, only about 7.9 percent of Malawi's farm families can be called crop entrepreneurs – a large majority are still subsistence producers (see table 20). The survey did not query why some farmers treated it as an enterprise and others did not. It is not surprising, however, that the enterprise-based data shows that these are primarily households selling tobacco. Tobacco accounts for over 70 percent of the crop producing enterprises. Off-season, irrigated Dimba<sup>18</sup> cropping, maize and rice account for about 1 percent each, with a token representation from groundnut and cassava production.

### ***Profitability, Employment Creation and Contribution to Incomes***

Crop based enterprises account for about 36% of all MSE employment with the dominant crops accounting for most of the employment as well (see table 22). About 70 percent of the crop based employment (and a 25% of total MSE sector employment) is created by tobacco alone, though in terms of number of employees tobacco businesses are on average smaller than most other cash crops. Cotton and paprika are also being produced as cash crops with important employment potential. In terms of sales, paprika with an average annual sales value MK 178,000 (but in extremely few firms) leads followed by cassava (MK 50,000), a few tea farms (MK 34,500), groundnuts (MK 18,900), tobacco (MK 16,648), pulses (MK 16,331), maize (MK 13,967) and dimba crops (MK 13,442). This data shows that although tobacco and to an extent dimba cropping and maize production account for most of the crop based enterprises, the value of sales associated with these crops is much less than paprika and cassava. These two crops may provide good opportunities for further growth of the crop based MSEs.

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<sup>17</sup> In 1998 Zimbabwe's MSE survey included crop agriculture.

<sup>18</sup> Dimba refers to garden produced or valley floor vegetables and crop production.

**Table 22: Sales, Profit and Employment Characteristics for Crop Agricultural Enterprises**

CROP	No. Of MSEs (sales ≥ MK6,000/yr)	% of Crop MSEs	Average Annual Profit(MK)	Average Annual Sales (MK)	Total Crop Employment	% of Total MSE Sector Employment
Cassava growing	607	0.4%	48,300	50,000	7,139	0.4%
Paprika	285	0.2%	24,400	178,000	7,125	0.4%
Tea growing	109	0.1%	21,900	34,500	472	0.03%
Other crops	20,082	12.5%	14,799	22,788	82,771	4.9%
G/Nuts growing	401	0.2%	12,800	18,900	1,196	0.1%
Tobacco growing	117,261	72.9%	11,151	16,648	430,534	25.3%
Pulses growing	730	0.5%	10,356	16,331	4,721	0.3%
Rice growing	5,498	3.4%	8,604	11,105	18,849	1.1%
Maize growing	5,956	3.7%	8,224	13,967	24,594	1.5%
Dimba Crops Growing	6,227	3.9%	7,455	13,442	19,343	1.1%
Cotton growing	2,178	1.4%	7,200	10,419	9,993	0.6%
I/potatoes growing	1,141	0.7%	3,400	8,000	3,708	0.2%
Sweet potatoes	330	0.2%	-	-	1,320	0.1%
<b>All</b>	<b>160,805</b>	<b>100.0%</b>	<b>11,058</b>	<b>17,024</b>	<b>615,435</b>	<b>36.2%</b>

Cassava is the most profitable type of MSE, with minimal start up costs and with an average annual profits of MK 48,300. This is followed by paprika (MK 24,000), tea (MK 21,900), other crops (MK 14,799), groundnuts (12,800), tobacco (MK 11,151), pulses (MK 10,356), rice (MK 8,604) and maize (MK 8,224). In decreasing order, the least profitable enterprises are cotton, tea, and Irish potatoes. MSEs based on the production of cassava, paprika, cotton and tobacco in that order, tend to employ relatively more women than do other sub-sectors.

Currently MSEs based on cassava and paprika are few, but given their current performance they could have potential for growth and impact on rural employment and incomes. At the moment, only a few farmers are involved in paprika production for export under the SADP initiative. The number of cassava growers has grown in the last few years especially under the IITA roots and tubers program, but is still small-scale activity compared to other crops. For example, the latest Integrated Household Survey (NSO /NEC, 2000) estimated that Malawi has only 8 percent of households growing cassava, out of whom 32 percent are involved in marketing the crop.

#### *Livestock Production as a business*

Less than half of all Malawi households have livestock. According to recent studies, the most common types of livestock are poultry followed by goats and then pigs, cattle, rabbits, and other small animals (G. Simons, 2000). The last Integrated Household Survey (NSO/NEC, 2000) similarly estimated 48 percent of the households have poultry, 28 percent have goats, 10 percent have pigs, 6.5 percent have cattle and 2 percent have sheep. This survey suggests that almost all these households produce livestock as a subsistence activity.

#### *Livestock Sales, Profitability and Employment Creation*

The livestock sector MSEs (7,286) accounts for less than 1 percent of Malawi's MSEs and just over 1 percent (22,251) of the total MSE employment (see table 23). However, the livestock MSEs realise nearly double the level of sales and profits realised by crop farmers. Majority of the livestock based MSEs are in dairy and pig production. While in Malawi

poultry and goats are the most dominant types of livestock among small farmers, extremely few of these are run as businesses. On the other hand, the few poultry- based MSEs lead in sales, averaging MK 57,104 per year (see table 23). This is followed by goats (MK 51,600 per year) and pigs (MK 51,143 per year). Although dairy farming businesses are the majority, dairy farmers sell on average MK 17,580. These low sales by dairy farmers may reflect the fact that milk, and not the animals is the regularly marketed product while the animals are held as stock or family assets. On the other hand, both goats and poultry are sold regularly to even out family cash flow and to finance occasions such as funerals and weddings, pay for school fees, use in case of illness and as gifts to relatives and friends.

**Table 23: Sales, Profit and Employment Characteristics for Livestock enterprises**

	No. of MSEs	% of Livestock MSEs	Average Annual Profit(MK)	Average Annual Sales(MK)	Total Livestock Employment	% of Total MSE Sector Employment
<b>Goats</b>	570	7.8	51,600	51,600	2,280	0.13%
<b>Pigs</b>	1,221	16.8	37,590	51,143	2,442	0.14%
<b>Poultry</b>	332	32.7	12,865	57,104	1,219	0.07%
<b>Other livestock</b>	2,386	4.6	20,103	26,619	6,784	0.40%
<b>Dairy farming</b>	2,207	30.3	10,359	17,580	7,908	0.46%
<b>Beef Cattle</b>	570	7.8	4,694	6,520	1,140	0.07%
<b>All</b>	<b>7,286</b>	<b>100.0</b>	<b>19,260</b>	<b>37,465</b>	<b>22,251</b>	<b>1.31%</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000*

The most profitable enterprises are those based on goat production. For example, the few observed in the country (570) average an annual profit of MK 51,600. Given the cash-based calculation of profits used in this study, this means that the families did not incur cash expenses in rearing the goats, but perhaps only used family labour and farm feeds from own farm, and no veterinary expenses. The next most profitable livestock MSEs are pigs (MK 37,590 per year), poultry (MK 12,865) and then dairy farming (MK 10,359).

Given their higher occurrence, dairy and pigs MSEs create most of the employment in the livestock based MSE sector, with an estimated 10,430 people. Dairy based MSEs are the largest livestock firms with an average of 2.7 employees per MSE and an annual employment growth rate of 40 percent. Goat producing MSEs are also important in this sector, with an average of 2.7 employees per MSE and employment growing at an annual rate of 14.6 percent. The third best employment creator in livestock is poultry, with an average of 1.9 employees and an annual employment rate of 5.2 percent. The livestock sector generally employs more men than women. Women have the highest representation in the poultry (40 percent of employees), dairy (39 percent of employees) and goats (38 percent of employees). Many of these women own the enterprises they are involved in (see table 1 of annex 4).

Malawi has long-standing policies to improve the livestock sector and many programs are under way. For example, DFID is supporting general access to good breeds of livestock in certain parts of Malawi with an aim of increasing the role of livestock incomes in rural livelihoods while USAID is supporting a project aimed at improving dairy production (Land of Lakes project). In Malawi, a general effort in the improvement of livestock production is warranted especially given the fact that many livestock enterprises are more profitable than crop production. Also while over 90 percent of rural households grow some type of crop, less than half have livestock and thus expanded livestock production could diversify the sources of income for households.

### *Forestry and Fisheries Based Enterprises*

In the last 10 years, interest to develop forestry (including wildlife) and fisheries- based income generating activities as a source rural livelihoods has grown tremendously especially under the umbrella of Community Based Natural Resources Management (CBNRM) programs. Currently Malawi has over six donors and 12 NGOs and a national working group supporting this objective and is in the process of finalising a national CBNRM strategy. The Mwanza fruit processing project supported by the Wildlife Society of Malawi and GTZ provides perhaps the best example of forest based community enterprises, while the GTZ project in the south of Lake Malawi provides the best example of efforts to build community based fisheries businesses. DFID is considering a similar approach in the northern part of Lake Malawi, with the aim of making fisheries management and incomes an important part of the livelihoods of communities surrounding Lake Malawi.

Results from these current efforts are limited and isolated, and the process has hardly tapped the potential opportunities given the extent of Malawi's forest and water resources, and the number of people depending directly on the use of these resources for survival. This study shows that at the national level the forestry and fisheries based MSEs in Malawi are extremely few and only amount to a total of 19,462 (10,407 in forestry and 9,055 in fisheries). Together these two sectors account for 2.8 percent (forestry 1.5 percent and fisheries 1.3 percent) of all MSEs, a figure much lower than for crops but slightly higher than for livestock. In forestry the main products are firewood (6,201) accounting for about 1 percent of all Malawi's MSEs, grass (2,683) and trees (1,141). The owners of these MSEs harvest their products and then sell at least 50 percent of the raw or processed form.

**Table 24: Sales, profit, employment characteristics for fisheries and forestry products**

	No. of MSEs	% of Forestry MSEs	Avg. Ann'l Profit (MK)	Average Annual Sales (MK)	Forestry Employ'm't	% of all MSEs employees	MSE average size	Avg. ann'l Growth Rate (%)
<b>Firewood harvesting</b>	5,111	53.4%	31,322	62,122	5,386	0.32%	1.05	-6.2
<b>Grass harvesting</b>	2,683	28.0%	11,455	11,455	3,253	0.19%	1.21	4.5
<b>Tree harvesting</b>	856	8.9%	7,813	7,813	856	0.05%	1.00	-4.2
<b>Other forest production</b>	653	6.8%	5,245	13,409	653	0.04%	1.00	0.0
<b>Timber pole harvest</b>	133	1.4%	3,742	14,769	399	0.02%	3.00	0.0
<b>Construction pole harvest</b>	135	1.4%	-	-	270	0.02%	2.00	.
<b>All Forestry</b>	<b>9,571</b>	<b>100.0%</b>	<b>21,582</b>	<b>39,685</b>	<b>10,543</b>	<b>0.62%</b>	<b>1.10</b>	<b>-2.9</b>
<b>Fishing</b>	<b>10,997</b>	<b>100.0%</b>	<b>74,112</b>	<b>139,478</b>	<b>43,787</b>	<b>2.57%</b>	<b>3.98</b>	<b>22.8</b>

#### *Sales, Profitability and Employment Creation*

Fishing MSEs have larger sales (average of MK 139,478 per year) and profits (MK 74,112 per year) than most other activities. On the other hand, forestry MSEs have average value of sales of MK 39, 685 per year and an annual profit of MK 21, 582. Firewood harvesting provides the biggest annual sales (MK 62,122 per year) and profits (MK 31,322). In contrast, the sales and profits from grass harvesting are MK 11,455.

As a whole the fisheries is a relatively important source of employment, employing a total of 33,981 people and having an average size of 3.8 people per MSE. Approximately 38 percent of these have more than 5 employees and employment in the sector is growing at a high average rate of 23 percent a year. In this case, fisheries based MSEs are performing better than any other MSE sector including crops, manufacturing, trade and services based MSEs. Forestry based MSEs currently employ a total of 9,581 people, the average firm size is 0.9 people and the sector is shrinking with an average employment growth rate of -2.9 percent. This loss of employment is mostly happening in the harvesting of firewood (-6.2 percent a year) and tree harvesting (-4.2 percent a year), perhaps as a result of diminishing forestry resources. On the other hand, employment in grass harvesting MSEs is growing at annual rate of 4.5 percent and currently has an average size of 1.2 people per business.

The decline in the size and (probably number) of the tree and firewood harvesting activities in spite of their levels of profitability, may suggest that either the resources are becoming increasingly eroded and scarce (which is most likely the case), or the forest protection policies and laws are taking effect. On the other hand, grass comes back every season and its harvesting is largely permitted. There might be a transfer effect from former forest harvesters to the grass harvesters, even though this is a less profitable sector.

### *Conclusions*

Clearly the primary production sectors have potential for contributing significantly to the MSE development in Malawi. These are primary producers who extend their activities into marketing or processing or both, people previously left out of MSE studies. However, at the moment, the country has only about 7.5 percent of all farm families that can be called "entrepreneurs" by the definition of this study. For those that are, in relation to the entire MSE sector their businesses generally tend to be larger, profitable, to create more employment, and to be growing at a much higher rate than the MSEs based on secondary activities including manufacturing, commerce and services. Overall, the fishing sector leads while mining (not discussed in this section) follows.

Among crops, tobacco dominates (about 70 percent) the MSEs. On the other hand, tobacco is not the most profitable, for example, coming below cassava and paprika, crops that seem to have tremendous potential for increasing employment and incomes. In livestock, the most common MSEs are in dairy production followed by poultry and consequently these sectors create most of livestock MSE based employment. However, goat and pigs production seems more profitable. The livestock sector as whole employs more men than women.

While fishing probably is the most potent sector for MSE development in Malawi, its sister the forestry sector is extremely small and declining in spite of high profits - probably because of increasing degradation and scarcity of forest products. The most common but declining forest activity is firewood collection and sales. The current Forest Policy is not quite clear on how this activity should be treated under the country's CBNRM forest-based enterprise development efforts. On the other hand, policies are encouragingly clear about supporting enterprise development in the other sectors including fishing, livestock and crops, and many people are looking at mining as a potential area for private sector development. On a national scale MSEs growing out of primary production are extremely few, and this being the first baseline study examining them it is hard to tell whether they have grown or declined since 1992. However, several agricultural related studies have suggested that agriculture has improved since 1992, and this surveys results showing high employment growth in these sectors is encouraging.

## **IV. MSE DYNAMICS, CONSTRAINTS AND CURRENT SUPPORT SERVICES**

### **MSE DYNAMICS**

#### *Trends in Births and Deaths of MSEs*

From 1991 up to 1999, the survey indicates that there has been an increasing level of both firm creations per year as well as firm closures. In 1999, for the first time, figure 2 shows that the number of closures surpassed the number of new firms being created! While this is surprising, and the reasons for closure will be investigated more fully, below, it also corresponds to the findings (presented in Section V, below) that there has been a net decrease in the number of firms in the manufacturing, trade and service sectors since 1992.

In the Zimbabwe study, McPherson queried whether MSEs are created as a response to economic pressures forcing them to create their own incomes, or whether MSE creation was a positive force for the economy, stimulating growth. To test this, McPherson compared firm creation with the GDP growth rate and found an inverse relationship – when the economy was good, MSE births dropped, when the economy dropped, MSE creation increased. Figure 2 also provides the GDP growth rate to allow us to compare the situation in Malawi.

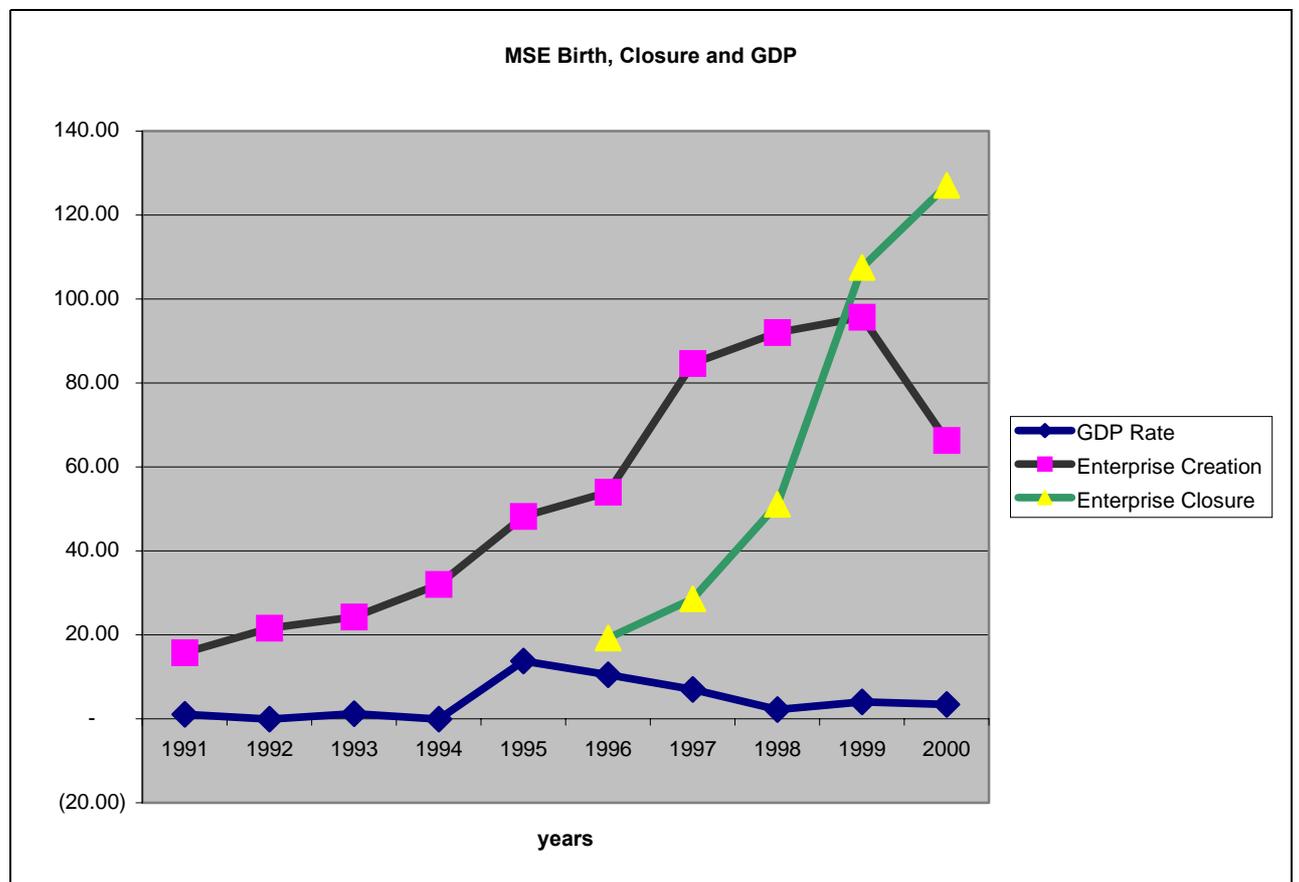
While Malawi has only had two years of marginally negative growth, the trend in increasing enterprise creation does, in large part, follow an inverse relationship the economic trends. Malawi's MSE births have been increasing in greater numbers showing a negative relationship with the overall performance of the national economy as measured by the Gross Domestic Product (GDP). The data shows MSEs births and GDP growth rate going in opposite directions for most of the last ten years. For example, from 1991 to 1994 when the GDP growth rate was extremely low and even negative, MSE births kept rising at a moderate rate. Between 1995 and 1998 when GDP grew at a much lower rate, MSE births rose as sharply in the same period. This is consistent with arguments and conclusions from the Zimbabwe and Zambia studies that MSEs are for the most part a subsistence mechanism and not a response to new opportunities that occur in times high economic growth; that MSE births in many cases result from decline in employment and incomes from alternative sources.

There are two years out of the last 10 that seem not to fit this trend and for which some additional information beyond the scope of survey may help. In the first year Malawi's transition to a democratic government (1994-1995) the GDP rose more sharply than in any other year in the decade, and with it rose the MSE births at about the same sharp rate.

Then in 1999-2000 when the GDP growth rate declined only slightly, the MSE births plummeted to where it was after 1996. Given the trends in most of the decade and the moderate decline in GDP, we would have expected the births to continue rising, but moderately. This unexpected trend may possibly be associated with the fact that since the field-work started at the end of October and continued into early December, births for these months, and therefore for the whole year, were undercounted. This was also the beginning of the agricultural season and some MSEs owned by farmers in the fields at the time of visit may possibly have been omitted. There may be other reasons outside this data set that may explain this MSE birth decline in 2000.

In the last four years MSE closures rose steadily from 1996 to 1998 and then rose extremely fast after 1998 to exceed births by 1999, never showing a sign of decline. This rise occurred each year irrespective of the GDP trend. For example, when the GDP declined from 1996 to 1998, closures rose and when from 1998-2000 the GDP somewhat stabilized at a very low level MSE closures skyrocketed. In spite of possible undercounting of MSE births due to the timing of the survey, the year 2000 seems to have been a poor performance year for the MSE sector as a whole. This might explain the decline in non-farm enterprises from 1992 to 2000. Another possible explanation of the increasing closures could be related to the impact of HIV/AIDS. Though there is no substantive backing for this, the section VI on HIV/AIDS, below does indicate the high number of firms that are being affected in Malawi. Personal health problems and increased household responsibilities (often a result of increased dependants) can both be related to HIV/AIDS.

**Figure 2 Incidence of Life and Death of Malawian MSE, compared to Growth of GDP**



### *Start Up Capital and Its Principal Sources*

The average MSE start up costs is about MK 4,500. However, this varies by sector and ranges from as little as MK 165 in forestry where products are collected more or less free to over quarter million in transport where owners probably have to buy vehicles and bicycles or ox carts (see table 25). Other sectors with relatively high start up costs include transport (MK 54,000) and services. The other sectors such as crops, mining, and construction have relatively low start up costs, most likely because they are heavily dependent on use of natural resources.

**Table 25 MSE Employment and Profit Characteristics by Sector:**

	<b>MSEs</b>	<b>Average Firm Size (Employ's)</b>	<b>Average Start-Up Costs (MK)</b>	<b>Average Annual Growth Rate of Employment (%)</b>	<b>Average Annual Sales(MK)</b>	<b>Average Annual Profit(MK)</b>
Crops	103,621	3.8	1,059.8	12.8	22,836.0	14,779.2
Livestock	6,956	3.1	2,887.8	18.3	68,665.7	35,298.4
Forestry	8,790	1.1	165.0	(2.9)	44,062.4	23,962.9
Fishing	9,966	3.9	4,725.9	22.8	191,381.5	101,691.2
Mining	888	2.3	998.0	26.9	129,483.4	89,494.4
Manufacturing	171,750	1.7	3,675.1	5.8	86,863.4	33,799.7
Construction	5,788	2.9	997.3	7.8	71,587.4	40,740.9
Commerce and Trade, Hotels	257,540	1.8	4,272.6	7.1	112,394.4	31,192.6
Transport	4,490	2.9	54,034.2	8.7	276,100.7	118,685.7
Services	30,542	1.8	19,254.2	3.4	58,871.7	25,011.5
<b>Subtotal</b>	<b>600,331</b>	<b>2.2</b>	<b>4,497.0</b>	<b>7.7</b>	<b>86,564.2</b>	<b>30,598.9</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000*

Commerce and trade, which tend to be smaller businesses, for example as shown by the average firm size in terms of number of employees, have start up costs somewhat in the middle range but below the average.

The main source of start-up capital for MSEs comes from own savings from non-agricultural sources (28 percent). This is usually savings or redundancy pay from a job. Loss of a job is a common catalyst pushing people to start up their own business. This form of saving has become more important over time. Own savings from agriculture (24 percent) have remained a constant proportion and emphasise the importance of the interaction between agriculture and non-agricultural businesses.

Without an analysis at household level it is impossible to show the dynamics between the two but from other qualitative studies we know that households often operate more than one business switching capital flows to where they are needed at the time. (Orr and Makawa, 2000, Mwale et al, 2000).

Free gifts from family and friends have been increasing in importance over the last ten years as has loans from family and friends. These four sources combined are represent 80 percent of start-up capital.

At 2 percent loans from credit institutions barely register as a source of start-up capital which may initially be surprising given the effort that has gone into this sector in the last few years. However, credit institutions look for people who are already in business. In addition, credit from institutions is expensive. People would rather risk their own savings it seems rather than pay for expensive loans to start off with.

**Table 26: Principal Source of MSE Start-Up Capital (Percentage)**

	Creation of MSEs				
	1996-2000	1992-1996	1988-1992	Pre 1988	Total
Loan from family/friends	7	7	5	5	7
Given free from family/friends	19	14	12	16	17
Moneylender (katapila)	0	1	1	0	0
Own savings from ganyu	9	10	7	10	9
Own savings from agriculture	24	24	25	24	24
Own savings from non-agriculture, non-ganyu	30	26	27	23	28
Agricultural input credit	2	4	5	3	3
Credit institution/program	2	1	3	1	2
Inherited business	1	1	1	2	1
Savings clubs	0	1	0	1	0
None-didn't need any	4	11	13	12	7
Sold forest products	0		1		0
Sold livestock	0	0		0	0
Saved from job/employment	1	1	0	1	1
Other	0	0	0	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Malawi Micro and Small Scale Enterprises Survey, 2000

**MSE growth in size (employees) and Volume**

From Table 25, we see that the fastest growing sectors are those heavily dependent on using the natural resource base including mining (growing at 27 percent/year), fishing (23 percent) livestock (18 percent), crops (13 percent). All the other sectors are growing at less than 10 percent a year.

More than 70 percent of MSE's have, over their lifetime, contracted in size (number of employees).

This is consistent with firms closing at a faster rate than they are created as seems to have happened since 1999.

**Table 27: Changes in Business Size by year of Creation (percentages)**

	<1988	1989-1994	1995-2000	Total
Contracted (<0)	63.1	67.8	78.3	73.5
0-10% growth)	25.2	12.0	1.3	7.9
>10-50% growth	11.7	19.5	12.7	13.8
>50% growth	0.03	0.7	7.6	4.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Malawi Micro and Small Enterprise Survey, 2000

As shown in table 27, this trend was more pronounced in the last 5 years when 78 percent of the firms started in that period contracted. On the other hand, less than 20 percent of the firms have exceeded a growth rate of 10 percent and extremely few have exceeded 50 percent. On average, the older enterprises have done better than the newer ones. For example, more enterprises, which started between 1995 to 2000, have contracted compared to those from pre-1988 and between 1989 and 1994 respectively.

The owners of business themselves said that most (over 80 percent) of the businesses either had a small increase, no change or a small decrease in the last 5 years (see table 28). Most of these recorded a small increase ranging from 23 percent in mining, which did relatively well, to 66 percent in commerce and trade. Very few recorded large increases (10 percent) or large decreases (9 percent) in this period. The sectors that recorded larger increases in business volume depend primarily on the use of natural resources. These include mining (36 percent), livestock (25 percent), and crops (15 percent).

**Table 28. Perceived Trends in Volume of Business Over the Past 5 yrs by Sector**

	Large increase	Small increase	No change	Small decrease	Large decrease	Don't know	Count	
Crops	14.6	44.7	13.9	20.0	5.4	1.5	77,251	
Livestock	25.1	41.2	20.8	7.9	5.1		4,687	100
Forestry	7.5	28.8	51.0	12.3	0.5		7,917	100
Fishing	4.7	47.8	19.9	19.6	7.9		7,503	100
Mining	36.1	22.6	35.3	6.1			598	100
Manufacturing	8.5	35.7	27.1	19.4	8.7	0.7	138,427	100
Construction	10.9	47.0	11.8	23.4	6.9		4,160	100
Commerce, Trade and Hotels	9.9	44.3	21.8	16.3	6.4	1.2	191,454	100
Transport	12.9	65.8	1.4	4.4	15.5		2,917	100
Services	10.7	41.2	22.5	17.7	8.8		23,224	100

A majority of the fishermen recorded either a small increase (48 percent) or no change (35 percent) in the last 5 years. Examining actual sizes of these businesses, there is a correlation between what the owners said and actually the measured business size and growth rate. For example, as shown in table 25, the largest firms are in mining followed by fishing, livestock and crops, and these are also the fastest growing sectors. The other sectors are growing at a relatively slow rate, while forestry sector is actually declining. The 1992-2000 comparison found that the off farm sectors had actually grown in the urban areas but declined in rural areas which host most of the country's MSEs.

#### ***MSE Financial performance and Investment of Business Profits***

MSEs in Malawi have an average profit of just over MK 22,000 per year, with wide sectoral variations. For example, the highest level of profits is realized by transport businesses (over MK 77,000), followed by fishing (over MK 74,000) and mining (over MK 60,000). The sectors with the lowest level of profits are crops (over MK 11,000) and livestock (over MK 19,000) with the others being in the middle range.

According to this survey and others in the recent past, as well as common knowledge of the situation, much of this profit is not re-invested into business but spent on immediate household needs. For example, when this study asked respondents to identify their most important use of business profits, 75 percent said "household needs" (see table 30). Few (about 16 percent) re-invest in business. This lack of re-investment into business may well explain the stagnation that seems to have occurred in this sector. Even the most profitable sectors such as forestry and construction re-invest very little back into the business. For example, less than 2 percent of enterprises in these sectors indicated re-invested in business to be how they use their earnings. Re-investment in business is highest in fishing and crop sectors.

**Table 29 Use of Business Profits by Sector Activities (Percentage)**

	Use for household needs	Reinvest in this business	Reinvest in other business	Other	Put into savings	Total
Crops	70.97	20.71	3.45	2.86	2.01	100
Livestock	76.46	13.88	6.41	1.59	1.65	100
Forestry	97.29	1.13	1.52	0.06		100
Fishing	63.85	24.49	1.87	6.04	3.75	100
Mining	93.94	6.06				100
Manufacturing	85.14	8.67	1.50	2.37	2.33	100
Construction	88.09	1.81	4.21	5.13	0.75	100
Commerce, Trade and Hotels	70.30	18.98	2.17	2.99	5.58	100
Transport	64.91	12.32	2.72	5.30	14.75	100
Services	76.79	10.33	4.93	3.96	3.99	100
<b>Total</b>	<b>75.45</b>	<b>15.64</b>	<b>2.42</b>	<b>2.84</b>	<b>3.65</b>	<b>100</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000*

The problem of heavy reliance on business profits for immediate household needs is more pronounced in female owned businesses than in the others (see table 30). For example, 85 percent of the women owned businesses said that the most important thing they do with their profits is meet household needs. In general rural households are more inclined to spend money on immediate household needs than the urban, but small towns seem to have a relatively high rate of re-investment in business (see Annex 4).

**Table 30 Use of Business profits by gender of Owner**

	Use for household needs	Reinvest in this business	Reinvest in other business	Other	Put into savings	Total
Female	85.12	7.43	1.20	2.56	3.69	100
Male	73.00	16.18	2.91	3.78	4.13	100
Husband and Wife	68.08	23.85	3.34	1.87	2.85	100
Multiple owners	45.64	34.20	0.09	9.74	10.33	100
<b>Total</b>	<b>75.44</b>	<b>15.64</b>	<b>2.42</b>	<b>2.84</b>	<b>3.65</b>	<b>100</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000*

Limited re-investment and the fact that people start and close MSEs as and when the need and opportunity arises (rather than as a long term profit making investment), makes this sector unstable and stagnant. Many businesses run the risk of closure not too long after they open.

This use of business profits to meet immediate household needs rather than re-investment, and the engagement into business as a coping strategy rather than profit maximising long term investment, both characteristic of this sector, have negative effects on the sector's growth as well the households' long term income objectives. Inability to re-invest profits eventually kills the businesses threatening the very purpose for which they were initially started. On the other hand, moving in and out of businesses means the businesses are constantly new and small, and without the economies of scale and the experience that comes with running a business for a long time.

### *Life Span of Businesses*

Around 97 percent of MSEs have closed within the last five years with the bulk of these being in commerce, trade and hotels (67 percent) and manufacturing (27 percent).

Table 31 indicates that almost three quarters of all MSEs that closed were in business for 5 years or less. A further 13 percent lasted up to 10 years and 14 percent over 10 years. Overall, MSEs in agriculture and natural resources last longer than those in the manufacturing, commerce and transport sectors. Having said this, MSEs in two small sectors (mining and forestry) have short lives with no reported mining MSE lasting more than 5 years and only 23 percent in forestry. Businesses in fishing last the longest with 50 percent of them having operated for more than 16 years. This seems to be changing, however, as 34 percent have lasted less than 5 years.

**Table 31 Life span of business by sector (percentage)**

	<b>0-5 years</b>	<b>6-10 years</b>	<b>11-15 years</b>	<b>&gt;=16 years</b>	<b>Total %</b>	<b>% closure by sector</b>
Crops	45	33	7	15	100	3
Livestock	42	47		10	100	1
Forestry	77	3	2	18	100	1
Fishing	34	16		50	100	1
Mining	100				100	0
Manufacturing	64	14	7	15	100	27
Commerce and Trade, Hotels	79	11	5	4	100	66
Transport	49	3	48		100	1
Services	57	11	23	9	100	0
<b>Total</b>	<b>73</b>	<b>13</b>	<b>6</b>	<b>8</b>	<b>100</b>	<b>100</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000*

Seventy nine percent of MSEs in commerce, trade and hotels operate for less than 6 years reflecting the itinerant nature of many small retail businesses. Transport and services both display a similar pattern with a core of older businesses but with frequent new but unsuccessful entrants trying to set up in the last 5 years but failing.

Analysis by strata more or less reflects the sectoral patterns noted above with businesses in the rural, small town and lakeshore areas lasting longer than those in urban areas. MSEs in the urban industry strata have the shortest life with 93 percent closing within 5 years and 85 percent of urban high income MSEs compared to 71 percent of rural MSEs.

Overall more female owned MSEs closed (50 percent) relative to male owned (36 percent) and husband and wife owned (14 percent). Of these, male operated MSEs tend to last longer with 17 percent lasting over 10 years compared to none for multiple owners whose MSEs all close within 10 years. This emphasises the precariousness of this form of ownership that is often promoted by NGOs as part of income generating programs. Husband and wife MSEs last slightly longer than female owned.

**Table 32 Life span of business by gender (percentage)**

	0-5 years	6-10 years	11-15 years	>=16 years	Total
Female	78	11	5	6	100
Male	68	16	7	10	100
Husband/wife	72	14	7	8	100
Multiple owners	87	13			100
<b>Total</b>	<b>73</b>	<b>13</b>	<b>6</b>	<b>8</b>	<b>100</b>

*Reasons for Business Closure*

The main reasons for closure reflect the problems that businesses experience on an on-going basis. Table 33 presents these along with the most commonly cited problems within a category. Financial problems account for 36 percent of business closures with lack of operating funds posing the biggest constraint. Markets problems, including lack of demand, and too many competitors cause 13 percent of closures and unavailable and expensive inputs account for the majority of closures due to input problems (12 percent). A closer look at the data also reveals that household responsibilities account for 8 percent of all closures and personal health a further 7 percent.

**Table 33: Why Businesses Closed: Percentage of MSEs**

Problem Category	Overall (%)	Most common problems within category
<b>Finance problems</b>	35.69	lack of operating funds (75%) lack of investment (10%)
<b>Tools/Machinery</b>	0.44	Unavailability of machinery/ spare parts (44%) expensive spare parts (25%)
<b>Market problems</b>	12.73	not enough demand (38%) too many competitors (26%)
<b>Govt/Regulatory</b>	0.49	Government involvement harassment (53%) Other (24%)
<b>Shop/rental space</b>	0.42	space unavailable (32%) lack of shelter (20%)
<b>Input problems</b>	12.20	Expensive inputs (63%) unavailability (26%)
<b>Transport problems</b>	2.81	Expensive public transport (62%) other (20%)
<b>Labor problems</b>	0.78	other (56%) unskilled labour unavailable (21%)
<b>Utilities problems</b>	0.12	Unavailability (64%) unreliability (36%)
<b>Technical problems</b>	0.59	Management problems (78%) access to training + other (22%)
<b>Miscellaneous problems</b>	27.91	Household responsibilities (32%) personal health (26%)
<b>Other closure codes</b>	5.81	started another business (61%) other positive reason (28%)
<b>Total</b>	<b>100.00</b>	

*Source: Malawi Micro and Small Enterprise Survey, 2000*

More businesses in rural areas closed primarily due to financial problems (38 percent) compared to those in urban areas (24 percent). Input problems were however greater in urban areas (18 percent) compared to rural (11 percent) while businesses in both locations cited market problems as the cause of 13 percent of closures. Miscellaneous reasons including household responsibilities and personal health reasons were significant in both urban low income areas (33 percent) and in rural areas (27 percent).

Looking at broad sectoral groups more MSEs in manufacturing, commerce and services (36 percent) closed for financial reasons than those in agricultural, mining and natural resources (23 percent). Input problems were, however, more significant for closures in the second

group (17 percent) compared to manufacturing (12 percent). Market problems again accounted for equal amounts of closures in both broad sectoral groups (around 13 percent) while miscellaneous problems, mainly household responsibilities and poor health, accounted for 40 percent of closures in agricultural, mining and natural resources MSEs compared to 27 percent in manufacturing, commerce and services. In fishing and forestry miscellaneous problems were as high as two thirds of all reasons for closure.

Financial problems remain the single most important factor in MSE closure across ownership by gender although they feature much more prominently for multiple owners than for others (see Table 34 below). Multiple owners reported that 58 percent of businesses closed due to financial problems while 33 percent were due to transport problems. This reflects the rural and agricultural nature of many of these businesses.

**Table 34: Reason why business closed by gender (percentage)**

	Female	Male	Husband and wife	Multiple Owners	Total
<b>Finance problems</b>	36	36	36	58	36
<b>Tools/Machinery</b>	0	1	0		0
<b>Market problems</b>	13	13	11		13
<b>Govt/Regulatory</b>	0	1	1		1
<b>Shop/rental space</b>	0	0	1		0
<b>Input problems</b>	13	12	10	9	12
<b>Transport problems</b>	2	4	1	33	3
<b>Labor problems</b>	1	1	1		1
<b>Utilities problems</b>	0		0		0
<b>Technical problems</b>	0	1	1		1
<b>Miscellaneous problems</b>	30	26	26		28
<b>Other closure codes</b>	4	6	12	1	6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

By contrast other owners reported a wider range of reasons for closure including market, input and miscellaneous problems. The latter category of problem varied significantly according to gender. Personal health ranked highly for women owners followed closely by household responsibilities. Interestingly, household responsibilities were an important factor for male owned businesses while much fewer husband and wife owned businesses closed due to these problems. A comparison with the 1992 GEMINI Survey (see section V) notes that businesses are becoming more home-based which ties in with what seems to be an increasing concern for household responsibilities particularly among males perhaps because of the added burden of HIV/AIDS orphans and ill people.

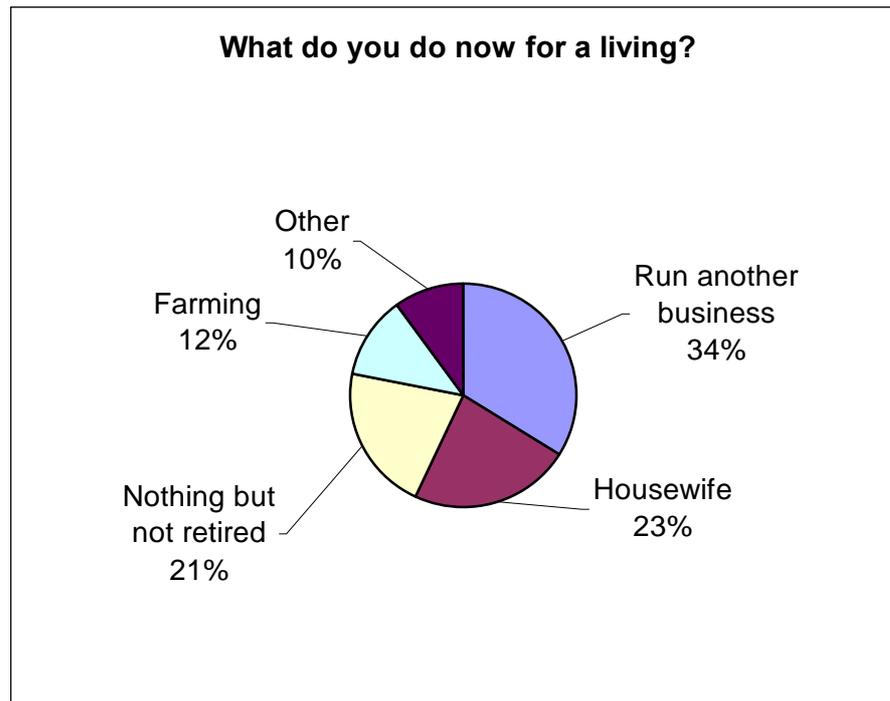
**Table 35. Main miscellaneous categories by gender (percentage)**

	Female	Male	Husband & Wife	Total
<b>Personal health</b>	19	6	3	29
<b>Household responsibilities</b>	17	11	3	31
<b>Theft/vandalism</b>	2	5	2	10
<b>Various Other</b>	13	12	5	17
<b>Total</b>	<b>53</b>	<b>34</b>	<b>13</b>	<b>100</b>

Around 97 percent of MSEs have closed within the last five years with the bulk of these being in commerce, trade and hotels (67 percent) and manufacturing (27 percent).

When asked what they were now doing 34 percent of owners of closed businesses were running another business, a 23 percent were housewives, 21 percent were 'doing nothing' (i.e. not another business) but were not retired and 12 percent were farming. See Figure 4 below. Thus the majority of people who try going into business do not continue in business and, as we saw from Table 33 the majority of them close within the first five years.

**Figure 3 What owners of closed firms now do for a living.**



As other surveys have found, the main constraints expressed by businesses are financial, market and input related. Financial problems were cited most frequently, but in rural and low-income areas household responsibilities and personal health were more important than market and input problems. Financial problems were more significant in rural areas and input problems in urban areas. Across ownership structure, financial problems also came first but transport problems were uniformly cited as the second reason for closure among multiple owner MSEs, perhaps reflecting the product vs. market orientation of businesses of this type. It seems that the majority of MSEs are short-lived by their very nature. Only 27% have survived more than 5 years with two thirds of those closing being in commerce, trade and hotels. Only a third of entrepreneurs who close their businesses go on to run another business, a fifth retire and just over another fifth become 'housewives'. We do not know how many intend to take up business again once the agricultural season is over nor whether other businesses were being run in the household and receiving more attention. The survey raises more questions than it answers about the dynamics of business and the findings provide valuable pointers in areas that need further exploration.

The box overleaf, presents some additional thinking on the topic of enterprise dynamics and different levels of entrepreneurial activity and survival strategies.

**Box 1 Levels of Micro-enterprise and Livelihood Strategies**

(Sourced and adapted from: Micro Entrepreneurship in Malawi by S.Orr & J. Makawa, 2000.)

It is interesting to see how these different levels of entrepreneurial activity relate to current thinking on livelihoods. Devereux (1999) identifies 4 commonly used livelihood strategies; survival, coping, adaptive and accumulation, which in effect form a continuous spectrum. Accumulation and adaptation, he notes, are more proactive and positive strategies which do not decrease assets while coping and survival are more defensive and reactive and associated with reduction of assets. The assets being spoken of in this context are not just productive assets but those of labour, human capital, household relations and social capital.

**Characteristics of Livelihood Strategies**

Strategy Type	Characteristics
• Accumulative	Increase in stocks of assets through profitable enterprises
• Adaptive	Risk-spreading diversification
• Coping	Minimisation of the costs of adverse livelihood shocks, such that future livelihood capacity is not seriously impaired
• Survival	Erosion of assets to prevent destitution or death

Source: Devereux, S (1999) Making Less Last Longer: Informal Safety Nets in Malawi. IDS/UNDP.

These strategies are the overarching framework within which households work with enterprises being just one of the elements within the strategy. We have seen from previous discussion that a large percentage of the population in Malawi is in the ‘pre-entrepreneurial/survival’ category which fits well with Devereux’s survival category. Those at the ‘coping’ level are by definition able to cope with adverse livelihood shocks up to a point and to arrange their livelihood assets in such a way that future livelihood capacity is ‘not seriously impaired’ although it may be reduced. This is just what the subsistence entrepreneur manages to do. He is coping but still vulnerable. Seasonality, adverse price trends and other natural and economic shocks still take their toll but his business provides a buffer.

At the next level ‘adaptation’ becomes the key strategy. Here the household will look at how they can spread the risks of the negative impact of shocks by diversifying activities. The defining feature of the stable entrepreneur is diversification into non-farm activities as well as diversification within types of agricultural activities. This is reflected in the multiplicity of businesses run by households as they move up the ladder. The link to Devereux’s adaptive level is also seen in the way that households at this level begin to access financial services which help to further reduce vulnerability to shocks.

At the top of the SME business ladder we have the growth entrepreneur whose business profits allow reinvestment and further business growth which in turn lead to a further increase in livelihood assets and reduced vulnerability overall. He extends the risk-spreading behaviours of the last group by investing in multiple enterprises.

**Conclusions on MSE Dynamics:**

Growth of MSEs tends to be in inverse relationship with the economic growth, a situation that has been observed in Zimbabwe and Zambia. This happens because MSEs are often started as an alternative source of income, but if a job becomes available, then proprietors will take it. Another factor that makes this sector unstable in the short run and perhaps stagnant in the longer run is the fact that although MSEs generate an average profit of MK 22,000 a year, most of this goes to meeting immediate household needs rather re-invested in business. These facts may well explain the frequent births and deaths, with deaths exceeding births in 1999, and perhaps why there seems to be a decline in the number of off farm based MSEs between 1992 and 2000. On the other hand, MK 22,000 a year is not much for a household of 4-5 people, especially if they do not have much else to rely on. This would only amount to about

MK 10 per capita per day, which, according to the newly established poverty lines, is hardly sufficient to live on.

Using revenue for household needs is one indicator of why businesses tend to stagnate. As noted above, just over 20 percent of the firms are growing fairly rapidly, and even less are re-investing in the business. Creating a dynamic growth sector among MSEs will be a great challenge for as long as people continue to treat most MSEs as fallback solutions, rather than as full time businesses.

Creating a “business culture” can help substitute for subsistence farming and excessive erosion of the of resource base, and in the process improve the living standards of many poor people. The off farm sector, though accounting for the majority of Malawi’s MSEs has done relatively poorly in the last decade. On average, the MSEs in this broad sector seem to have declined in numbers especially in the rural areas, have relatively lower profitability, and have a shorter life span. The primary production MSEs have generally scored better on these points, but this sector still remains relatively small and probably offers good opportunities for future growth.

## MSE CONSTRAINTS

Business owners were asked about the two most important constraints currently facing their businesses as well as those when they first started. Two of every three businesses reported start-up problems and virtually all businesses reported current problems. This section focuses on the range of problems faced by those businesses. The code sheet used for allocating business problems is included in Annex three.

### *Constraints at start-up*

Two thirds of businesses reported significant constraints when first starting up a business. Half of these also experienced a second constraint. Overall the three main constraints facing businesses at start-up are access to capital, marketing problems and input problems (table 36). The primary constraint facing businesses when starting up is financial followed by market and input problems. Market problems were ranked as the key secondary constraint when starting up followed by financial.

**Table 36: Constraints on Start-Up % of MSEs**

Problem Category	Primary Constraint	Secondary Constraint	Problem Ranking
Finance problems	30.5	7.4	1
Tools/Machinery	1.5	1.1	8
Market problems	14.5	12.6	2
Govt/Regulatory	0.3	0.3	9
Shop/rental space	1.3	1.4	7
Input problems	7.4	3.7	3
Transport problems	3.0	3.7	5
Labor problems	1.0	0.6	8
Utilities problems	0.0	0.0	11
Technical problems	2.8	1.8	6
Miscellaneous problems	5.1	2.6	4
Other closure codes	0.1		10
No problem	32.5	64.8	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

Note: Secondary constraints are given a .5 weight to account for those experiencing no problems at all. It is then combined with the primary constraint in order to derive the problem ranking.

Source: Malawi Micro and Small Enterprise Survey, 2000

The majority of businesses in the construction sector (80 percent) experienced problems, while those in mining and forestry faced the least (30 percent). Around 50 percent - 60 percent of businesses in other sectors reported problems. The importance of these constraints varies between sectors with access to capital being more important in the crop, livestock, commerce, fishing, manufacturing and services sector. Marketing is more of a problem in forestry, construction, transport and mining. For MSEs in rural areas inputs for crops and livestock feature above marketing problems.

Analysing by strata we find that businesses in urban industrial reported the most problems (70 percent) with financial problems accounting for 50 percent. MSEs in urban low income areas reported the fewest problems (50 percent) with financial and marketing problems both accounting for a third of constraints. In other strata a common pattern emerges with around 55 percent of businesses reporting primarily financial problems followed strongly by marketing.

Male and multiple owned businesses report more constraints than female and husband/wife owned businesses. It is not clear from the data why this should be. It contrasts with findings from Zimbabwe (McPherson 1998) which shows women experiencing more problems than men. It is also interesting to note that husband/wife businesses have relatively fewer problems. This is supported by research looking at successful business profiles which shows that husband/wife businesses are more likely to be grow and overcome problems (Orr *et al*, 2000).

The main **financial problem** at start-up is lack of investment funds. This covered 70 percent of all those citing problems in this category followed by 20 percent having problems with working capital. Four per cent reported customers unwilling (although not unable) to repay credit.

**Market problems** consist mainly of lack of customers/demand (72 percent) and too many competitors (10 percent). A significant feature of many small enterprises is that owners are 'pushed' into business by circumstances, 22 percent in this survey, as opposed to being drawn by well-researched opportunities. As many small enterprises copy each other's activities it is not surprising that a lack of demand for products are experienced.

The two key **input problems** were attributed to stock being unavailable (50 percent) and too expensive (32 percent). This probably reflects the rural nature of many MSEs combined with high imports for many agricultural as well as manufacturing inputs.

**Miscellaneous problems** cover a wide range of factors with household responsibilities (24 percent) and theft and vandalism (23 percent) being mentioned most frequently followed by accidents (20 percent).

What does not come out of the data are the attitudinal constraints to business and self-employment that have been documented elsewhere (Orr & Makawa, 2000). Although attitudes towards women going into business have become more positive over the last few years there is still much resistance to them entering business a common refrain being '*businezi imayambitsa uhule kwa amayi*' – business leads women into prostitution.

#### ***Current Constraints on MSE Performance***

This section analyses constraints for on-going MSEs. Almost all MSEs (90 percent) reported problems of one sort or another. Forestry stands out as having the fewest MSEs with

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problems (37 percent) compared with transport where only 1.5 percent said they had none. In contrast to start-ups, which showed a wide spread between constraints, the three most significant current constraints each account for a third with the cost and availability of inputs accounting for 31 percent, closely followed by market problems (30 percent) and finance (30 percent).

**Table 37: Current Constraints on Business: % of MSEs**

Problem Category	Primary Constraint	Secondary Constraint (weighted) <sup>19</sup>	Total (Weighted)	Problem Ranking
Finance problems	25.9	3.66	29.56	3
Tools/Machinery	1.9	0.36	2.26	6
Market problems	25.2	4.92	30.12	2
Govt/Regulatory	0.7	0.18	0.88	8
Shop/rental space	0.4	0.24	0.64	9
Input problems	28.1	3.18	31.28	1
Transport problems	5.2	1.40	6.60	5
Labour problems	0.8	0.20	1.00	7
Utilities problems	0.2	0.04	0.24	11
Technical problems	0.3	0.06	0.36	10
Miscellaneous problems	6.9	1.38	8.28	4
Other closure codes	0.1	0.00	0.10	12
No problem	4.3	4.42	8.72	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	

*Source: Malawi Micro and Small Enterprise Survey, 2000*

Although problems with inputs, market problems and finance are close, overall differences emerge at sectoral level. Inputs and marketing problems are prevalent in crops, livestock and natural resources with 'miscellaneous' featuring highly for livestock, forestry and fishing. Factors mentioned under this heading vary in importance. Bad weather affects fishing while animals getting sick are obviously important for livestock MSEs. Thefts, vandalism, deaths in the household and personal health are all contributory factors in this category reflecting the small and personal nature of most MSEs.

**Table 38: Comparison of Frequently cited Problems across Sectors**

SECTOR	Single Most Frequently Cited Problem	Second Most Important Problem
<b>Crops</b>	Inputs 34%	Markets 24%
<b>Livestock</b>	Inputs 27%	Miscellaneous 34%
<b>Forestry</b>	Markets 19%	Miscellaneous 13%
<b>Fishing</b>	Inputs 25%	Miscellaneous 28%
<b>Mining</b>	Market 37%	Finance 33%
<b>Manufacturing</b>	Finance 28%	Inputs 25%
<b>Construction</b>	Finance 43%	Market 24%
<b>Commerce &amp; Trade, Hotels</b>	Market problems 27%	Finance 26%
<b>Transport</b>	Tools/machinery 43%	Markets 30%
<b>Services</b>	Finance 28%	Markets 22%

<sup>19</sup> Note: Secondary constraints are given a .2 weight to account for those experiencing no problems at all. It is then combined with the primary constraint in order to derive the problem ranking.

Manufacturing, construction and services ranked finance as the biggest constraint. This is such a constraint that it leads to many closures as noted in the next section. Market problems were cited by most MSEs in commerce and trade followed by finance (lack of operating funds). The expense and availability of tools and machinery clearly dominate the transport sector followed by markets, both of which reflect the reliance on imports, and the increasing price of both fuel and parts as the kwacha falls in value.

Problems with finance tended to be more common among urban MSEs whereas inputs were more of a problem for rural businesses. Marketing is a problem across all strata with urban commercial and small town SMEs expressing the most concern while lakeshore and urban high income MSEs report the least.

Husband and wife businesses experience the most problems with inputs and least with finance. Multiple owned MSEs report finance and input problems as equal constraints with marketing problems featuring below 'miscellaneous' (which may be personal health, household duties, sickness of animals). Male owned MSEs cited financial constraints ahead of others while female owned MSEs put marketing constraints first in part reflecting the tendency to 'copy' ideas from others - a trait often observed among female traders in Malawi.

This section has discussed constraints as expressed by businesses. It is the MSE proprietors' own perception of what constraints they feel they experience. The nature of the GEMINI survey does not give scope for follow up questioning to get to underlying reasons for the expressed constraints. It is probable that the expressed problems actually cover more real constraints or underlying problems with a business. For instance, a 'financial' constraint may be due to keeping too much stock or not following up creditors quickly leading to a lack of working capital. In such cases providing finance would not be the solution to the problem. Likewise, marketing may be more a problem of lack of entrepreneurial skills than too little demand. This issue needs to be borne in mind when looking at constraints from a policy perspective.

## BUSINESS SUPPORT SERVICES

This section considers the support that an MSE has received be it financial, including formal and informal credit, or non-financial such as training or some other sort of business support service such as help with business planning, management, marketing, design or technology. Table 39, below, shows that a minority of MSEs has received assistance. Fifteen percent of MSEs reported having received financial assistance, 23 percent training and 6 percent some other sort of business service.

**Table 39: MSEs receiving assistance by type**

	MSEs Receiving Assistance		MSEs Not Receiving	
<b>Financial</b>	93,753	15%	509,467	85%
<b>Training</b>	135,854	23%	462,816	77%
<b>Other Business Support Service</b>	37,268	6%	565,900	94%

MSEs access business support services in all strata. However, on average only a fifth of lakeshore based MSEs accessed credit. The main reason for this is probably accessibility and availability of suitable credit organisations as well as the higher capital requirements of fishing compared to many other MSEs. Training and other business support services are more common in urban settings (9-10 percent) and least in rural areas (5 percent). Owners

were also asked about membership of business associations. Although similar rates were found across all strata those in small towns had slightly higher rates of membership (5 percent) compared to rural (4 percent), urban (3 percent) and lakeshore (2 percent).

**Table 40: Assistance Received by Strata (% of all MSEs)**

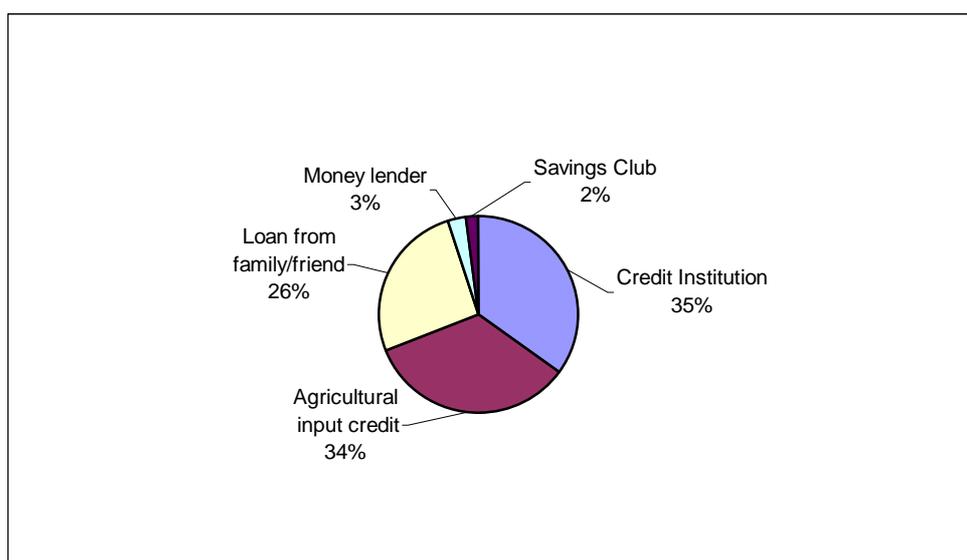
Strata	Received Credit	Received Training	Received Business Support	Belong to Association
Urban low	16	30	9	3
Urban other	11	33	10	3
Small Town	13	26	7	5
Rural	16	21	5	4
Lakeshore	3	22	5	2
<b>TOTAL of Owners</b>	<b>15</b>	<b>23</b>	<b>6</b>	<b>4</b>

The following sections discuss each of these areas of support in more detail.

### *Financial Assistance*

MSEs received financial assistance from a variety of sources that include both formal and informal sources. These are shown in the Figure 4 below.

**Figure 4: Type of Credit Received by MSEs**



Of those receiving credit 35 percent received it from a credit institution or programme, 34 percent received credit specifically for agricultural inputs and 26 percent took loans from family and friends. Borrowing from moneylenders (3 percent) and savings clubs (2 percent) is relatively small compared to other sources. It is interesting to note that agricultural input is an important source of credit in urban as well as rural areas (see table 41). This could be explained by diversification as farmers start to go into non-agricultural businesses while still keeping an agricultural business which itself is built up as the non-agricultural business becomes more profitable. (See Orr and Makawa, 2000). A strategy of diversification not only helps to smooth out the lumpiness of agricultural income but to spread risks. Another possible explanation might also be that urban residents also maintain fields as a necessary

source of food and revenue to help offset low urban wages. This, too, is a source of income diversification.

**Table 41: Type of Credit by strata**

	Urban low income	Urban other	Small town	Rural	Lakeshore	All
<b>Agricultural Input</b>	9.0	6.9	7.7	4.6	1.3	5.3
<b>Microcredit</b>	0.5	0.4	1.8	7.4		5.5
<b>Informal Credit</b>	5.9	3.9	3.9	4.8	1.9	4.7
<b>No Credit</b>	84.5	88.8	86.6	83.3	96.8	84.5
<b>Other</b>	0.1					0.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

As one would assume the rural areas are the largest users of agricultural input credit, in absolute terms. However, because they represent such a large percentage of the population, there is actually a lower percentage of credit penetration by the residents. Informal credit is quite consistent as a percentage of population per stratum, except for the lakeshore areas.

#### *Reach of Credit institutions in Malawi*

The promotion and establishing of a sustainable micro-finance sector in Malawi has been one of the key activities in which GOM, NGOs and donors have been involved in over the last few years. The reach of these programmes is therefore of interest to many working in this sector. The survey estimates that around 32,000 MSEs have been assisted with credit over the last 5 years. Caution is exercised in using figures extrapolated to national level as the GEMINI methodology assumes all areas are similar whereas in reality some programmes are very location specific. This can lead to overestimates of the numbers of any one particular organisation at national level. It should also be borne in mind that the figures mentioned relate to the 6 percent of MSEs that recorded having received micro-credit.

Bearing the above in mind, MRFC was mentioned most frequently accounting for nearly 50 percent of all credit of which 20 percent was delivered through the Mudzi fund. FINCA Malawi was mentioned by around a quarter of MSEs as a source of credit. MUSSCO, SEDOM and DEMAT each reached less than a tenth of those who had received credit. These levels of access imply that 4.5 percent of MSEs are accessing credit. With the expansion of FINCA Malawi to the northern region and the setting up of Pride Africa and Usiwa Watha Credit Trust in the last year this figure can expect to rise over the next five years.

FINCA reaches mainly into urban areas compared to MRFC which has a much more rural and lakeshore profile although FINCA is beginning to make inroads in rural areas also. SEDOM features more in small towns whereas DEMAT appears to have a very small level of activity within urban, rural and lakeshore areas.

Again bearing in mind the drawbacks in extrapolating findings when talking about specific agencies the following broad patterns emerged in terms of sectoral access to credit. MRFC dominates credit in crops and livestock reflecting their use of agricultural extension staff to facilitate loans throughout the country. FINCA dominates in the sectors of commerce, trade, hotels and transport. SEDOM was the only organisation mentioned as a source of credit in the fishing sector.

When looking at the ownership patterns of the MSMEs that have been assisted 46 percent of these are owned jointly by husband and wife, 37 percent female owned, 15 percent male and 2 percent have multiple ownership. Agricultural credit providers service more than 90 percent of MSEs owned by multiple owners and husbands and wives whereas over 50 percent of women access loans from FINCA and a further 34 percent from MRFC (17 percent of these through Mudzi loans). All DEMAT loans were found within MSEs with multiple owners. Male owned businesses had the most diverse sources of funding with 43 percent coming from MRFC and 24 percent from other agricultural credit programmes; 15 percent from SEDOM; 10 percent from FINCA and 8 percent from other credit sources.

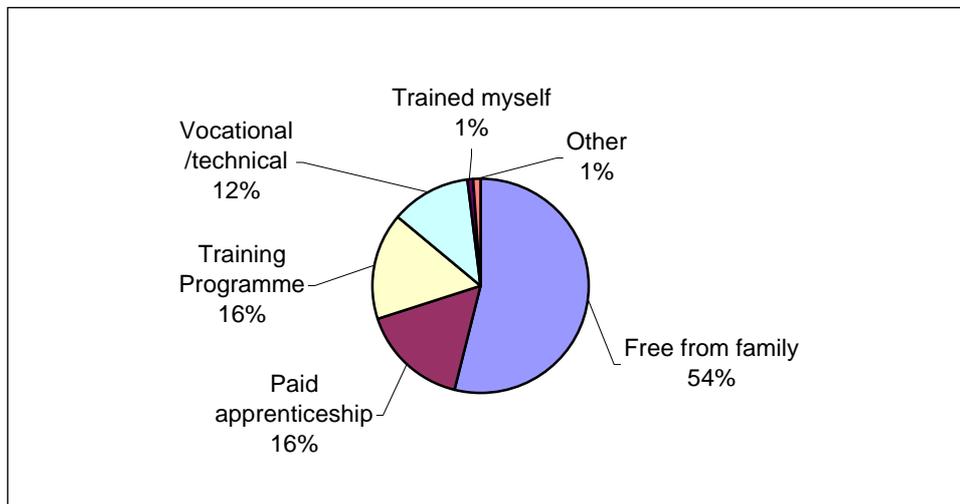
NGO programmes, usually those with a social as well livelihood objective (in contrast to specialist Micro Finance Institutions), were mentioned as a source of credit by less than 1 percent of all MSEs. This emphasises the limited ability they have to reach large numbers. Over 50 percent of NGO credit goes to male owned businesses, 30 percent to husband and wife 20 percent to female owned.

The above analysis highlights the low outreach currently within the MSE sector and the need for specialised credit institutions with the ability to scale up their operations on a sustainable basis. Most of the institutions currently working in the sector have made very little inroad. If more MSEs are to be served to meet the constraints mentioned in the previous section then the type and structure of credit institutions needs to be carefully considered.

#### ***Training in the MSE sector***

Owners were asked about any type of training they may have undertaken outside of formal schooling. Of the 23 percent of MSE owners who had received training half of this was free training from family members. This is usually provided on the job when they are younger allowing them to spin off their own business when they have adequate resources. Although this type of training is difficult to monitor and will obviously vary tremendously between individuals it obviously plays a significant role. Training programmes and paid apprenticeships both accounted for 16 percent while vocational and technical programmes were mentioned by 12 percent of MSE owners. There were no criteria given for what constituted a training programme and this could range from a short seminar to a more intensive programme lasting a few weeks.

**Figure 5: Type of Training Received**



Free training from family members is common across all strata although slightly more lakeshore owners (60 percent) cited this as a source compared to the average and small town owners slightly less (46 percent). In contrast paid apprenticeships were most common in urban areas (34 percent) and least common in rural (13 percent) and lakeshore areas (7 percent). Uptake of training programs and seminars also varied quite widely over strata. Around a third of urban and small town MSE owners take advantage of this type of training while only 13 percent of rural and 6 percent of lakeshore owners do. Half the number of rural owners had accessed vocational training compared to those in all other strata.

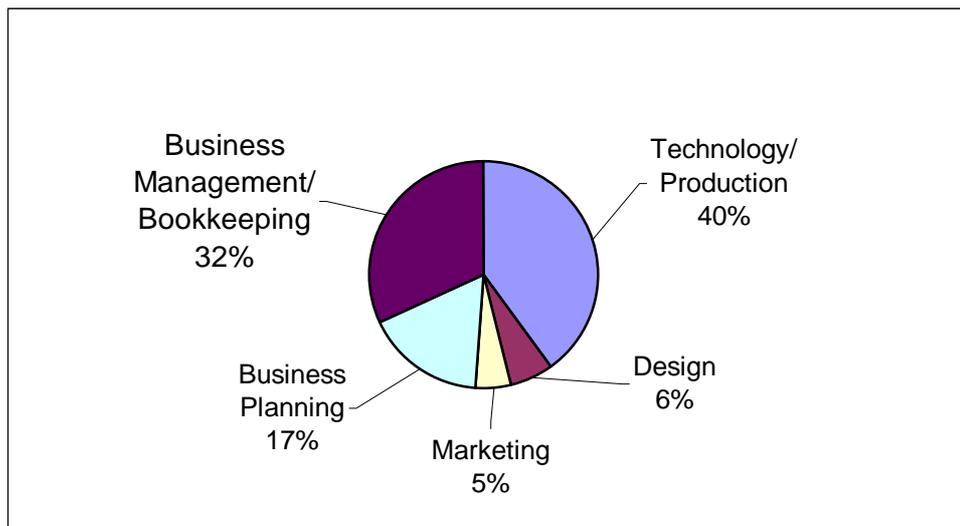
Across sectors there is much greater variation in access and uptake of training. Fifteen percent (15 percent) of MSEs in livestock, forestry, crops and commerce received training of some sort compared to the average for all sectors of 23 percent. Paid apprenticeships were common in livestock. Fishing, mining and manufacturing had higher uptake at 30 percent although no paid apprenticeships or vocational training was cited within the mining sector. MSEs within the construction, transport and services sectors showed the highest levels of training with an average of 62 percent receiving training with a high reliance on free training from family members.

Men in male owned MSEs are twice as likely to have received some form of training compared to women in female owned MSEs. Husbands, wives and multiple owners receive a little more training than women, with the uptake of formal training programmes being a little higher as well.

The picture that emerges is similar to ones elsewhere: an MSE sector that is heavily dependent on family and informal training for its skills with access to training remaining particularly low for women.

#### ***Use of Other Business Support Services***

Owners of MSEs were asked if they had used any other business support services apart from training or credit. Around 37,000 (6 percent) responded positively.



**Figure 6: Other Business Support Services Received**

Support in some aspect of production was most common followed by business management and planning. It is likely that some of these services have been accessed through micro-credit organisations that often link credit to some basic business management and planning skills.

Design and marketing were mentioned less frequently the latter being particularly significant as marketing was often mentioned as a constraint. Is it that marketing services are not available, accessible, affordable? MSEs with 5-20 employees access support services the most (9 percent of all in this size) followed by those with 0-4 employees (6 percent) while less than 5 percent of MSEs with over 20 employees use support service. Those in the last bracket used only business management and bookkeeping compared to other sizes that accessed a spread of services.

As one would expect, use of business support services increases with proximity to urban centres where nearly 10 percent of MSEs access services. Most of these were related to business management (around 55 percent) and business planning (30 percent). Small towns access rate was nearer 7 percent with a more even split between business management (46 percent) and technology and production related services (30 percent) being used. Around 5 percent of lakeshore and rural MSEs used business support services with the emphasis being much more on technology and production (over 50 percent on average). Only 19 percent of rural and 40 percent of lakeshore MSEs used business management services.

No MSEs in the forestry or mining sector reported use of business services and only a few mentioned this in fishing. Construction, livestock and services reported most use with the rest in between. Technology and production services are most important in the crop, livestock, and construction and services sector, being used by 60 – 75 percent of MSEs. In contrast, business management and to a lesser extent business planning are used in the construction, commerce and transport sectors.

In terms of ownership by gender more multiple owners use services, 10 percent compared to an average of 6 percent. This is split evenly between technology and business management that may suggest some sort of linked training for the group. Females use mainly business management and planning services (80 percent) while males use technology and production (55 percent) and business management and planning (30 percent). Technology and production is also important for husband/wife MSEs with 58 percent using this service followed by 33 percent business planning and management.

The above analysis notes gaps between constraints mentioned in the previous section and the type of services actually accessed. MSEs in seven out of ten sectors received no support in marketing. It also highlights the imbalance between urban and rural provision as well as sectoral differences in the type of service used most often with rural and natural resource MSEs using technology and production services more frequently. What the data do not tell us is whether MSEs wanted services that they were unable to get and thus how accessible, available and affordable business support services actually are. It also tends to focus on formal sources of services and ignores the range of informal sources and contacts that are often the source of ideas and advice. Successful business people often act as role models to those around providing a more valuable service than any formal one. We also know from other studies that support services do tend to be 'product' driven rather than demand driven implying that in some cases clients may receive a service that is predefined by the business support provider and not by the client themselves. The services mentioned are also likely to be of a fairly low level and probably linked in one way or another to the provision of micro credit rather than being sought out as an independent service to met a specific problem within the business.

### ***Membership of Business Associations***

MSE owners were asked if they belonged to any sort of registered business association. Of the 4 percent who do belong membership is more common among MSEs in small towns and

rural areas compared to urban. This could well reflect membership of associations providing agricultural input rather than non-agricultural associations. This is supported by the fact that membership is most common in crop and livestock sectors. The transport sector also has a relatively high membership rate perhaps due to legal requirements more than anything. Multiple owners have a much higher membership rate (21 percent) perhaps because of the co-operative nature of their businesses compared to 7 percent membership rate by husband/wife MSEs and 2 percent by male and female owned MSEs.

### ***Impact of support services.***

An analysis of the support services received by MSE (in annex 4) shows that 94 percent of all MSE did not receive any support. It also shows that only 6 percent of those who had a large increase in business had support while over 10 percent of those who had large decrease had received support or training. This raises the question of the value of support and consequently raises concerns on the type and relevance of the support that is being rendered by programmes targeting MSEs.

### ***Summary***

Free training from family members is the most common type of assistance that a business receives particularly in rural areas. Paid apprenticeships and vocational training are more common among urban and small town MSEs. Overall, around one in four MSEs receive training in one form or another. This is most likely to be male owned in an urban area in the transport, construction or service sector.

Financial assistance in the form of credit is less widely used with one in every seven MSEs taking a loan. Husband and wife owned MSEs are more likely to take credit than other forms of MSEs and female owned businesses are more than twice as likely to get credit than a male owned firm. Typically a third of loans are agricultural input credit - dominated by MRFC, a third from micro-credit institutions – FINCA and MRFC featuring highly - and a third from informal sources, mainly family and friends. Although numerically more people in rural areas access loans there is actually a higher access rate among urban MSEs.

Other business support services are even more infrequently used with only one in seventeen MSEs mentioning them. Technology related information, advice and supply is the most common service followed by business management and bookkeeping the following often an adjunct to the provision of credit. Urban MSEs, especially in construction and services, are more likely to use these business support services than rural ones although MSEs in the livestock sector also have a high usage.

Membership of associations is mainly restricted to rural co-operatives and groups formed for agricultural input credit.

The size and characteristics of MSEs largely determine the type of services provided. Most MSEs can only handle small loan amounts if any at all. We have already seen that 80% of businesses are not set up for profit maximisation and reinvestment but to earn a bit of extra cash for the household. They are basically survival and income generating activities. Thus, informal training in how to brew beer or make *mandasi*, and a small loan to go with it, is meeting a very real need of rural households.

As businesses grow they tend to access more formal sources of assistance and the training and support services that often go with it. Such help is often highly 'product driven' rather than client determined which partly explains the poor correlation between services and

performance. Motivation is also an important factor. Qualitative studies have shown that success, irrespective of assistance received, is more about having the *nzeru ndi mtima wa buzinesi* (wisdom and heart for business).

The challenge for business support services is not only to find these people but to encourage such attitudes in the broader population. This will include addressing cultural issues and attitudes with regard to business as well as encouraging role models.

Business support services, above all, need to become learning organisations that listen to what people actually need. Part of this involves segmenting the market as MSEs at different levels need different services.<sup>20</sup>

One area that has received little attention in the past for instance is the nature and dynamics of joint businesses at household level.

Finally, the direct provision of MSE services is challenged by the paradigm shift in thinking about BDS<sup>21</sup>. Underlying the BDS market development paradigm is the understanding that the objective of outreach and sustainability of services can only be achieved in well-developed markets for BDS, and not by direct provision by donors and governments. As the Blue Book puts it 'this shifts the focus of public intervention away from direct provision and subsidies at the level of BDS transaction, toward facilitation of a sustained increase in the demand and supply of services'.

### ***Conclusions on MSE dynamics, constraints, and support services.***

Malawi's MSEs tend to focus on meeting basic household needs, not serving as true business for growth in which the owners are interesting in re-investing their profits. As a result, the creation of new firms grows when the economy is declining, and slows when the economy is doing better. Of recent interest has been the high level of enterprise closure, which has now eclipsed new enterprise creation. The reasons for this are not clear, though one of the indications might be coming from the increase in HIV/AIDS.

Current support services have focused on institutional support especially for credit institutions. There has been some training and other limited business support services – but all these efforts are reaching very few people, no more than a quarter of the people with MSEs. Even among those who have received some kind of support in terms of credit, training and other support services the impact appears to be extremely small if any. There is no identifiable correlation between access to any of these services and increase in business sales or profits, with perhaps the exception that financial credit is positively correlated with growth in business size (see 1992-2000 comparisons).

The issue of providing support services directly to MSE always raises the issues of cost benefit. How much support can one afford to provide an MSE that is only earning MK

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<sup>20</sup> The concept of the business ladder is useful here. Based on Eigen's levels of entrepreneurial sophistication Orr and Makawa (2000) apply the concept to Malawi linking in business characteristics with livelihood features and the associated interventions thus providing a useful tool for thinking about targets groups.

<sup>21</sup> Tanburn, J, Trah, G and Hallberg, K (2000) Business Development Services for Small Enterprises: Guidelines for Donor Intervention. ('The Blue Book') Prepared for the Committee of Donor Agencies for Small Enterprise Development.

10,000 a year. When we see the limited impact that these services have had, even on very small firms, it forces us to start thinking about more cost effective solutions. These solutions may not focus on individual assistance, but may target increased efficiencies in the sector or facilitating linkages between marketing channels and other points of leverage. Section VII, below, will review a number of options for new kinds of thinking on support programmes for MSE development that are cost effective and have proven to lead to larger overall benefits.

## V. Changes in the MSE Sector, 1992-2000

### Introduction

Two countrywide surveys of MSEs conducted in Malawi in 1992 and again in 2000 offer a unique opportunity to learn how this important sector has changed over the 1990s. The following section provides a brief overview of how Malawi's economy has been changing in recent years, followed by a description of the two baseline surveys, and the extent to which the data generated by each is comparable.

### *Changes in Malawi's Economy*

The 1990s were a time of dramatic change in Malawi, both politically and economically. The economy evolved in important ways: structural adjustment began in 1981, with the assistance and prodding of the International Monetary Fund and the World Bank. Some of the reforms have included period devaluation of the currency (until it was allowed to largely float beginning in early 1994); liberalization of interest rates by 1995; tariff reductions and civil service reforms between 1992-1995; periods of privatization of state-owned enterprises in 1986-1987 and in 1996-1998; and the relaxation of the prohibition of smallholders growing burley tobacco in 1994. Table 42 presents some measures of economic performance since 1981. Despite serious contractions in GDP in 1992 and 1994, GDP and per capita GDP have grown. Annual inflation peaked at 83 percent in 1995, but was brought down to more manageable levels before again increasing to an estimated 45 percent in 1999<sup>22</sup>. The size of the government as a percentage of GDP has decreased. It is not at all clear that any of these changes were the direct result of structural reforms. Indeed, many observers believe that these reforms have had only limited success so far, and some would argue that the reforms have actually led to additional economic instability.<sup>23</sup> "In the absence of a regular series of income expenditure surveys the impact of structural adjustment on rural poverty at the national level is hard to determine. Micro evidence from the southern region, where poverty is most acute, suggests that the impact has been mixed but that market liberalisation has increased income for the majority of households" (Mwale, et al, 2000).

Malawi's economy remains dominated by agriculture, and therefore continues to depend most importantly on agricultural prices and production levels. The latter is of course strongly influenced by weather conditions, so it is unsurprising that GDP growth was negative in the drought years of 1992 and 1994. In broad terms, the health of Malawi's agricultural sector seems to have improved, with agricultural value added per worker (World Bank, 2000) increasing and tobacco production higher despite a substantial drop in 1998 (FAO, 2001). Over the same period, international burley tobacco prices have generally tended upward (USDA, 2000). Overall, earnings from tobacco rose dramatically over the 1992-1997 period, and fell through 1999 before recovering in 2000. Clearly, much of Malawi's rather modest economic success is due to the state of the agricultural sector.

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<sup>22</sup> While statistics are not yet available for 2000, it seems likely that inflation will be at least as high as 1999's rate, given the continued depreciation of the kwacha as well as higher fuel prices.

<sup>23</sup> See, for example, Chirwa, 2000.

**Table 42: Economic Indicators for Malawi 1981-1999**

Indicator	1981-1985	1986-1990	1991-1995	1995-1999	1999
Value added per worker, agriculture (constant 1995 US\$)	94.2	83.9	85.3		
Tobacco leaf production (thousands of metric tons)	65.8	79.7	119.9	131.4	
GDP growth rate	2.2	2.3	3.3	5.9	
GDP per capita (current international dollars)**	355	446	467	547*	190
Consumer price inflation	13.1	19.5	35.4	30.4	37.6
Real interest rate	5.6	2.9	-1.2	9.5*	
Official exchange rate (kwachas/US\$)	1.25	2.42	6.97	20.94	59.5
General government consumption (% of GDP)	17.0	17.6	17.7	13.5*	

*\*Figures only available through 1998, \*\* figures for 1981-99 are in purchasing power parity (PPP)*

*Sources: World Development Indicators, 2000; FAO Statistics Division Database*

Without doubt, Malawi's MSE sector has been affected by these changes. As the complicated relationship between the MSE sector and the macro economy is not well understood, it is difficult to know how much of the observed change in the sector is the result of the factors noted above.<sup>24</sup>

Beyond these trends, Malawi's AIDS epidemic must be noted. According to the World Health Organization and UNAIDS, 16 percent of Malawian adults are HIV positive, and approximately 70,000 Malawians died of AIDS in 1999 alone. This may have affected Malawi's MSE sector in a number of different ways. For example, illness of the entrepreneur or his or her family would have dire consequences for the operation of a business both in terms of diminished productivity and the necessity of spending time and resources caring for the afflicted. In addition, taking on additional dependants orphaned by the epidemic would present a new set of difficulties for entrepreneurs. In discussing changes in the MSE sector over the 1990s, we must be mindful of these effects.

### ***The Baseline Surveys***

The 1992 and 2000 surveys employed the same general methodology, which has come to be known as the GEMINI survey technique. While this method is more fully described above, in short it involves dividing a country into strata, such that MSEs within a given stratum are relatively similar while MSEs in different strata are relatively dissimilar. Once the strata are decided upon, a number of clusters are randomly selected in each stratum. Most commonly, these clusters are the enumeration areas used in the population census exercise. Within each enumeration area all households and shops are visited in order to assess whether or not one or more MSEs are being operated on the premises. Questionnaires are administered at all sites found to have MSE activity, one for each business. Based on knowledge of the number of households in each stratum and other factors, weights can be assigned to the data and the survey results can be accurately extrapolated to the national level.

Within this broad similarity, there were some differences between the two surveys. First, the 2000 survey visited different enumeration areas than did the 1992 operation. However, since each was done according to the stratified random sampling method described above, the two surveys should be generally comparable. Second, the fieldwork for the 1992 survey was conducted in June and July, whereas the 2000 survey fieldwork was undertaken from mid-

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<sup>24</sup> The interested reader is referred to Mumbengegwi (1993) and McPherson (2000) for a discussion of the possible effects of structural adjustment on MSEs.

October to mid-December. While this raises issues of seasonal bias, the fact remains that the majority of MSEs in both periods operated on a year-round basis.<sup>25</sup> A third difference between the surveys involves the manner in which each survey calculated the weights used to extrapolate the data to the national level. To ensure comparability, the weights for the 1992 survey were recalculated using the same method used in 2000.<sup>26</sup> In addition, the 2000 survey enumerated MSEs engaged in agriculture, mining, and forestry. Such activities were excluded from the 1992 survey. In order to compare results, this section does not include data from these businesses. The 1992 survey made no attempt to estimate sales, expenses, or profits; as a result we cannot discuss changes in these variables in this section.

## Comparison of Survey Results

### *Magnitude*

From 1992 to 2000, Malawi's population grew from about 8.8 million to about 10.2 million, an increase of 15.8 percent. However, this obscures the fact that Malawi's urban population growth rate of 43.9 percent is much larger than her rural growth rate of 13.1 percent. With this as background, it would be reasonable to expect roughly proportionate increases in the number of and employment in MSEs. A comparison of the 2000 survey results with those of the 1992 survey reveals a more complex situation, as can be seen in Tables 43 and 44. Overall, both the number of MSEs and employment in them decreased over the period. However, these losses were confined to the rural areas: the number of MSEs in urban areas increased by 85 percent and the number of jobs in urban MSEs increased by nearly 68 percent, both rates being substantially higher than the rate of urban population increase. There are some 85,000 (or 16 percent) fewer rural MSEs in 2000 as compared with 1992, and 158,000 (or 17 percent) fewer Malawians are employed in rural MSEs, despite modest population growth in these areas.

While the survey provides no definitive reasons for this shift, several possibilities are present. Firstly, it may be the case that agriculture in Malawi has become more remunerative in this period, leading many rural Malawians to abandon their off-farm business to concentrate on farming. The World Bank's World Development Indicators provide some evidence to support this: value added per worker in agriculture (in constant US\$) more than doubled from \$66 in 1992 to \$137 in 1998, the most recent year for which data are available. Furthermore, in the early part of the 1990s, production was liberalized to allow smallholders to grow burley tobacco. This change may have induced some rural Malawians to shutter their off farm businesses, and others to not start new ones, and instead to begin farming. It is also commonly known that rural households many times start off-farm MSE activities to supplement agricultural incomes or when agricultural incomes are insufficient for immediate household income needs. As such, progress in the agricultural sector would lead to a decline in the rural off farm businesses.

It is apparent from the population figures presented above that much of the urban population growth has resulted from rural-to-urban migration. If it is true that migrants are more likely to be relatively educated, it may be that the pool of entrepreneurship has been growing in Malawi's urban areas at the expense of her rural areas. This may also help to explain the patterns presented in Tables 43 and 44.

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<sup>25</sup> Urban enterprises have a longer year than the rural enterprises, especially the agricultural enterprises, which are much more seasonal.

<sup>26</sup> For this reason readers may notice that the figures for 1992 presented below differ slightly from those presented in the original survey report (see Daniels and Ngwira, 1993).

The role that the AIDS epidemic may have played in the changing face of Malawi's MSE sector is not clear from survey data, but the WHO estimates that HIV seroprevalence is higher in Malawi's urban areas than in her rural areas. It may also be the case that some urban Malawians attempting to cope with the epidemic have started MSEs as a way to supplement their incomes.

Finally, it is interesting to note that very similar patterns were observed in Zimbabwe over the 1993 to 1998 period, during which time that country was also implementing structural reforms (McPherson, 2000). In that country, urban MSEs increased nearly 30 percent in number and 55 percent in employment, while rural MSEs decreased 23 percent in number and over 10 percent in employment.

**Table 43: Number of MSEs 1992-2000**

Stratum	No. of MSEs		% of MSEs		% Change in MSEs
	1992	2000	1992	2000	1992-2000
Urban	64,989	120,244	11.1	21.6	85.0%
Rural	522,293	437,604	88.9	78.4	-16.2%
Total	587,283	557,848	100.0	100.0	-5.0%

**Table 44: Employment in MSEs 1992-2000**

	Employment in MSEs		% of MSE Employment		% Change in MSE Employment
	1992	2000	1992	2000	1992-2000
<b>Urban</b>	138,300	232,071	12.9	23.1	67.8%
<b>Rural</b>	932,194	774,559	87.1	76.9	-16.9%
<b>Total</b>	1,070,494	1,006,630	100.0	100.0	-6.0%

Table 45 illustrates these themes. The MSE density, which is the number of MSEs per 1000 persons, has decreased overall over the period in question, but this decrease is entirely due to rural changes. There were about 122 persons employed in MSEs per 1000 population in 1992, but this figure fell to 99 by 2000. Once again, only the rural figure decreased: the MSE employment density actually rose significantly in urban areas.

**Table 45: MSE and MSE Employment Densities per 1000 persons 1992-2000**

	MSEs per 1000 population	MSE employment per 1000 population
1992		
Urban	80.2	170.8
Rural	65.5	116.9
Total	66.8	121.8
2000		
Urban	103.2	199.1
Rural	48.5	85.9
Total	54.8	98.8

***Firm Size and Size Distribution***

According to the data presented in Table 46, on average Malawi's MSEs have remained constant in size at around 1.8 employees per firm (inclusive of the proprietor). Urban firms are slightly smaller than they were in 1992. However, as Figure 2 demonstrates, the picture is slightly more complex. From 1992 to 2000, the share of 1-person (proprietor-only) firms decreased from 59.4 percent to 54.7 percent, while the shares of firms in the 2-5-worker range increased over the period. There has been, however, a decline in the proportion of MSEs in the largest size categories. These changes are important: other studies have shown that MSEs become dramatically more efficient and productive when they grow beyond the 1-person level.<sup>27</sup>

**Table 46: Average Firm Size 1992-2000**

Stratum	Average Number of Workers per Firm, Including Working Proprietors	
	1992	2000
Urban	2.13	1.93
Rural	1.78	1.77
<b>Total</b>	<b>1.82</b>	<b>1.80</b>

***Importance of MSEs to Household Income***

The evidence presented in Table 47 suggests that Malawi's households may be slightly less dependent on MSEs as a source of income. While in 1992 some 42 percent of the households reported that MSEs provided their exclusive source of income, only 32 percent made the same statement in 2000. Overall, however, roughly the same proportion relies on MSEs for more than half of household income in 2000 as did in 1992.

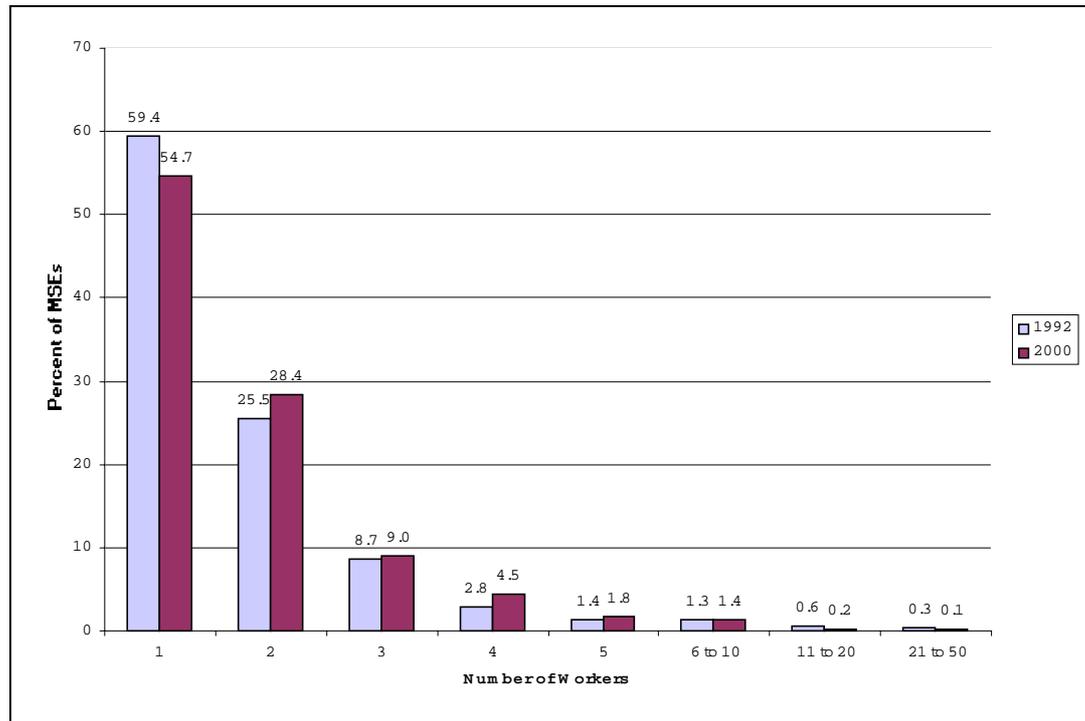
**Table 47: Percentage of Household Income Originating from MSEs**

Percentage of Household Income Provided By MSE	1992			2000		
	Urban	Rural	Total	Urban	Rural	Total
<b>100%</b>	46.9	41.8	42.3	29.0	32.7	31.9
<b>Between 50% and 100%</b>	12.9	17.8	17.3	20.2	27.2	25.7
<b>50%</b>	9.3	8.1	8.2	7.9	11.3	10.6
<b>Less Than 50%</b>	28.0	30.5	30.2	40.2	26.5	29.4
<b>Don't Know/Not Applicable</b>	2.8	1.9	2.0	2.7	2.3	2.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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<sup>27</sup> Liedholm and Mead (1987).

**Figure 7: Size Distribution of MSEs, 1992-2000**



**Sectoral Distribution**

The types of enterprises in Malawi’s MSE sector might reasonably be expected to change as time passes, especially during periods of structural adjustment. Nevertheless, the changes observed over the 1992 to 2000 period are generally very modest, as shown in Table 48. A slight shift has occurred from manufacturing to trade, and construction firms are more common (although these last make up only a small fraction of all MSEs). In particular, in 1992, 43 percent of MSEs were engaged in manufacturing; this share had fallen to 39 percent by 2000. Within manufacturing, the wood and wood products and textiles sectors comprised most of the decrease, which is consistent with the observation that in the primary production sectors, forestry and the harvesting of trees is also a declining activity. On the other hand, food and beverage processing actually became slightly more common.

While these changes are rather small, it may be useful to speculate as to their causes. As any country develops economically, manufacturing and services typically play an increasingly central role. This might lead to a decrease in the number of manufacturing MSEs, as these would be facing greater competition from formal sector manufacturers. However, given that the share of manufacturing in GDP (as measured by value added) decreased from 1992 to 2000, this explanation is unsatisfying. Instead, the decrease in manufacturing MSEs may be the result of heightened import competition stemming from liberalization of commercial policy under structural adjustment. While an increased degree of “openness” may also create opportunities for increased manufacturing production for export purposes, it may generally be the case that only firms larger than 50 workers are in a position to take advantage of those opportunities. The increased proportion of MSEs engaged in trade (mainly small-scale vending) may also be an indirect result of the structural adjustment process. Decreased real incomes may cause an increase in demand for the consumer products sold by MSEs. However, several studies in Malawi have shown that increasing tobacco incomes have led to increased effective demand for traded goods and that rural trading activities have grown at a much higher rate around tobacco producing areas. Furthermore, since starting a vending

business requires little or no training and capital, it may be a natural survival strategy for persons who have been retrenched.

***Location of MSEs***

Earlier discussion has indicated that the share of urban-based MSEs has nearly doubled over the 1992-2000 period, while the proportion in rural areas has declined from 89 percent to 78 percent. MSEs have shifted spatially in another way as well. Table 49 shows that MSEs are now more likely to be based in the home or homestead, and are less commonly located in markets as compared to the situation in 1992. While there may be a number of explanations for these shifts, one possibility is that operating an enterprise in the home allows the entrepreneur greater flexibility in managing domestic responsibilities. This may have become more important over the 1990s in light of the AIDS epidemic.

**Table 48: Sectoral Distribution of MSEs**

Sector	Sectoral Distribution of MSEs (%)					
	1992			2000		
	Urban	Rural	Total	Urban	Rural	Total
<b>Manufacturing, Total</b>	33.0	44.5	43.2	27.8	41.6	38.8
<b>Food and Beverage Processing</b>	12.0	20.4	19.5	13.6	24.8	22.4
<b>Textiles</b>	10.0	6.0	6.4	5.8	4.0	4.4
<b>Wood and Wood Products</b>	4.5	11.7	10.9	4.3	7.2	6.6
<b>Paper, Printing, Publishing</b>	0.1	0.0	0.0	0.0	0.0	0.0
<b>Non-Metallic Mineral Processing</b>	1.5	3.5	3.3	0.2	1.4	1.1
<b>Fabricated Metal Production</b>	3.0	1.7	1.8	2.3	1.6	1.8
<b>Other Manufacturing</b>	1.9	1.2	1.2	1.6	2.6	2.4
<b>Construction</b>	0.6	0.4	0.4	2.1	0.9	1.2
<b>Trade, Total</b>	57.4	51.3	52.0	58.6	53.9	54.9
<b>Wholesale</b>	0.2	0.2	0.2	0.0	0.0	0.0
<b>Retail</b>	56.2	49.8	50.5	57.5	50.7	52.1
<b>Restaurant, Hotels, and Bars</b>	1.0	1.3	1.2	1.1	3.2	2.8
<b>Transportation</b>	1.3	0.4	0.5	1.5	0.7	0.8
<b>Renting Rooms or Flats</b>	5.2	0.6	1.1	5.2	0.3	1.4
<b>Services</b>	2.4	2.9	2.8	4.8	2.5	3.0
<b>TOTAL, ALL SECTORS</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

It is interesting to note the urban shift away from formal market places, in table 49. This could reflect the greater freedom to carry out MSEs that came about with democracy. Before 1994 everyone trading in the market had to have a party card – if you didn't you couldn't trade. With democracy cards were no longer needed and there was greater freedom of how, where and who could carry out business. This has been documented in both Orr & Makawa and Mwale and Orr.

**Table 49: Location of MSEs**

Location of MSE	1992			2000		
	Urban	Rural	Total	Urban	Rural	Total
Home/Homestead	42.6	55.3	53.9	63.6	66.4	65.8
Market	28.0	17.9	19.0	4.2	15.9	13.5
Commercial/Industrial District	4.9	1.6	1.9	6.9	1.6	2.7
Roadside	13.1	10.6	10.9	20.2	11.2	13.1
Mobile	9.0	13.2	12.7	4.8	4.6	4.6
Other	2.4	1.4	1.5	0.3	0.3	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Access to Credit*

A substantially smaller proportion of Malawi's MSEs report having received at some point a loan for their business. As one can see from Table 50, 90 percent of the MSEs have never received business loans of any sort, whereas only 81 percent answered in the same way in 1992. However, the decrease is mainly due to a much smaller proportion of MSEs able to secure loans from family or friends. Indeed, the share of MSEs able to access formal sector credit has increased dramatically, although the share remains small. This may be both a positive and a negative development from the standpoint of the MSE sector. It is positive in that a major constraint to MSE development has been that sector's exclusion from formal credit markets. On the other hand, the dramatically smaller proportion of MSEs receiving loans from friends or family cannot be viewed as a favorable development.

**Table 50: Access to Credit**

Source of Credit	1992			2000		
	Urban	Rural	Total	Urban	Rural	Total
Never Received Loans	74.7	81.8	81.0	84.9	91.5	90.1
Loans from Family/Friends	16.1	12.5	12.9	4.7	4.9	4.8
Moneylender (Katapira)	4.0	2.5	2.6	0.7	0.5	0.5
Formal Credit Institution	1.3	1.2	1.2	8.8	2.8	4.1
Other	3.9	2.1	2.3	0.9	0.3	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Growth Patterns*

Table 51 presents information on changes in the growth rates of employment in MSEs. This statistic is calculated for each MSE, and is simply a percentage change in the number of workers from the time the business started to the time of the survey. In order to put these in annual terms, this percentage change is divided by the number of years the firm has been in existence. There are several items to note from this table. First, the overall growth rate has decreased slightly, from 10.5 percent in 1992 to 9.7 percent in 2000. Second, in light of the fact that in both periods only about 20 percent of all firms grew at all, these growth rates actually seem very high. Third, in both periods trade-related firms grew at a more rapid rate than firms in manufacturing or services. Furthermore, trade is the only major sectoral classification that had higher average growth rates in 2000. Combining this information with that presented in Table 38, one can see that not only has the proportion of MSEs engaged in trade increased, the firms in that sector are adding employees at a relatively rapid rate.

Table 52 provides additional information about features that may distinguish firms that grew from firms that did not. The 20 percent of MSEs that did add workers since start-up have average growth rates in the neighborhood of 50 percent per year in both 1992 and 2000. That is, the segment of the MSE sector that is growing is growing very rapidly. MSEs that have

grown have also been in existence longer than no-growth firms, and are roughly twice as likely to have received formal sector credit.

**Table 51: Employment Growth Rates by Sector**

Sector	Employment Growth of MSEs (average annual percent)					
	1992			2000		
	Urban	Rural	Total	Urban	Rural	Total
<b>Manufacturing, Total</b>	17.8	7.9	8.7	10.0	6.0	6.6
<b>Food and Beverage Processing</b>	9.2	7.7	7.8	15.2	7.9	8.7
<b>Textiles</b>	11.4	5.8	6.8	4.8	2.8	3.3
<b>Wood and Wood Products</b>	36.8	8.7	10.1	3.4	4.0	3.9
<b>Non-Metallic Mineral Processing</b>	48.2	11.2	13.2	-1.6	2.9	2.8
<b>Fabricated Metal Production</b>	19.3	2.5	5.5	7.7	2.4	3.7
<b>Other Manufacturing</b>	30.4	11.0	14.2	5.3	1.5	2.1
<b>Construction</b>	65.0	0.8	14.2	1.8	8.3	6.7
<b>Trade, Total</b>	14.2	11.7	12.0	17.8	10.9	12.5
<b>Wholesale</b>	13.1	20.0	19.3	na	na	na
<b>Retail</b>	14.5	11.4	11.7	18.0	10.6	12.4
<b>Restaurant, Hotels, and Bars</b>	12.6	22.6	21.7	1.0	15.7	14.6
<b>Transportation</b>	29.3	8.7	14.2	9.7	8.0	8.5
<b>Renting Rooms or Flats</b>	0.9	-0.9	0.0	0.6	5.4	1.5
<b>Services</b>	32.6	11.4	13.6	10.5	5.8	7.3
<b>TOTAL, ALL SECTORS</b>	<b>15.8</b>	<b>9.9</b>	<b>10.5</b>	<b>14.0</b>	<b>8.6</b>	<b>9.7</b>

**Table 52: Comparison of MSEs That Grew and MSEs That Did Not Grow**

Sector	1992		2000	
	MSEs That Grew	No-Growth MSEs	MSEs That Grew	No-Growth MSEs
<b>Growth Rate</b>	48.0%	-0.5%	51.5	-0.8
<b>Average Number of Workers at Start-Up</b>	1.46	1.98	1.50	1.48
<b>Average Firm Age</b>	8.55	7.00	8.74	6.71
<b>% of Firms Receiving Formal Sector Credit</b>	2.1	0.9	7.1	3.3

### *Constraints*

Both the 1992 and the 2000 surveys asked proprietors what business constraint was most pressing in their opinions (see Table 53). In general, the same broad categories of complaints were cited in both years: those relating to finance, those relating to market or demand deficiencies, and those involving input problems. From 1992 to 2000 the major constraints shifted slightly from input difficulties to market/demand shortcomings and especially finance troubles. To the extent that these differences are significant, this may reflect that proprietors are finding it somewhat easier to procure and afford inputs, perhaps due in some measure to liberalization of the foreign exchange market and to decreased import barriers.

**Table 53: Primary MSE Constraint**

Primary Business Problem	1992			2000		
	Urban	Rural	Total	Urban	Rural	Total
Finance	25.2	22.6	22.9	28.7	29.8	29.5
Market/Demand	23.2	23.0	23.0	26.0	27.0	26.8
Inputs	25.3	28.5	28.2	24.6	23.6	23.8
Tools/Machinery	2.9	2.2	2.3	1.5	2.1	2.0
Regulation/Taxation	3.4	5.0	4.9	0.4	0.8	0.7
Shop/Rental Space	0.9	0.4	0.5	0.7	0.5	0.5
Transport	4.1	4.5	4.5	4.9	6.3	6.0
Labor	0.9	0.7	0.8	0.9	0.4	0.5
Utilities	0.5	0.1	0.2	0.8	0.2	0.3
Technical	1.0	0.8	0.8	0.5	0.8	0.8
Miscellaneous	2.8	5.2	4.6	4.4	4.8	4.7
No Problem	9.8	7.0	7.3	6.5	3.8	4.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Proprietor Characteristics*

Table 54 shows that the proportion of Malawi's MSEs with female proprietors exclusively remained constant from 1992 to 2000 at around 45 percent. It is interesting to note that this share is well below that in other southern African countries. Furthermore, the share of MSEs owned by one or more males has declined in every sector, while the number of MSEs that are jointly owned by at least one male and at least one female has sharply increased. It is not immediately clear why relatively more of Malawi's male proprietors have decided to join forces with women entrepreneurs since 1992. One interesting change involves the average annual growth rate of MSE employment disaggregated by proprietor gender (see Table 55). In 1992, male-dominated firms grew faster than those run by women; by 2000 this pattern had reversed itself.

Another interesting development is that a greater proportion of female proprietors had access to formal credit sources than males in 2000, a reversal of the situation in 1992. This may be evidence of some success in loan programs targeting women. This information is presented in Table 54.

**Table 54: Proprietor Gender By Sector**

Sector	1992			2000		
	Male	Female	Mixed Proprietors	Male	Female	Mixed Proprietors
Manufacturing	45.2	52.2	2.6	35.5	51.3	13.2
Construction	100.0	0.0	0.0	88.9	9.3	1.8
Trade	55.0	42.6	2.4	38.6	39.4	22.1
Transportation	99.2	0.1	0.8	69.2	5.3	25.4
Renting Rooms/Flats	54.1	29.8	16.1	34.2	20.6	45.2
Services	78.4	19.1	2.5	56.6	35.6	7.8
<b>TOTAL</b>	<b>51.8</b>	<b>45.6</b>	<b>2.6</b>	<b>38.5</b>	<b>43.3</b>	<b>18.2</b>

**Table 55: Average Annual Growth Rate of Employment by Sector and Proprietor Gender**

Sector	Average Annual Growth in Employment (%)					
	1992			2000		
	Male	Female	Mixed Proprietors	Male	Female	Mixed Proprietors
Manufacturing	12.1	5.3	20.9	6.6	7.2	4.7
Construction	14.2	na	na	8.0	-1.2	-18.2
Trade	11.3	12.5	20.2	10.5	17.3	7.3
Transportation	14.3	21.4	3.6	6.8	3.8	14.2
Renting Rooms/Flats	0.0	0.0	0.0	2.5	-1.7	2.3
Services	13.7	15.2	0.0	6.1	8.3	11.7
<b>TOTAL</b>	<b>11.6</b>	<b>8.9</b>	<b>18.4</b>	<b>8.6</b>	<b>12.1</b>	<b>6.4</b>

**Table 56: Access to Credit by Proprietor Gender**

Source of Credit	1992			2000		
	Male	Female	Mixed Proprietors	Male	Female	Mixed Proprietors
Never Received Loans	83.9%	78.1%	75.1%	93.7	86.7	90.8
Loans from Family/Friends	10.5	15.3	18.6	3.7	6.3	3.8
Moneylender (Katapira)	1.9	3.3	5.1	0.2	0.7	0.7
Formal Credit Institution	1.6	0.9	0.2	1.8	6.0	4.5
Other	2.1	2.4	1.0	0.6	0.3	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Table 57 describes the situation with respect to education levels of Malawi's MSE proprietors, and how they have changed since 1992. A substantially smaller proportion report having had no education, and a substantially higher proportion report that secondary school is the highest education level completed.

Roughly the same proportion (about 10 percent) of proprietors reported having received formal business training of any sort in 1992 and in 2000. There is no evidence of any progress in this area.

**Table 57: Education Levels of Proprietors**

Highest Education Level Completed	1992	2000
None	26.2	16.5
Primary School	67.8	68.9
Secondary School	5.8	13.0
Above Secondary School	0.2	1.6
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

## Summary

Malawi's MSE sector changed in important ways over the course of the 1990s. Overall it has contracted, both in the absolute number of MSEs and in total employment in the sector. However, urban areas have seen dramatic increases in both categories; the overall decrease is entirely the result of a contraction in rural areas. There are more MSEs in the larger microenterprise category (2 to 10 workers), with fewer in the owner-only category and in the

larger categories. There has also been a slight increase in the proportion of MSEs engaged in trade, and a decrease in the proportion in manufacturing. Furthermore, MSEs engaged in trade expanded their employment at a greater rate than any other sector. Not only did urban areas in 2000 have a larger percentage of MSEs than in 1992, home-based MSEs became more common over the period in question. Fewer Malawian MSEs in 2000 reported receiving loans, but this was mainly a reflection of a decrease in lending from family and friends. In fact the percentage of MSEs that have borrowed from a formal credit institution, though still small, more than tripled from 1992 to 2000. Not much seems to have changed with respect to constraints perceived by Malawi's proprietors – finance problems, market or demand shortcomings, and difficulties procuring or affording inputs continue to be the leading complaints. Joint proprietorships in which there is at least one male and one female became much more common between the two surveys, and MSEs owned by females are more likely than those run by men to have had loans from a formal credit institution, a reversal of the situation in 1992. Malawi's proprietors seem to be slightly more educated on average, but no perceivable difference was found regarding the proportion of proprietors with business training.

Between 1992 and 2000 many features of the Malawian political and economic landscape changed. Besides holding free presidential elections, Malawi also made a number of policy changes as part of its participation in several structural adjustment programs. Droughts contributed to severe downturns in 1992 and again in 1994, and the ongoing AIDS epidemic has taken a tremendous toll on Malawi. There are surely many additional changes in Malawi over the 1990s to which one could point. Each of these changes likely affect the MSE sector in one or more ways, and therefore explaining the causes of the observed changes in the MSE sector is extraordinarily difficult. As further research establishes more carefully the connections between a country's MSE sector and the environment in which it operates, a more complete explanation of the changes in Malawi may be possible.



## **VI. Findings on HIV/AIDS and Impact on MSE**

### **Background to the HIV/AIDS issues**

HIV/AIDS poses one of the greatest threats to Malawi in its battle to bring a large percentage of the population out of poverty and into the full economy. With 16 percent of the working age population HIV sero-positive<sup>28</sup>, the effects of HIV/AIDS on one family member can produce an economic shock to the entire household and extended family network. For families living at or below the poverty line and struggling to create a better life for themselves, an economic shock can produce dramatic negative results to the welfare of the household. A temporary loss of income for a household that is just scraping by can drop that household below the poverty line and makes it extremely difficult for family members to work their way out of the problem. However, the chronic nature of HIV/AIDS makes these economic shocks even more dangerous as they last longer and families are forced to sell off assets. For many poor households, this prolonged economic shock can throw the family into destitution. Addressing the economic impact of HIV/AIDS on Malawians therefore becomes a critical corollary to the work being done to help those who are infected with HIV/AIDS on the health and social services side.

While one can address the issue of the impact of micro enterprise development on the coping strategies of households, this section is actually focused on the impact of HIV/AIDS on MSE in Malawi. It is important to separate the issue of people who are infected with HIV/AIDS from those who are affected. At the enterprise level, we are interested in the effects of HIV/AIDS on individuals and the ways those effects can affect the MSE. Given that a very large percentage of the people who are infected with HIV/AIDS are unaware that they are infected, it is necessary to ask proxy questions to identify the levels of negative impact.

### **Reported Negative Impact**

When trying to identify this impact, the survey tried both a direct approach and an indirect approach. In the direct approach, the survey asked the owner of the firm whether it had been affected by HIV/AIDS, and then asked a series of follow-up questions. In the indirect approach we asked questions about a number of variables that would be indicators of the possibility of impact of HIV/AIDS on the firm. These questions addressed issues of increased funeral expenses, increased health expenditures, increased absenteeism, and an increase in the number of dependents in the family. By assessing the responses to these questions, we generated a proxy calculation for the likelihood that a firm has been affected by HIV/AIDS.

#### ***Direct Approach - Consciousness of HIV/AIDS impact***

Over 12 percent of the firms interviewed in the survey indicated that HIV/AIDS had affected their business. While there are marginal differences between the gender of the ownership of the firms in general (13 percent for female owned firms vs. 14 percent for male owned firms), husband and wife owned firms were lower (10 percent) and multiple proprietors were the lowest at six percent.

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<sup>28</sup> UNAIDS Malawi Country Profile, October 1999

**Table 58 Number of MSEs Reported to Have Been Affected by HIV/AIDs by Strata**

	Affected	All	percent
Urban high income	2,518	15,781	16.0
Urban low income	16,500	73,876	22.3
Urban commercial	1,023	5,189	19.7
Urban industrial	185	685	27.0
Small town	7,688	52,549	14.6
Rural areas	45,345	431,487	10.5
Lakeshore areas	1,599	25,257	6.3
<b>All</b>	<b>74,858</b>	<b>604,825</b>	<b>12.4</b>

Source: Micro and Small Enterprise Survey, 2000

The strata by strata analysis show a much broader differentiation among those firms that are affected. A higher percentage of the urban industrial firms believed that they were affected (27 percent) followed by the urban low-income firms (22 percent) and the urban commercial firms. The urban high income firms were in the middle at 16 percent of firms believing they were affected. The big contrast is in the lake shore and rural areas where only 6 and 10.5 percent of the firms respectively believed to be affected. Table 59 indicates level of firms being affected by sector. Here, we see that construction and services sectors are most heavily affected.

**Table 59 Most Significant Effects of HIV by Sector**

Sector	Overall % of firms affected in sector	Effects on Firms in the Sector				Total
		Less profit	Fewer customers	Have to downsize businesses	Other	
<b>Crops</b>	8.6%	22%	21%	38%	19%	100.00
<b>Livestock</b>	7.3%	23%	77%			100.00
<b>Forestry</b>	15.7%	3%	69%	28%		100.00
<b>Fishing</b>	6.5%	14%	79%	7%		100.00
<b>Manufacturing</b>	12.2%	20%	73%	6%	1%	100.00
<b>Construction</b>	20.0%	34%	58%		9%	100.00
<b>Commerce and Trade, Hotels</b>	14.0%	22%	69%	9%	0	100.00
<b>Transport</b>	10.7%	67%	33%			100.00
<b>Services</b>	19.1%	20%	70%	3%	7%	100.00
<b>Total</b>	<b>12.4%</b>	<b>21%</b>	<b>63%</b>	<b>12%</b>	<b>4%</b>	<b>100.00</b>

Source: Malawi Micro and Small Enterprise Survey, 2000

Of those which were affected, the biggest felt impact was on their markets (fewer customers) at 62 percent, while another 21 percent said that they had reduced profit levels, and 12 percent had to downsize their activities.

The most seriously affected firms (as a percentage of the firms in the sector) are in the construction sector, followed by the services sector. Quite surprisingly, the forestry sector scored very high, while crops and livestock were quite low. Fishing followed its trend in lake-shore areas by having the lowest incidence.

When looking at table 59 we see that there have been quite different impacts on the firms depending on their sector of activity. While 38 percent of crop producing firms had to

downsize their businesses, possibly because of reduced labour to work on the farms, most of the other firms felt the impact on their market with fewer customers. The transport firms were less concerned about customers, but 67 percent felt the impact on their profitability while only 32 percent noted loss of customers.

***Likelihood of Impact of HIV/AIDS on the MSE – Indirect Approach***

Responses to the direct question on whether the owners believe their business to be affected or not, and the impact where the effect is recognised, certainly provide us with valuable information, but perhaps not the most accurate assessment of the situation. In a study of this type such an assessment will always be rather difficult. Along with the direct questions, this survey used a number of proxy questions that, used together, can give us a better feel for the magnitude of the problem and the kinds of enterprises that are likely to be affected. Table 60 below indicates the frequency of responses to these questions, analysed by the different sizes of the firms in the country.

**Table 60 Numbers and Frequency of incidence of possible HIV/AIDS effects on MSE**

	1	2-4	5-10	11-20	More than 20	All	% of Total
<b>Have Additional Dependants</b>	52,862	52,742	9,675	847	335	116,461	19.2%
<b>Have Increased Health Costs</b>	153,747	178,258	35,678	2,701	195	370,579	61.1%
<b>Have Increased Funerals &amp; Expenses</b>	110,884	134,668	27,679	2,221	117	275,569	45.4%
<b>Have Absenteeism problem</b>	54,872	71,381	14,826	2,350	408	143,838	23.7%
<b>Total Number of Firms by size</b>	<b>266,644</b>	<b>280,325</b>	<b>54,505</b>	<b>4,033</b>	<b>1,061</b>	<b>606,567</b>	

*Source: Micro and Small Enterprise Survey, 2000*

While only 12 percent of the firms surveyed actually responded that they felt that they were affected, the results show that more than half the firms are feeling the effects of increased health costs and nearly half have more funeral costs; one quarter of the firms are experiencing increased absenteeism, and 20 percent have additional dependants at home. However, it is interesting to note that 25 percent of the firms in the 11-20 employees size answered that they were affected, whereas only about 10 percent of the smaller firms felt affected and only 3 percent of the largest firms (>20) felt the effects. Yet the figures show that more than 50 percent of the firms in the 11-20 category were facing increased health costs, increased funerals and absenteeism problems.

**Table 61 Incidence of Additional Dependants, Increased Health and Funeral Expenses by Gender of Proprietor**

	Have you taken on additional dependants?	Had increased health expenses in the past two years?	Increased funeral expenses past two years	Problems with employee absenteeism
Female	22%	62%	46%	25%
Males	20%	58%	44%	23%
Husband and Wife	16%	63%	47%	23%
Multiple Proprietors	6%	66%	44%	21%
<b>All</b>	<b>116,461</b>	<b>370,257</b>	<b>275,247</b>	<b>143,838</b>

*Source: Micro and Small Enterprise Survey, 2000*

When comparing the proxy questions by gender of ownership, we find relatively little difference among them, except that female-owned firms seem to be marginally more affected

than the male owned firms. This is in slight contrast to the findings above, among the perceptions of the firms where the male owned firms seemed to be more aware of the impact. Another interesting finding is in the multiple proprietor firms, where a lot of the firms had similar ratings to the other categories, in sharp contrast to the acknowledged levels of impact.

### ***Rural vs. Urban***

Review of the results demonstrates some interesting findings that the factors affecting firm performance are more prevalent in the urban areas than in the rural areas.

- Problems of absenteeism are greater in the urban low income areas (31 percent) and other urban areas (24 percent) than they are in the small towns (16.5 percent) or the lakeshore (16 percent). However in rural areas, employee absenteeism remains at about 24 percent.
- In terms of additional dependants the urban low income and urban other categories register 29.7 percent and 30.9 percent respectively. Meanwhile, in the small town and rural areas these rates drop to 21 percent and 17 percent respectively. The lakeshore seems to have the lowest incidence of new dependants.
- This trend indicating greater impact of HIV/AIDS on the urban areas continues in the funeral expenses which are on the upswing in the urban areas with up to 60 percent of the firms in the “urban other” category experiencing these costs. In the small towns, it is just over 52 percent, while in the rural areas and the lakeshore it is just over 40 percent.

### ***Likelihood of Impact – Creation of an index***

From the information in table 61, plus the response on whether the firm felt that it was affected by HIV/AIDS, we estimated the likelihood of an MSE being affected by HIV/AIDS. This is simply based on the number of questions, including direct and proxy, to which a given firm answered positively. A “likelihood” value from “unlikely” to “extremely likely” was assigned to each firm based on the presence of the number of questions answered positively (negative response to all questions indicated “unlikely” to be affected, while five yes-responses indicated “extremely likely” to be affected). From these figures we find that 18 - 37 percent of the firms are “likely” to “extremely likely” to be affected by HIV/AIDS, whereas 39 percent of the firms responded negatively to all the questions and are “unlikely” to be affected<sup>29</sup>.

**Table 62 Distribution of likelihood of impact by firm size.**

Firm Size (employees)	Unlikely Percent	Least likely Percent	Less likely Percent	Likely Percent	Very likely Percent	Extremely likely Percent	All Percent	Count
1	23.4	19.8	22.6	16.3	12.8	5.0	100.0	266,644
2-4	16.8	18.6	26.7	18.7	13.4	5.9	100.0	280,325
5-10	14.8	18.7	21.9	25.5	13.7	5.4	100.0	54,505
11-20	14.4	17.4	12.2	30.3	8.5	17.2	100.0	4,033
More than 20	54.7	3.4	26.9	3.9	6.8	4.2	100.0	1,061
All	19.6	19.1	24.4	18.3	13.1	5.5	100.0	606,567

Source: *Micro and Small Enterprises Survey, 2000*

<sup>29</sup> The differences between the two tables in terms of numbers of firms likely to be affected by HIV/AIDS is a result removing nearly 15 percent of the firms from the “annual sales” sample during cleaning because of inadequate information. The higher figure, based on the total sample, is probably the more accurate one.

Table 62 analyses the likelihood of firms being affected by firm size (employees) and table 63 by sales to determine if there were any correlations.

**Table 63 Likelihood of Firms being affected by AIDS by volume of sales.**

	Unlikely	Least likely	Less likely	Likely	Very likely	Extremely likely	Total Count	Total %
Less than MK 2,000	25.4%	33.4%	15.3%	20.4%	5.6%	0	9,627	2.2%
MK2,000-MK6,000	21.7%	19.5%	27.6%	16.0%	11.8%	3.4%	39,557	9.0%
MK6,000-MK10,000	22.8%	22.1%	26.7%	16.4%	9.2%	2.9%	66,334	15.1%
MK10,000-MK20,000	21.3%	20.0%	22.3%	20.5%	11.6%	4.3%	93,598	21.3%
MK20,000-MK50,000	15.4%	17.5%	24.2%	21.4%	14.9%	6.6%	104,097	23.7%
MK50,000-MK100,000	14.9%	15.4%	26.4%	18.6%	18.2%	6.5%	58,470	13.3%
Above MK100,000	15.1%	13.4%	24.0%	16.4%	19.4%	11.6%	67,436	15.4%
<b>Count</b>	<b>81,044</b>	<b>80,558</b>	<b>107,869</b>	<b>82,501</b>	<b>61,419</b>	<b>25,727</b>	<b>439,118</b>	
<b>Likelihood</b>	<b>18.5%</b>	<b>18.3%</b>	<b>24.6%</b>	<b>18.8%</b>	<b>14.0%</b>	<b>5.9%</b>	<b>100%</b>	

*Source: Malawi Micro and Small Enterprise Survey, 2000*

This table (63) demonstrates an inverse relationship between the size of the firm and the likelihood that it will be affected by HIV/AIDS. The firms that fall in the “very” and “extremely likely” categories are predominantly larger in terms of sales, the firms with very small amounts of sales are unlikely to show attributes demonstrating that they are affected by HIV/AIDS. Meanwhile, the firms that are “least likely” and the “less likely” are concentrated in the medium sales levels (MK 6,000 and up). This is in direct contrast with the responses received from the firms believing that they are affected by HIV/AIDS, where the smaller firms were more likely to have admitted that they had been affected. Considering that the most successful firms tend to be the larger ones with more employees, it is logical to expect that they would experience more effects than smaller firms. However, since they are more successful, they will continue to grow, though they might not grow as fast. Therefore this finding is intuitive, but does not reflect the true impact of AIDS on the firms.

A corollary to the above finding is that the more successful firms are bearing a greater portion of the costs associated with AIDS. A more successful, and better off entrepreneur might be expected (and feel obligated) to assist poorer relatives. This would mean that the burden of HIV/AIDS is disproportionately being borne by the most successful and dynamic entrepreneurs. If so, then it may be that HIV/AIDS will eventually slow down or snuff out the 20% of MSEs that are actually productive. While there is no proof of this, it is one element to keep in mind.

## Responses to HIV/AIDS

When looking at the solutions being applied to the effects of HIV/AIDS, the preponderance of MSE (88 percent) do nothing about it, as shown in table 64. However the remaining 12 percent seek other kinds of assistance, split almost evenly between asking for help from family and friends to run their enterprise or getting assistance for medical costs. Women are three times more likely to seek assistance from friends to run their businesses, while men are more likely to look for help with the medical expenses. This may reflect their different gender roles within the family (women take care of the family, hence they must leave the business to tend to the sick family members). Enterprises run by husband and wife teams rarely seek outside help to run the business, but do ask for help to pay for medical expenses.

**Table 64: Solutions to negative effects of HIV by Gender of Owner**

	Nothing %	Seek help from family/friends to run business %	Seek help from family/friends for medical costs %	Other %	Total %
Female	87	10	3		100
Male	90	4	6	0	100
Husband and Wife	88	1	7	4	100
Multiple gender owners	100				100
<b>Total</b>	<b>88</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>100</b>

*Source: Malawi Micro and Small Enterprise Survey, 2000 (note that figures may not add up due to rounding)*

### **New business opportunities resulting from HIV/AIDS pandemic**

While we normally assume that HIV/AIDS would have a negative impact on businesses, it is important to note that it also leads to some new business opportunities or increases in sales by other businesses. For example, casket makers, funeral parlors, and transport firms carrying sick people from the rural areas to the towns commented on the increase in business that they had from HIV/AIDS patients.

While it would be interesting to get a better picture of what the business opportunities are and how the firms have responded to these opportunities, the specific information collected during the survey at the microeconomic level is more anecdotal and should be the focus of additional research. These activities fall within broader categories of businesses surveyed, so it is difficult to get detailed information on those particular activities and reach hard conclusions about the opportunities that may exist. For example in the carpentry sector, have new firms been created specifically to meet the demand for caskets or have firms changed their product lines to increase casket production compared to regular furniture production.

### **Difficulties in measuring the impact of HIV/AIDS on MSE**

So what are the impact on the firms? The impact of HIV/AIDS on MSE should be looked at from the perspective of impact on size of the firm (numbers of employees or the volume of sales) as well as on the profitability of the firm. While it would be nice to reach some conclusions on this, we find that the data available is tenuous at best. Analysis of changes in employment, sales, and profitability of the firm can only really be measured through an inter temporal study with clearly identified affected and unaffected sub samples.

### **Conclusions**

While approximately 16 percent of the adult population of Malawi is sero-positive, the disease has a much broader effect on the economy. The figures clearly show that between 28 and 37 percent of the enterprises are likely to be affected by the disease. Of critical importance is that most of these firms are found among the larger enterprises, those with sales of more than MK 10,000, with nearly half of all enterprises with more than MK 50,000 being affected. Similarly, firms with between 11 and 20 employees are much more likely to be affected.

In terms of the gender issues, there is relatively little difference between women and men owned firms. However, women owned firms seem to be claiming more impact from individual problems, while the male owned firms seem to be more aware of the impact. Of

more importance is the geographic distribution of the impact, with the largest impacts being felt among the firms in the industrial areas and in the low-income urban areas. The firms in the lake-shore areas are the least likely to be affected.

The implications of these findings are that the higher incidence of AIDS in the lower income urban areas is having an effect on firms at two levels – urban industrial firms and the firms in the low income areas. The larger firms, employing more workers, are most likely to be affected. In addition, the majority of the work force for the industrial firms comes from the low-income urban areas. The firms in the urban low-income areas are also affected by their workforce.

It is important to note that within the larger firms, it is really the firms with 11-20 employees that appear to be the most vulnerable. This size of firms are often ones that can little afford to lose workers to absenteeism or to bear the brunt of increased funeral or health costs. This should make them particularly important targets for HIV/AIDS associated activities.

## **VII. Future Implications: Approaches to Strategic Development**

A baseline survey provides government decision makers, donors, NGOs, financial institutions and other business service providers with a valuable data base from which to understand the current status and the dynamics of MSE growth in the country. This increased understanding can allow them to make more informed, and hopefully better decisions, about sectors in which to invest for MSE development depending on the type of impact that is desired.

From a more generic standpoint, the study provides us with a broad look at the reasons MSE are started, how they are started, where they source the financing, the constraints they encounter and the causes of their demise. These can help lead to generic programmes in support of business development, such as training or finance. But other analytic approaches are needed as well that may well add a lot more value to the generic programmes.

Since most business development programmes are focused on economic growth and economic impact, we should be considering these issues at the forefront of our deliberations. When one thinks in terms of expanding economic opportunities one can think in terms of broad based economic growth, sector specific and targeted approaches, poverty led approaches, or indirect influences on non-farm rural livelihoods with some scope for mainstreaming.<sup>30</sup> In addition, economic growth programmes can target different individuals (either by gender, level of economic well-being, geographic considerations, or other constraining factors). There can be important trade-offs, depending on the focus of the interested party. This section looks at how the information captured in this report can be best used in turning information into action. For this, we look at the implications of the study on two of the major approaches to developing economic activities at the household and MSE level: the sustainable livelihoods approach, and the subsector approach.

### **Sustainable Livelihoods Approach**

The UK Department for International Development is sponsoring much of the research on Sustainable Rural Livelihoods Approach, designed to improve the income earning capabilities of rural (and urban) poor. The findings of the survey provide us with much information that can be very helpful in the design of such programmes. The fundamental principles of the SLA approach are listed below<sup>31</sup>.

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<sup>30</sup> See Ann Gordon (1999) Non-farm rural Livelihoods. Policy Series 4. Chatham, UK: Natural Resources Institute Diana Carney, Sustainable Livelihoods pp 8-9, ODI, 2000. For a more detailed discussion of these different approaches.

<sup>31</sup> Michael Scott. "Better Livelihoods for Poor People", DFID sponsored workshop in South Africa, May 2000.

### **Box 2 Principles of SLA**

It starts with **(poor) people as the focus**, and so puts clients at the centre. This means that:

- Client focused, **participatory and responsive** approaches are needed.
- It recognises the holistic nature of people's lives, their use of multiple livelihood strategies, and so the need for holistic responses rather than organisation-driven sectoral approaches
- It **builds on strengths** – a respectful approach to rural people as people with strengths and opportunities and not just needs.
- **Micro-macro links** – It recognises the need to link micro level participatory work with meso-level work on institutions and macro-level work on the enabling environment.
- It implies a **partnership** approach between state, community and private sector – with the role of the state as facilitator, animator, or provider
- It ensures that **sustainability** is seen as core to any interventions, sustainability of livelihoods and of the interventions
- It recognises the need for a **dynamic** approach, recognising the changes occurring in poor people's lives as well as the policies, institutions and processes which impact on them.

The SL approach identifies three different factors that affect the livelihood choices of households – assets, household strategies, and macro-economic policy. It also explores the influence of five different kinds of capital found in the household: natural, physical, financial, human, and social.<sup>32</sup>

The results of the survey provide programme designers with a very strong starting point for understanding the financial and human sources of capital within the households, as well as sources of income within households on a nation wide basis. This can provide the starting point for additional data collection on specific household economies and gaining a better understanding of the market linkages between rural and urban areas. The results of this survey, when compared to the 1992 survey, bring to bear many important facts on the dynamics of the microenterprise sector in Malawi: which sectors are growing and which are shrinking, which strata rely on MSE development for their livelihoods, etc. This survey captures the dynamism of the sector and many of the factors that are leading to the changes.

This survey also serves as a public good. It provides basic information to the operators in the sector, allowing them to make better informed decisions on areas and sectors with the greatest impact to the communities. Combining the results of the study, which are now in the public domain, with the stakeholders' workshop, is an example of the role of government in facilitating discussions and dialogue to share information and lead to proactive policies and strategies for economic development.

The survey provides us with a wealth of information that can be used to help identify and design such programmes. Information on the numbers of firms, employment, levels of profitability, and their location of the firms are critical starting points in the design of programmes. In the following section we focus on the sectoral opportunities as the building block for economic growth programmes.

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<sup>32</sup> Carney, Diana (Ed), Sustainable Livelihoods What contribution can we make? Papers Presented at the DFID Natural Resources Advisors Conference, July 1998, pp. 8-9, ODI, 2000. For a more detailed discussion of these different approaches. P 6-7.

## Sectoral Approach

The sector specific approaches focus on expanding linkages between one type of enterprise and another. Two different, but related, ways of classifying firms within a system are the cluster approach or the 'subsector' approach.

The subsector approach takes the full range of different firms that are involved in getting a product with common origins from production through the major phases of processing, transport, packaging, and sale to the end user. This approach can be particularly useful when dealing with agricultural crops and following them from inputs to growing to harvesting, packing, processing, shipping, wholesale, and retailing. It will include the full range of support services that are required to ensure that the product is properly handled and reaches the consumer. This takes the product up the value chain all the way to the market.

A similar concept is that of the "cluster", which takes geographic concentrations of different kinds of businesses that provide positive synergies for one another and provide propitious opportunities for the development of business activities. Industrial zones are obvious cases of large clustering opportunities with suitable infrastructure, space, transport facilities, labor force, and mechanical and other services near by to make it possible for the businesses to operate. The more similar businesses there are in a region, the more likely there will be appropriate service and manufacturing industries that develop around them to stimulate even more growth. Business incubators can provide such a clustering effect for smaller enterprises, making the delivery of other necessary services affordable.

In both the subsector and the cluster approaches, the key element is to identify the business linkages that exist between the firms. Identifying where the firms get their inputs and raw materials and to whom they sell their goods provides us with a good set of indications of the total level of related activity, by employment and sales. When we add in their service providers and other ancillary services, we get a good picture of the total scale of the sector and its economic contribution. A number of different sets of related sectoral firms are presented in Annex 4B, grouping them within their value chains. Understanding the nature of the linkages, the different channels through which product moves through the value chain helps us identify key areas to assist the sector. These include identifying the points of leverage, the geographic clustering that occurs, and whether the channels are growing or shrinking. It also provides us with excellent information on the full dynamics of the sector. These in turn are valuable for identifying the key opportunities to develop production and economic activity by helping to remove the constraints that exist within the sector.

This approach takes into consideration the numbers of people already in a given subsector with an eye towards improving their efficiency, productivity and the return to their labour. It is often easier to work with individuals who are already economically active and have expertise in the given sector than it is to start afresh with new people without experience. In any case, the focus of much sector work is to move people to more productive channels where there are better opportunities to earn more income within the sector.

Therefore, in order to determine which sectors we wish to address we must determine how to classify them. The following characteristics are used as proxies for the classification:

- Size of the subsector/cluster
- Growth potential of the subsector
- Target groups

**Size of the subsectors**, as quantified by employment, number of firms, and sales, both at the MSE level and in the aggregate. This information will provide a reasonable understanding of the related activities within a subsector and of the importance of MSEs within that subsector. The strategy should probably focus on activities that involve the greatest number of MSEs because overall expansion of the subsector can then lead to the distribution of economic benefits to the greatest number of beneficiaries.

Any existing studies or surveys of enterprises in the country that might relate the total number of enterprises or depict the structure of different enterprises is a good starting point. Input-output tables, developed for macroeconomic planning, probably contain estimates of the value added by different subsectors, which will facilitate the evaluation process.

The size of the subsector is affected by the linkages within the subsector. Who buys from whom? To whom do they sell? How does developing a market in an urban area affect rural production and revenue? Where are the points of leverage that can be addressed, such that removing one small obstacle can lead to a steady growth in the sector. Understanding the linkages within the sector gives a truer sense of the full range of MSEs that will be affected by growth of activities at any level of the sector.

The **growth potential of the subsectors**. Domestic growth potential is quantified by the marginal propensity to consume (consumption surveys), whereas export growth potential is determined by the amount of or capacity for export (trade data). Untapped natural resources could power subsector expansion through increased trade, both within the country as well as for export.

Consumption data are an excellent source of information for estimating both actual market size and growth potential. Because the long-term focus of the exercise is to open up economic opportunities, proven tendencies to consume a larger percentage of one's income (as it increases) on a given product are an excellent measure of potential for growth (assuming that the economy is growing). Starting from stratified consumption data or data from different years, one can determine marginal propensities to consume as incomes increase.

The **target groups** of the client. Whether target groups are gender or economic class oriented, they can be monitored using data on a specific geographic location or other criteria specified by the client; national censuses usually provide the geographic breakdown and growth tendencies of the different target groups. Understanding the dynamics of urban growth, either in one or two principal cities or in the more numerous secondary towns, is important for developing an effective action plan. Target groups could have a gender focus (i.e. targeting women), a geographic focus (i.e. poor rural, poor urban), or a sectoral focus (fishing, agriculture, manufacturing).

### ***The Malawian Case***

Taking the Malawian context into consideration, we need to gain an understanding of where the Malawians will spend money as their incomes grow (assuming a growing per capita income). The expenditure data from the Integrated Household Survey allows us to determine the marginal propensity to consume (MPC) different goods as income grows. By comparing consumption / expenditure patterns between different income categories, we gain a better understanding of how the average people will spend their additional income. The table 63 below presents the MPC for the different levels of income in the urban areas for the various sectors. While this data is quite aggregated it still gives us a good indication of the behaviour patterns of individuals in different market segments.

**Table 65 Marginal Propensity to Consume in Urban Areas (per annum)**

	Average HH expenditures in Urban Malawi	MPC deciles 1& 3	MPC Deciles 3& 5	MPC deciles 5& 7	MPC deciles 7& 9	MPC deciles 8 & 10
Food	3,770	10%	11%	6%	2%	3%
Beverages & Tobacco	1,196	0%	7%	1%	3%	1%
Clothing and footwear	4,997	15%	9%	5%	10%	9%
Household Operation	3,163	8%	-4%	16%	5%	5%
Housing	11,036	19%	18%	21%	5%	25%
Vehicle & Transport	9,342	27%	19%	10%	-1%	9%
Miscellaneous	18,289	21%	37%	26%	62%	39%
Financial Services	5,130	0%	2%	17%	14%	8%
<b>Total</b>	<b>56,922</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Source: calculated from 1998-99 Integrated Household Study (IHS), NSO*

The MPC calculations in this table have been done between three deciles (deciles 1 to 3, 4 to 6, etc) to provide a clearer picture of changes in consumption patterns. This could be analysed by differences in quartiles as well. What stands out in this table is that the clothing, transport, housing and food sectors are very important areas of increasing consumption for the poorer elements of Malawi (lower deciles). In contrast, food consumption as a percentage of total additional expenses drops for the upper deciles, but their miscellaneous expenses increase, as does their housing expenditures. A closer analysis of the main areas of miscellaneous expenses reveal that education and communications categories are high growth sectors, with the implications for related services that go along with that.

Expenditure patterns in the rural areas are quite different from those in the urban areas. To enable researchers to carry out additional analysis in this area, the expenditure data from the Integrated Household Survey is included in Annex, broken down in the various MPC calculations. Programmes must be tailored to the specific market conditions in which they are working, which requires quite a bit of additional research.

Beyond demand, which is an important calculation, we must also have ways to determine which sectors offer the greatest potential for impact on employment and overall economic growth, as well as targeting specific client groups (such as women). The survey results provide us with the overall figures for numbers of firms, employees, profitability of enterprises, location and gender distribution, which can be very helpful in determining where to focus ones efforts in order to have the greatest impact.

The following table (66) presents an example of some of the key decision making characteristics that can lead to the selection of those sectors that might be of interest in Malawi. For target groups, we have selected women in this calculation, but this could also be adjusted to meet other criteria. It is very important for decision makers to realise that there are many different factors that can influence the selection of the sectors to be targeted – the skills and areas of competency of the organisation, overall mission, business development philosophy, among others. All of these must be taken into consideration when choosing the sector and developing the programme.

**Table 66 Summary of Decision Making Criteria for Critical Subsectors**

Activity	Size  MSE employment	Growth Potential		Target Groups
		Domestic  Share of additional income Spent on	Export  Market or local natural resources?	Women as percent of total employment
Garments	51,539	10-15%		27%
Fisheries	109,000	6-10%	Natural resource	23%
Building materials/Construction	66,000	18%	Natural resource	23%
Beer Brewing	118,556	0.5-2%	Natural resource	72%
Food Processing	303,504	6-10%	Natural resource	67%
Transport	14,233	10-20%		10%
Tobacco	430,534	0.6*	Export crop	40%
Maize	24,594	2-6%	Ag. Production	33%
Seasonal vegetables	19,343	2-6%	Ag production	31%

From this table, it becomes clear that the food processing sector is an important one, as is fisheries and beer brewing. But fisheries has a lower level of female employment, so it might score less well in an analysis to determine where to invest support funds. It seems as if the construction sector is under counted in the survey, given the large amounts that individuals actually spend on housing and construction, but this sector also employs very few females.

When breaking down the agricultural crops, we see that tobacco is clearly the largest cash crop in the country and 40 percent of the employees are women. Considering that it is an export crop, the potential for increasing exports and the trends in the world market need to be carefully analysed before committing any resources to improving the sector.

Maize is the second largest commercial agricultural crop and cereals and cereal products have the highest MPC among the basic food products for the bottom 6 deciles, and the highest overall. This implies that there will be a steady increasing demand for maize products over time. Ironically, fresh vegetables have a low MPC, but we know that there is a fairly strong market potential in the urban areas for fresh seasonal vegetables.

The poverty level issues play an important role in the domestic market – 65.3 percent of the population is below the poverty line (for caloric intake) and another 85 percent live in the rural areas. Therefore, programmes must take into consideration the needs of the rural areas if they want to have a major impact on the country and realise that most of the goods being consumed are at the subsistence level, and most economic activities will be targeting this production.

## **Other special issues of concern**

### *Issues for gender specific programmes*

We see that certain subsectors tend to be dominated by women, or else certain functions within the subsector are dominated by women. Some good examples are beer brewing and

food preparation. Women comprise 75 percent of the employment in the beer brewing industry. Women in manufacturing are concentrated very heavily in three different food related sectors: beer brewing, food preparation, and bread/biscuit making. Therefore, programmes targeting women are likely to have a greater impact if they concentrate on a few specific types of activities and understanding the role those activities play in the lives of the women.

One of the interesting findings, particularly in the rural areas, is the large number of jointly owned firms between husband and wife. Assuming that both share in the proceeds from the firm, then this implies that in rural areas, programmes must take both men and women into consideration. This might lead us away from gender specific programmes when targeting certain regions. Among the agricultural firms, women comprise about 39 percent of the total employment, making this a reasonable sector to focus on.

### ***Issues related to HIV/AIDS and MSE***

The dilemma posed by HIV/AIDS cannot be ignored. It has a major effect on the lives not only of those who are sick, but also of those who support them. Illness can reduce productivity through increased absenteeism of employees or severely handicap a business if the owner falls sick. Illness in family members can lead to pressures on the owner to draw cash out of the business to meet emergency payments for medical expenses or to meet social obligations related to funeral expenses. Taking on additional dependants from deceased family members adds greater financial strain to the household. Taking care of the infected can also make special demands on the time of owners or operators of the firms, forcing them to spend more time at home caring for the sick.

One of the big dangers of families affected by HIV/AIDS is the risk that they must sell of their productive assets to meet needs of their family members. Most economic shocks that pull people down are short term and families can recover from the shock. But HIV/AIDS is a chronic disease that lasts for a long time creating a prolonged economic shock to the household. This can draw them down so far below the poverty line that they cannot pull themselves out, and become dependent on charity.

The survey has demonstrated that a large number of MSE are being affected, even if it has not been able to quantify the level of impact on the firms. We also note that there has been a trend in increased household expenses from funerals, and increased numbers of dependants in the households. Deeper analysis of the data reveals some additional points to be taken into consideration when thinking about HIV/AIDS and its impact on MSE. We note a spatial shift of firms from markets to the home or homestead which may be to allow the entrepreneur greater flexibility and time for treating the ill family member or to take care of additional young children at home.

Support programmes to MSE must take these conditions into consideration. This can have implications for microfinance programmes, business support programmes, and government policies. There can be a change in the financial services that are required by families, such as savings to build up their cash reserve or smaller loans to meet downsized business working capital requirements. There might also be greater needs for short-term loan facilities to meet immediate emergency needs brought on by the disease. Insurance products also become far more important for families to help cover their risks.

On business support programmes concerned with AIDS, the survey findings imply that programmes should support the development of activities that are more flexible and responsive to the needs of the household. In addition, there is a lot of room for creative

programmes to assist other NGOs that are specialised in providing care and support to those who are ill. These institutions are usually very good in their subject area, but know nothing about MSE development and should not be trying to learn on their own. Rather, they should collaborate with existing, specialised MSE service providers.

Government policies need to recognise the existence of the problem and ensure that they take it into consideration when new policies in the MSE sector are developed. This can be in financial sector policies or in the development of their MSE strategy document. It is important to note that the draft “Strategies for Enhancing the Growth of Micro, Small and Medium Scale Enterprises in Malawi” (October 2000) makes no mention of the disease and the potential impact that it is having on MSE development.

There are two specific AIDS-related findings of this study that need to be studied more carefully before any conclusions are drawn about them. The first is an increased focus on home based businesses, where an increasing number of individuals appear to be moving to respond to family pressures. Some of the most common reasons for business closure were increased household responsibilities, which kept the individuals away from work, or personal health. The second focuses on the targets of opportunity created by the HIV/AIDS pandemic – funeral services, health transport, medical services, casket making, etc..

## **Conclusion**

The information found in the report, and the raw data that is behind it, can provide tremendous support to the sound development of programmes by governments or NGOs. It can also provide valuable market information to private companies such as business service providers and microfinance institutions. Overall, this information serves as a public good that can add value to many different actors who could not normally afford to access this level of information.

The examples above show how the information can be used, in conjunction with other data sources and specific economic growth methodologies, to serve as a critical input into powerful programming tools. There are many other methodologies that can make good use of the data. The NSO, DFID, and the government of Malawi should promote the dissemination of this information to any and all users. Those organisations should also take note of the findings of the study and make sure that the results serve as the foundation for much of the policy work that is carried out in the name of small business development and to take into consideration the massive scope and scale of the MSE sector.

## VIII. CONCLUSIONS

This survey complements the survey carried out in 1992. As the methodology has evolved and improved, we have been able to get a better feel for the entire sector as well as how it has changed over the last 8 years. In addition, we have a new picture on several other issues: primary production activities as MSE and the question of which MSE are being most affected by HIV/AIDS in Malawi.

The survey reminds us of the importance of the MSE sector in Malawi:

- When looking at the overall number of MSEs and owners, we see that MSE contribute income to about 25 percent of the Malawian households;
- By employing over 1.7 million people, MSEs employ about 38 percent of the total Malawian labour force.
- The off-farm enterprises employ about 22 percent of the total labour force.
- In the whole sector, women account for 42 percent of the total employment;
- The MSEs contribute about 15.6 percent to the GDP; and
- Over 80 percent of the MSE are located in the rural areas.

When contrasting the results of this survey with the 1992 survey, it is clear that there have been some important shifts.

- Off-farm MSE have decreased in overall numbers, though there has been an increase in the number of urban enterprises, more than matching the marginal increase urbanisation of the country. Survey results reveal that over the past two years, more MSE have been closing than have been opening. This may be due to a number of factors, though HIV/AIDS may be playing an important role in this phenomenon.
- It is not possible to provide a detailed comparison with the agribusiness sector, but the change in government and policies has certainly had an impact on stimulating agricultural cash crop production, especially burley tobacco.
- Though there are fewer firms overall in the off-farm sectors, those with two to 10 employees have increased in number. Since employment is often considered a proxy for strength of the firm, this indicates that there might be a higher percentage of more dynamic firms.

In terms of enterprise dynamics, we see that about 80 percent of the firms are stagnant and serve primarily as additional sources of income for the household. However, as many as 20 percent of these firms are growing and are reinvesting some or all of their profits into the firms.

Women own about 34 percent of the firms outright, but they are also very active participants in husband and wife owned firms. These latter tend to be farm based activities, but it still means that women are whole or partial owners of more than half of all MSEs in Malawi.

The review of agribusiness MSE reveals that these are the sectors with the greatest potential for employment, growth and profitability. Natural resource based sectors (fishing, mining, dairy, and crop production) are growing at faster rates and usually yields more profits to the owners and employees. In terms of total firms and employment, burley tobacco dominates all firms in the country with over 15 percent of the total MSE population, followed by vending farm products, vending fish, distilling, food preparation and beer brewing. In addition, these firms tend to last longer and represent more stable growth patterns.

In terms of the effects of HIV/AIDS on Malawian MSE, 12 percent of the firms were aware of being affected by the disease, answering a direct question on the subject. The sectors where the effects are most felt are construction, services, forestry, and commerce and trade. In terms of proportional representation, the urban industrial and urban low-income firms bear the brunt of the impact. The lake shore regions are the least affected. However, when reviewing responses to proxy questions that provide more information on the firm, the numbers of firms being affected increase substantially, with more than 37 percent indicating that they were likely to be affected. This has important implications for the country as a whole, and for the kinds of programmes that could be developed to assist the MSE.

Relatively few firms in Malawi are able to access business support services. The heavy rural orientation of the enterprises may be one reason, but the nature of the businesses may also be a factor. What is disappointing is that from among those firms that did receive support, there is a mixed set of results in terms of increased sales and employment. Given that training programmes and other direct support mechanisms are often very expensive per firm serviced, especially in relation to their overall turnover, this has important implications for the future of support services. This provides some incentive to change the focus of the support programmes to a sectoral level, focusing on strengthening linkages and achieving greater leverage through market oriented activities. Subsector or Cluster type programmes present some interesting opportunities in Malawi, especially based on the natural resources subsectors and focusing on the firm linkages from the production/harvesting through processing and marketing of the products.

When looking to sectoral development programmes, one should target sectors that show strong market growth potential, as that will be the “pull factor” to stimulate and absorb increased production. In a country like Malawi, which has a very low per capita income, there is limited internal purchasing power, so products for export will offer stronger possibilities for growth. Within the natural resource based sectors, fishing, tobacco and other export crops stand out. Within the rest of the economy, construction and transport get a large portion of the marginal increases in expenses, so they are also good markets to target.

## Annex 1

## Bibliography

## Annex 2

### Terms of Reference

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## Annex 3

### Survey Instruments

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## Annex 4

### Additional Statistical Tables

## Annex 5

# Weighting and Extrapolation Methodologies

## Annex 6

### Profit Calculation methodology

## Annex 7

### Relation to the Medium Enterprise Survey (MES)

## Annex 8

### Enumeration Area List