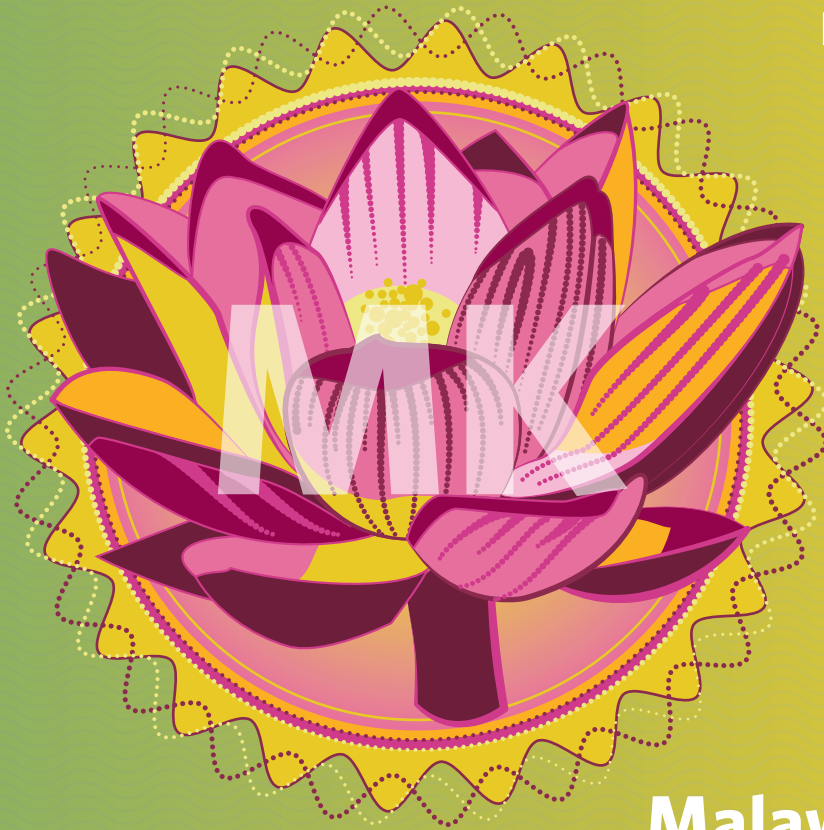


FinScope

*Micro, small
and medium
enterprises
(MSME)
survey
highlights*



Malawi 2019



Partnering for MSME development

FinScope MSME Malawi was designed to involve a range of stakeholders engaging in a comprehensive consultation process. This enriches the survey and ensuring appropriateness and stakeholder buy-in. The Ministry of Finance, Economic Planning and Development chaired the reference group (RG) which comprised of the Ministry of Industry, Trade and Tourism, Reserve Bank of Malawi, Malawi Microfinance Network, National Statistics Office (NSO), Community Savings and Investment Promotion and National Association of Small and Medium Enterprise (NASME) with expert technical assistance and project management from FinMark Trust. The survey was funded by the UNDP/World Bank/EU/DFID. The data was collected by Imani development with statistical oversight (sampling and weighting) and data collection quality control from the NSO.



The cover symbol

Through the evidence-based FinScope Survey, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features a flower synonymous to Malawi. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Malawi we represent the characteristics of the country, linking financial inclusion with successful growth.

Funded by



*Empowered lives.
Resilient nations.*

Supported by



Introduction

The MSME sector is recognised as a significant contributor to economic growth and development and mass employment. With this knowledge, the crucial role of MSMEs in the national economy anchors on the roles of government, the business community and the public at large to harness and optimise the sector's development. The lack of recent, holistic and reliable information about the MSME sector was identified to be a significant barrier from past consumer surveys and the MAP process. It is in this pursuit that the Government of Malawi initiated the repeat FinScope MSME Survey Malawi 2019 to the first 2012 survey.

Methodology

The FinScope MSME Survey Malawi 2019 was conducted with a sample of 2993 adult business owners who were selected at household level across the country. The sample for the survey was designed by the National Statistics office and had the following characteristics:

- 18 years or older
- Consider themselves to be business owners/ generating an income through small business activities
- Employing less than 99 employees
- National, regional and urban/rural representative sample

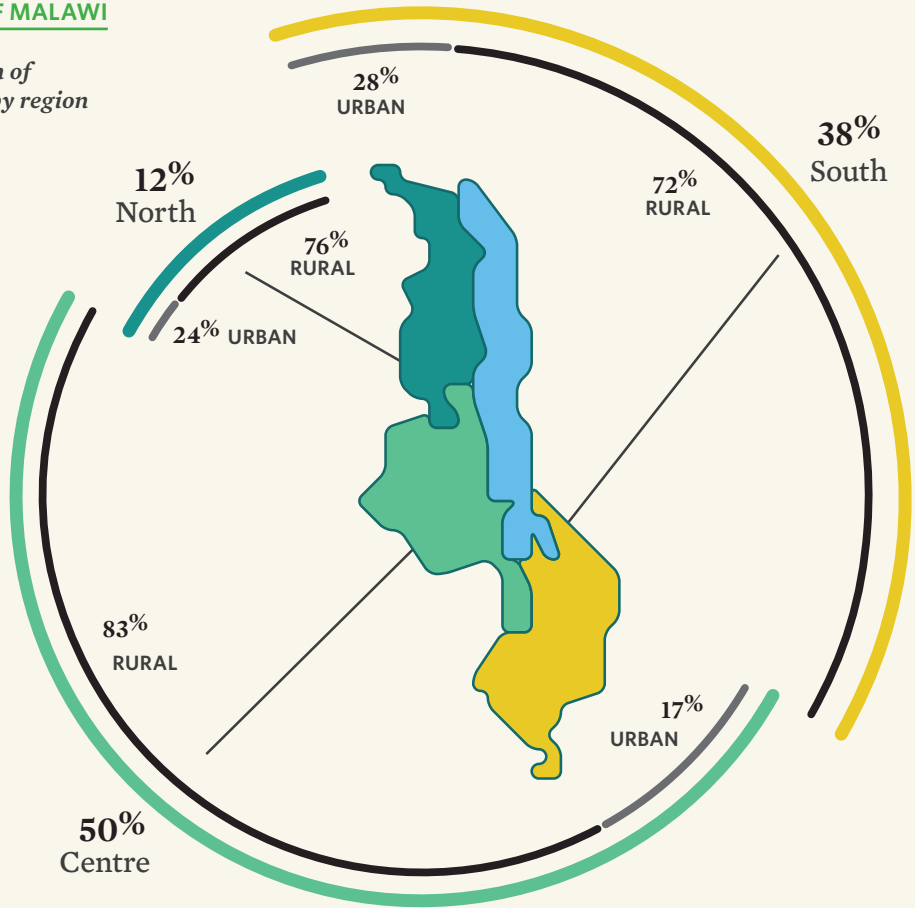
Survey objectives

- To assess the **size and scope** of micro, small, and medium enterprises (MSMEs) in Malawi
- To describe the levels and landscape of **access to financial products and services** (both formal and informal) as well as track the level of financial access since 2012
- To identify the most binding **constraints** to MSMEs development and growth with a focus on access to financial markets
- Identify the **drivers and barriers** to financial access for MSMEs
- Segment the MSME sector into market segments and identify the needs of different segments to stimulate related product innovation
- To identify and describe different **market segments** with specific development needs in order to stimulate segment related innovation

Published February 2020

REGIONS OF MALAWI

*Distribution of
businesses by region*



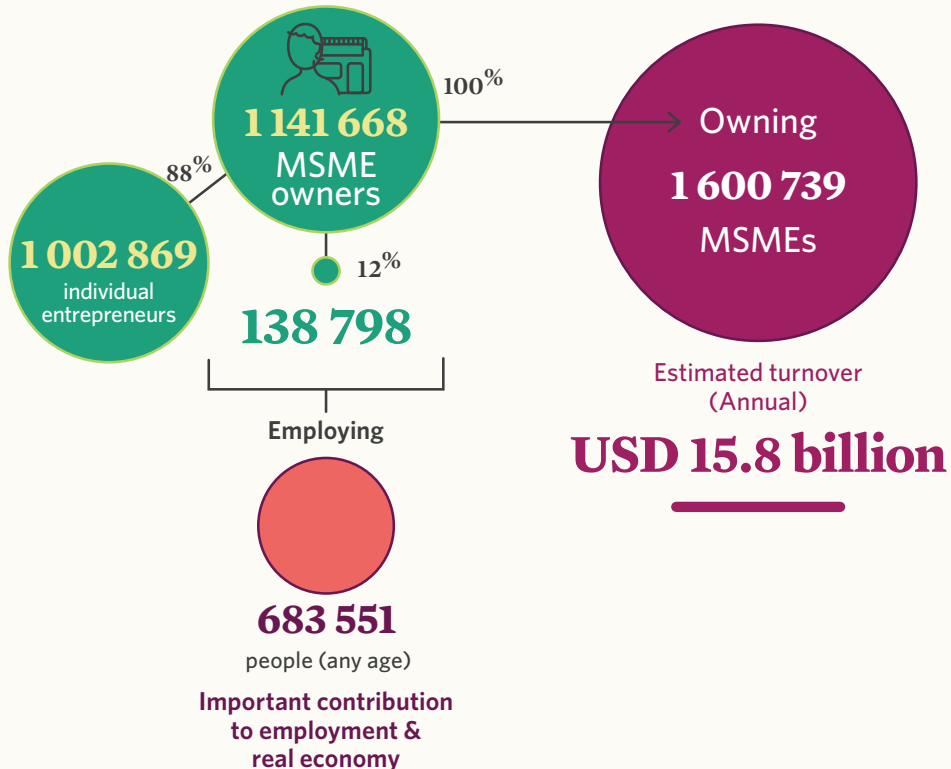
- Half of the small businesses in Malawi are situated in the central region. In all the three regions most of the businesses are rural based.

SIZE AND SCOPE OF THE MSME SECTOR

1 825 219 people work in the sector

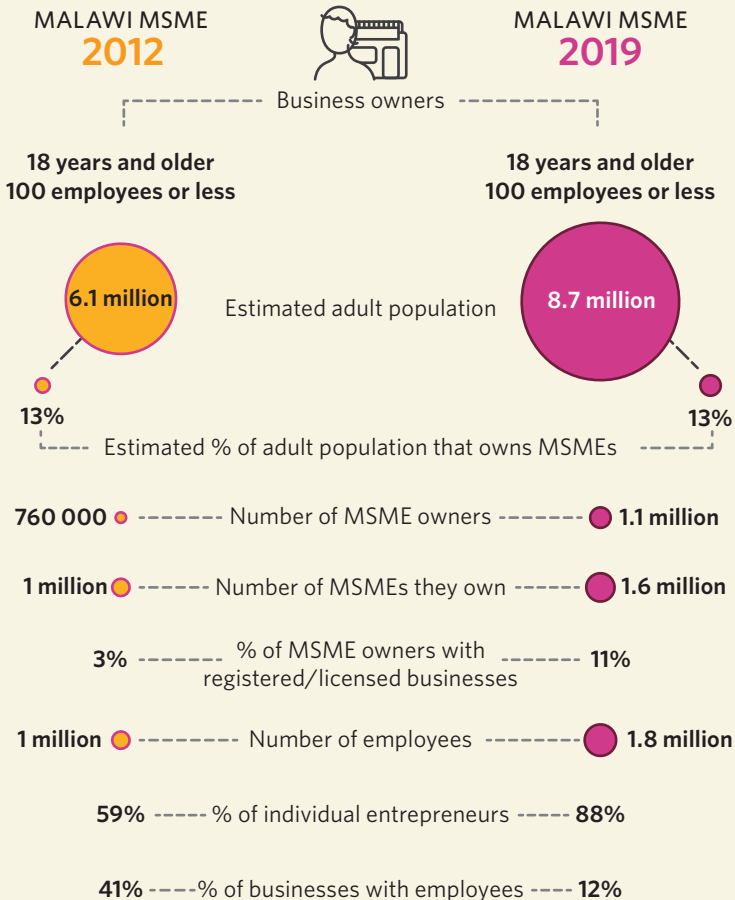
(this number includes 1 002 869 individual entrepreneurs and 138 798 other business owners with 683 551 employees)

*MWK/US\$ exchange rate used
average of \$1 to MWK733.08*



SIZE AND SCOPE OF THE MSME SECTOR

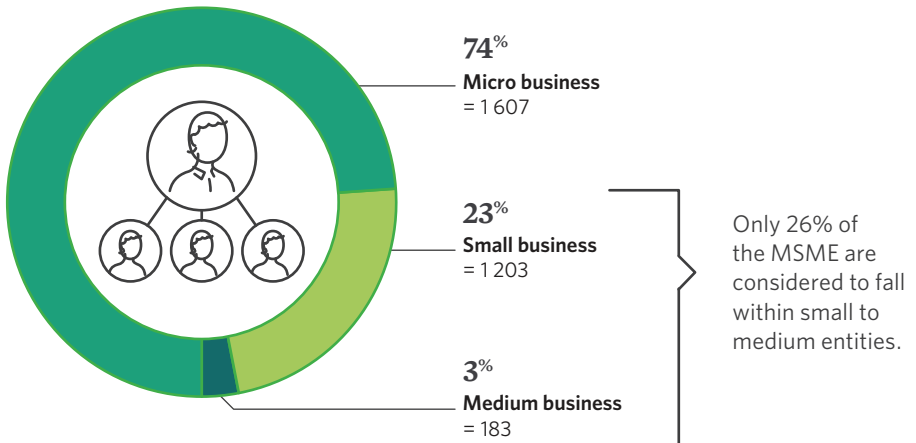
Coverage
comparison



DEFINING MSMEs FOR THIS SURVEY

Business definition by the number of employees and annual turnover

	 MICRO	 SMALL	 MEDIUM
Employees	1 - 4	5-20	21-99
Value of assets	K1 million	K20m	K250m
Turnover	up to K5 000 000	K5000001-K50 000 000	K50 000 001-K500 000 000



BUSINESS SIZE BY REGION



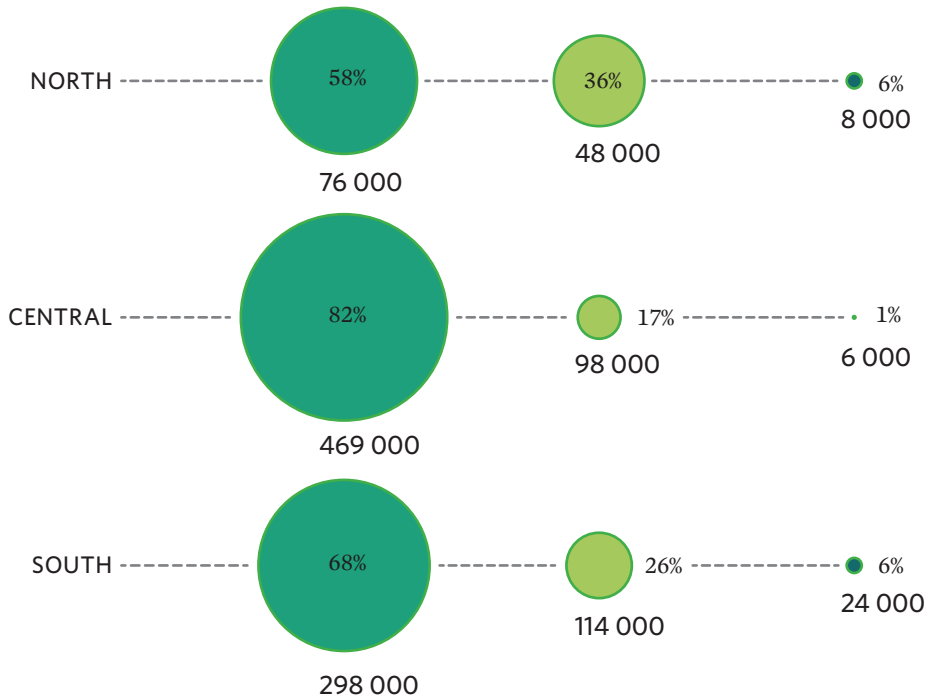
MICRO



SMALL



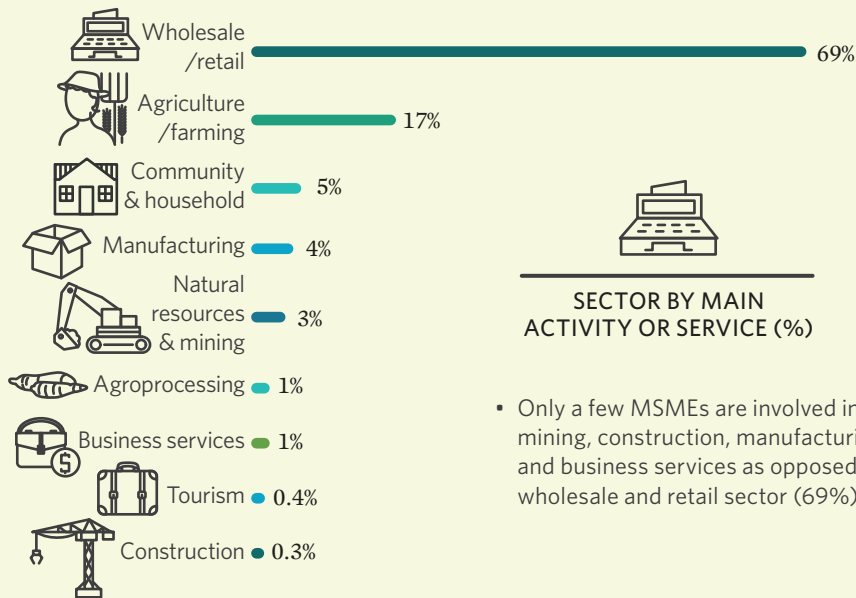
MEDIUM



- The central region has a large proportion (82%) of micro businesses with the northern region housing fewer micro enterprises (58%). The

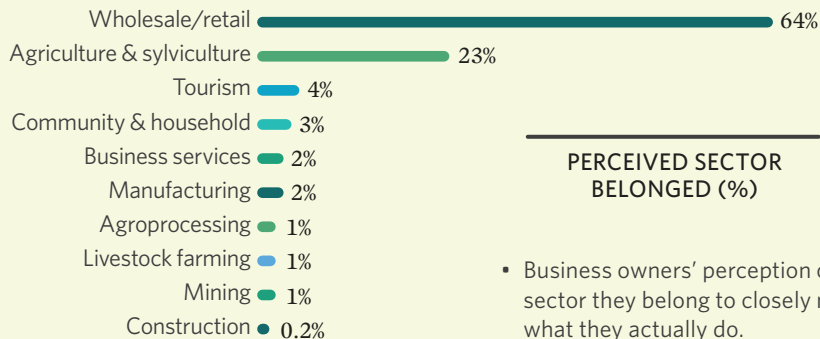
Southern region which is regarded as the hub of businesses in Malawi hosts more small to medium businesses than other regions (138 000).

MSMES BY SECTOR




SECTOR BY MAIN ACTIVITY OR SERVICE (%)

- Only a few MSMEs are involved in mining, construction, manufacturing and business services as opposed to the wholesale and retail sector (69%).

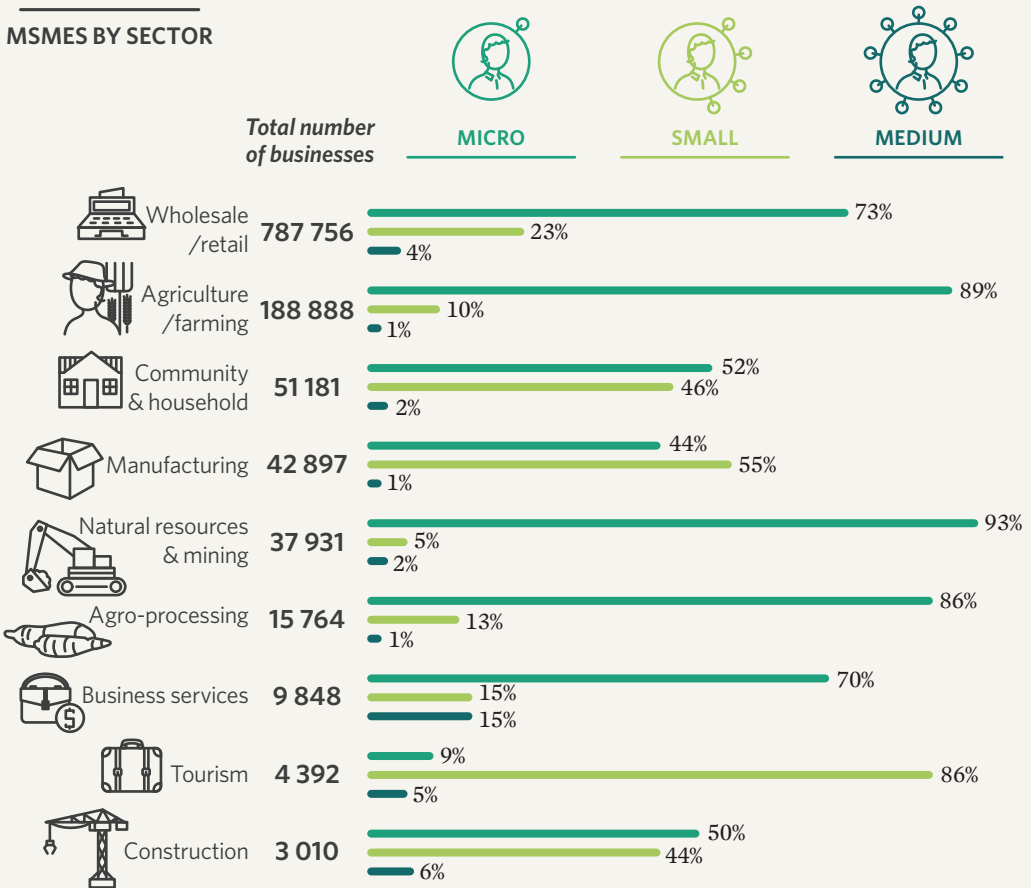


PERCEIVED SECTOR BELONGED (%)













- Business owners' perception of which sector they belong to closely matches what they actually do.

SIZE AND SCOPE OF THE MSME SECTOR

MSMES BY SECTOR






SIZE AND SCOPE OF THE MSME SECTOR

	Total annual turnover (US\$)	Average annual turnover (US\$)
 MICRO enterprise	5 023 768 221	6 000
 SMALL enterprise	4 543 254 764	17 500
 MEDIUM enterprise	6 242 449 621	163 000
<hr/>		
 Wholesale/retail	11.6 billion	14 800
 Manufacturing	1.4 billion	35 000
 Agriculture/ fisheries/farming	970 million	5 120
 Community & household	700 million	13 700
 Business services	356 million	36 000
 Tourism	255 million	58 000
 Natural resources & mining	230 million	6 000
 Agro-processing	88 million	5 600
 Construction	72 million	24 000

- The tourism, business services and manufacturing sectors seem to have higher average annual turnover.

SIZE AND SCOPE OF THE MSME SECTOR

	Mean Annual Turnover (US\$)	Mean Annual Expense (US\$)	Mean Profit (US\$)
 MICRO enterprise	6 000	7 000	- 1 000
 SMALL enterprise	17 500	11 000	6 700
 MEDIUM enterprise	163 000	5 800	160 000



**ESTIMATED MONTHLY
TURNOVER PER BUSINESS
SIZE (IN US\$)**

MWK/US\$ exchange rate used average of \$1 to MWK733.08

Of the US6.8 billion, US3.6 billion comes from formalised small businesses. This US3.6 billion can be assumed to be included in the US8.1 billion GDP estimated for Malawi in 2019.

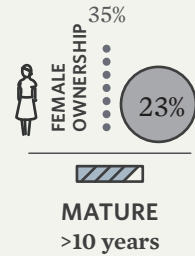
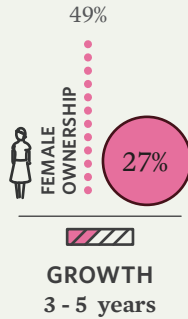
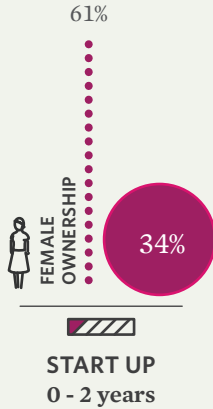
Total MSME Value added



**US\$
6.8 billion**

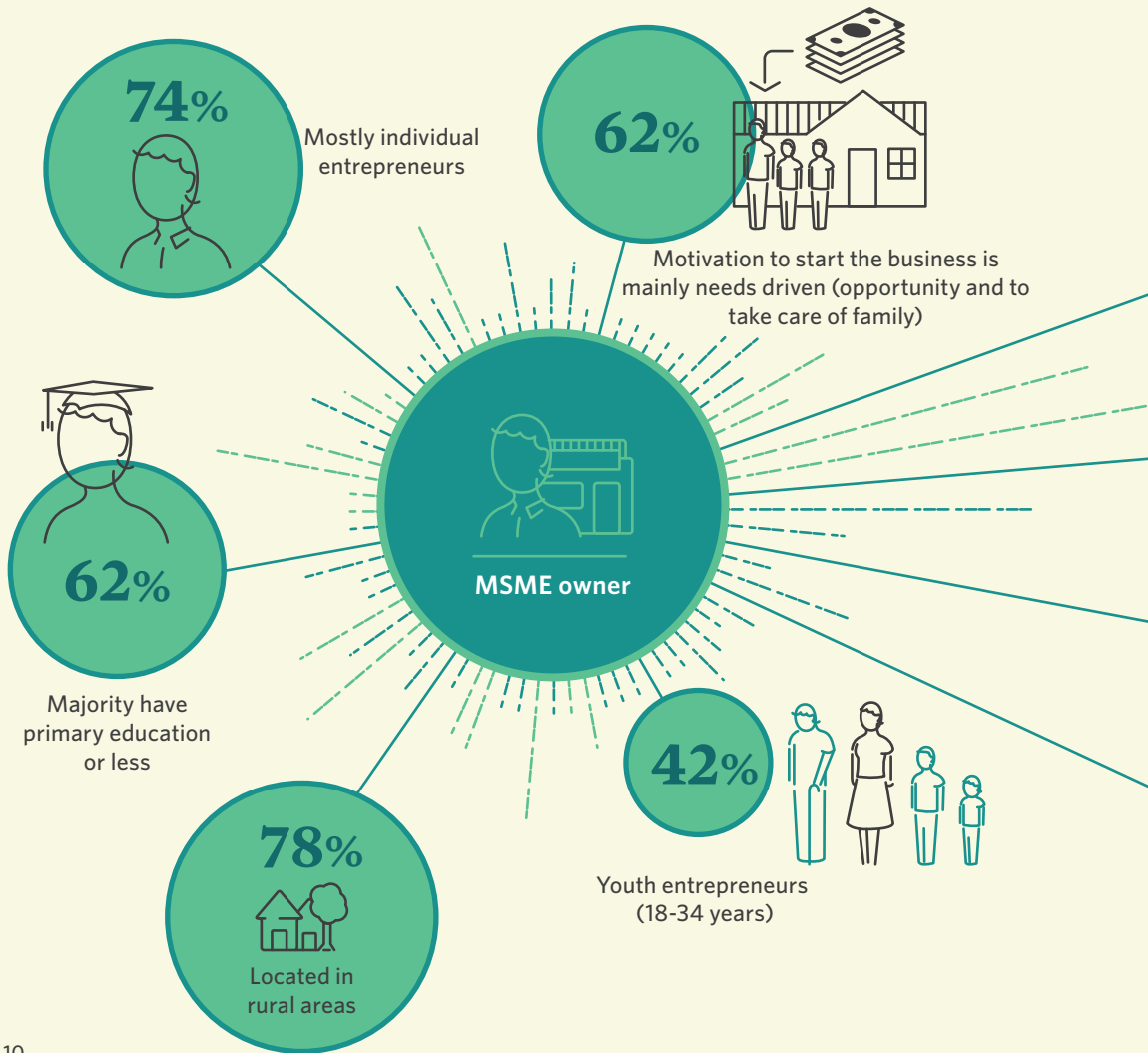
Value addition was calculated using the sum turnover less sum expense of the sector.

BUSINESS LIFECYCLE BY BUSINESS AGE (YEARS)



BUSINESS AGE

- Only 39% of the Malawian MSMEs are established or mature ranging from six years or older.
- The proportion of female business owners tend to decline as the firm ages. More female owners in start ups - 61% versus 35% in mature enterprises.



SIZE AND SCOPE OF THE MSME SECTOR

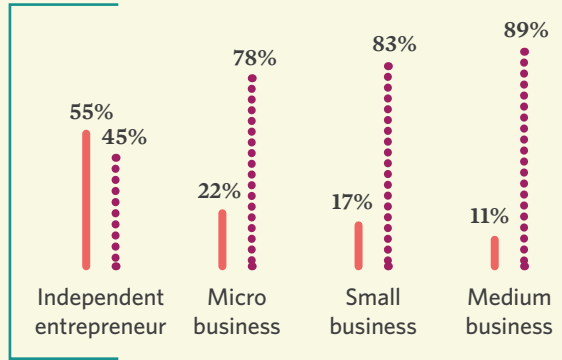


88%

Business is their main source of income

49%

Are females (mostly independent entrepreneurs - 55%)



49%

Low levels of monthly income (<1% do not have a personal monthly income)

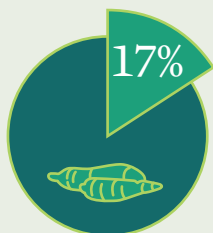


48%

Work full time (8 hours a day or more).

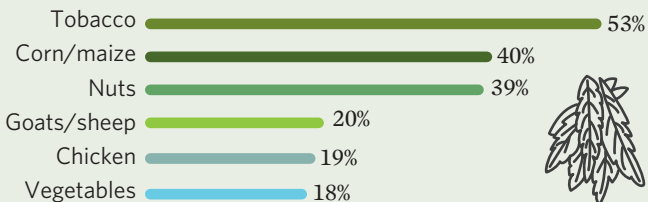


AGRICULTURE AND FARMING

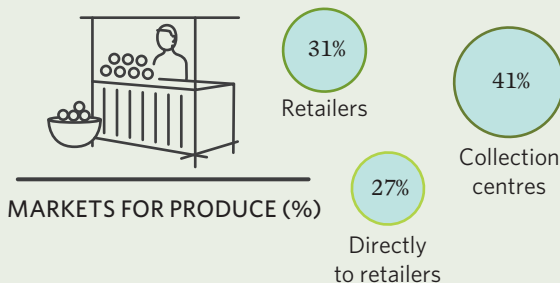


189 000

farmers (17% of MSME sector)
in primary agriculture



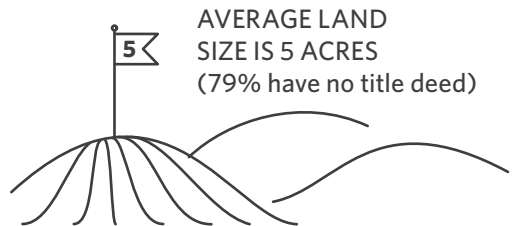
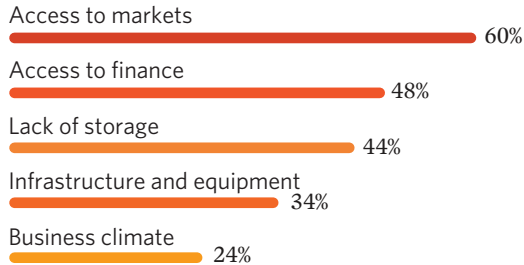
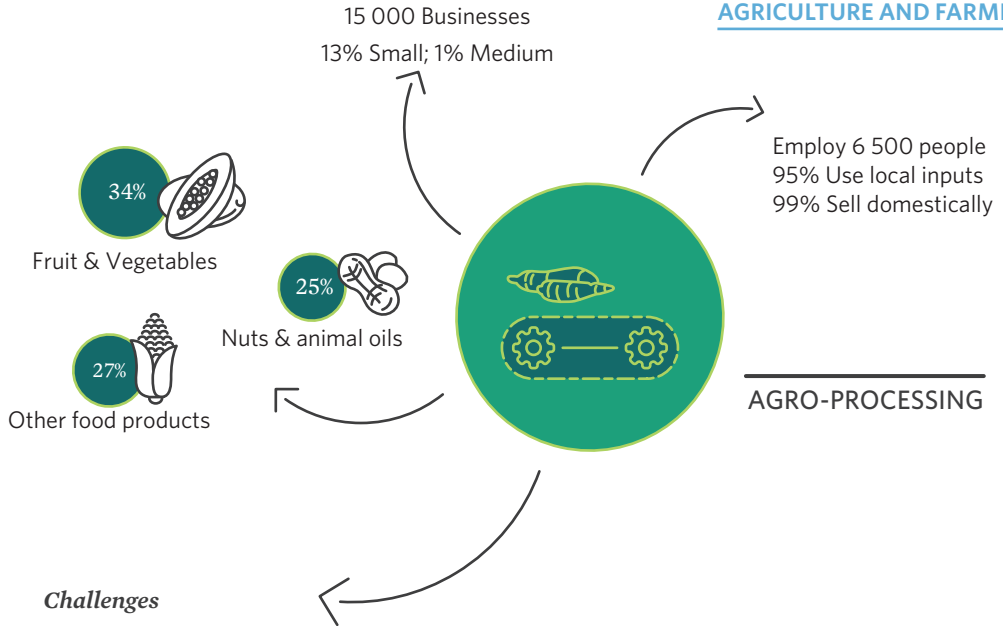
TOP CROPS/LIVESTOCK
FARMED (%)



SOURCE OF FARMING INPUTS (%)

FARMING SECTOR (%)

AGRICULTURE AND FARMING



LEGAL AND COMPLIANCE



11%

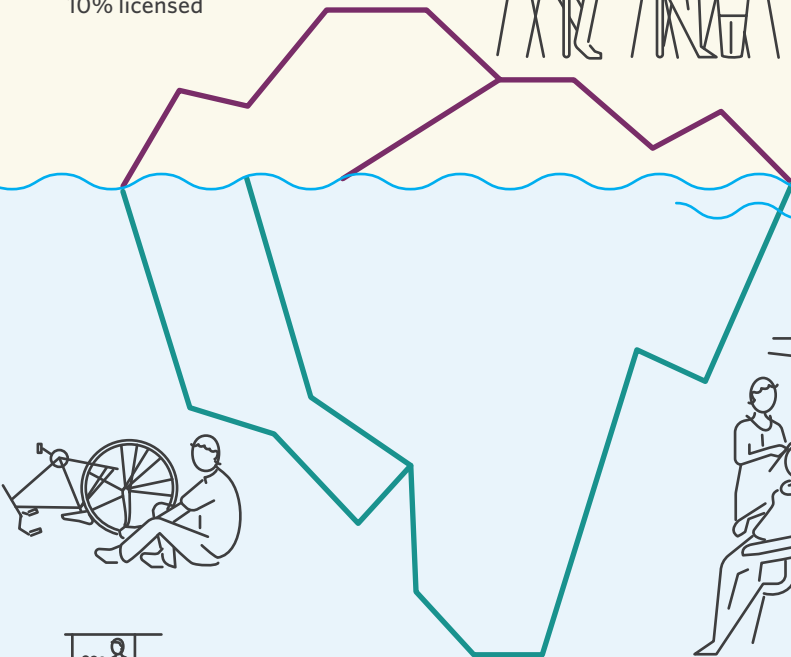
Formal MSME sector (125 027)

7% MSMEs registered and
10% licensed



Formal GDP contribution
US\$3.6 billion

Informal GDP contribution
US\$3.2 billion



89%

Informal MSME sector (1 016 641)



LEGAL STRUCTURE

Registration

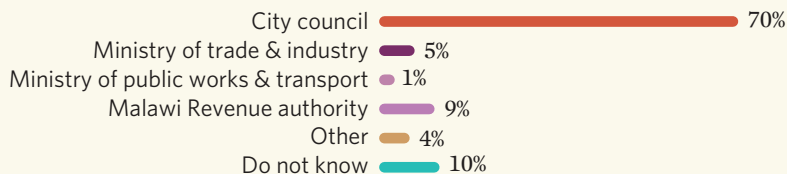


Only 1 in 10 MSMEs is formally registered or has a trading license

89% of businesses are not registered/licensed

11%

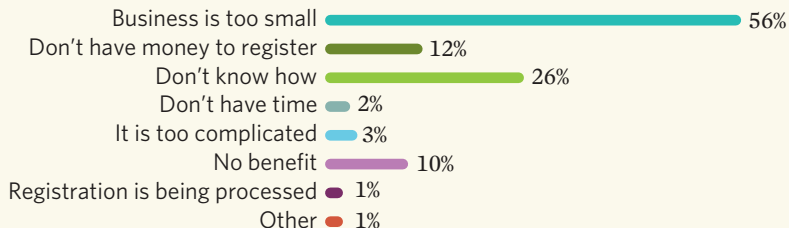
Type of registration



Perceived benefits of registration



Reason for not registering/licensing (of those informal)



HOW BUSINESSES ARE DOING



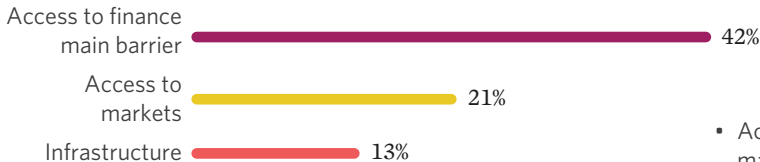
claim their business to be growing in the past year

Opinions about the business



- Two third of business owners (65%) claimed their businesses are not growing implying business is tough for most.
- The owners with successful business are more likely to be registered, keeping financial records and claim that their businesses performed better than the previous year.

Growth obstacles:



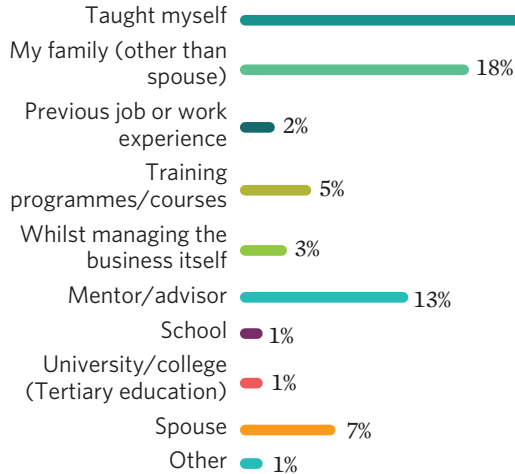
- Access to finance cited as the main growth obstacle.

Financial needs:

- Cashflow
- Debt management
- Resilience (insurable vs. hedging)

- One of the top financial needs by business owners is cash-flow management.

CAPACITY TO GROW & CHALLENGES

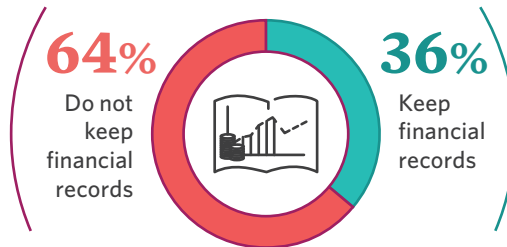


ACQUIRING BUSINESS SKILLS

One in every 2 business owners taught themselves how to run/operate the business

Top barriers to keeping records:

- Business is too small (38%)
- Do not know how to do it (24%),
- Do not need to keep records (23%)
- Do not see value (13%)



Of the 36% that keep financial records:

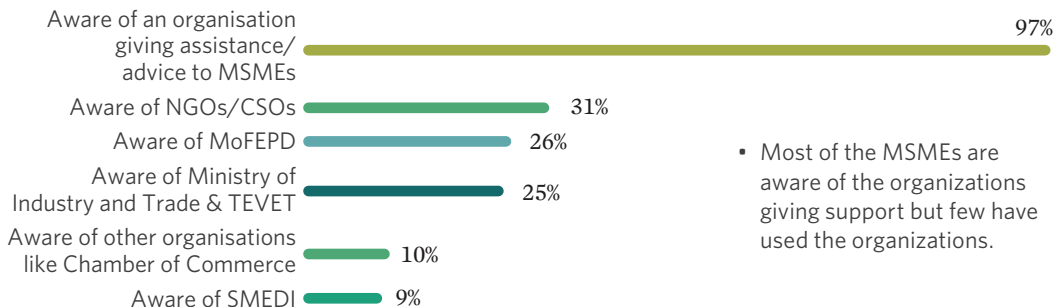
- 91% keep records manually
- 5% use a computerised system

FINANCIAL RECORD KEEPING

CAPACITY TO GROW & CHALLENGES

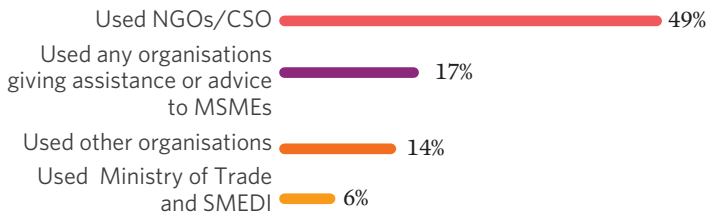
Business support

Awareness of support organisations



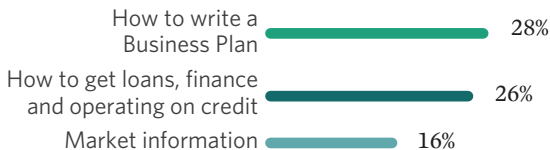
- Most of the MSMEs are aware of the organizations giving support but few have used the organizations.

Usage of support organisations



- Of the MSMEs that have received support, most of them received support from the NGOs/CSO.

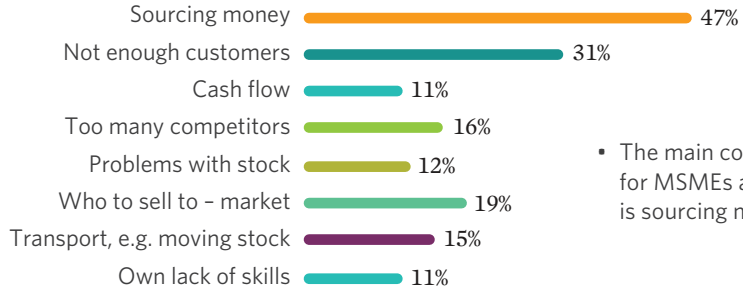
Support received



CAPACITY TO GROW & CHALLENGES

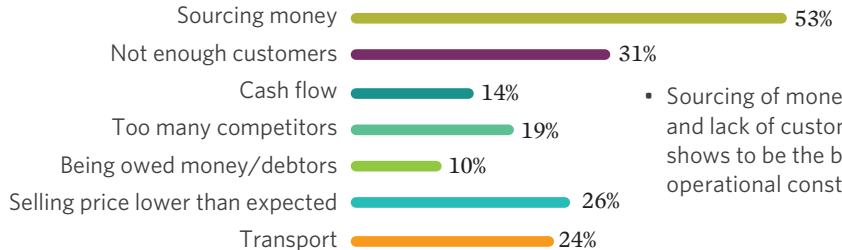
Main constraints facing MSMEs

START-UP



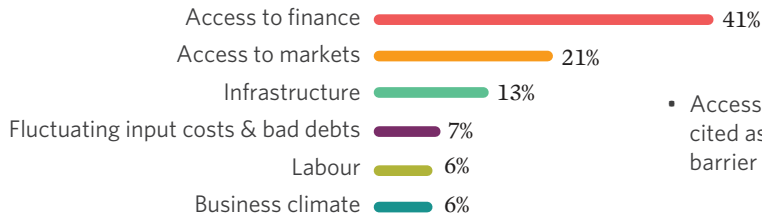
- The main constraint for MSMEs at start-up is sourcing money.

OPERATION/
MANAGEMENT



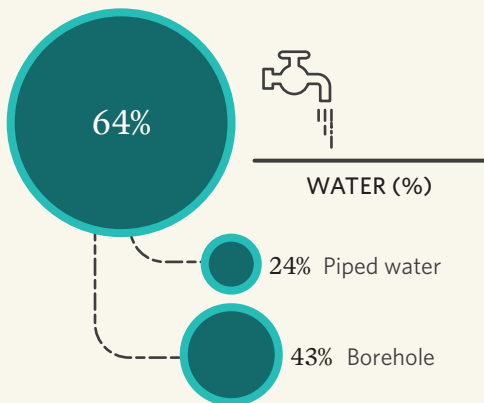
- Sourcing of money and lack of customers shows to be the biggest operational constraints.

GROWTH

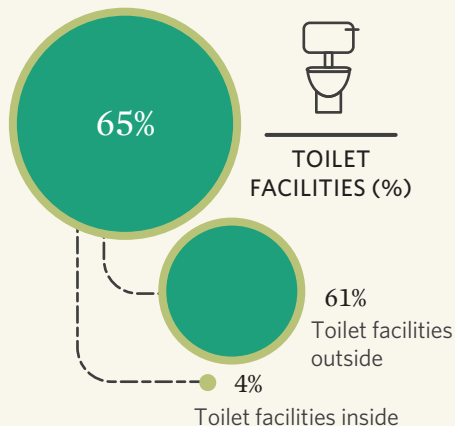


- Access to finance cited as the main barrier for growth.

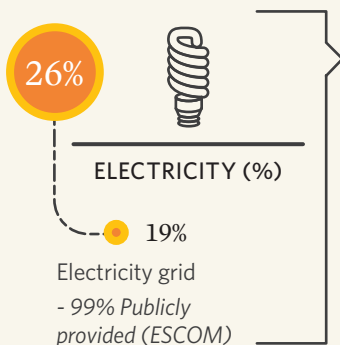
CAPACITY TO GROW & CHALLENGES



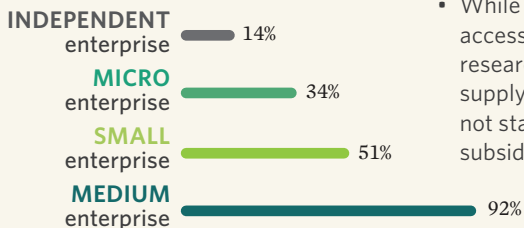
- Access to amenities is limited and highly skewed towards urban businesses. Lack of basic services affects productivity.



Energy is key to business growth and only 26% of the MSMEs have access to electricity.

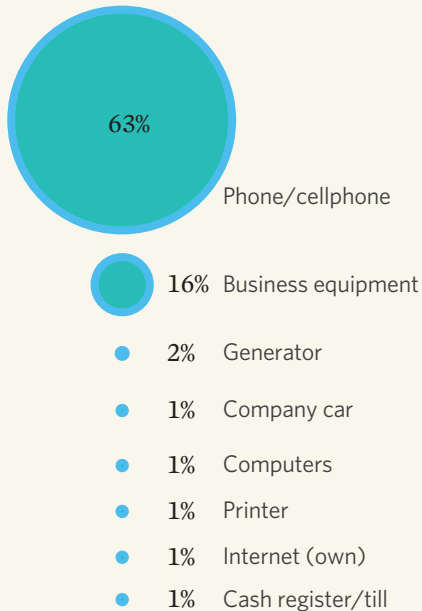


Small to medium businesses are more likely to have access to electricity than micro businesses.



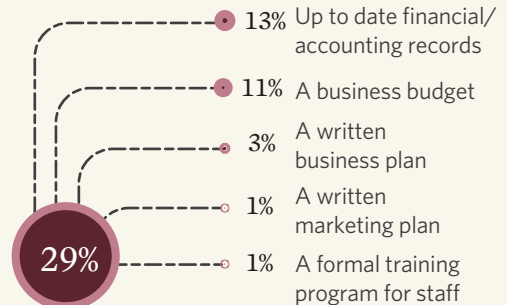
- While SMEs have higher access, qualitative research has shown that supply of electricity is not stable and often subsidized by generator.

CAPACITY TO GROW & CHALLENGES



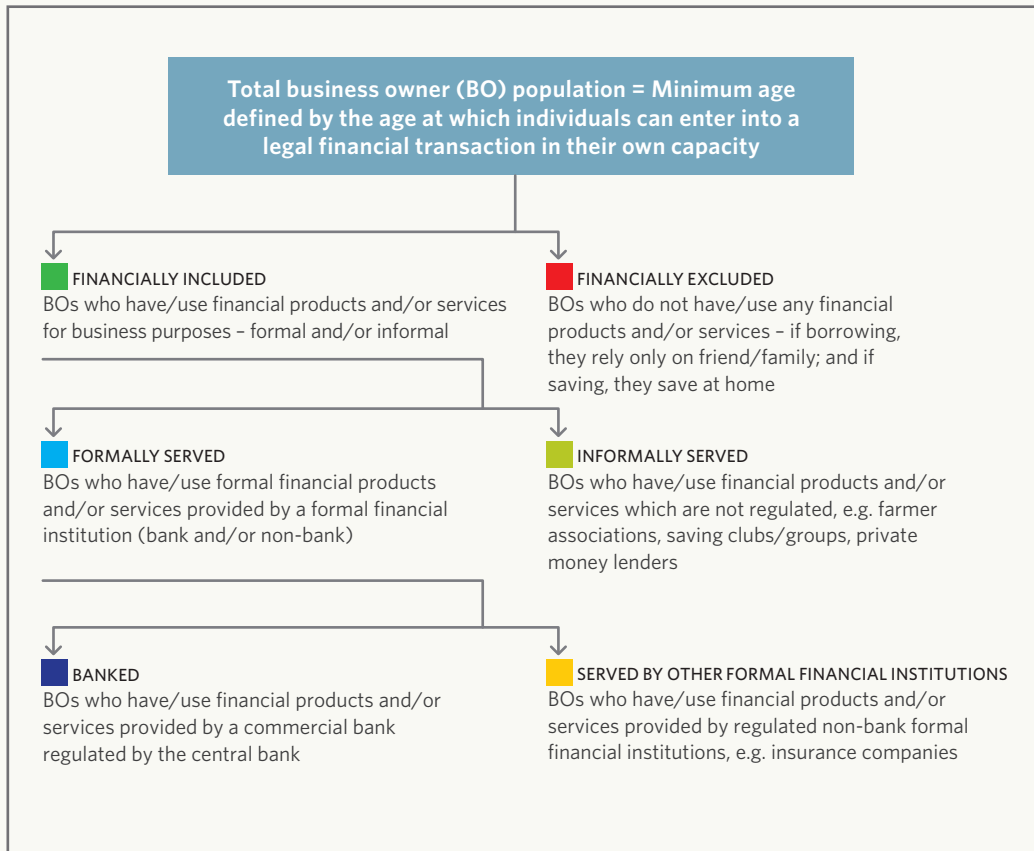
BUSINESS ASSETS OWNED (%)

- About 71% of small businesses do not keep business documents such as accounting records, business plans among others.



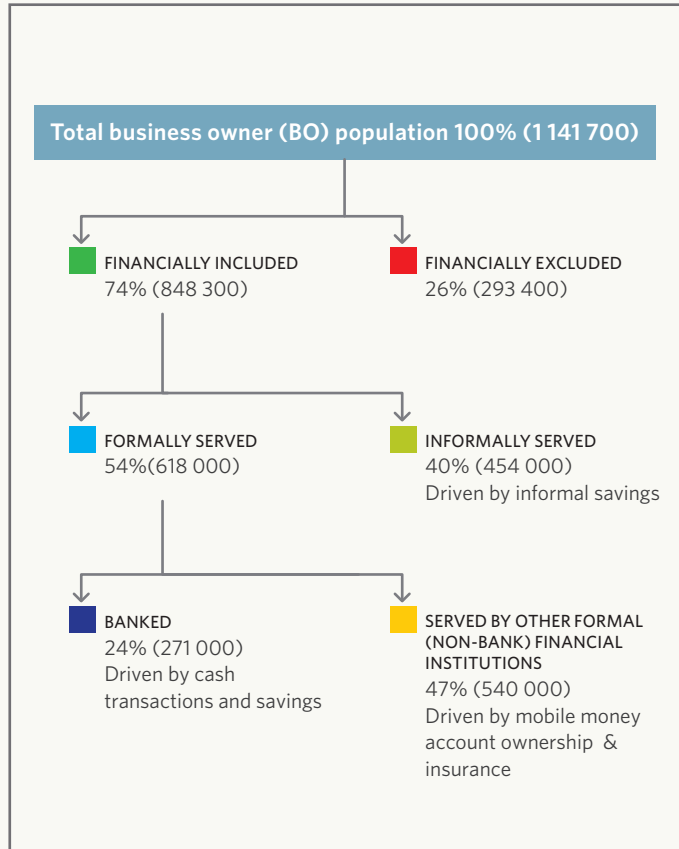
BUSINESS DOCUMENTS (%)

Financial inclusion
- Framework





**Financial inclusion in
Malawian MSME owners**



‘Formal’ is a category classifying products or services as regulated or supervised by a formal institution or any other formal regulator/agency. This is also synonymous to ‘other formal’ or ‘other formal (non-bank)’ to differentiate it from the banked which are mostly commercial and development banks.

FINANCIAL INCLUSION

Overall levels of financial inclusion, overlaps and MSME Access Strand

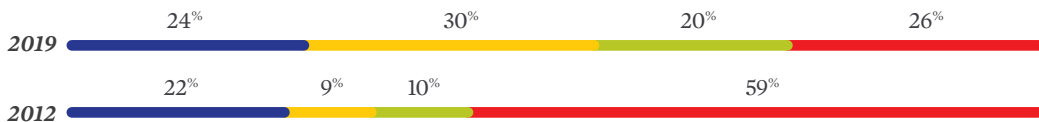
Overalls with overlaps



Access Strand

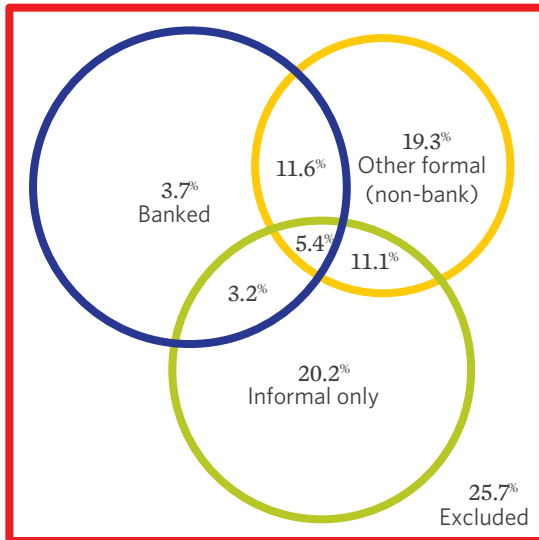
In constructing this strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- Financial exclusion among business owners has decreased by 33 percentage points.
- Uptake of informal financial products among business owners who does not use formal products has doubled.
- Uptake of other formal (non-bank) products/services among business owners has tripped (30%). Business owners might also be using informal products or services.
- A slight increase of business owners who have/use commercial bank products/services although absolute numbers show just over 100 000 increase in banked MSMEs.





Overlaps



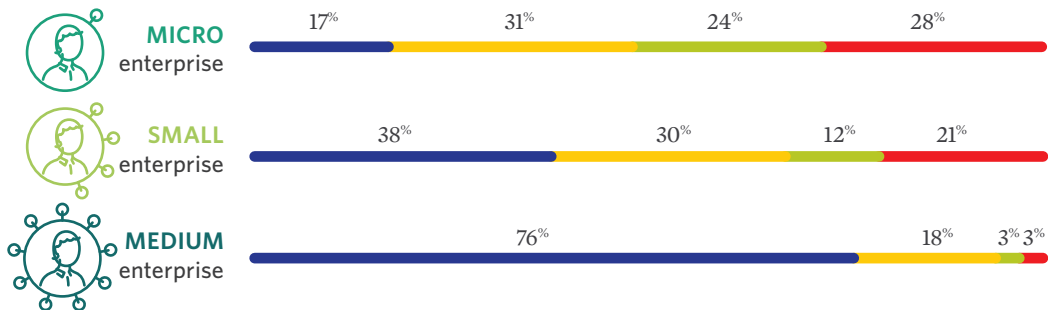
“Business owners generally use a combination of financial products and services to meet their financial needs”.

- Only 4% (about 41 739) of business owners rely exclusively on banking services.
- Around 19% use a combination of formal and informal mechanisms to manage their financial needs, thus indicating that their needs are not fully met by the formal sector alone.
- 20% (230 163) of the small business owners ONLY rely on informal mechanisms such savings groups and loan sharks.

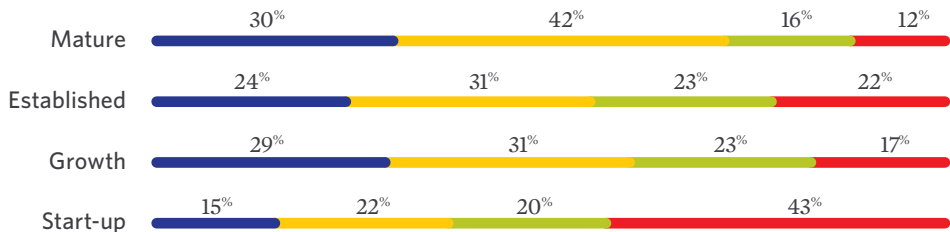
ACCESS STRANDS

Access Strand by MSME size

- The smaller the business the less likely it is that the business owner uses/has banking products to manage the businesses finances.

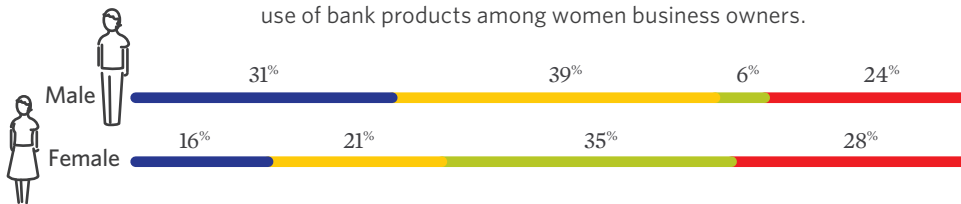


Access Strand by business cycle

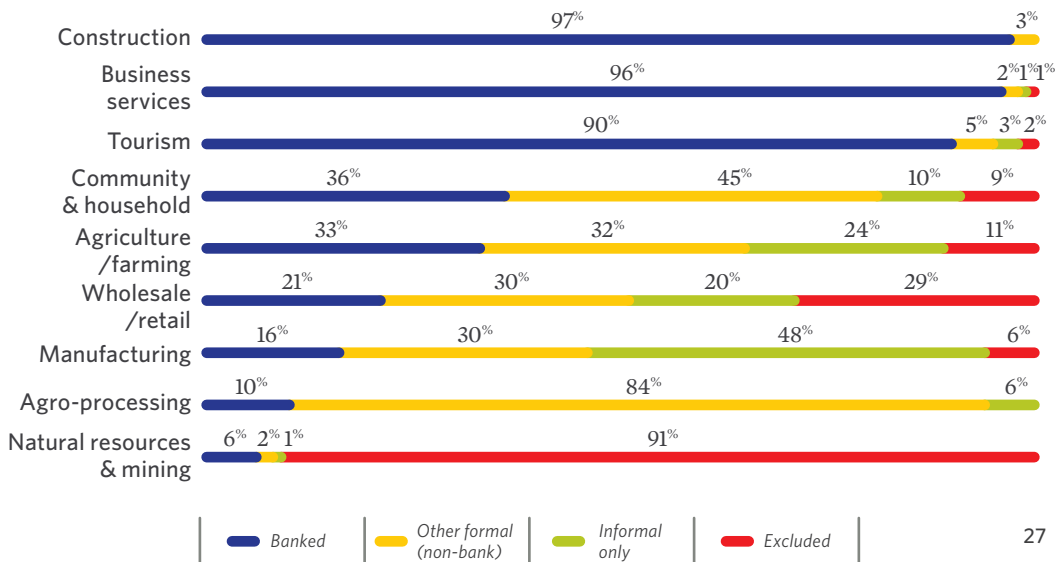


Access Strand by MSME owner's gender

- A negative 15% gender gap in favour of women exist among business owners who use bank services or products. There is need to encourage use of bank products among women business owners.

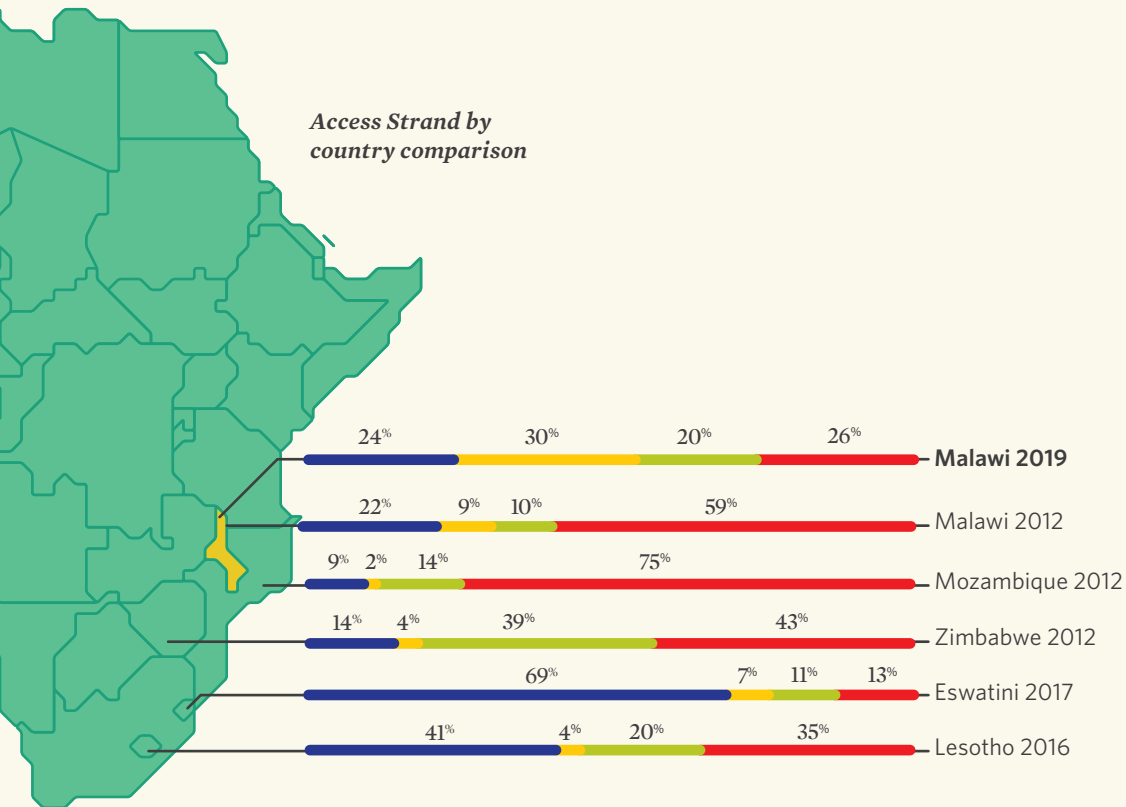


Financial inclusion by sector



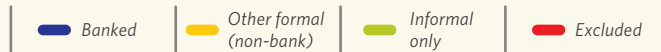
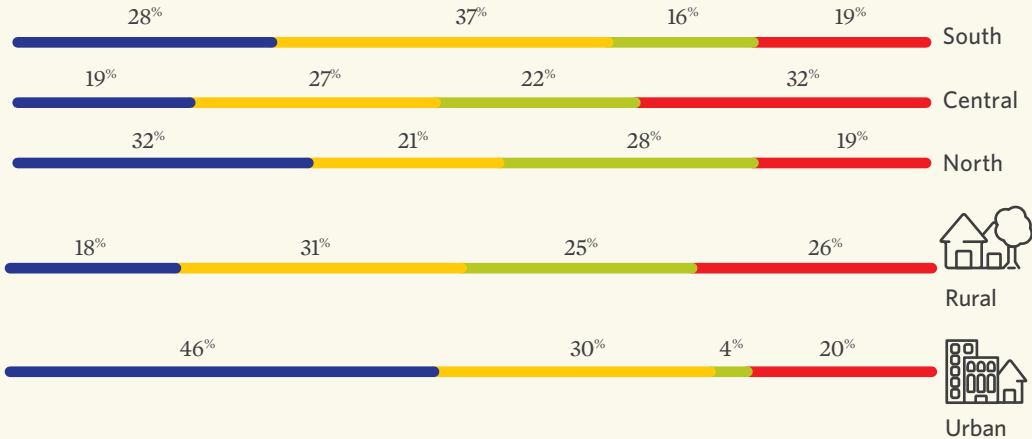
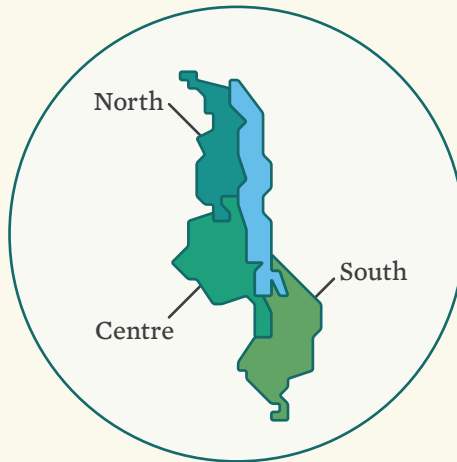
ACCESS STRANDS

Access Strand by country comparison



ACCESS STRANDS

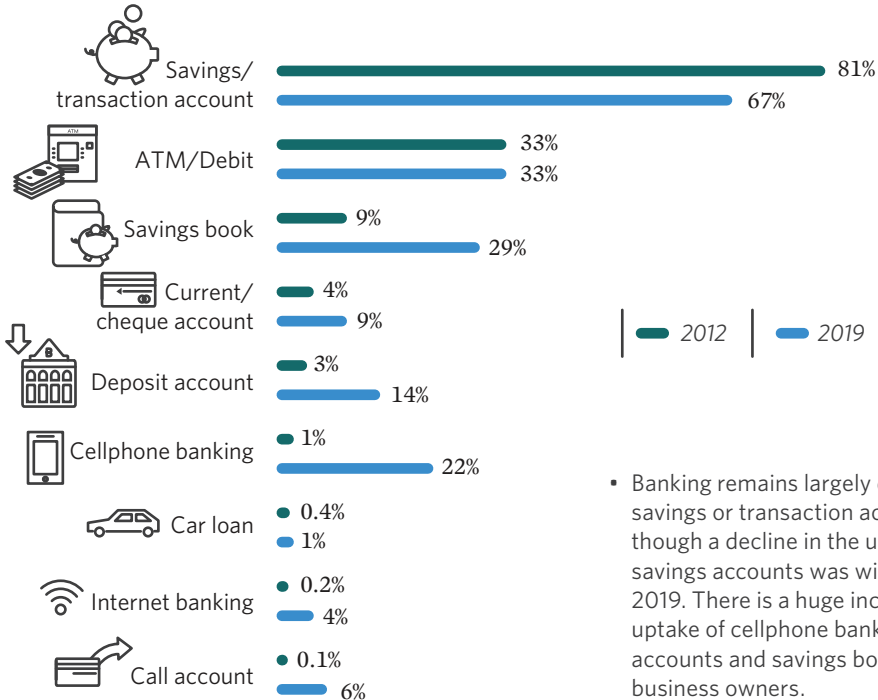
Access Strand by MSME distribution: region and area type



LANDSCAPE PRODUCTS



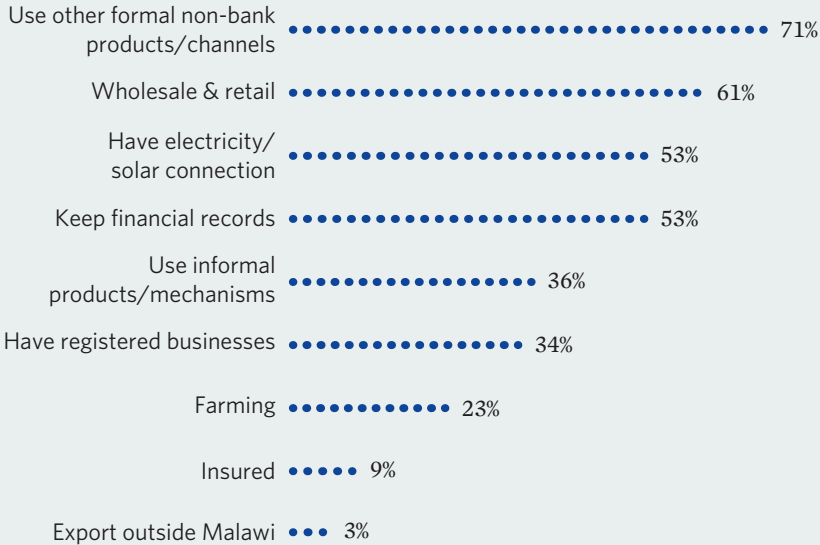
Banking Drivers



- Banking remains largely driven by savings or transaction accounts though a decline in the uptake of savings accounts was witnessed in 2019. There is a huge increase in the uptake of cellphone banking, deposit accounts and savings book among business owners.



BANKED BUSINESS OWNERS

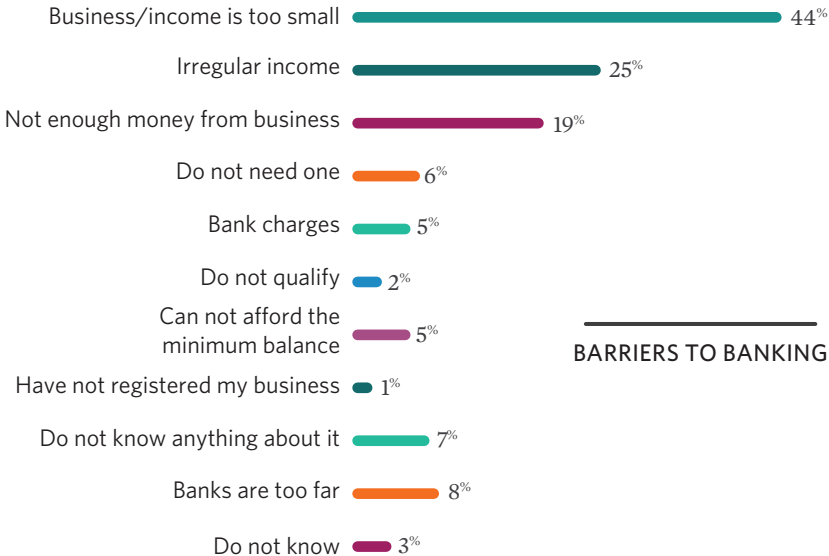


LANDSCAPE PRODUCTS



Banking

76% of MSMEs are unbanked

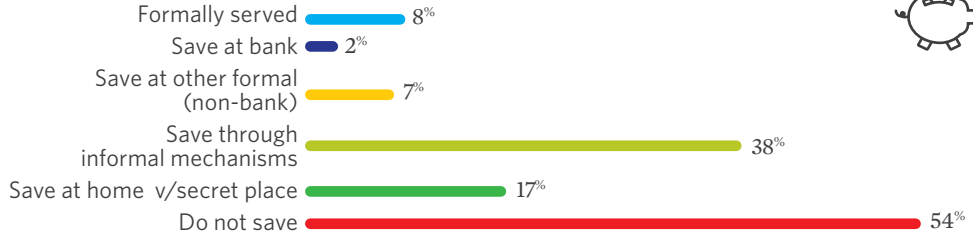


- Business/income is too small, not enough revenue and irregular business income are the main barriers to opening a business bank account.

Savings and investments (%)



Overalls with overlaps



Saving Strand

In constructing this strand, the overlaps in financial product/services usage are removed.

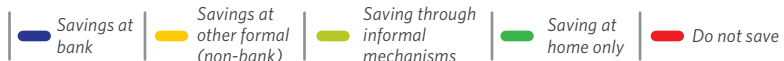
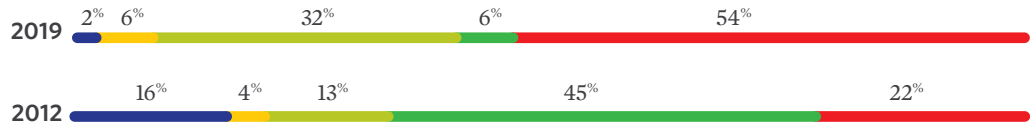
- 54% of business owners do not save. A 32 percentage decline since 2012.
- A huge decline in the percentage of business

owners saving exclusively at home. Only 6% of business owners are now saving at home from 45% in 2012.

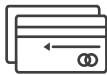
- 19 percentage point increase in the uptake of informal savings products. 32% of business owners rely on informal mechanisms such as savings

groups (they might also save at home, but they do not have/use any formal savings products).

- A sharp decline in the uptake of savings products from the bank. Only 2% of business owners have/use formal savings products from commercial bank from 16% in 2012.

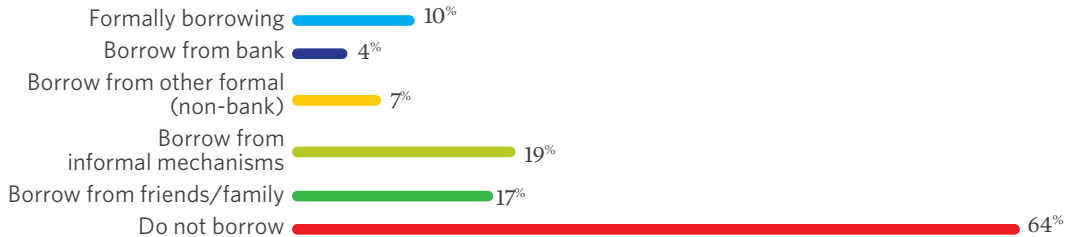


LANDSCAPE PRODUCTS



Borrowing and credit

Overalls with overlaps



Credit Strand

In constructing this strand, the overlaps in financial product/services usage are removed.

- 64% of business owners did not borrow money in 2019. There is a 12% increase

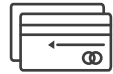
in business owners who borrowed from 2012.

- There is not much change in the proportion of business owners who borrow from family and friends.
- A 15 percentage point increase in the usage of only informal credit mechanisms.

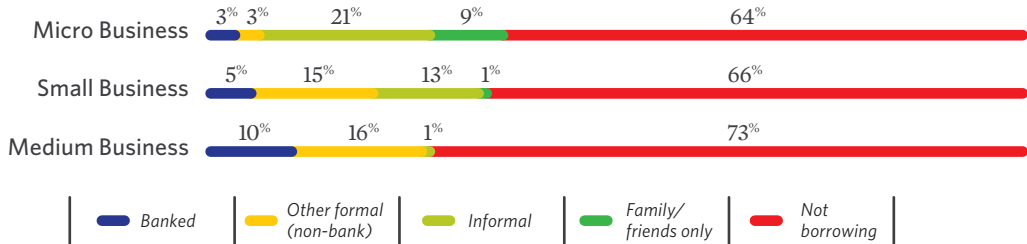
- In terms of percentages the proportion of business owners who have loans from formal institutions is stable. However, in absolute numbers more MSMEs had access to formal credit.



Borrowing and credit

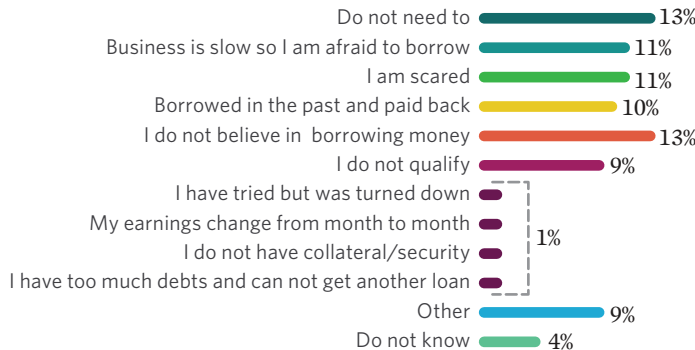


Credit Strand



- Credit has widely been used to finance the operations of the small businesses in their transition to medium and large enterprises. In Malawi, there is room for credit to be accessed more by all business sizes. Exposure to business financing methods could be explored e.g. a good mix of debt to equity.

Barriers to access credit



- There is need to increase awareness on the benefits of productive credit to eliminate fear of debt.

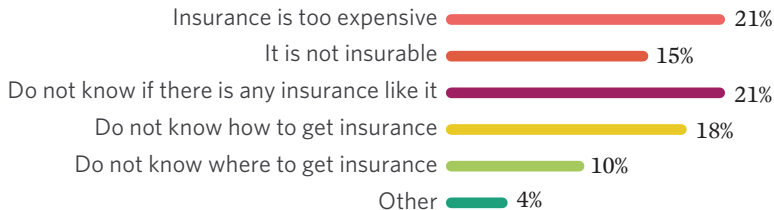
LANDSCAPE PRODUCTS



3%
Of businesses have insurance

97%
Of businesses are not insured

Insurance barriers for business owners:



- Besides insurance being considered expensive, the other top barriers for those without insurance is awareness or knowledge of insurance and knowing its benefits. There is need to offer more competitively priced insurance as well as increase financial awareness.



Banking



Savings & investments



Borrowing & credit



Insurance & risk management

24% are banked but only 17% use an account in the name of the business

46% save, mainly through informal groups (83%) and family or friends (36%)

36% borrow, mainly from informal (55%) and family (47%)

3% are insured (47% for business), mainly through motor vehicle cover (78%) funeral plan or life cover (23%)

PRODUCT UPTAKE

79% Growth/sustainability
28% Liquidity

66% Growth/sustainability
26% Liquidity

61% to grow the business
42% for day-to-day needs

Perceived insurance is important for business (92%) suffer losses that are insurable (61%)

NEED

44% Business/income is too small
25% income is too irregular

53% money is invested back in
45% business is not making enough to save

30% fear borrowing
22% do not need it

21% insurance too expensive
21% Not aware of their needs can be insured
15% not insurable

BARRIERS

RECOMMENDATIONS



Lack of enabling infrastructure

Supporting physical infrastructure (electricity, roads and technology) enables small businesses to operate efficiently.



Limited use of sophisticated marketing techniques

Support MSME owners in their venture to market their business (networking, referrals, local business directories, radio, billboards, local newspapers). Opening of markets requires output to meet those foreign stakeholders.



Only a few MSMEs are registered/licensed

Review registration processes by reducing time taken and costs (benefits and processes).

Sensitising the benefits of registration particularly access to support and how these outweigh the perceived costs.



Low uptake and use of financial services

Assist businesses to leverage and utilise transactional channels (for payments and receipts) and business insurance to mitigate risks. Financial services awareness initiatives may be required.



Need for skills training and financial capability

Formulate MSME training strategy focusing on financial capability (business management, book keeping, record keeping, etc.) Coupled with business coaching and mentorships, initiatives to upskill entrepreneurs may prove valuable.



Access to credit/loans as key constraint to start-up, operation, and growth

Minimise lending risks (e.g. improve access to information to establish credibility -credit bureaus, and ensure responsible credit provision.



Export and cross-border trade

Exports directly contribute positively to the Malawian economy, a supportive and enabling regulatory environment is required. Further, exports gives small businesses access to international markets thus competing on a global scale. Supplier development performance should be considered at value chain level by policy



Focus on young entrepreneurs

Since 42% of entrepreneurs are 15 - 35 years, a deliberate focus to this segment concurrently addresses issues of unemployment and job creation.



● Completed

FinScope MSME Survey

Comprehensive study focusing on individual entrepreneurs, and owners of micro-, small- and medium enterprises (MSMEs) and their financial services needs.

For further information about FinScope Malawi 2019 please contact:

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