



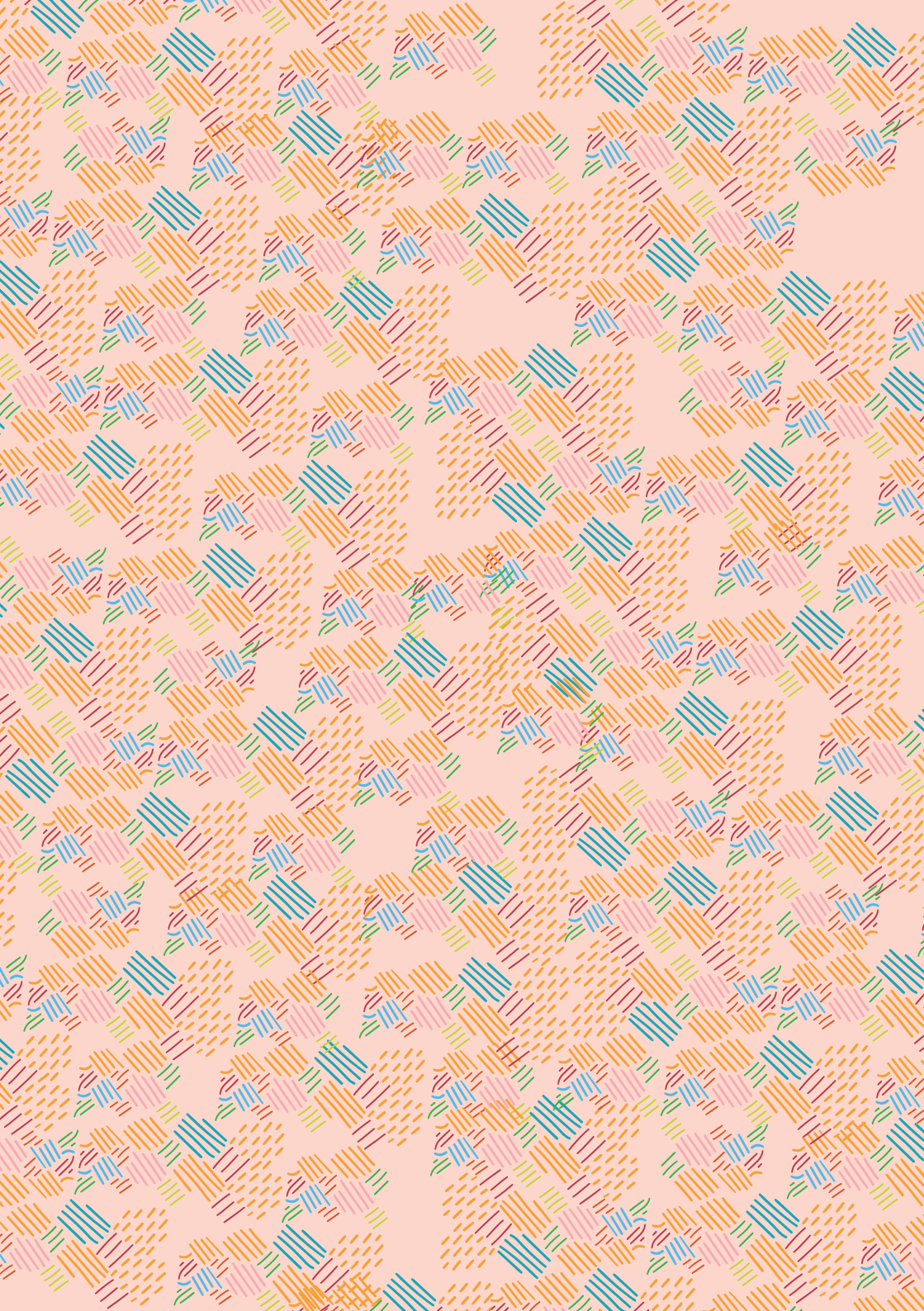
FinScope

# Focus Group Discussion Report

For the  
Finscope MSME Survey Malawi 2019 Report

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# Executive Summary



Women-Led Enterprise (WLE)



Youth-Owned Enterprises (YOE)



Agro-Processing Enterprise (APE)



Agriculture SME (Ag MSME)



High-Growth Medium Enterprises (HGME)



Business Support Groups (BSG)

The Focus Group Discussion (FGD) Report is based on findings from 6 focus group discussions with over 30 MSME owners who were identified for follow-up qualitative research. The discussions were conducted to better understand the findings derived from the analysis of the completed *FinScope MSME Survey Malawi 2019* dataset. The FGDs were conducted in key districts, and sectors were identified by the analysis. The participants in the discussions were from 6 target groups, namely: Women-Led Enterprises (WLEs), Youth-Owned Enterprises (YOE), Agro-Processing Enterprises (APEs), Agriculture SMEs (Ag MSMEs), High-Growth Medium Enterprises (HGMEs), and Business Support Groups (BSGs).

The report informs the *FinScope MSME Survey Malawi 2019* to highlight and provide valuable information on the landscape, and barriers to financial access for MSMEs that will enable Malawian authorities and donor organisations to design and implement more impact and demand-oriented development interventions.

The key findings from the focus-group discussions show that MSMEs are affected by access to finance; infrastructure development; reliable and efficient energy; business development services (BDS); discrimination by gender and size; and poor business-enabling environments (regulatory, legal, registration, taxation and policy issues). MSMEs have limited access to finance because, by their nature, they have been categorised as risky customers, such that most financial institutions tend to impose stiffer lending conditions to cover for the associated risk.

Other factors affecting MSME access to finance are: inadequate collateral to use for accessing loans; failure to develop sound business plans; and a lack of proper financial records for their businesses. The limited access to BDS by MSMEs contributes to the poor performance of their businesses, mainly due to a lack of professional business knowledge and skills.

MSMEs are also affected by poor infrastructure development, especially roads and bridges, which greatly influence business operations through untimely transportation of goods and services, and raise the cost of transportation of goods, thereby reducing the profitability of enterprises.

Unreliable energy supply and the high cost of connection do limit the usage of electricity amongst MSMEs and this greatly affects MSMEs in the agro-processing and manufacturing sectors. Power outages affect not only productivity but also the shelf life of products that need to be kept under refrigeration. Some MSMEs use backup generators, which increase the cost of operations.

Various MSME owners indicated that they have experienced some elements of gender discrimination so as not to benefit from certain services. This gender discrimination was reported by both male and female MSME owners. The participants also mentioned discrimination because of the size of their businesses; that some business opportunities are biased towards large enterprises. The members also mentioned that some government departments, when offering business opportunities, favour Indian-owned businesses as opposed to indigenous, local Malawian-owned businesses.

A business environment that impinges on their businesses also affects the MSMEs. Factors like unfair granting of business permits (i.e. export permits), unfair competition in the majority of sectors, unstructured markets for most agricultural crops, unfair competition in the poultry sector, exorbitant tax rates, especially VAT, import and excise taxes,

delays, and unfairness in quality-standards certification by the failure of the Malawi Bureau of Standards' (MBS), to use land-title deeds as collateral. Limited access, amongst others, also affects MSMEs' prospects to do well in their business operations.

The conclusion drawn brings additional insight to the effect that as much as financing is considered an important element, it is vital that other challenges facing MSMEs should be considered equally important if policy and practice are to be effective. What should concern policymakers and the economy is the general finding that most MSMEs are necessity driven and most owners indicated that they started their business just to supplement off-farm income, not as a result of responding to opportunities in the economic environment.

Most MSMEs indicated that they had no strategy to see their businesses grow into sustainable enterprises because they had no chance to get support from BDS. As a result, most businesses are seasonal and tend to follow the cycle of demise and reappearance any time there is a need or a shortfall from agricultural income. Subsequently, some youth-owned MSMEs indicated that they were willing to abandon businesses and go into formal employment whenever that opportunity was available. Certainly, this should be an area that requires addressing by state institutions and agencies involved in supporting the growth and vibrancy of the Malawian private sector. Rather than going into businesses as a temporary sanctuary while waiting for employment opportunities, there is a need to change the mind-set towards venturing into businesses as the final goal and to regard formal employment as temporary.

## 1. Introduction

After analysis of the *Finscope MSME Survey Malawi 2019*, in phase 1, it was required to conduct a phase 2 to gather more in-depth information on issues affecting MSMEs in Malawi. The participants for the focus group discussions were identified based on key sectors from the dataset.

## 2. Objectives

- Identify the key constraints that MSMEs face, the policies, programmes and products that could increase productivity and investment, thereby enhancing growth, and encouraging diversification and boosting employment.
- Help unpack some of the findings of the demand-side (quantitative) report; explore robust discussions with key medium- and small- size business owners to better understand the challenges they face in operation and expanding their business.
- Better understand the supply-side findings and try to fill the gaps found between the demand and supply-side research.

The FGD also focused on identifying best practices, providing policy recommendations, providing private providers of business services (such as private financial institutions, consulting firms, etc.) with valuable market information about the MSME sector to stimulate appropriate product innovation and strategy formulation, providing development partners with detailed information on the development needs of the small business sector in Malawi and contributing to knowledge on key development challenges facing Malawi, enabling government and donors to implement evidence-based interventions.

## 3. Methodology

Six focus group discussions (FGDs) were conducted with over 30 MSME owners identified from the *FinScope MSME Survey Malawi 2019* dataset to explore their views on how their businesses are affected in terms of access to finance, gender discrimination, access to amenities, business support, and business environment. The FGDs were held in Lilongwe, Dedza, Balaka, and Liwonde between 3–10 October 2019.

The participants were sampled from high-growth medium enterprises, which are medium enterprises; women-led enterprises in manufacturing; agro-processing and tourism; youth-owned enterprises in manufacturing; agro-processing enterprises which are small or medium size; agriculture SMEs across crops, livestock and forestry; and representatives of business support organisations.

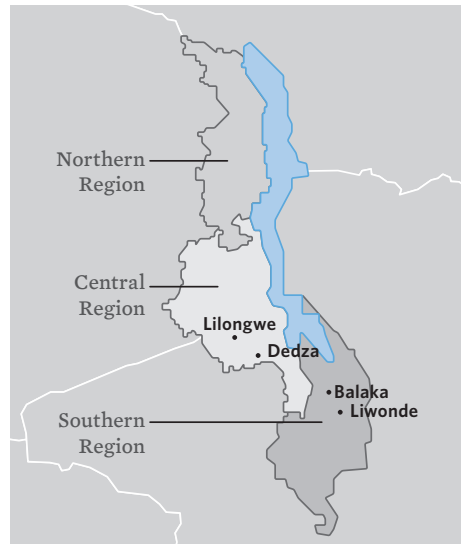





Table 1: Details of group participants in FGDs

 <p><b>Women-Led Enterprise (WLE)</b></p>	<p>No. of participants: <b>10</b>            Gender split: <b>100% female</b>            Age of business: <b>Start-up to mature</b>            Age of business owner: <b>All (youth &amp; senior)</b></p>	<p>Sector:  <b>Agro-processing</b>  <b>Manufacturing</b>  <b>Business services</b>  <b>Agriculture/farming</b>  <b>Community &amp; household</b></p>	<p>Size:  <b>Small and medium</b>            (must have employees &amp; above micro turnover)</p>	<p>Location:  <b>Lilongwe</b></p>	<p>Moderator:  <b>RH</b></p>
 <p><b>Youth-Owned Enterprises (YOE)</b></p>	<p>No. of participants: <b>10</b>            Gender split: <b>50% male, 50% female</b>            Age of business: <b>Start-up to mature</b>            Age of business owner: <b>18-35 years</b></p>	<p>Sector:  <b>Agro-processing</b>  <b>Manufacturing</b>  <b>Wholesale/retail</b>  <b>Agriculture/farming</b>  <b>Community &amp; household</b></p>	<p>Size:  <b>Small and medium</b></p>	<p>Location:  <b>Lilongwe</b></p>	<p>Moderator:  <b>RH</b></p>
 <p><b>Agro-Processing Enterprise (APE)</b></p>	<p>No. of participants: <b>12</b>            Gender split: <b>50% male, 50% female</b>            Age of business: <b>Start-up to mature</b>            Age of business owner: <b>All (youth &amp; senior)</b></p>	<p>Sector:  <b>Agro-processing</b></p>	<p>Size:            Ideally <b>medium-sized</b>, but <b>small enterprises</b> were also included</p>	<p>Location:  <b>Lilongwe</b>  <b>Deza</b>  <b>Balaka</b>  <b>Liwonde</b></p>	<p>Moderator:  <b>RH</b></p>
 <p><b>Agriculture SME (Ag MSME)</b></p>	<p>No. of participants: <b>10</b>            Gender split: <b>50% male, 50% female</b>            Age of business: <b>Start-up to mature</b>            Age of business owner: <b>All (youth &amp; senior)</b></p>	<p>Sector:  <b>Agriculture/farming</b></p>	<p>Size:  <b>Small and medium</b></p>	<p>Location:  <b>Lilongwe</b></p>	<p>Moderator:  <b>RH</b></p>
 <p><b>High-Growth Medium Enterprises (HGME)</b></p>	<p>No. of participants: <b>15</b>            Gender split: <b>50% male, 50% female</b>            Age of business: <b>Start-up to mature</b>            Age of business owner: <b>All (youth &amp; senior)</b></p>	<p>Sector:  <b>Agriculture/farming</b>  <b>Manufacturing</b>  <b>Tourism</b></p>	<p>Size:  <b>All (micro, small, and medium)</b> with a bias toward larger businesses</p>	<p>Location:  <b>Lilongwe</b>  <b>Dedza</b></p>	<p>Moderator:  <b>RH</b></p>
 <p><b>Business Support Groups (BSG)</b></p>	<p>No. of participants: <b>10</b>            Gender split: <b>No specification</b>            Age of business: <b>Mature</b>            Age of business owner: <b>All (youth &amp; senior)</b></p>	<p>Sector:  <b>Business support organisations (i.e. associations, trusts, etc.)</b></p>	<p>Size:  <b>N/A</b></p>	<p>Location:  <b>Lilongwe</b></p>	<p>Moderator:  <b>RH</b></p>

## 4. Key findings



### 1. Women-Led Enterprise (WLE)

#### Success factors that ensure women entrepreneurs grow their businesses to the mature, established phase:

- Business is the only source of income and they put in extra care in managing the business.
- Women start businesses to better balance their work and family lives. Wealth is not their primary focus, but rather find money to meet their basic needs so most remain smaller.
- They prefer lower risk opportunities and are willing to settle for lower returns. Some women feel that pushing profits is “not polite.” More women entrepreneurs are single-person businesses, while men tend to have more employees.
- Women entrepreneurs are not afraid to ask for help unlike many men who have difficulty asking for help when it comes to something like their very own business. Most women don’t have a problem admitting that they’re not sure how to accomplish a certain task or what needs to be done next in building their business. This can sometimes provide an advantage in a wellspring of knowledge from sources that help ground their business more quickly. Men are sometimes affected by pride which gets in the way.
- Women find it easy to collaborate. They have worked well together since the earliest female enterprises (for e.g. dividing grain in the village).

#### Sector specific issues that encourage or discourage formalisation:

- Most of the women are not aware of the process to formalise their businesses and importance of formalisation of the businesses.
- They don’t know the office where registration of business is done.
- They fear that formalising the business will expose them to tax collectors.

*“Even if my company is registered, for many I don’t think we appreciate the benefits of registration because one has to travel all the way to Blantyre and there are no awareness campaigns on registration and those not registered don’t face any punitive measures, enforcement of registration is lacking”.*

*FGD participant—Women-Led Enterprise*



### Factors affecting women-led businesses:

- Low availability of piped water system especially in rural areas affects their businesses because women spend more time fetching water for household use instead of carrying out business operations.
- Low access to electricity because of high cost of connection and corrupt practices of ESCOM officials who demand bribes to facilitate connection to ESCOM grid.
- High cost of ESCOM tariffs also deters some women-led enterprises from using electricity.
- Some women-led enterprises are not confident in the use of technology compared to men and youth.

*“If the government can revise the taxes charged on goods and services, I think profits from my business can improve greatly”. FGD participant—Women-Led Enterprise*

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*“Due to the many taxes I pay ranging from VAT, Income Tax and City licenses my operations and profitability are greatly affected”. FGD participant—Women-Led Enterprise*

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*“If given a chance to learn I would like to learn more about managing and running business in a professional manner. I would love to generate more money to diversify my business into other business instead of going to the bank to borrow money for business expansion because I am not comfortable with the way bank officers treated me when I wanted to get a loan”. FGD Participant—Women-Led Enterprise: Agro-processing*

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### Access to credit/finance:

- Low access to formal credit because most women-led enterprises don't meet the conditions such as collateral, deposits/savings, proper financial records and written business plans required by formal credit providers.
- Women-led enterprises fail to access credit because of poor credit history.
- Most women-led enterprises are not able to write business plans required by banks.
- Some of the women-led enterprises don't even approach the banks to seek credit because banks are not open to serve women led MSMEs as potential customers for credit. Banks welcome women MSME as potential customers for deposits.



- Some of the women SMEs have not approached a bank before but have a perception that they will not be helped and resort to utilisation of own funds for expansion.
- Most women-led enterprises access formal credit through group lending through their memberships with Cooperatives. The banks prefer to deal with cooperatives and not individual members.
- SACCOs and VSLs are the major source of credit for most women-led enterprises. They prefer borrowing from SACCOs/VSLs because they also benefit from interest accrued. The only limitation with borrowing from VSLs is short repayment period and borrowing is limited to value of individual savings hence can't access adequate finance to significantly grow their businesses.
- Most women-led enterprises are aware of short-term loans provided by commercial banks as a form of credit available for their enterprises but don't meet the conditions to qualify for the bank's loan.
- Women-led enterprises need loans for startup capital and working capital but would also prefer access to long term finance with tenure flexibility, weather-based insurance, that suit most agro-based and manufacturing enterprises that have a longer waiting period before reaching market.
- Women-led enterprises are not aware of usage of the collateral registry and credit bureau. The participants indicated that they have never heard about these services.
- Other financial products such as business insurance, pay-as-you-go solar solutions are also needed to safeguard their business against risks to business such as theft and unreliable electricity supply offered by ESCOM.
- There is limited knowledge of alternative funding models - e.g. stock exchange, private equity, venture capital, blended finance amongst most MSMEs. Some of the MSMEs have heard about alternative funding models, but don't have knowledge and understanding of these models. They consider these alternative funding models as products available to only large enterprises. Those who understand better about equity finance indicated that they would offer share of their company to get financing for growth of their businesses.
- On Annual turnover most of the Women led Enterprise can calculate the costs of business operation and sales made every year. Most reported that they were not including family labour and their labour as a cost of business operations. So, their business profits are not a true reflection of the business operations.

*“I don’t think BDS have been available in Malawi, it is now that things are coming up like Energy but otherwise for Malawi the trend in the past 5- 10 years for BDS has been available in Agro- based sector even the funding”.*

*FGD Participant—Women-Led Enterprise: Manufacturing*

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*“I think the biggest challenge regarding finance is startup capital because most upcoming entrepreneurs do not have enough capital. For me it took almost a year after registration of business to start operating. For manufacturing business, it is capital intensive. In my case with my colleague we put together US\$3000, we thought it was enough, but it was too small, we had to start looking for money, up to the point of starting we had put together US\$10,000. I think starting up is the biggest challenge, We wanted to start this business long time ago, we couldn’t because of lack of finances. In my business I used my savings and pension from work but they were not enough to have my business established, Even using salary , it was too small, It was just hand to mouth. I could create credit history with banks. I was working and I resigned to get my pension. So, access to finance is a big challenge, it is one of the things distracting. There are so many ideas out there but access to finance is hindering entrepreneurs and potential entrepreneurs out there. Even when we started we noticed that we didn’t even have adequate infrastructure to make our business unique to the market because it takes a lot of time to get confidence to the market and this requires even more resources. But I would say we were fortunate to now get the UNDP Growth Accelerator program, I would also like to mention that we would not get the Growth Accelerator program if we had not started. I don’t think they would fund anyone without putting up something or starting up something. I think starting up is the most difficult part when it comes to access to finance, I remember we approached some banks, one of the questions they asked us was what you have made up to now and we had nothing, and they could not go ahead to process our loan request”.*

*FGD Participant—Women-Led Enterprise: Manufacturing*

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*“I think BDS including business planning, business management, financial management, marketing, managing staff, networking, mentoring is a must requirement for any one starting up a business. BDS is a requirement for any MSME. I was also someone who was very shy when it comes to networking, but through mentoring programmes and training, I am now managing to network I am now confident, knowing how to do financials is a requirement for anyone doing business. I would suggest different packages for MSMEs those at start up level, those at medium level and those at maturity stage. The BDS should be provided continuously to MSME based on the growth stage of the business”.*

*FGD Participant—Women-Led Enterprise: Tourism*

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**Access to markets:**

- Women-led enterprises find it difficult to access markets that offer competitive prices due to lack of information on viable markets.
- Most women don't take risk to go to unfamiliar places to sell their products and services unlike their men counterparts.

*“The issues of gender discrimination and discrimination in general are real for Malawi. I can give example in my business it's not only on gender but also discrimination against local talent. For instance, in manufacturing, many Malawian don't believe a Malawian can make a machine. The treatment they give to a machine is not the same as a machine made in China. Also many people believe that Malawians are not trustworthy. They complain about small things about a machine, sometimes a machine gives a problem and you fail to deliver on time they will complain that you are delaying because you are Malawian. The same scenario with a foreign company will be acceptable. Sometimes people feel you are a man you are not trustworthy and a woman you are trustworthy, sometimes it can be true sometimes not. But the main discrimination is that Malawians don't value or discriminate against Malawian talent. There is a general mindset amongst Malawians that services provided by a foreign based company provide a better service than a local one without having any assurance, it is difficult to change this mindset. There is also a discrimination for female entrepreneurs especially in industries that are male dominated because of variations in the way males make deals and how females make deal agreement. Sometimes being female owned is an advantage”.* FGD

**Participant—Women-Led Enterprise: Manufacturing**

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- Export markets and government tendering markets are rarely accessed by women-led enterprises because of several factors including unfairness in issuance of export license and tenders. It was mentioned that it is very difficult for local SMEs to obtain export license especially certain products.



## 2. Youth-Owned Enterprise (YOE)

- Most youths are not aware of the process to formalise their businesses and importance of formalising their businesses.
- They mentioned that they don't know the office where registration of business is done. They know registration of city council where they obtain the trading license.
- Some indicated that they fear formalising the business will expose them to tax collectors.
- Low access to electricity because of high cost of connection and corrupt practices of ESCOM officials who demand bribes to facilitate connection to ESCOM grid.
- High cost of ESCOM tariffs also deters some youth-led enterprises to use electricity.
- Most youth owned enterprises use platforms like WhatsApp and Face book to promote their businesses and identify potential customers and prefer mobile money transaction.

### **Access to credit/finance:**

- Low access to formal credit because most youth-led enterprises don't meet the conditions such as collateral, deposits/savings, proper financial records and written business plans required by formal credit providers.
- Youth-led enterprises fail to access credit because of poor credit history.
- They are not able to write business plans required by banks.
- Youth-led enterprises don't even approach the banks to seek credit because banks are not open to serve MSMEs as potential customers for credit. Banks welcome MSME as potential customers for deposits.
- Some of the youth owned SMEs have not approached a bank before but have a perception that they will not be helped and resort to utilisation of own funds for expansion.
- SACCOs and VSLs are the major source of credit for most youth-led enterprises. They also prefer borrowing from SACCOs/VSLs because they also benefit from interest accrued. The only limitation with borrowing from VSLs is short repayment period and borrowing is limited to individual savings hence can't access adequate finance to significantly grow their businesses.
- Some youth-led enterprises are aware of short-term loans

provided by commercial banks as a form of credit available for their enterprises but don't meet the conditions to qualify for the bank's loan.

- Youth-led enterprises need loans for startup capital and working capital but would also prefer access to long term finance with tenure flexibility, weather-based insurance, that suit most agro-based and manufacturing enterprises that have a longer waiting period before reaching market.
- Youth-led enterprises access formal credit through group lending through their memberships with Cooperatives because banks prefer to deal with cooperatives and not individual members.
- Youth-led enterprises are not aware of usage of the collateral registry and credit bureau. The participants indicated that they have never heard about these services.
- There is limited knowledge of alternative funding models - e.g. stock exchange, private equity, venture capital, blended finance amongst most MSMEs. Some of the MSMEs indicated hearing about alternative funding models, but they don't have knowledge and understanding of these models. They consider these alternative funding models as products available to only large enterprises. Those who understand better about equity finance indicated that they would be able to offer share of their company to get financing for growth of their businesses.
- Youth-led enterprises find it difficult to access markets that offer competitive prices due to lack of information on viable markets.
- Annual Turnover: Most youth-led business are able to know their total annual sales but they don't include their labour and family support as a cost to their businesses.



### 3. Agro-Processing Enterprise (APE) which are small or medium size

- Raw materials/inputs for processing are locally sourced. The main challenges in production is high cost of electricity, or diesel for generators. Most of the products are marketed through local shop outlets. There is no export of products because the products can't meet the quality standards required in foreign markets. The customers are contacted through shop outlets.
- There is very low usage of communication technology such as WhatsApp, Facebook to promote business because most of the customers are not connected on Android phones.
- High cost of ESCOM tariffs also affects agro-processing enterprises through increased the cost of business operations thereby reducing the gross margins. led enterprises to use electricity.
- The unreliable supply of electricity is also a challenge in agro-processing enterprises.

*“When it comes to infrastructure. Manufacturing the most important resource we use is energy. So we use ESCOM power, ESCOM power is not reliable it gives a lot of problems. For me from January to December we are using generator instead of ESOM power which to us very consistent. We are running on diesel which is reliable, we don't have black outs. But I think if we could find power source which is reliable, It would be a very big boost to our business, we are spending close to K3,000,000 to buy diesel. This money could be used on something to expand our business”. FGD Participant—  
Agro-processing Enterprise*

- Most of the payments are cash based because their customers rely on use of cash. However, some of the APES have connected to mobile payment system such as airtel money, TNM- Mpamba, Point of Sale machines to facilitate cashless payments.
- Poor road conditions especially during rainy season deter enterprises access certain markets because the roads are impassable.
- High cost of solar equipment limits uses of solar as an alternative source of energy.
- High cost of operating generators due to high fuel cost.
- High import taxes imposed by government on some equipment and spare parts.
- High cost of transportation of raw materials.
- Other financial products such as business insurance, pay-as-you-go

solar solutions are also needed to safeguard their business against risks to business such as theft and unreliable electricity supply offered by ESCOM.

- High cost of internet makes it difficult for most Agro-processing SMEs to use internet-based marketing channels.
- Annual turnover – Most of them are able to capture total sales from their businesses but use of family labour and their own labour is mostly not included as a cost to their business.

*“The other challenge is that most MSMEs are not organized as a single unit. Sometimes we MSMEs we jump into business before considering the market research. I like the saying which someone said In Malawi sometimes it looks like we produce what we don’t use and consume what we don’t produce locally. So, it is important that MSMEs are well supported in the field of market research before engaging in business. Another area is documentation we need to learn to document our transactions so that we can find evidence or history of previous business transaction”. FGD Participant—Agro-processing Enterprise*

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*“From our experience one of the key challenge that has affected us is access to finance ,especially growing the business. We have noticed that growing the business organically takes a considerable amount of time to pick up. What has affected most is Working capital . We use a pool system, sometimes the orders are huge to meet using our own sales. This means we have to get funds from other sources. We have been trying to get credit from the banks , we have seen it very challenging especially considering the Interest rates. We have also tried to use Grants, which has worked for us we have managed to secure about three grants but these grants offer only Asset capital and not working capital. We are exploring to use our developmental partners to link us to the banks as guarantors to enable us access working capital from the banks. We are still exploring this avenue. Otherwise the huge part of the challenge has been Finance part. Otherwise looking at issues of gender it has been good we have worked well with almost all groups, youth , females and males. Electricity has hugely affected because it has not been reliable. We have failed to deliver the goods on time on two occasions where our contracts were not honored because of electricity backup. We have even turned down some contracts because of unreliable electricity”. FGD Participant—Agro- processing Enterprise*

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*“For me one of the most needed BDS training is the whole value chain analysis to know with whom to network”. FGD Participant—Agro-processing Enterprise*

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“Businesses in Malawi must work in a common platform where they share knowledge and skills. The enabling environment for those who want to do entrepreneurship especially in manufacturing is not permitting. There are a lot of ideas out there but there is lack of resources. What I would like to see is if the government and development partners could emulate and expand a program like a growth accelerator to support more MSMEs to grow”. *FGD Participant—Agro- processing Enterprise*

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“On materials for packaging, most of the materials are imported especially from China. For small growing companies like ours we need a lot of capital hence the great need for working capital- The issue of taxation greatly affects MSME in manufacturing like us. I am not sure if government has a program or policy for MRA to consider taxes for MSMEs. If the business environment could improve , we could be producing the materials locally. This could create more jobs in Malawi. I think if the government can provide a fund for local start up and upcoming manufacturing MSMEs that would boost local manufacturing and create more jobs in the country”. *FGD Participant—Agro- processing Enterprise*

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“Electricity blackout has significant impact on my business operations. I do lose some materials due to electricity black out. For us electricity is a big issue, we have even invested in backup generators. However even if we switch on the generators you must make sure that the equipment is safe. This time with more black outs we spend more on running generators”. *FGD Participant—Agro- processing Enterprise*

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“As regards to BDS, to expect an MSME pay for BDS services which has just started say for two years is a big expectation and expecting too much, because at this stage you are not making profits and you are already struggling to pay operational costs, salaries, I think paying for things like paying for skills training is a more far-fetched thing, it is not on the priority list. I think what we would expect is to have the cost of training at a subsidized cost may be covering only travel to the training venue and training should be for free, otherwise these skills training will not be available to MSMEs”. *FGD Participant—Agro- processing Enterprise*

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## 4. Agriculture SME (Ag MSME) across crops, livestock and forestry

*“We Agriculture MSMEs find it difficult to borrow from commercial banks because they are considered us as risky customers due to typically unstructured/fragmented value chains, only tobacco, sugar and tea have structured market. Rainfall patterns are increasingly unpredictable and access to irrigation water facility is rare, cold chain, logistics and storage facilities are often inadequate, agriculture contracts, if they exist, are difficult to enforce and the risk of side-selling of produce by farmers means that supply chains may not be secure enough to guarantee orders being fulfilled recurrently. All these makes the banks look at us as risky customers”. FGD Participant in Lilongwe*

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*“Government Policy on agriculture exports especially legumes and grains has been very unpredictable and change market dynamics overnight with, for example, an export ban on some crop produce such as maize and soya during harvesting and overnight the ban is lifted when produce is finished towards rainy season. There is no clear communication on whether the government will put a ban on certain crops. This also makes it difficult for banks to trust agriculture MSMEs cashflow projections to offer them credit for commodity trading”. FGD participant in Lilongwe*

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- There is limited knowledge of alternative funding models - e.g. stock exchange, private equity, venture capital, blended finance amongst most Agriculture MSMEs. Some of the MSMEs indicated that they have heard about alternative funding models, but they don't have detailed knowledge and understanding of what these models are and how to access financial resources through such models. They consider these alternative funding models as products available to only large enterprises. Those who understand better about equity finance indicated that they would be willing to offer share of their company to get financing for growth of their businesses.
- Ag SMEs would like to have access to value chain financing that would be tailored to your business operations.
- Poor road conditions especially during rainy season deter enterprises access certain markets because the roads are impassable.
- Participants mentioned that government officials easily give export licenses to Indian owned businesses unlike Malawian owned enterprises. Sometimes export licenses are given too late after the export opportunity has expired. Participants mentioned that

there is a lot of political interference in awarding of government contracts and export licenses. Locally owned MSMEs owners who are politically connected stand a great chance to benefit from export markets and government tenders. Export market opportunities are not made available to MSMEs. Export market opportunities are made available to only politically connected MSMEs and large enterprises. Some owners of MSMEs indicated that Malawi Investment Trade Center (MITC) doesn't share information on business opportunities to MSMEs freely as required.

- Expensive agriculture inputs due to high taxes affect profitability of agricultural MSMEs.
- Low prices offered for the agriculture produce.
- Seasonal price fluctuations of agricultural commodities.
- Delays in opening of markets- Agriculture Development Marketing Corporation (ADMARC).
- High transport cost of inputs from cities where inputs are sold to the farms in rural areas due to poor access roads.
- Poor road infrastructure affects access to viable markets from farms.
- Poor extension services on crop and livestock production available from government limit MSMEs agriculture productivity. Donor funded programmes makes availability of BDS services relatively better in the agriculture MSMEs than in other sectors such as manufacturing, tourism and agro-processing.
- Veterinary extension services are not readily available to support livestock production.
- Low mechanization because of high capital cost for farm equipment such as tractors, planters, ploughs and harvesters.
- Poor quality seeds available on the markets due to counterfeits because of poor enforcement by Malawi Bureau of Standards and lack of transparent seed certification processes.
- Agriculture MSMEs are greatly affected by price manipulation by large scale enterprises.
- Poultry SMEs complained about the unfair competition from large scale Enterprises which supply Day Old chicks and poultry feed to MSME and yet compete for the same broiler markets.
- Most of the MSMEs can know their annual sales and cost of operations to achieve the annual sales. Most use family labor and their labour but the cost is not included in the total business costs.

*“What we want is government regulation to regulate poultry market so that large scale poultry enterprises should not be using mobile vans to transport live chickens to all rural markets. These chickens are sometimes sold as dead*

chicken. They are also transmitting diseases from one region to another”. *FGD Participant—Poultry SME in Lilongwe*

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“Government must institute regulation to guide buying of crop produce. Some foreign based buyers are buying green crops in farms there by exploiting smallholder farmers but at the same time distorting agriculture market”. *FGD Participant—Agric. SME*

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- Other markets such as Auction Holding Commodity Exchange (AHCX) and Agriculture Commodity Exchange are not offering competitive markets and they delay making payments, as such SMEs that rely on crop produce can't afford to wait due to liquidity problems.

“Government Policy and incentives packages has been very unpredictable and change market dynamics overnight with, for example, an export ban on some crop produce such as maize and soya. There is no clear communication on when and whether the government will put a ban on certain crops, neither do they cascade incentives according to size of enterprises. This also makes it difficult for banks to trust agriculture MSMEs cashflow projections to offer them credit for export commodity trading. Incentives should be packaged according to market segments e.g. Incentives for start-ups/small firms, medium firms and large firms respectively”. *FGD participant in Lilongwe*

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## 5. High-Growth Medium Enterprise (HGME)

- The use of Point of Sale (POS) payment machines provided by banks, and Mobile money has greatly assisted in transactions with customers who don't have cash. Mobile money also helps MSMEs to transact with customers at any time of the day and anywhere in the country. This has improved on timely delivery of products and services needed by MSMEs. This has also greatly reduced incidence of cash robbery on business premises.
- Use of other technology is affected by limited availability of equipment and training opportunities in use of new technology.
- MSMEs expressed concern about the high charges made by mobile money service providers and would like reduction in these charges to enable most enterprises use the facilities.
- HGM Enterprises have challenges with poor road infrastructure especially roads which affects their business through increased transportation costs. This comes in form of higher transportations cost of goods from areas where roads are in poor conditions. Delays or failure to collect and deliver products in certain areas especially during rainy season.
- Access to energy is better but supply of electricity is not reliable due to load shedding program which greatly affects business operations.
- Commercial rates for ESCOM are very high and are sometimes not charged based on usage of electricity.
- Most HGM Enterprise have problems to have adequate liquidity because some customers who get products and services on credit take time to repay. Sometimes they also borrow from suppliers of goods and services. They have great need for working but it is not easy for them to borrow from commercial banks because of limited value of the collateral needed by banks.

*“In my case I didn't go to the bank at first, I started from my ideas. I sold my ideas to people, for those who got interested, I asked for a deposit. and some people bought into my idea and I asked if they could give me a deposit. So, I used the deposit to start making the product. So Technically, I can say my loans I get them from my clients. So, when they ask for something, I ask for a deposit, so the deposit is my loan. I use the deposit to buy materials and make whatever they ask me. But Eventually I will still need to have some money because now the demand has gone big also the dreams of my business have gone much bigger. So those dream to be satisfied they will need some funding for example next year we want to introduce a new product, want to make a new hand operated tractor. For us to do that we need enough*

*Capital to make a lot of tractors to sell. But the banks in Malawi are not open in terms of small entrepreneurs like us, they don't have packages for us, suitable for us, it makes it difficult for them to trust us and give us some money". FGD Participant—Manufacturing Enterprises*

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- Tax compliance becomes difficult when the business is not generating adequate profits to meet their tax obligations.
- Access to finance is a challenge because of banks requirement of collateral, deposits/savings, proper financial records and written business plans and credit history . High interest rates and short loan repayment period. Most of the banks require collateral value to more than one and half the value of the loan.
- Cashflow becomes a challenge when the some of the goods and services are offered on credit and customers delay or default on repayment.
- HGM Enterprises understand benefit of the digitization in payment system because it reduces risk of robbery of cash and is convenient because it allows business transaction even where banks don't exist, or banks are closed. However, they still have reservations because of fear of fraud and high cost of digitization.
- Annual Turnover- They keep records of the annual turnover and cost of business operations. Most of them can include family labour and owner labour to the cost of business operations.
- Informal finance through VSLs is a better option because the requirement to access loan through VSLs are more flexible than formal credit from banks. They benefit from interests charged on loans from VSLs. One can borrow money from VSLs based on their savings.
- They have adequate knowledge or availability of insurance for the different risks they face. However, there are limitations on suitability and costs of these insurance products. Most of the insurance products do not cover the major risks such as impact of climate change and weather changes. Most of the insurance products are not tailored to specific risks of certain businesses such as disease outbreaks for livestock, theft and fraud which have higher risks.
- There is knowledge of Stock markets but very little understanding of how to benefit from understanding, risk, alternative finance.
- Low availability of quality equipment and technology for developing packaging materials like bottles, laboratory equipment for testing various parameters including nutritional elements, to be used use by businesses. Most of the resources of good quality to enable produce good quality products are imported and cost higher because of import taxes imposed.

“On business support, I believe talent like the one we have in our business, we are not the only ones, we have a lot of talent in Malawi. Malawians we are very talented people and I think our government can play a big role in terms of nurturing this talent and I think if some policies can be put in place to protect this talent it will help. For example, if there are projects in government to make particular products, most the contracts are given to foreign based companies instead of local companies. The government need to put deliberate policies that in their contracts, products to be supplied to the government projects where possible must be made by machines that are locally made. This would help to develop local businesses. The government should encourage local manufacturing companies. Malawi Bureau of Standards (MBS) should pass the standards and certify the machines to meet the standards required This would encourage local manufacturing”.

*FGD Participant—Manufacturing*

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“The case is similar with mine I do value training very much, this business I am currently doing is the second one. The first one I lost everything. I had to go back to search where did I go wrong. I discovered that I did not have enough knowledge and skills of running a business, but I didn’t know where I could go to get that knowledge, so I started buying books and reading and researching through the net. So anytime I hear about training I jump for it. I have benefited from MHub which has been offering free training. I think very soon in the future, I can be able to go for a paying training, but I have not been able in the past to say I can pay for training. In fact, I have never heard of any institution in Malawi that offers training for MSMEs”.

*FGD Participant—HGME- Manufacturing*

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“The issue of taxes, in my experience with MRA has been rather unique when I wanted to get a Tax Clearance Certificate for my business. Our business pays taxes every month. I was being asked why our business have not paid corporate taxes, I mentioned that our business was not making profits and the MRA staff was asking me why we are in business if we are not making profits. We were still in negative, at that time even myself was not getting salary from my business. I think there is lack of understanding of MSMEs by MRA, they don’t even give room to MSMEs to grow. I don’t know if that is legal. Most of us get imports for raw materials and machines. The import taxes take a big chunk of our earned cash and availability or operational budget for our business. I think the business environment is very challenging for startups if you don’t have a strong base of startup capital to survive with taxes charged by MRA”.

*FGD Participant—HGME*

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*“The Growth Accelerator program is one of the best I have ever attended to, solely because of their style of training. They don’t You don’t have a teacher training, you actually teach yourself, you find solutions to the problems you identify. And once you find solutions you are asked to present them on how you plan to solve problems. They give you guidelines on how you can think and you do the thinking yourself. It’s a very good program. If it can be rolled that every start up gets this training it would be very important. On the training mainly on the manufacturing side In the technical colleges they need to start training entrepreneurs or business owners other training people to look for jobs because of the type of talent we have in Malawi. I think it has already been proven in the past when we had companies like B&C , PEW which were manufacturing buses and other products. We can bring back that spirit. The welders once finish training can undergo manufacturing training. The technical college graduates lack manufacturing skills. Training must start from colleges if Malawi is to compete with other countries on manufacturing , we need to improve on those areas”. FGD Participant—Manufacturing*

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*“There is need to have financial products that suit the financing requirements of manufacturing sector so that MSMEs in this sector can benefit but also grow the sector. Government should support MSME by subcontracting MSMEs in the manufacturing sector. The government should promote the Buy Malawi program by ensuring that local indigenous Malawians are empowered instead of Indian owned businesses. International companies should be encouraged to partner with local companies”. FGD Participant—Manufacturing*

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*“I would like to see an environment where manufacturing is taking serious instead of relying on imports. If the Malawi government can be supporting the MSMEs in manufacturing, we can change the trend. Malawians are entrepreneurial people, but they lack political support”. FGD Participant—Manufacturing*

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## 6. Business Support Group (BSG)

- Most MSMEs fail to succeed because they operate without business plans, cashflow projections and the capital borrowing mix is low.
- Most MSMEs face challenge to access inputs timely because they are not well organized to benefit from bulk buying of inputs. Most MSMEs do not keep records of their businesses to provide a picture of their cashflow generation to satisfy the needs of input suppliers for accessing input credit.
- Business Support Groups fail to facilitate bulk buying of commodities because of lack of legal framework that guide contract marketing.
- Business support organisations fail to provide adequate BDS because some MSME owners demand allowances from BDS providers when invited for training sponsored by development partners.
- BDS most demanded by MSMEs are capacity building and investment literacy, business planning, financial management and record keeping, identification of market, mentoring and management training.
- Alternative financing mechanism available for MSMEs are equipment leasing, supplier credit, equity financing, share cropping but most of the MSMEs are not keen to benefit from these because they don't understand most of these alternative financing mechanisms.
- Poor penetration of ICT technology especially in rural areas of Malawi is a hindering factor for BDS providers to reach out to most MSMEs based in rural areas through use mobile application. BDS providers need to travel to rural areas to offer the services. The limited resources make it difficult for BDS providers to reach most rural based MSMEs.
- High cost of ICT equipment makes it difficult for the BDS providers to establish platforms to enhance effective, efficient and wide coverage service delivery .
- MSMEs can better benefit from alternative financing mechanisms through good partnership between MSMEs, providers of alternative financing, and buyers of products and services provided by MSMEs through contract arrangements. For example a Venture capital providers such as Growth Accelerator which provides co-financing, technical assistance and mentorships to MSMEs that have appetite for blended finance can enable MSMEs benefit from alternative financing mechanisms.

- BDS providers do not have adequate resources to carry out direct advocacy on behalf of MSMEs. Most Business Support organisations have inadequate knowledge and skills to carry out advocacy roles. Most of Business Support Organizations rely on donor funding to offer BDS to MSMEs.
- Most Business Support Groups (BSG) have limited capacity to conduct adequate analysis on policy constraints and identify opportunities that can be explored by their members.
- Most of BSGs don't have access to updated MSME policy to understand government strategies for MSME development in Malawi and realign themselves with opportunities available for MSMEs.
- Business Support Organizations must rely on membership fees to generate resources to serve their members, unfortunately membership fees collected is not adequate to meet costs needed to offer all BDS requirements of their members.
- Some government agencies responsible for development of MSMEs don't easily share information on business opportunities for MSMEs. Participants mentioned MITC as an example of government agencies that doesn't support to provide information on investment and market opportunities for MSMEs.

## 5. Key recommendations from the groups



Women-Led Enterprise (WLE)



Youth-Owned Enterprises (YOE)



Agro-Processing Enterprise (APE)



Agriculture SME (Ag MSME)



High-Growth Medium Enterprises (HGME)



Business Support Groups (BSG)

- The tourism sector groups recommend that SME development, mentorship, and basic setup be viewed holistically. The tourism industry calls for quality of life and high standards. Participants therefore recommend that there should be laws and regulations governing the setup of restaurants, bars, lodges and hotels to guide one before a person is given a license to operate. The guide should provide information on minimum requirements on capacity of the facilities (whether restaurant, lodge, motel or hotel) to number of toilets, gym etc.
- The groups recommend that there is a need to assist MSME businesses with startup training and setting up of proper systems and to ensure compliance so that their businesses are internally ready to exploit opportunities.
- The groups recommend that the Government of Malawi must create an enabling environment that provides MSMEs equal opportunity with larger enterprises to access high-value markets. The government must provide training for MSMEs on quality standards and product development to ensure that MSMEs acquire knowledge and skills to develop products of high-quality standards to compete with large enterprises.
- The government must strengthen land registry and management practices to upgrade agricultural land to acceptable collateral to enable Agriculture MSMEs to use agricultural land to access credit from banks.
- Most of the MSMEs are able to calculate and know their annual turnover of their businesses, but most are not able to include silent costs like family labor, their own labour and other costs which come from family resources. As such the profits reported are higher than the actual. There is a need for BDS providers to educate MSMEs to provide a better picture of the business operations.
- The groups recommend other financial products such as business insurance and pay-as-you-go solar solutions are also needed to safeguard their business against risks such as theft and unreliable electricity supply offered by ESCOM respectively.
- The groups recommend that responsible government departments and agencies should share and educate MSMEs about alternative funding models - e.g. stock exchange, private equity, venture capital, blended finance. While Some of the MSMEs have heard about alternative funding models, they don't have detailed knowledge and understanding of these models. They consider these alternative funding models as products available to only large enterprises. Those who understand better about equity finance indicated that they would offer share of their company to get financing for growth of their businesses.

## 6. Limitations

The FGD data is qualitative in nature as such it cannot necessarily be generalised to the population of MSMEs in Malawi. This is because the qualitative data is context-specific. The sample size was limited to sample used in the *FinScope MSME Survey Malawi 2019* dataset. Only 10 members per MSME category were chosen to participate which might not be a good representation of the larger population of MSMEs in Malawi.

The study was limited to questions set in the FGD guide to manage time for discussions. Since the FGD involved members of similar characteristic respondents may have been peer pressured to give similar answers to the moderator's questions. The moderator's skill in phrasing questions along with the setting could also have affected responses and skew results. However extra care was taken to ensure that the data collected provides close to a true picture of the issues affecting the MSME sector in Malawi.

## Annex 1

### Questions to guide focus group discussions

FinScope MSME Survey Malawi 2019



**Access to  
finance**

#### **Applicable to:**

Women-Led Enterprises  
Youth-Owned Enterprises  
Agro-Processing Enterprises  
Agriculture SMEs  
High-Growth Medium Enterprises

1. What have been the major sources of financing for the business?
2. What specific financial products/services do you need for your enterprises? What are the common requirements investors/banks look for before lending to your businesses?
3. What challenges do you currently face? (explore supplies, quality, prices etc.)  
**Probe:** *What are the main binding constraints to MSMEs development and growth with a focus on access to financial markets*
4. What constraints do you face in your business related to accessing finance for your businesses?  
**Probes:** *What are the major challenges faced by you to borrow?*  
*Why does a large segment of firms fail to access credit from formal financial institutions?*
5. What challenges does your business face in securing external investments?  
**Probe:** *Please explain.*
6. How do you plan to finance the identified investment priorities?
7. What would you like to happen to improve your access to finance?



### Access to amenities

#### Applicable to:

Women-Led Enterprises  
 Youth-Owned Enterprises  
 Agro-Processing Enterprises  
 Agriculture SMEs  
 High-Growth Medium Enterprises

1. What amenities do you need for your enterprises

Probe: *Please explain.*

2. How can you describe your access to amenities? What is the status of the amenities available to you?

Probe: *Please explain.*

3. How is a day without electricity affecting your business?

Probe: *Please explain.*

4. How is day without water affecting your business?

Probe: *Please explain.*



### Business development issues

#### Applicable to:

Women-Led Enterprises  
 Youth-Owned Enterprises  
 Agro-Processing Enterprises  
 Agriculture SMEs  
 High-Growth Medium Enterprises

1. What capacity gaps in your business do you feel need to be addressed for you to secure external investments? Explain the priority training areas/BDS support required.

Probe: *Please explain.*

2. What do you see as the major opportunities for sector growth and for your business?

Probes: *How do successful firms overcome these constraints?*

*What enables firms to start, grow and become more viable?*

3. What are the main strengths of the business/enterprise? What are the main weaknesses of the business?

4. What Business Development Services are mostly needed for your enterprises?

5. Where do you get BDS? What are your views on access to BDS





### Gender discrimination

**Applicable to:**  
Women-Led Enterprises

1. What gender related issues have you experienced, or you experience in carrying out your business?

Probe: *Please explain.*

2. How do gender related issues affect the performance of your enterprises?

Probes: *Do women and male enterprises face the same challenges in business?*

*Are there any specific challenges faced by women?*



### Business environment

**Applicable to:**  
Women-Led Enterprises  
Youth-Owned Enterprises  
Agro-Processing Enterprises  
Agriculture SMEs  
High-Growth Medium Enterprises

1. What factors make your businesses fail or achieve low growth?

2. What would you like to happen for your businesses to thrive?

3. What business environment factors would influence the decision to produce or export more?

Probe: *Please explain what is needed to improve the MSME business environment, from both a programmatic and policy perspective?*

4. What are some of the challenges facing manufacturing firms in Malawi;

Probe: *Please explain what is needed to improve the MSME business environment, from both a programmatic and policy perspective?*

5. What are some of the challenges facing agro-processing firms in Malawi;

Probe: *Please explain what is needed to improve the MSME business environment, from both a programmatic and policy perspective?*

6. How can the barriers and impediments be addressed in your views?

7. What role should government play to address the barriers and impediments?



**Business  
support**

**Applicable to:**  
Business Support Groups

### **Regulatory, registration, policy issues and advocacy**

- How do the regulations, registration, policy issues and advocacy affect SMEs?
- What role do they play to ensure regulatory, registration, policy issues and advocacy favour MSMEs?
  - *Direct advocacy on behalf of MSMEs*
  - *Analysis of policy constraints and opportunities*
  - *Training in policy advocacy*

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### **Input supply and market access for the MSMEs or members**

- What challenges do MSMEs face to access input supply and markets?
  - *Linking MSMEs to input suppliers*
  - *Improving suppliers' capacity to deliver quality input*
  - *Facilitating establishment of bulk buying groups*
  - *Information on input supply sources, etc.*

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### **Training and technical assistance**

- What are the main issues regarding training and technical assistance for MSMEs?
- What is the most needed training and technical assistance needed by MSMEs in Malawi?
  - *i.e. mentoring, feasibility studies, business plans, franchising, management training*

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### **Alternative financing mechanism for MSMEs**

- What alternative financing mechanism are available for MSMEs? i.e. Factoring companies providing capital for confirmed orders, Equipment leasing and rental, etc., Facilitating supplier credit. Equity financing.
- How can MSMEs benefit from these alternative financing mechanisms?

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### **Infrastructure, technology product development**

- How are the MSMEs affected by infrastructure and technology? What challenges are experienced in:
  - 1) *Technology transfer/commercialization*
  - 2) *Linking MSMEs and technology suppliers*
  - 3) *Facilitating technology procurement*

