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

Malawi 2019
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 technical assistance from FinMark Trust. The survey was funded by the UNDP/World Bank/EU. The data was collected by Imani development with statistical oversight (sampling and weighting) and quality control from the NSO.

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.
**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
Half of the small businesses in Malawi are situated in the central region. In all the 3 regions most of the businesses are rural based.
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)

1,600,739 MSMEs

Estimated turnover (Annual)
USD 15.8 billion

MWK/US$ exchange rate used average of $1 to MWK 733.08

Important contribution to employment & real economy
SIZE AND SCOPE OF THE MSME SECTOR

Coverage comparison

MALAWI MSME 2012

18 years and older
100 employees or less

6.1 million

Estimated adult population

13%

Estimated % of adult population that owns MSMEs

760 000

Number of MSME owners

1 million

Number of MSMEs they own

3%

% of MSME owners with registered/licensed businesses

1 million

Number of employees

59%

% of individual entrepreneurs

41%

% of businesses with employees

MALAWI MSME 2019

18 years and older
100 employees or less

8.7 million

Estimated adult population

13%

Estimated % of adult population that owns MSMEs

1.1 million

Number of MSME owners

1.6 million

Number of MSMEs they own

11%

% of MSME owners with registered/licensed businesses

1.8 million

Number of employees

88%

% of individual entrepreneurs

12%

% of businesses with employees
DEFINING MSMES FOR THIS SURVEY

*Business definition by the number of employees and annual turnover*

<table>
<thead>
<tr>
<th>Employees</th>
<th>Value of assets</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 4</td>
<td>K1 million</td>
<td>up to K5 000 000</td>
</tr>
<tr>
<td>5 - 20</td>
<td>K20m</td>
<td>K500 000 - K50 000 000</td>
</tr>
<tr>
<td>21 - 99</td>
<td>K250m</td>
<td>K50 000 001 - K500 000 000</td>
</tr>
</tbody>
</table>

- **Micro business** = 1 607
- **Small business** = 1 203
- **Medium business** = 183

Only 26% of the MSME are considered to fall within small to medium entities.
• 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 (138k).
Only a few MSMEs are involved in mining, construction, manufacturing and business services as opposed to wholesale and retail sector (69%).

Business owners’ perception on which sector they belonged closely match with what they actually do.
### Total number of businesses

<table>
<thead>
<tr>
<th>Sector</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
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</thead>
<tbody>
<tr>
<td>Wholesale/retail</td>
<td>73%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Agriculture/farming</td>
<td>10%</td>
<td>1%</td>
<td>89%</td>
</tr>
<tr>
<td>Community &amp; household</td>
<td>46%</td>
<td>52%</td>
<td>2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>44%</td>
<td>55%</td>
<td>1%</td>
</tr>
<tr>
<td>Natural resources &amp; mining</td>
<td>5%</td>
<td>2%</td>
<td>93%</td>
</tr>
<tr>
<td>Agro-processing</td>
<td>13%</td>
<td>86%</td>
<td>1%</td>
</tr>
<tr>
<td>Business services</td>
<td>15%</td>
<td>15%</td>
<td>70%</td>
</tr>
<tr>
<td>Tourism</td>
<td>9%</td>
<td>86%</td>
<td>5%</td>
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<tr>
<td>Construction</td>
<td>44%</td>
<td>50%</td>
<td>6%</td>
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</table>

### MSMEs by sector

- **Wholesale/retail**: 787,756 businesses, 73% micro, 7% small, 7% medium
- **Agriculture/farming**: 188,888 businesses, 10% micro, 1% small, 89% medium
- **Community & household**: 51,181 businesses, 46% micro, 52% small, 2% medium
- **Manufacturing**: 42,897 businesses, 44% micro, 55% small, 1% medium
- **Natural resources & mining**: 37,931 businesses, 5% micro, 2% small, 93% medium
- **Agro-processing**: 15,764 businesses, 13% micro, 86% small, 1% medium
- **Business services**: 9,848 businesses, 15% micro, 15% small, 70% medium
- **Tourism**: 4,392 businesses, 9% micro, 86% small, 5% medium
- **Construction**: 3,010 businesses, 44% micro, 50% small, 6% medium
### Size and Scope of the MSME Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total Annual Turnover (US$)</th>
<th>Average Annual Turnover (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro enterprise</strong></td>
<td>5,023,768,221</td>
<td>5,957</td>
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<tr>
<td><strong>Small enterprise</strong></td>
<td>4,543,254,764</td>
<td>17,478</td>
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<tr>
<td><strong>Medium enterprise</strong></td>
<td>6,242,449,621</td>
<td>163,770</td>
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</tbody>
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#### By Sector

- **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

### Notes

- Tourism, business services as well as manufacturing sectors seem to have higher average annual turnover.
**SIZE AND SCOPE OF THE MSME SECTOR**

<table>
<thead>
<tr>
<th>Size</th>
<th>Mean Annual Turnover (US$)</th>
<th>Mean Annual Expense (US$)</th>
<th>Mean Profit (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICRO enterprise</td>
<td>6,000</td>
<td>7,000</td>
<td>3,200</td>
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<tr>
<td>SMALL enterprise</td>
<td>17,500</td>
<td>11,000</td>
<td>9,500</td>
</tr>
<tr>
<td>MEDIUM enterprise</td>
<td>163,000</td>
<td>5,800</td>
<td>130,000</td>
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**ESTIMATED MONTHLY TURNOVER PER BUSINESS SIZE (IN US$)**

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

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

Value addition was calculated using the sum turnover less sum expense of the sector.
Only 39% of the Malawian MSMEs are established or mature ranging from 6 years or older.

The proportion of female business owners tend to decline as firm ages. More female owners in start ups - 61% versus 35% in mature enterprises.
Mainly individual entrepreneurs

Motivation to start the business is mainly needs driven (opportunity and to take care of family)

MSME owner

Youth entrepreneurs (18-34 years)

Located in rural areas

Majority have primary education or less

Business is their main source of income

Youth entrepreneurs

62% of MSME owners are females (mostly independent entrepreneurs - 55%)

62% of MSME owners are motivated by needs (opportunity and to take care of family)

42% of MSME owners have a primary education or less

Youth entrepreneurs are located in rural areas

The majority of youth entrepreneurs (18-34 years) have a primary education or less

Youth entrepreneurs are motivated to start their business primarily due to needs (opportunity and to take care of family)

78% of youth entrepreneurs are located in rural areas

Most youth entrepreneurs have a primary education or less

62% of youth entrepreneurs have a primary education or less

Youth entrepreneurs are mainly located in rural areas

Youth entrepreneurs are motivated to start their business primarily due to needs (opportunity and to take care of family)
88% Business is their main source of income

49% Are females (mostly independent entrepreneurs - 55%)

55% Independent entrepreneur
78% Micro business
83% Small business
89% Medium business

48% Work full time (8 hours a day or more).

49% Low levels of monthly income (<1% do not have a personal monthly income)
AGRICULTURE AND FARMING

189,000 farmers (17% of MSME sector) in primary agriculture

TOP CROPS/LIVESTOCK FARMED (%)
- Tobacco: 53%
- Corn/maize: 40%
- Nuts: 39%
- Goats/sheep: 20%
- Chicken: 19%
- Vegetables: 18%

MARKETS FOR PRODUCE (%)
- Retailers: 31%
- Collection centres: 41%
- Directly to retailers: 27%

SOURCE OF FARMING INPUTS (%)
- Selling crop/livestock: 24%
- Borrow from Agric-supplier: 14%
- Savings: 13%

FARMING SECTOR (%)
- Crops: 93%
- Livestock: 19%
- Forestry: 15%
15,000 Businesses
13% Small; 1% Medium

Employ 6,500 people
95% Use local inputs
99% Sell domestically

Challenges
Access to markets 60%
Access to finance 48%
Lack of storage 44%
Infrastructure and equipment 34%
Business climate 24%

AVERAGE LAND SIZE IS 5 ACRES
(79% have no title deed)

AGRICULTURE AND FARMING

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SOURCE OF FARMING INPUTS (%)
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17% farmers (17% of MSME sector) in primary agriculture

5,000 Businesses
13% Small; 1% Medium

Employ 6,500 people
95% Use local inputs
99% Sell domestically

AGRO-PROCESSING

FARMS:
- Fruit & Vegetables: 34%
- Nuts & animal oils: 25%
- Other food products: 27%

MARKETS FOR PRODUCE (%)
- Collection centres: 41%
- Retailers: 27%
- Directly to retailers: 31%
Formal MSME sector (125,027)
7% MSMEs registered and
10% licensed

Informal MSME sector (1,016,641)

Formal GDP contribution
US3.6 billion

Informal GDP contribution
US3.2 billion

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

LEGAL AND COMPLIANCE
Only 1 in 10 MSMEs is formally registered or has a trading license.

89% of businesses are not registered/licensed

11% of businesses are registered/licensed.

**Type of registration**

- City council: 70%
- Ministry of trade & industry: 5%
- Ministry of public works & transport: 1%
- Malawi Revenue authority: 9%
- Other: 4%
- Do not know: 10%

**Perceived benefits of registration**

- Comply with the law: 38%
- Avoid harassment: 7%
- Access finance/government assistance: 12%
- Avoid fines: 7%

**Reason for not registering/licensing (of those informal)**

- Business is too small: 56%
- Don’t have money to register: 12%
- Don’t know how: 26%
- Don’t have time: 2%
- It is too complicated: 3%
- No benefit: 10%
- Registration is being processed: 1%
- Other: 1%
**Opinions about the business**

- Growing: 35%
- The same: 35%
- Worse: 27%
- Just starting out: 3%

**Growth obstacles:**

- Access to finance: main barrier (42%)
- Access to markets: 21%
- Infrastructure: 13%

**Financial needs:**

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

- Two thirds 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.
- Access to finance cited as the main growth obstacle.
- One of the top financial needs by business owners is cash-flow management.
### Acquiring Business Skills

<table>
<thead>
<tr>
<th>Source of Learning</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taught myself</td>
<td>49%</td>
</tr>
<tr>
<td>My family (other than spouse)</td>
<td>18%</td>
</tr>
<tr>
<td>Previous job or work experience</td>
<td>2%</td>
</tr>
<tr>
<td>Training programmes/courses</td>
<td>5%</td>
</tr>
<tr>
<td>Whilst managing the business itself</td>
<td>3%</td>
</tr>
<tr>
<td>Mentor/advisor</td>
<td>13%</td>
</tr>
<tr>
<td>School</td>
<td>1%</td>
</tr>
<tr>
<td>University/college (Tertiary education)</td>
<td>1%</td>
</tr>
<tr>
<td>Spouse</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
</tbody>
</table>

*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%)

### Financial Record Keeping

- 64% Do not keep financial records
- 36% Keep financial records

- 91% keep records manually
- 5% use a computerised system
CAPACITY TO GROW & CHALLENGES

Business support

*Awareness of support organisations*

- Aware of an organisation giving assistance/advice to MSMEs: 97%
- Aware of NGOs/CSOs: 31%
- Aware of MoFEPD: 26%
- Aware of Ministry of Industry and Trade & TEVET: 25%
- Aware of other organisations like Chamber of Commerce: 10%
- Aware of SMEDI: 9%

*Usage of support organisations*

- Used NGOs/CSO: 49%
- Used any organisations giving assistance or advice to MSMEs: 17%
- Used other organisations: 14%
- Used Ministry of Trade and SMEDI: 6%

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

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

*Support received*

- How to write a Business Plan: 28%
- How to get loans, finance and operating on credit: 26%
- Market information: 16%
Main constraints facing MSMEs

**START-UP**
- Sourcing money: 47%
- Not enough customers: 31%
- Cash flow: 11%
- Too many competitors: 16%
- Problems with stock: 12%
- Who to sell to - market: 19%
- Transport, e.g. moving stock: 15%
- Own lack of skills: 11%

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

**OPERATION/MANAGEMENT**
- Sourcing money: 53%
- Not enough customers: 31%
- Cash flow: 14%
- Too many competitors: 19%
- Being owed money/debtors: 10%
- Selling price lower than expected: 26%
- Transport: 24%

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

**GROWTH**
- Access to finance: 41%
- Access to markets: 21%
- Infrastructure: 13%
- Fluctuating input costs & bad debts: 7%
- Labour: 6%
- Business climate: 6%

• Access to finance cited as the main barrier for growth.
• Access to amenities is limited and highly skewed towards urban businesses. Lack of basic services might affect 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.
• Ownership of business assets is limited. Moreover, the usage of technology in business operations is limited.

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

Total business owner (BO) population = Minimum age defined by the age at which individuals can enter into a legal financial transaction in their own capacity

- **FINANCIALLY INCLUDED**
  BOs who have/use financial products and/or services for business purposes - formal and/or informal

- **FINANCIALLY EXCLUDED**
  BOs who do not have/use any financial products and/or services - if borrowing, they rely only on friend/family; and if saving, they save at home

- **FORMALLY SERVED**
  BOs who have/use formal financial products and/or services provided by a formal financial institution (bank and/or non-bank)

- **INFORMALLY SERVED**
  BOs who have/use financial products and/or services which are not regulated, e.g. farmer associations, saving clubs/groups, private money lenders

- **BANKED**
  BOs who have/use financial products and/or services provided by a commercial bank regulated by the central bank

- **SERVED BY OTHER FORMAL FINANCIAL INSTITUTIONS**
  BOs who have/use financial products and/or services provided by regulated non-bank formal financial institutions, e.g. insurance companies
Financial inclusion in Malawian MSME owners

Total business owner (BO) population 100% (1141 700)

FINANCIALLY INCLUDED
74% (848 300)

FINANCIALLY EXCLUDED
26% (293 400)

FORMALLY SERVED
54% (618 000)
Driven by informal savings

INFORMALLY SERVED
40% (454 000)

BANKED
24% (271 000)
Driven by cash transactions and savings

SERVED BY OTHER FORMAL (NON-BANK) FINANCIAL INSTITUTIONS
47% (540 000)
Driven by mobile money account ownership & insurance

‘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

- Formally served: 54%
  - Banked: 24%
  - Other formal (non-bank): 47%
  - Informal: 40%
  - Excluded: 26%

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.
"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 as 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

- 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 MSME owner’s gender

- A negative 15% gender gap in favor 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

- Construction: 97% Banked, 3% Other formal (non-bank)
- Business services: 96% Banked, 1% Other formal (non-bank), 2% Informal only, 1% Excluded
- Tourism: 90% Banked, 5% Other formal (non-bank), 2% Informal only, 2% Excluded
- Community & household: 36% Banked, 45% Other formal (non-bank), 10% Informal only, 9% Excluded
- Agriculture/farming: 33% Banked, 32% Other formal (non-bank), 24% Informal only, 11% Excluded
- Wholesale/retail: 21% Banked, 30% Other formal (non-bank), 20% Informal only, 29% Excluded
- Manufacturing: 16% Banked, 30% Other formal (non-bank), 48% Informal only, 6% Excluded
- Agro-processing: 10% Banked, 84% Other formal (non-bank), 6% Excluded
- Natural resources & mining: 6% Banked, 2% Other formal (non-bank), 1% Informal only, 91% Excluded

ACCESS STRANDS
ACCESS STRANDS

Access Strand by country comparison

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<td>Lesotho</td>
<td>59%</td>
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<td>Zimbabwe</td>
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<td>69%</td>
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<td>Malawi</td>
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**Legend**

- **Banked**
- **Other formal (non-bank)**
- **Informal only**
- **Excluded**
Lesotho 2016
Zimbabwe 2012
Eswatini 2017
Malawi 2012
Malawi 2019

59%
9%
10%
22%
26%
30%
20%
24%
43%
39%
4%
14%

Mozambique 2012
75%
14%
2%
9%
35%
20%
4%
41%
13%
11%
7%
69%

28% 37% 16% 19%
19% 27% 22% 32%
32% 21% 28% 19%
18% 31% 25% 26%
46% 30% 4% 20%

ACCESS STRANDS
Access Strand by MSME distribution: region and area type

Banked | Other formal (non-bank) | Informal only | Excluded
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

- Use other formal non-bank products/channels: 71%
- Wholesale & retail: 61%
- Have electricity/solar connection: 53%
- Keep financial records: 53%
- Use informal products/mechanisms: 36%
- Have registered businesses: 34%
- Farming: 23%
- Insured: 9%
- Export outside Malawi: 3%
76% of MSMEs are unbanked

- Business/income is too small
- Irregular income
- Not enough money from business
- Do not need one
- Bank charges
- Do not qualify
- Can not afford the minimum balance
- Have not registered my business
- Do not know anything about it
- Banks are too far
- Do not know

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

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**Overalls with overlaps**

- Formally served: 8%
  - Save at bank: 2%
  - Save at other formal (non-bank): 7%
  - Save through informal mechanisms: 38%
- Save at home v/secret place: 17%
- Do not save: 54%
**LANDSCAPE PRODUCTS**

**Borrowing and credit**

**Overall with overlaps**

- Formally borrowing: 10%
- Borrow from bank: 4%
- Borrow from other formal (non-bank): 7%
- Borrow from informal mechanisms: 19%
- Borrow from friends/family: 17%
- Do not borrow: 64%

**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.
- A 15 percentage increase in the usage of only informal credit mechanisms.
- In terms of percentages the proportion of business owners who have loans from formal institutions has slightly changed. However, in absolute numbers more MSMEs had access to formal credit.

**2019**

- Bank credit products: 4%
- Other formal (non-bank): 7%
- Informal only: 18%
- Borrow from family/friends: 7%
- Not borrowing: 64%

**2012**

- Bank credit products: 2%
- Other formal (non-bank): 9%
- Informal only: 3%
- Borrow from family/friends: 10%
- Not borrowing: 76%
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**

- Do not need to borrow 13%
- Business is slow so I am afraid to borrow 11%
- I am scared 11%
- Borrowed in the past and paid back 10%
- I do not believe in borrowing money 13%
- I do not qualify 9%
- I have tried but was turned down 9%
- My earnings change from month to month 1%
- I do not have collateral/security 1%
- I have too much debts and can not get another loan 9%
- Other 9%
- Do not know 4%

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

Insurance and risk management

3% Of businesses have insurance

97% Of businesses are not insured

Insurance barriers for business owners:

- Insurance is too expensive 21%
- It is not insurable 15%
- Do not know if there is any insurance like it 21%
- Do not know how to get insurance 18%
- Do not know where to get insurance 10%
- Other 4%

• 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.
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<th><strong>LANDSCAPE PRODUCTS</strong></th>
<th><strong>BANKING</strong></th>
<th><strong>SAVINGS &amp; INVESTMENTS</strong></th>
<th><strong>BORROWING &amp; CREDIT</strong></th>
<th><strong>INSURANCE &amp; RISK MANAGEMENT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRODUCT UPTAKE</strong></td>
<td>24% are banked but only 17% use an account in the name of the business</td>
<td>46% save, mainly through informal groups (83%) and family or friends (36%)</td>
<td>36% borrow, mainly from informal (55%) and family (47%)</td>
<td>3% are insured (47% for business), mainly through motor vehicle cover (78%) funeral plan or life cover (23%)</td>
</tr>
<tr>
<td><strong>NEED</strong></td>
<td>79% Growth/sustainability</td>
<td>66% Growth/sustainability</td>
<td>61% to grow the business</td>
<td>Perceived insurance is important for business (92%) suffer losses that are insurable (61%)</td>
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<tr>
<td></td>
<td>28% Liquidity</td>
<td>26% Liquidity</td>
<td>42% for day-to-day needs</td>
<td></td>
</tr>
<tr>
<td><strong>BARRIERS</strong></td>
<td>44% Business/income is too small</td>
<td>53% money is invested back in</td>
<td>30% fear borrowing</td>
<td>21% insurance too expensive</td>
</tr>
<tr>
<td></td>
<td>25% income is too irregular</td>
<td>45% business is not making enough to save</td>
<td>22% do not need it</td>
<td>21% Not aware of their needs can be insured</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>15% not insurable</td>
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</tbody>
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- Perceived insurance is important for business (92%) suffer losses that are insurable (61%).
- 79% Growth/sustainability, 28% Liquidity.
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<th>Recommendations</th>
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<td>Lack of enabling infrastructure</td>
<td>Supporting physical infrastructure (electricity, roads and technology) enables small businesses to operate efficiently.</td>
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<tr>
<td>Limited use of sophisticated marketing techniques</td>
<td>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.</td>
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<tr>
<td>Only a few MSMEs are registered/licensed</td>
<td>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.</td>
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<td>Low uptake and use of financial services</td>
<td>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.</td>
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<tr>
<td>Recommendation</td>
<td>Description</td>
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<tr>
<td>Need for skills training and financial capability</td>
<td>Formulate MSME training strategy focusing on financial capability (business management, bookkeeping, record keeping, etc.) Coupled with business coaching and mentorships, initiatives to upskill entrepreneurs may prove valuable.</td>
</tr>
<tr>
<td>Access to credit/loans as key constraint to start-up, operation, and growth</td>
<td>Minimise lending risks (e.g. improve access to information to establish credibility -credit bureaus, and ensure responsible credit provision.</td>
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<td>Export and cross-border trade</td>
<td>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</td>
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<tr>
<td>Focus on young entrepreneurs</td>
<td>Since 42% of entrepreneurs are 15 - 35 years, a deliberate focus to this segment concurrently addresses issues of unemployment and job creation.</td>
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</table>
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:

Alfred Kutengule  
Director Pensions and Financial Sector Policy Division  
Ministry of Finance, Economic Planning and Development  
akutengule2001@gmail.com  
+265888303660/+265993716611

Dr Kingstone Mutsonziwa  
kingstonem@finmark.org.za

Obert Maphosa  
obertm@finmark.org.za