**C I S P**

COMITATO INTERNAZIONALE PER LO SVILUPPO DEI POPOLI
INTERNATIONAL COMMITTEE FOR PEOPLE'S DEVELOPMENT

# *Business Information and Service Centers in Malawi*

## *An operational model*

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*List of Acrynom*

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|---|---|
| *BISC* | *Business Information and Support Centres* |
| *CISP* | *Comitato Internazionale per lo Sviluppo dei Popoli – International Committee for People's Development* |
| *NGO* | *Non Governmental Organisation* |
| *SMME* | *Small, Micro and Medium Enterprises* |

## 1. Introduction

Malawi is one of the poorest countries in the world; this is largely due to the fact that more than 80% of the total export revenue is generated by the agricultural sector, which represents 36% of the gross domestic product; over eighty percent of the population is engaged in the agricultural production. Over 50% of the rural households cultivate less than one hectare, with 25% farming less than ½ hectare.

In the past few years, declining household farms and declining farm fertility combined with erratic weather patterns and the escalation of farm input prices (beyond what the majority of farmers could afford) have, among other things, produced limited growth in the agricultural sector[1].

It is therefore evident that the desire to alleviate poverty cannot be easily accomplished unless economic activities are diversified; the promotion of small, micro and medium enterprises (SMMEs) is one way of achieving economic diversification in Malawi, indirectly addressing the problem of poverty and employment creation[2].

The Government of Malawi has, in recent years recognized the role that SMMEs[3] can play in promoting economic growth and has facilitated the establishment of various institutions, membership associations and advocacy groups to provide relevant services necessary for the development of the sector.

The intervention of the Italian NGO, Comitato Internazionale per lo Sviluppo dei Popoli (CISP – International Committee for People's Development) with the project "Food Security Through Economic Diversification", funded by the European Commission is in line with the above vision; particularly with the view shared by both the Government and the donor community that "Economic diversification and off-farming activities are a necessary component for the promotion of national and household food security"[4].

The objective of this document is to provide a working model to guide the newly formed Business Information Service Centers (BISC) in the process of redesigning a strategic alliance/partnership with other Malawian developmental organisations (i.e. CADECOM and financial institution). At the same time the document aims to provide guidelines for best business practices for the stakeholders involved in economic diversification and the promotion of small, micro and medium enterprises in Malawi.

## 2. The Business Information and Service Center (BISC) Project

The BISCs mission is in line with the Malawian government's policy to provide, food security improvement, through economic diversification via effective and efficient support to emerging and existing enterprises within the SMME sector. This is done by offering business management skills

[1] CISP Report 2003

[2] According to the Gemini Survey 2000, the SMMEs consist of 747,000 income earning activities. Their annual profit represents about 16% of Malawi's GDP, adjusted to 2000 price. This is a substantial contribution to the economy, which has largely been ignored in the past. CISP Report 2003

[3] Government of Malawi, Ministry of Commerce and Industry (2003)

[4] M. Borzini (2001)

training, counselling, general business advice and referrals for entrepreneurs to start or improve their businesses and create employment for owners and others.
The driving idea is to identifying and support endogenous "potential-of-growth" businesses that could move from the individual level (welfare/survivalist approach) to the social level (developmental/growth approach), thereby contributing to the development and improvement of the economy of the different districts, and the Republic of Malawi as a whole.

BISCs vision is to:

- Help entrepreneurs within the small, medium and micro enterprise (SMME) sector to develop their businesses from informal to formal by registering and complying with legal requirements, and grow from micro/small to medium/large enterprises and to have the capacity to create employment.
- Develop a network or pool of skilled and experienced trainers, counsellors and other support staff, and additional equipment needed for providing a professional and efficient service.
- Provide focussed sector specific and needs-based programmes, to the targeted clientele. Expanding services/operations to other parts of the country by establishing satellite/outreach offices in other towns.

The project has initially been implemented on a "pilot basis" in the three districts of Kasungu, Zomba and Lilongwe, where BISC and satellite offices have been created. Training activities have been undertaken and 210 entrepreneurs have already been formed and their business monitored.

It is important to stress that presently the services provided have focused around the training of entrepreneurs, business counselling and financial referrals, this leaves room for a restructuring of the BISCs in order to face the new challenges posed by the introduction of the new partner, to broaden the activities offered to "generalist entrepreneurs[5]", and to shift the activities of BISCs to a particular group of entrepreneurs, those who require specific "*off house*" incubation services as indicated in point 2.2 below.

### *2.1 Restructuring of the BISC*

At present the activities of the BISCs focuses on both urban and rural areas, however the experience gained by CISP whilst implementing the project to date, has clearly indicated the need to adapt the project's characteristics to meet the new developments in the Malawian economy; in particular there is the need to better define the impact area of the project and to shift the attention from the rural to the urban and peri-urban areas.
The rational of such a shift is based on the following observations:

- Contrary to common believe the level of poverty in Malawi is higher in the urban and peri-urban areas than in the rural areas. As clearly indicate in the EU Evaluation Report[6], the poverty quintile representation of the Malawian society shows that 51.4% of the total urban population is located poorest quintile; with peak of 73% in Zomba municipality, 56% in Lilongwe city and 45% in Blantyre city;

[5] Service such as: in touch and tender advice.
[6] External Evaluation of the European Commission Food and Security Project in Malawi, draft final report 2004

- The majority of developmental interventions, in the food security programme, are already concentrated in the rural areas;
- The entrepreneurs who show endogenous potential-of-growth, those that can allow the paradigm shift from the welfare approach to the developmental approach, are mostly located in the urban and peri-urban area.

### 2.1.1 Identification of the target entrepreneurs

In order to obtain the expected result in terms of economic diversification and achieve the necessary paradigm shift from welfare to development, it is of paramount importance to select the "proper entrepreneurs". The experience of CISP confirmed that where the selection was not directly done by CISP, the entrepreneurs performed worse than those selected directly by CISP[7]. The current selection criteria for the entrepreneurs is as follows:

1. They must have a well established business
2. They must have a permanent place from where to conduct the business
3. They must read and write

Experience has shown that point "2" has to be clearly monitored since it is often the case that some entrepreneurs take the business as a part-time activity to supplement farming. This means that even if they have a permanent place from where to run the business, it is difficult to monitor them when farming activities are at their peak.
It is also necessary that whilst maintaining the focus on the viability of the business and its potential for growth, criteria 1 is adjusted to cater for start-up businesses as well. The incubation mechanism developed together with the development of a credit mechanism, in partnership with a local financial institution, should allow the BISC to achieve its mission and objectives.

### 2.1.2 Business Information Service Centers: The Incubation activities

The incubation idea described here belongs to what in economic literature is known as a "third generation" incubation system[8], which brings a full range of support services for enterprises under one roof, a system also known as an "in house" incubator.
The distinguishing characteristics of such an incubator can be summarised as follows:

- Carefully selected enterprises enter the incubator and should graduate after two/three years;
- A managed workspace providing shared facilities, focused advisory services and interaction amongst tenants. Initially rent and services will be subsidised until tenants are able to cover the costs;
- A small management team, competent in providing diagnosis and treatment or referrals with regard to business threats and opportunities.

[7] When selected by organisations other than CISP they were aged, illiterate and had less potential for business growth.
[8] See "Lesson from International experience for the promotion of business incubation systems in emerging economies" R. Lalkaka UNIDO 1997

These characteristics have, however been modified to suit the Malawian context, where the "in house" incubator has adaptation difficulties, the result has been the BISC model of "*off house*" incubation.

The objective of the BISC model is to create an incubation mechanism for SMMEs who become BISC clients with the aim of developing and growing them into financially viable businesses. The client group is represented mainly by small and micro scale manufacturers who, besides the non-financial services already received by the "generalist entrepreneurs", receive specific financial services via the partnership between the BISCs and the financial institution.

In other words the BISCs, with focused intervention both at geographical and sectorial level, are going to identify specific enterprises that will show most or all the following characteristics:

- Endogenous potential of growth
- Job creation potential
- Innovative products,
- Good market analysis
- Integrity of entrepreneurs

These will receive "*ad hoc off house*" incubation assistance, which incorporate both financial and non-financial support.
In particular, business development services including:

- Accounting/Bookkeeping services,
- Business counselling,
- Marketing – accessing broader markets for clients,
- Assistance with bulk purchasing,
- Financial referrals,
- Support in the preparation of business plan to pass on to the partner financial institution with which a particular financial product has to been developed and agreed upon to address the needs of the selected entrepreneurs.

Ideally at least 30 enterprises per year, throughout Malawi will be targeted over a two years period. These enterprises will be supported and monitored throughout the loan period in order to minimize the risk of default. These enterprises with the support received should, then, be able to generate positive spin-offs in terms of both employment creation and economic growth.

Given the particular needs and characteristics of the Malawian regions, specific sectors within each area will be targeted to be part of the "*off house*" incubation programme; the table below provides an indication of potential sectors from which entrepreneurs will be selected.
The sectors identified are those that can promote the development of both forward and backward linkages among SMMEs.
Financial assistance, either in the form of capital assets or personal contribution, in order to reduce the burden of the loan to the successful entrepreneurs, is also envisaged in the scheme.

Table 1 Sectors of intervention[9]

| DISTRICT | MAIN TOWN | SECTORS |
|---|---|---|
| Lilongwe | Lilongwe city | Furniture/Carpentry, Welding, Agribusiness/Poultry production |
| Kasungu | Kasungu | Furniture/Carpentry, Welding, Agribusiness/Mushroom and Poultry production |
| Zomba | Zomba municipalty | Furniture/Carpentry, Welding, Agribusiness/Mushroom and Poultry production |

### 2.1.3 Propose Credit scheme mechanism[10]

As indicated above it is intention of the project to provide non financial as well as financial assistance to the entrepreneurs, client of the BISCs who will be part of the off house incubation programme. The rational behind such vision is to address one shortcoming of many developmental intervention in the sector of small and micro enterprises which more often that not hinder the economic growth of micro and small business in poor economies.

In particular it is well acknowledge that "capacity building" in the form of training or continuous "on the job" support is a necessary but not a sufficient condition in order for business to grow. Lack of access to credit due to the "non bankable"[11] status of the business still preclude to this groups to move from the condition of survivalist business to that of income generating/employment generating business, the only type of business which in medium and long term can break the vicious circle of poverty ensuring endurable food security.

For this reason the BISCs while providing the off house non financial services to the generalistic entrepreneurs, will link selected entrepreneurs with a direct access to financial assistance via the creation of a specific credit product for SMME.

At the same time selected entrepreneurs will also receive direct financial assistance from the BISCs in the form of a "once off" grant, which could be used as "collateral" to obtain financial assistance. This serve also to prove that financial assistance in the form of grant when linked to "institutional financial system" via a proper support mechanism as that of the BISCs is not going to distort the market rather create a multiplier mechanism which offset the initial cost of the grant.

This contribution, equal to the 10% of the total loan requested by the entrepreneurs, will be deposited in the account that the entrepreneurs going to open with the financial institution disbursing the loan. This amount will then be pledged so that it can be used as collateral by the financial institution in case of default.

Specific details of the way in which the credit scheme is going to operate are provided in the attached credit guarantee agreement.

[9] This sectors are not exhaustive they can be further discussed with each regional structure

[10] See attached guarantee agreement. However this has still to be agreed and negotiated with the financial institution in particular it has to be negotiate the identification of a preferential rate of interest which should be below the current micro-lending rate that, at an annual rate near to almost 60%, seems to address the needs of the financial institution rather than that of the entrepreneurs.

[11] The lack of collaterals as well as the level of interest rate charged make most of the small and micro business un-bankable

Below are some of the characteristics that the entrepreneurs will have to meet in order to qualify for the BISC credit mechanism for o*ff house* incubation.

- The owners must be 18 years of age and above
- 25% of the credit should be allocated to start-ups
- Ideally the Business should be single managed
- The business must represent the core activities of the entrepreneur
- The scheme will have a bias towards ventures owned by women
- Viability of the business will be determined from the following:

    a) Existing market (customers demand)
    b) Financial viability (financial trend)
    c) Supply of raw materials
    d) Incentive, entrepreneurial spirit
    e) Technical and managerial capabilities

Use of the Loan:
Loans could be disbursed for working capital, stock or investment (machinery and equipment). In the case of stock and investments, the loan will be disbursed directly to the supplier/s in the form of bank guaranteed cheque/s[12].

Interest rate:
A flexible interest rate, possibly lower than the prime rate, but not higher.

Professional Fees:
Professional fees will be recorded in the Business Plan and will be used to cover the cost incurred by the BISCs to provide continuous assistance to the entrepreneurs.

Own contribution (Collaterals/Securities):
The main collateral of the business is its viability. However, to ensure the commitment of the entrepreneurs, a percentage of the loan will be requested (10%. This percentage will be deposit by the BISC as indicated in the credit agreement attached. In this case the selected entrepreneurs will receive a "once off" grant from the project.

Business Transaction Account:
A business transaction account has to be opened with the financial institution in which the client must deposit the 10% contribution. This amount will be pledged by the financial institution and will act as collateral in case of default. The repayment of the loan will be deducted from this account by debit order. The client must ensure that funds are available.

[12] The entrepreneurs must provide the BISCs with invoice for acquisition equal to the 10% deposited in their favour as contribution.

#### *2.1.3.1 Role of the Financial Institution and the BISCs in the credit guarantee agreement*

The financial institution will deal with the management of the credit guarantee & savings scheme. Therefore the following should be the duties of the financial institution:

The financial institution will open loan accounts for the entrepreneurs of the BISC financial scheme. The loan will be either deposited in the business account or a bank guarantee cheque will be issued to the supplier.

A savings account will be opened in the name of the business of the entrepreneurs. The account will receive monthly deposits from the entrepreneurs. Such savings will be used as future investments in the business or as security for future loans with the bank. Interest will accrue on the account according to the interest rate defined (subsidised rates would be an incentive to the entrepreneurs e.g. tax exemption on interest accrued).

The financial institution would be involved in the selection process of the potential entrepreneurs by participating together with the BISCs team to the local selection committees. Such selection shall be convened at least once a month with the following duties:

- examining and debating the merits of applicants for loans and making recommendations in respect of guaranteeing such loans
- in making recommendation the committee shall ensure the following:
- that the business is viable from the analysis of the BP submitted
- that the business has a bank account and if not will be required to open one
- that the business complies with accounting procedures as may be required or specified by the committee from time to time
- that the business is in possession of an amount equivalent to 10% or 15% of the loan requested, which will be invested at the same time that the business receives the loan.
- the financial institution representative shall provide the credit record of the client, if any.

In case of a business falling in arrears the financial institution shall notify the project as soon as possible for it to take immediate action. If both parties deem it necessary the financial institution will proceed legally to pursue the delinquent entrepreneur.

The financial institution shall report on a monthly basis on all the outstanding loans falling under this project. The loan portfolio MIS shall include the following:

- Name of the borrower
- Name of the venture/business
- Amount of loan received
- Loan account number
- Date in which the loan was disbursed
- Period of repayment
- Monthly instalments to be paid

- Monthly instalment deposited for the month
- Date of the deposit
- Outstanding balance on the loan
- Arrear amount, if any
- Saving Account number
- Amount deposited into the saving account monthly

The responsibility of the BISCs team will be to cover the non-financial support services to the entrepreneurs:

The BISCs will deposit an initial capital that will serve as a guarantee to 10% of the principal defaulted.

The BISCs project will be involved in the identification of potential businesses.

The project, through the BISCs will assist the entrepreneurs in preparing a Business Plan

The BISCs structure will be part of the local selection committees. Such selection shall be convened at least once a month. The role and duties of the committee have listed above.

Following the approval of the loan application the project will train the entrepreneur in basic business management skills, following a training need assessment on the entrepreneur.

After the disbursement of the loan the project will undertake regular follow-up visit and on the job training to the entrepreneur.

Moreover whenever needs arise from a delinquent behaviour of the entrepreneur, ad hoc visits will take place to analyse the problem that have lead to such behaviour.

The project will develop a comprehensive database recording all the valuable data from the businesses, which have benefited from the loan. Such database will serve also to identify potential businesses that can participate to public and private tenders.

## 3 BISC Services

In line with BISC mission and vision, the following specific services have been identified - these will be offered to both the generalist as well as the incubation entrepreneurs. A membership fee, which would vary according to the service required, will be levied.

- START UP (Level 1)
  Training Services; Counseling; Mentoring; Referrals for financial or technical advice; Business plan assistance.

- MICRO (Survivalist) and Very Small (Level 2)
  Training Services; Counseling; Mentoring; Referrals for advice; Assistance with development of management systems and record keeping (Level 2 is the logical next step after Level 1).

- SMALL (Level 3)
  Management Training; Tender Training; Access to Markets; Referrals for Finance; Linkages with Markets; Joint Venture opportunities explored.

- MEDIUM (Level 4)
  Facilitate linkages within the market, exploring joint ventures.

These levels do not have to be seen as closed but rather as inter-related. In other words the objectives of the BISC is to move/graduate the entrepreneurs from one level to the next.

Specific sets of activities to be provided to the clients of the BISCs have been chosen - they focus on:

*Training*
Based on the needs of the SMMEs, the BISCs offer training, utilising any of the four modules they are accredited to train on, namely:

i. Record keeping
ii. Financial Management
iii. Marketing and Custom Care
iv. Business Feasibility and Planning

*Counselling activities/services*
Counselling activities are to be carried out by the "business counsellor"/trainer on the job both *in house* and on site visits. They should focus on:

i. Financial related issues
ii. Marketing
iii. Record keeping
iv. General business advice

*Business Plan Assistance*
BISC officials should provide:

i. Advice and assistance with drafting of business plans.
ii. Packaging of business plans.

*Referrals*
BISC officials should provide:

i. For financial assistance;
ii. For technical assistance.

Of particular importance are the referrals for financial assistance, especially for those entrepreneurs who are directly assisted with the preparation of the business plan. In particular it should be noticed that one of the major assets of the BISC should be the fact that, via the

"partnership" with a financial institution, it should be able to negotiate favourable credit conditions.

*Tender Advice*

Despite this need has not being expressed by the entrepreneurs whom are registered clients of the BISC at present, those entrepreneurs who graduate to level 3 and level 4 could receive the following services in the future:

i. Provision of tender information;
ii. Assistance with completion of tender documents;
iii. Tendering training;
iv. Counselling;
v. Business linkages.

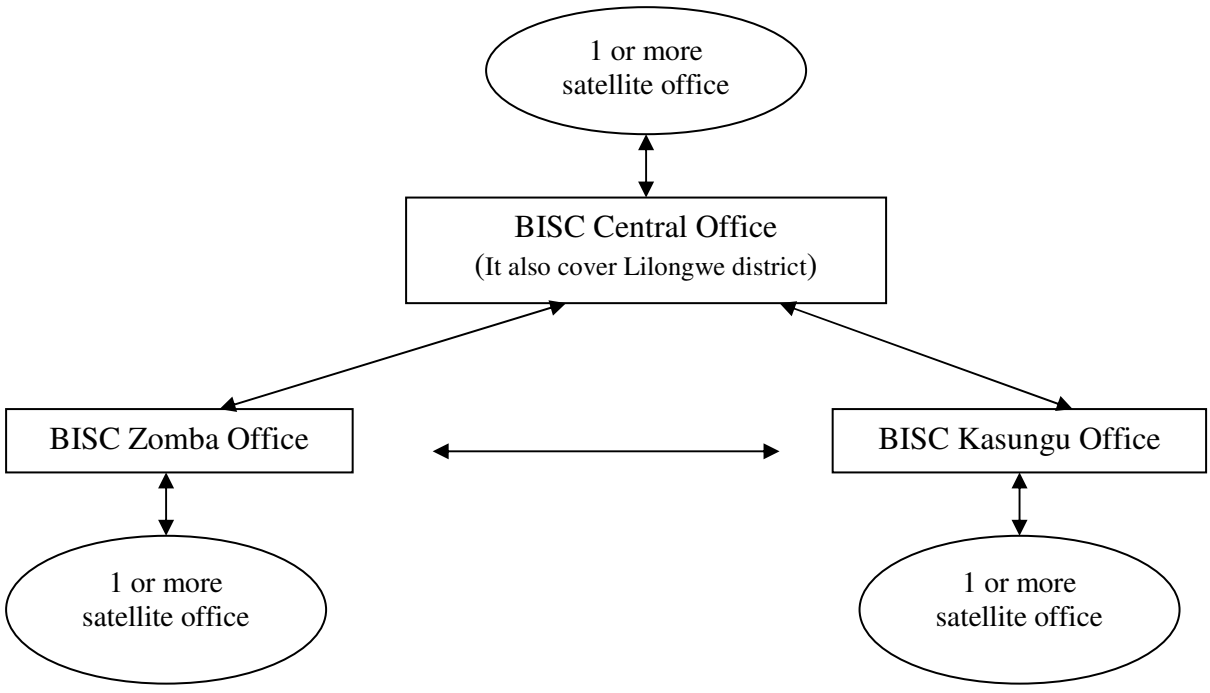
*In touch System*

Based on the South African experience, the in touch system could be extended to the Malawian BISC. In touch would allow the BISC to increase the range of services offered to the clients whilst at the same time it could provide to the BISC managerial structure a new tool to monitor the activities of the centre.

### *3.1 BISC Internal Structure*

The "modus operandi" of the BISC that has already proved to be successful in the Malawian context, is developed around the following scheme.

A central office based in Lilongwe and two district offices, one in Kasungu and one in Zomba. The central office will also cover the business activities based in the Lilongwe district. Satellite offices will also be opened when and if the need arises.



As shown in the figure above the main task of the central office is to coordinate the activities of the district offices[13], to siphon down mainstream information and to elaborate the input coming from the district offices in order to adjust the intervention policies.
A sort of governing body, whose objective would be to coordinate the implementation of development policies and to create a clear communication line from national policy level to the district. Over and above this, it is important to stress that, from an institutional point of view, these structures, have been created to support private business. They must therefore have a business-like image and must be run on business-like principles[14].

The district offices are the operational units, which together with the satellite offices, filter the grassroots needs and provide the necessary services to the entrepreneurs.

It is possible to foresee the following path of activities, which are in line with the four levels of entrepreneurs identified.

*Stage 1* Identification of entrepreneurs according to BISCs criteria as indicated in point 2.1.1 and 2.1.2. Clustering of entrepreneurs between those who need generalist support and those that need "off house" incubation;

*Stage 2* Training, mentorship and financial referrals to generalist entrepreneurs. Provision of necessary on-going support with the objective to graduate them to the next stage;

*Stage 3* Training, mentorship and financial referral to *off house* entrepreneurs. Provision of necessary on-going support and assistance with business plans with the objective of linking them to the partner financial institution; provision of necessary follow up and mentorship in order to facilitate the repayment; graduation to commercial bank system for further financial assistance if needed.

It is worthy to stress that the modus operandi of the BISC is not a static one but rather a flexible one, considering that entrepreneurs have to graduate from one stage to the next.

## 4 Conclusion

Central to the successful process of the BISCs will be the ability to monitor and evaluate the running and effective management of the structures, the tracking and implementation of the work plan, the impact SMME development is making and the sustainability of the SMME businesses started. This would also assist in monitoring the extent to which jobs are created and the contribution made towards poverty alleviation. This is also a key government/political expectation from the SMME development initiative[15].

[13] It will also operate as the Lilongwe district BISC

[14] At the same time it is important to underline that the business principle/image the proposed structures have to respect does not derogate them from their mission (objectives and targets) for which they have been created, namely promoting growth and development, particularly amongst previously disadvantaged individuals.

[15] It is intention of the BISCs team to fast track discussion with the relevant public authorities (i.e. Department of, Economic affairs, Ministry of Finance, Ministry of Commerce and Industry) in order to institutionalise the proposed operational mechanism.

Result and impact indicators both qualitative and quantitative have therefore been chosen to verify the achievements of BISCs.

*4.1 Result Indicators -Quantitative*

- At least 450 entrepreneurs will be trained and receive non financial assistance through the mentorship and follow up of the BISC officials,
- At least 90 entrepreneurs will be included in the *off house* incubator and will be linked with a partner financial institution.

*4.2 Impact Indicators -Quantitative and Qualitative*

- Change in the turnover and in the number of employee in order to measure the economic growth of the business
- Change in consumer patterns of both assisted entrepreneurs and their employees. This indicator, although not strictly orthodox, should be able to assess the degree of "food security improvement".
  This will be determined via an ex-ante and post intervention interview (via a specific questionnaire) in which it would be possible to record the changes occurred in the consumer pattern of the entrepreneurs, clients of the BISC and their employees.