



MALAWI GOVERNMENT

MINISTRY OF COMMERCE AND INDUSTRY

MICRO AND SMALL ENTERPRISE POLICY STATEMENT

FOREWORD

Malawi has accorded a high priority to the development of micro, small and medium enterprises in recognition of the crucial role they play in employment generation, poverty alleviation rural development, and overall economic development. A continued active role of government has been affirmed and that this should primarily be through the creation of an enabling environment that combines minimum regulation with maximum openness and provides equal incentives for all enterprises.

The agenda to eradicate poverty in Malawi has to have a major component on the support to the people to enable produce much more than they are currently producing. There is indeed abundant evidence that given appropriate skills, appropriate production systems, access to credit and finance, and access to raw materials and other inputs, people are able to help themselves and raise their standards of living. At the more advanced level of enterprise development adequate support will also be provided to enable such enterprises to become innovative and to attain international competitiveness. With the necessary support formal small and medium enterprises have shown that they can meet the challenges to operate in the international markets.

The policy that has been developed aims at ensuring that Malawi can have a healthy economic environment for all enterprises to realize their potential. This will ensure that all factors affecting MSMEs operations and their competitiveness are addressed and that adequate support is available to overcome all such constraints. This implies the removal of all discriminatory practices against MSMEs in order to provide a "level playing field" as an essential policy intervention.

The government is committed to the implementation of effective support programmes for the development of MSMEs. Government will endeavour to design programmes that fully incorporate the need for services to be demand-led, business-like, sustainable, and that they are outcome and outreach oriented. The Ministry calls on the support of all donors and cooperating partners to provide financial and technical assistance in the implementation of the policies and strategies to maximize their potential to contribute to economic development.

***Hon. Kaliyoma Phumisa M.P.
Minister of Commerce and Industry***

1.0 **INTRODUCTION**

Since independence, in 1964, the Government of Malawi concentrated its efforts on the development of the large scale enterprise sector. However, during the late 1970's and early 1980's Government embarked on several initiatives in support of the micro and small enterprise (MSE) sector including the establishment of several support institutions. It is now recognized that the potential of the MSE sector has not been fully exploited due to the absence of a concise policy to guide the development and promotion of the sector. It is against this background that MSME policy has been developed.

The MSE sector offers a lot of scope for the development of the country. Some of the potential benefits that would accrue to the economy are: the creation of employment at significantly low cost; utilization of local raw materials to add value to agriculture produce; equitable distribution of income; enhancement of balanced development; serving as nurseries for medium and large scale enterprises; and promotion of entrepreneurial development and skills training. thus it is central to the Poverty Alleviation Programme.

The MSE Policy Statement covers the following strategic issues; definition of enterprise size; fiscal policy; monetary and banking policy; trade and industry matters; access to raw materials and markets; infrastructure development; and institutional framework and support services.

2.0 **OBJECTIVE OF THE MICRO AND SMALL ENTERPRISE POLICY**

The MSEs in Malawi have hitherto been operating in an unfriendly environment. The objective of the policy statement therefore, is to create a conducive climate within which MSEs can thrive.

3.0 **DEFINITION OF ENTERPRISE SIZE**

The official definition of enterprise size which came into effect in 1992 is based on three parameters, namely, capital investment, number of employees and turnover. It is prudent to use parameters that are not easily affected by macro economic factors. For instance, capital investment as a parameter based on historical costs changes over time and therefore renders the definition out of date. In this regard, the definition of enterprise size shall be based on two parameters only, namely, employment and turnover as follows:-

	Employment	Turnover(MK)
Micro	1 - 4	Up to 120,000.00
Small	5 - 20	120,001 to 4 million
Medium	21 - 100	Above 4 million to 10 million
Large	Above 100	Above 10 million

4.0 FISCAL POLICY

Background

MSEs lack knowledge and understanding of the prevailing tax system. As a result they do not appreciate why they have to pay taxes and how to benefit from various tax incentives.

Fiscal data on MSEs is not available in a desegregated form making it difficult to extract information from the same with respect to the performance of the sector.

The development of the MSME sector is threatened by initial high investment, and production costs due to the tariff structure. This creates barriers to new entrants and renders existing enterprises uncompetitive.

STATEMENTS OF POLICY

GOVERNMENT SHALL:

- 4.1 Embark on a comprehensive sensitisation programme on the tax system;
- 4.2 Ensure that data relating to the MSE sector is recorded in a segregated manner; and
- 4.3 Ensure that MSEs enjoy duty free importation of capital equipment and machinery, raw materials, spare parts and other inputs.

5.0 **MONETARY AND BANKING POLICY**

Background

The MSE sector in Malawi is experiencing limited access to credit facilities for a number of reasons. Major reasons are, demands by financial institutions for conventional forms of collateral, lack of equity funds, the apparent risk associated with MSEs, high costs of administering loans to the sector and lack of information on their performance.

STATEMENTS OF POLICY

GOVERNMENT SHALL

- 5.1 Establish a credit guarantee scheme in favour of MSEs;
- 5.2 Encourage financial institution to lend through groups;
- 5.3 Encourage establishment of venture capital funds;
- 5.4 Promote establishment of higher purchase schemes for acquisition of plant and machinery;
- 5.5 Encourage financial institutions to establish branches at district headquarters; and
- 5.6 Ensure that financial institutions maintain separate records relating MSEs such as loans and foreign exchange transactions.

6.0 **TRADE AND INDUSTRY MATTERS**

6.1 KNOWLEDGE OF EXISTING POLICIES AND REGULATIONS

Background

Most MSEs are not aware of the policy environment in which they operate including rules and regulations that affect their activities.

STATEMENT OF POLICY

GOVERNMENT SHALL:

6.1.1 Ensure that MSEs are sensitised in trade and industry matters.

6.2 **QUALITY AND STANDARDS**

Background

The Majority of MSEs have limited knowledge on quality and standards requirements.

STATEMENTS OF POLICY

GOVERNMENT SHALL:

6.2.1 Implement a comprehensive quality awareness programme; and

6.2.2 Establish mechanisms to assist MSEs to produce high quality goods

6.3 **REGISTRATION AND LICENSING**

Background

Registration of business in Malawi is centralised at the Register General's Office in Blantyre making it difficult for MSEs, most of which are in rural areas, to register.

The Business Licensing Act (1961) provides for a minimum age of 21 whereas the Malawi Constitution stipulates 18 as the minimum age for voting purposes.

STATEMENTS OF POLICY

GOVERNMENT SHALL:

6.3.1 Decentralise the registration of businesses to district headquarters; and

6.3.2 Adjust the minimum age for business licensing purposes from 21 to 18.

6.4 **INFORMATION BASE**

Background

Data on MSE sector in Malawi is scanty, scattered, and outdated making it difficult to find information on which to base policy decisions.

At enterprise level, there is no information available on: investment opportunities, sources of finance and technical assistance among other due to absence of one stop service centres (information booth) in the district which can serve as focal point for dissemination of information.

STATEMENT OF POLICY

GOVERNMENT SHALL:

6.4.1 Establish an Information Centre in the Ministry of Commerce and Industry

6.4.2 Establish One Stop Service Centres in all district offices of the Ministry of Commerce and Industry.

7.0 ACCESS TO RAW MATERIALS AND MARKETS

Background

Government recognizes the need to improve MSEs access to raw materials and inputs as evidenced by the introduction, on pilot basis, of the Bulk Purchase and Distribution of Raw Materials (BUPAD) Scheme.

The MSEs are faced with the problem of a limited market for a number of reasons: low purchasing power particularly in the rural areas; stiff competition with medium and large scale enterprises; tendency to import at the expense of locally produced products; and government procurement practices.

They also experience difficulties in accessing foreign markets because of the following: complex export documentation; inability to supply large orders due to fragmented production units; and no availability of pre-and post-export financing schemes.

STATEMENTS OF POLICY

GOVERNMENT SHALL:

- 7.1 Review the BUPAD Scheme with a view to improving MSMEs access to raw materials and inputs;
- 7.2 Encourage sub-contracting arrangements between MSEs on the one hand and medium and large scale enterprises on the other;
- 7.3 promote the spirit of buying locally produced goods;
- 7.4 Review its procurement policy and practices in support of the Government Preferential Purchase Programme (GPPP);
- 7.5 Promote the establishment of Trading Houses to act as intermediaries between MSEs and the market;
- 7.6 Promote the establishment of Export Production Villages (EPVs);
- 7.7 Ensure that MSEs are aware of regulations and procedures governing bilateral and multilateral Trade Agreements between Malawi and its partners; and
- 7.8 Encourage the setting up of pre- and post-shipment financing schemes.

8.0 **TECHNOLOGY** **Background**

Government is convinced of the important role that technology plays in the development of a country as evidenced by the development of the National Science and Technology Policy.

However, it is recognized that MSEs access to technology in Malawi is limited due to the following reasons: information on technologies available within the country and from outside sources is scattered in institutions supporting MSEs and those developing and disseminating technologies; tendency by lending institutions to finance the provision of working capital at the expense of technology acquisition; limited

skills of staff of institutions engaged in technology development and dissemination.

STATEMENTS OF POLICY

GOVERNMENT SHALL

- 8.1 Promote the establishment of a technology information centre accessible to MSEs.
- 8.2 Encourage the establishment of a Technology Development Fund.
- 8.3 Strengthen the capacities of institutions involved in technology development.
- 8.4 Implement the National Science and Technology Policy.
- 8.5 Provide incentives to promote the use and or manufacture of technologies that utilise renewable energy.

9.0 **INFRASTRUCTURE DEVELOPMENT** **Background**

Lack of proper infrastructure is one of the major problems affecting the development of the small enterprise sector in Malawi. Problems and needs of the sector in this respect encompass, lack of production premises, serviced plots befitting MSE enterprises sizes, poor road infrastructure in the rural areas, lack of common services facilities among others.

STATEMENTS OF POLICY

GOVERNMENT SHALL

- 9.1 Encourage the development of mini industrial zones fully serviced with electricity, water, telephones and access roads; sheds factory shells; and common service facility workshops for use by MSMEs in the districts nationwide
- 9.2 Allow MSEs to operate from residential premises provided that their operations do not pose a threat to environment including undue nuisance such noise and foul odour.

9.3 In collaboration with Local Authorities declare specific streets as vending zones and provide the necessary infrastructure.

10.0 **INSTITUTIONAL FRAMEWORK**

Government realises the important role that an entrepreneurship culture plays in stimulating economic development.

Accordingly over a number of years the Government has nearly singlehanded established a number of MSE support institutions providing various services.

This creates financial burden on the part of Government. Besides the proliferation of support institutions in some cases has lead to duplication of efforts and unhealthy competition. This warrants proper coordination to reduce wastage of scare resources and enhance efficiency and effectiveness in the delivery of services.

STATEMENTS OF POLICY

GOVERNMENT SHALL

- 10.1 Strengthen the Ministry of Commerce and Industry to enable it provide leadership policy formulation capabilities;
- 10.2 Establish a Small Enterprise Development Council
- 10.3 Streamline the functions and Strengthen capacities of MSE support institutions;
- 10.4 Encourage NGOs to participate in the activities of the sector;
- 10.5 Encourage support institutions to strive for self-sustenance;
- 10.6 Encourage the participation of the private sector and donors in supporting the development of the sector; and
- 10.7 Ensure that entrepreneurship training is incorporated into the education system.

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