Adjustment and Constrained Response:
Malawi at the Threshold of Sustained Growth

October 1990
ADJUSTMENT AND CONSTRAINED RESPONSE:
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October 1990

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The author is grateful to Mr. Kavinya and his staff of the Department of Economic Planning and Development, and to the invaluable assistance in the field work by Messrs. Mloza and Mwase. The data were entered and processed by Valerie Chisholm and Basanta Chaudhuri. Word processing was done by Wilson Peiris and Anna Maranon. The author acknowledges useful comments from William Steel.
EXECUTIVE SUMMARY

i. In the last decade Malawi has undergone considerable efforts at adjusting its economy to adverse shocks in terms-of-trade and transportation costs. At the same time there was a relatively successful attempt to cope with a large refugee influx despite rapid population growth and limited resource base. Due to a mixture of conservative economic management, political and institutional stability, and commitment from international institutions and the donor community, Malawi is now poised for a period of sustained growth. Yet sustainability will be critically dependent on the size and nature of the investment response.

ii. The Government should facilitate and actively promote productive investment by larger firms. These firms have an effective capacity for rapid capital accumulation and for bringing smaller producers of seasonal-dependent activities into larger and more stable markets. Yet these agents encounter systematic blockages to their investment decisions. Some of these are active barriers in terms of firm registration and investment licensing and other elements of a regulatory character. More often, however, the blockages are of a passive nature, an unwillingness by officials to speed up the process, furnish information, cut the red tape.

iii. If for larger producers and traders the barriers to investment are mostly related to administrative practices and bureaucratic habits and procedures, for smaller firms and micro producers what hurts most is their inability to access larger and fast-growing markets. Limited in their ability to generate internal resources, small producers tend to be credit starved, in an environment where commercial banks are unresponsive to their needs. They lack the skills to crack the system and use financial institutions and instruments for their basic working capital and investment requirements.

iv. In Malawi one finds a multitude of small players, often self-employed or commanding small work forces, with great willingness to invest and improve their lives. Few "graduate" into larger entities, and few should be expected to. Even with access to broader markets, they would still lack the resources to
accumulate capital and expand output at fast rates. On aggregate, their economy-wide impact on investment and output growth is limited. They tend to pull few other activities in tandem. Nonetheless, small and micro enterprises can be the basis of employment growth, domestic market development, and improved income distribution.

v. Small and micro enterprises (and, to a lesser extent, medium-size firms) continue, however, to be fundamentally dependent on the cycles of the Malawian agriculture economy. They tend to be constrained by their narrow demand base, both in an income and geographic sense. Their inability to accumulate capital at a fast pace and change the scale of operations precludes them from "jumping" over the demand barrier and entering new (including export) markets. Their size, the financial and demand-related constraints on any quantum expansion of their capital, as well as the limited and localized nature of their links with other producers, imply that these producers have a limited impact on making the Malawian economy less dependent on the cycles of nature and in accelerating GDP growth.

vi. A survey of 55 small firms in urban and rural areas shows that they face numerous operational constraints, including: the cost of raw materials and transportation, working capital finance, and seasonality of demand. Limited access to credit (and its cost) is regarded as important barriers to entry facing small and micro enterprises in Malawi, in addition to cost of equipment and raw materials (the latter was particularly pronounced in wood processing activities, in view of current restrictions on logging), and regulatory limits on location.

vii. Concerning access to credit, large proportion of firms complained that banks' procedures were non-transparent and tedious, with "too many demands," large collateral requirements ("banks are obsessed with collateral"), and attitudes discriminatory against rural-based and small entrepreneurs ("banks do not lend to uneducated people or people living in remote areas"). Banks were seen as basically interested in operating with large customers and near-riskless projects. This perception was present even among the more successful business people, managing profitable export-oriented enterprises. Although the vast majority
of entrepreneurs interviewed had bank accounts (84%), paid taxes regularly (near 100%), and were in this sense part of the formal economy, their credit needs were unmet.

viii. Limited access contrasts with significant demand for credit. Over 60% of firms were willing to pay nominal annual interest rates of 50% (approximately 35% in real terms) to receive credit for working capital. Similarly, more than a third of producers interviewed would be interested in credit on such terms for new investment. The willingness of firms to pay such high real rates reflects the cost associated with alternative credit sources and their inability to generate enough cash internally. For most producers (two-thirds), obtaining funds from family members would be a "major problem." A majority (73%) either has been too discouraged to attempt borrowing from a commercial bank or, having attempted to borrow, has not succeeded. Money lenders ("katapillas") would be a last (although frequently used) resort: nominal interest charged in this case often approaches 100% for a three-month period.

ix. Yet the importance of credit should not be overstated. More often than not, the underlying factor that restricts the growth of smaller enterprises is the difficulty of establishing links to larger producers and more dynamic markets. Such isolation from effective marketing channels appears to be causally prior to credit restrictions, high raw material costs, or seasonality of demand when it comes to explaining their weak financial position and inability to expand their operations in a substantial way. Thus, even though market and institutional weaknesses in the financial system do impose limitations on small firms, they tend only to become binding once these firms start growing out of a demand-constrained market environment.

x. Among other relevant problems constraining smaller firms are their lack of managerial skills, including marketing, accounting and knowledge for accessing credit institutions. There was marked interest for training in those areas. Marketing was perceived to be quite important as a means of overcoming seasonality of demand. Although affecting most producers in Malawi, demand instability is particularly adverse for smaller enterprises. As stressed above, opening up marketing channels would be critical to
promote the development of small and micro firms. Yet opening up such channels would require the involvement of agents such as traders and upstream producers.

xI. In fact, a small enterprise development strategy, under demand-constrained conditions, cannot be successfully pursued in the absence of an investment-promotion strategy focused on activities to overcome the smallness and unstable nature of domestic markets. Smaller enterprises thrive when connected with larger markets. The agents that help establish those connections would need to be larger or at least more sophisticated traders and producers. The entry and expansion of those "catalytic" agents in the market need to be favored through a strategy of facilitating and promoting investment.

xii. Thus, investment by larger firms should not only be promoted to ensure that current output response becomes part of a sustainable growth path. Equally important, investment response and entry of new actors into the market will allow an increasing number of smaller firms to overcome demand constraints as they tie up with larger producers and external buyers. Combined with credit, managerial training, regulatory improvements, and better access to inputs, it would significantly improve the prospects for successful small and micro enterprise development in Malawi.
I. INTRODUCTION

1.01 The Malawian economy has a fragile and narrow endowment base. The country is landlocked, small and with high population density (67 people per square mile, compared to 20 per square mile for all of Subsaharan Africa). Population growth rates stand at 3.1%, a sharp acceleration from 25-30 years ago (when it stood at 2.3%). Poverty is widespread, mortality rates are high (the most recent estimate for infant mortality is 150 per thousand live births) and investment in human capital (health and education) is limited (2.1% of GDP—immunization rates, for example, hover around 50% of targeted age group, and secondary school enrollment is a mere 4% of school age group).1

1.02 Following independence in 1964, the Government's development strategy focused on expansion of agriculture output (particularly export commodities such as tobacco and tea) through extensive growth of the estate sector. Public investment was allocated primarily to infrastructure (transport and communications). Led by the agricultural estate sector, real GDP per capita increased on average by 3% in 1964-79. Living conditions, however, improved slowly, and real wages remained low. Still, the period preceding the 1980s may be regarded in retrospect as a time when development perspectives were quite bright.

1.03 Beginning in the early 1980s, the economy suffered a number of exogenous shocks, including adverse shifts in the terms-of-trade, droughts, and war and civil strife in neighboring Mozambique. This led not only to a severely debilitating increase in international transportation costs, but also to the growth of security-related expenditures and a large influx of refugees. Per-capita GDP growth turned negative, and in agriculture and industry, average annual growth rates between 1965-80 and 1980-88 suffered an inversion (from 6.3% to 3.0% respectively).2 In 1988, GDP per capita stood 19% below its level a decade earlier.

Since the early 1980s, the Government has implemented a broad-based adjustment program supported by three structural adjustment loans and a series of IMF arrangements. Adjustment translated into a reduction of domestic absorption, which fell disproportionately on investment. Gross fixed capital formation fell from 23.6% of GDP in 1973-80 to 14.1% in 1981-84, and fell further still to 12.4% in 1985-88. Investment reached a nadir in 1986--12.2% of GDP--a level which possibly failed to cover depreciation of fixed assets. Private investment (including that of parastatals) also fell steadily from 8.6% of GDP in 15 30 to 4.9% in 1980-84. In 1986, a combination of constrained demand, import restrictions, and the restructuring efforts of major enterprises led to a fall in private investment to just 1.9% of GDP.

From 1986 onwards there has been a steady recovery in output and investment (Table 1). GDP growth rates (at market prices) expanded from -0.2% in 1986 to 5.2% in 1989, gross investment as a proportion of GDP from 12.2% to 20.3%, and private investment from 4.4% to 15.1%. In contrast, the ratio of public investment over GDP has decreased during the period to just 5.2% in 1989. Moreover, despite the gains made in the late 1980s, fixed capital formation per capita in 1988 was roughly a third of its peak level in 1977-80 and less than half of the level reached in the mid 1970s.

Table 1: MALAWI: MACROECONOMIC INDICATORS, 1986-1989

<table>
<thead>
<tr>
<th>Actual</th>
<th>Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth Rate (Market Price)</td>
<td>-0.2</td>
</tr>
<tr>
<td>Gross Investment/GDP $/</td>
<td>12.2</td>
</tr>
<tr>
<td>Public Investment/GDP</td>
<td>7.8</td>
</tr>
<tr>
<td>Private Investment/GDP</td>
<td>4.4</td>
</tr>
</tbody>
</table>


$/$ Investment includes stock-building. Parastatal investment that is not part of the Central Government Budget is included under private sector data.
1.06 An additional indicator of the fragility of investment recovery is its narrow base. Investment growth is basically explained by the behavior of statutory bodies (public enterprises) and other large scale producers, including large agricultural estates. The importance of estate investment can be deduced from the fact that the Malawian economy remains predominantly based on agriculture, which accounts for 37% of GDP, 90% of exports and 85% of employment. Despite continued concern for diversification, Malawi's exports remain highly concentrated in tobacco, tea and sugar (85% of export value in 1988), primarily the product of the estate sector. This, of course, leaves export earnings vulnerable to wide swings in international prices as well as weather-induced fluctuations in production.

1.07 Industrial investment, on the other hand, still remains feeble. Limited investment response by industry, large and small, constitutes the main obstacle to structural change in the Malawian economy. Without substantial changes in the structure of production, denser outward-oriented links between larger and smaller firms, and a decisive attempt at export diversification by industrializing agroprocessing, it is unlikely that the current recovery will be sustainable. Industrial investment focused on the efficient use of the country's natural resources and labor endowments is the strategic linchpin in the transition to sustainable growth.

1.08 Industry is currently responsible for approximately 18% of GDP, with manufacturing contributing 12%. In the early 1980s nearly 70% of manufacturing value-added stemmed from textile and clothing (19%), beverages (11.2%), paints, soaps, pharmaceuticals and cooking oils (11.2%), food processing (8%) and metal fabrication (8%). At that time, manufacturing industry was highly concentrated, with a few large, diversified firms controlling a large share of the entire sector. It is estimated that in 1983, 89% of industrial sales were transacted in monopolistic or oligopolistic markets (most shielded as well by major trade barriers).

3/ World Bank, Malawi: Industrial Sector Memorandum, December 1989, Report No. 7402-MAL.

4/ See Industrial Sector Memorandum, op. cit., Table I.2.
Although Malawi's economy is small, and therefore unable to sustain more than one or a few producers in specific segments, a number of institutional and policy-related barriers have further deterred mobility and competition. In particular, a number of (quasi)-binding mobility barriers, by deterring entry and exit of producers, further protect what were already highly concentrated and monopolistically organized markets. Such structural rigidities, discussed in Section II, have only recently begun to change. Section III details the results from a survey of 55 micro, small and medium-size firms. Most of the results were found to be consistent with previous surveys in Malawi. The section focuses on major constraints facing smaller firms in Malawi, including limited markets, credit restrictions, and a confined entrepreneurial horizon, and argues that although smaller and larger firms face many specific problems, ultimately their development constraints call for a unified strategy to remove them. Section IV concludes by drawing the paper's main implications.
II. BARRIERS TO INVESTMENT RESPONSE

2.01 Malawi is in a singular position. It is an economy characterized by macrostability, increased openness, improved foreign exchange availability, and shrinking scarcity rents. It has a well organized and effective government, with economic policies that are regarded as credible by economic agents. A vital business community is endowed with a critical mass of capital, entrepreneurship and management capabilities. This community is a mixture of indigenous Malawians with great drive but still limited managerial skills, well capitalized and entrepreneurially sophisticated Asians, concentrated in trading and industry to a lesser extent, and English, South African and other expatriates in the management positions of large firms. There are at the same time many investment opportunities, particularly in labor-intensive, natural resource-based activities. Finally, despite some deficiencies, infrastructural services are on the whole adequate. Why is it then that investment response is still feeble in Malawi?

2.02 Active Blockages and Passive Resistance: Regulatory and Attitudinal Constraints to Investment. In large measure, the current fragility of investment response is linked to the government's attitude towards investment, both local and foreign and originating from different communities. Officials tend to be extremely cautious, risk-averse, and unwilling to move forward without delays and further referrals on investment applications and related actions. The control of investment, and not its promotion, has been the dominant ethos of the administration. In an environment where investment demand is feeble, supply constrained by limited access to imported inputs, scarcity rents substantial, and trading activities highly

5/ There is a generalized perception in the business community that "import constraints have eased tremendously" starting in 1988, but particularly since mid 1989, bringing a fall in profits and erasing much of scarcity rents appropriated by producers and traders. Greater access to manufacturing licenses has also contributed to such outcome.

6/ Increased foreign exchange availability, an enlarged and sustained flow of imports, a lessened fear of devaluation and a significant measure of price stability, have been the key ingredients for policy credibility and an improvement in investment climate.
profitable, a control-oriented approach to investment is a nuisance to individual investors, with only limited economic consequences on the aggregate.

2.03 Yet that is currently not the case in Malawi. Since mid-1988, and particularly in 1989, there was a perceived marked improvement in the macroeconomy. It has led traders and producers in Malawi to become increasingly bullish on the country's medium and longer-term prospects. Scarcity rents have declined to the point that traders are seriously contemplating, or are actually moving into, production. Greater foreign exchange availability has also allowed increased capacity utilization and has led to higher profits in the productive sector. Government credibility is high, and no major shocks are expected in the near future. Even more critical: much of the business community has come to believe that this is a sustainable situation. Indeed it would be, if they respond.

2.04 The key point is that by facilitating and actively promoting investment, the Government can help transform intentions into actual investment, thereby ensuring that what is still an output blip may in fact become a path of sustainable growth. It is critical for the Government to take advantage of the fact that the business community is temporarily "fooled" into thinking that the current macro and foreign exchange situation is sustainable. The interesting twist is that sustainability would in fact be achieved if investors committed themselves to enter or expand efficient import-substituting and export-oriented activities. Decisive action on the part of the Government can turn the business community's (possibly erroneous) belief into a self-fulfilling and virtuous reality.

2.05 What is required is the political will to change attitudes in the administration. There should be no rewards for foot-dragging, postponing decisions, or "passing the buck." Investors should not have to wait anywhere from six months to four years to have their proposals cleared. The highest authority should signal the bureaucracy that investment should be facilitated through timely response to investment proposals; minimum number of steps for government approvals; and ample supply of information on investment-related needs, including opportunities, resources, markets.
2.06 Despite significant improvements in the last two years, a number of binding regulatory entry barriers remain. In order to establish a manufacturing concern, producers have to undertake a number of (mostly sequential) steps; failure to include any one of the steps could potentially derail a project:

(A) Company registration at the Registrar General, in order to be able to use a company name (or trademark)

(B) Application to the Ministry of Trade, Industry and Tourism (MTIT) for an industrial license. The application must be "gazetted" and published in a local paper, to ensure that there are no objections by interested parties (including competitors).

(C) Round-table meetings with MTIT officials if application is neither approved nor rejected. If firm obtains a go-ahead, it may apply for import approvals from the Reserve Bank.

(D) Access to land. This process should be started early, before the outcome of the application is known; to acquire (or lease) a plot and obtain permission to erect structures is a non-trivial and time-consuming procedure.

(E) An annually-renewed operating license, dependent on a factory inspection.

2.07 How important are these explicit regulatory entry barriers? For producers they seem to be very important. In a few areas they appear to be blocking entry outright and allowing firms to exercise considerable monopoly power. Such seems to be the case in textiles, publishing and printing, containers and

Wholesalers and retailers in larger cities also need to be licensed by the Ministry. For those operating in smaller towns and rural areas, licenses are granted by District authorities.
plastic bottles, glass, matches, and beer, among others, as well as certain services (advertising, transportation).  

2.08 Yet generally the major regulatory constraints to investment seem to be of a passive nature, the outcome of an administration that is extremely procedure oriented, which encourages risk-averse, overly cautious behavior from professional staff and where, more often than not, decisions are taken after much hesitation and, per force, involving a large number of individuals. As a result, final decisions concerning investment license applications rarely take less than six months and sometimes are delayed up to three to four years. Thus, many of the obstacles that investors face are not deliberate, but the outcome of a control-oriented environment.

2.09 A few examples concerning actual or potential investment projects illustrate that in Malawi there does not exist yet an operating environment that "lets people get on with their business", as aptly put by a manager of a concern.

- lime-based polysulfide project—still not approved after three years.

- blankets for low-income consumers—applicant has been waiting for an answer from MTIT for one year ("every month you are reminding them, and there is no reply").

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8/ In the textiles sector, the firm David Whitehead & Sons is protected from both domestic and import competition, which has allowed it to maintain "considerable" profit margins over time. The price of DW& S basic product (cotton yarn) has accompanied the firm's cost inflation of 40%, increasing from 5 K to 7.01 K per kg since 1987. Blantyre Publishing and Printing also appears to enjoy "massive" markups, although prices of stationary and packaging have come down as a result of moderate import competition. A similar outcome is observed in the glass industry (a PG industries product), with prices dropping as import allocations have increased. Large markups also appear to characterize the production of plastic containers (by ECL), beer (by Carlsberg) and matches.

9/ It is worth noting that annual rejection rates for industrial investment licensing have been relatively low in the past (ranging from 5% to 15%), in contrast to long delays in granting approvals. The latter is a key administrative hurdle facing inventors.
polyester cotton fabrics manufacture—six months to obtain landlease from authorities in Salima.

ceramics—officials from the Geological Survey Dept. unwilling to supply available information necessary for project feasibility study.

black pepper—information from Ministry of Agriculture concerning chemical and other land characteristics for domestic and export-oriented spice production not forthcoming due to "lack of interest" of officials.

fruit canning—after five years, still no decision concerning Agricultural Development and Marketing Corporation's (ADMARC) divestiture of its inefficient, loss-making canning plant.

2.10 An environment that generates such passive blockages certainly does not encourage investment, but deters it even if, as an investor put it "at the end of the day, one gets a license." In fact, despite objections of potential competitors, MTIT does approve applications. Still, a combination of entry-deterring rules and an unwillingness or inability by officials to make decisions on a timely basis have stimulated monopolistic behavior by producers (and traders). In combination with foreign exchange scarcity (and constraints in transportation), such regulatory and tacit barriers have afforded incumbents large rents.

2.11 The importance of entry, along with an expansion of import flows (and improvement in transportation services), is illustrated below:

10/ Note in this regard that Press Steel and Wire is said to have objected to every single license applicant for the production of relevant steel products on the basis of excess capacity, yet with no success. In the 1970s there were two producers (PS&W and Steel Suppliers). Two firms entered the sector in late 1989 and another was applying in early 1990.
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- iron sheets--entry of a new producer led to prices falling by over 25% (from 4.69K to 30K per foot). It also brought in new wholesalers so that margins shrunk to approximately 10%.

- roofing sheets--new entries in 1989 have forced price reductions.

- plywood--prices have remained steady under an unstable duopolistic market (one competitor is a recent entry).

- PVC pipes--prices were systematically increased until the threat of two new entries led to a drop of 10%.

- plastic bags--presence of 4-5 producers has reduced prices to "affordable" levels.

- T-shirts and other knitwear--over 30 producers compete keenly in the market and hold prices down. Wholesale margins are on average 10% and retail margins are 20-25%.

2.12 Agents of Change and Investment Opportunities. Rents have shrunk not only in these traditional productive segments but in trading activities. In the current environment, profitability appears to decrease from production, to wholesaling, to retailing. In trading per se, a downward gradient is observed across capital goods, intermediates, consumer durables and non-durables. Yet despite still "impressive" margins in (the sale or rental) of electrical equipment and hardware, cranes and other machinery, cars (a "gold mine," with margins averaging 80% in early 1990) and spare parts, for example, the overall trend points to a fall in rents from trading. As a result, there is growing interest among producers and traders in entering new areas of production.

2.13 Wholesale traders appear particularly keen in going directly into production or stimulating other agents to do so. For wholesalers, the advantage of local production is clear: it reduces uncertainty,
decreases transportation costs, and by lowering the need to place large orders, lowers warehousing and other inventory costs. Moreover, wholesalers are positioned strategically in terms of market information on both inputs and final products. What they lack in production experience, they offset with management skills, access to capital, and market knowledge. These endowments tend, however, to be grossly underutilized in view of the common (mis)perception that traders are more interested in profiteering through short-term high-return activities.

2.14 There may have been substantial profiteering in the past (and there continues to be some in the present), not only among traders but producers as well. It is a normal response to the presence of scarcity rents, which can be traced to exogenous shocks and policies that restrict competition. Yet scarcity rents have come down significantly, and entrepreneurs are willing and capable of responding to the new incentive structure. Traders see growing opportunities in production. They should be encouraged to exploit these opportunities.

2.15 There are numerous examples of wholesale traders acting as "catalytic agents," identifying and developing profitable market niches for efficient import substitution or export-oriented activities. In some cases they have moved directly into production; in others they have stimulated firms to introduce new products, improve quality, and cut their costs. They have shown that there are many profitable opportunities in industrial activities in Malawi. Potential manufacturing entry points or actual profitable investments often either substitute or complement importing and distributing activities. They tend to be in labor-intensive, natural resource-based areas--particularly those that are agro-based--and that depend neither excessively on increasingly scarce resources (such as wood) nor on high import-content levels. Unless domestic value-added is significant, the output cannot compete with imports (as in the case of steel products, where imports make up 80% of the cost). Economically profitable opportunities can apparently be found in:
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- citrus fruits, fresh vegetables, mangoes for export (and, to a lesser extent, for domestic markets)

- processed fruits and vegetables (such as jams, margarine, shortening, tomato sauce and paste) for the Middle Eastern and African markets

- other processed food (such as instant coffee, mayonnaise, canned fish, biscuits)

- spices (soil and climate are highly favorable), including ginger and black pepper. They are high-value products (black pepper is priced at 55K per kilo) with ready access to export markets

- other local food products tailored to the African market

- cookware

- garments (with access to imported inputs at international prices)

- building material (window frames, floor and wall tiles, etc.)

2.16 From Blocking and Controlling to Facilitating and Promoting Investment. Investment response in Malawi now depends fundamentally on a shift in Government attitude—at this point it is the binding constraint. It is essential to seize the opportunity and efficiently use Malawi's substantial endowments. Above all, the Government must stop blocking or passively resisting investments that are clearly advantageous to the Malawian economy and must start facilitating and actively promoting the flow of resources into productive activity.
2.17 It should be stressed that resources from all of Malawi's communities should be mobilized. Most developing countries are now competing fiercely for sources of capital, particularly when combined with entrepreneurial and marketing skills, to improve productive efficiency and to enter world markets. They are purposefully attempting to diversify from traditional, commodity-based exports into new niches with higher value added. In this competitiveness race, these economies have been joined by a number of countries moving towards market-based allocative mechanisms and incentive regimes. Malawi can ill afford not to use a domestic entrepreneurial class that has the capability to identify profitable export-oriented investment opportunities and that is characterized by an increasing willingness to move aggressively into these areas. Possibly the largest class of such individuals is found in the Asian community, particularly in wholesale trading. They should not be discriminated against. To the contrary, the Government should clearly signal that it welcomes their investment activities, as they comprise possibly the major source of entrepreneurial skills, capital, and marketing knowledge in Malawi—exactly the most scarce resources in the country.

2.18 The Government's legitimate concerns that indigenous Malawians need to be brought into the mainstream of economic activity is not particularly helped by systematic discrimination against Asians or any other minority. The constraints preventing Malawians from entering into and expanding their business activities are fundamentally three: restricted access to broader and more stable markets, lack of training and managerial skills, and lack of finance. Asians and other communities can be mobilized to alleviate such constraints.

2.19 These business communities, composed of large number of traders, are well positioned to provide the critical links to domestic and international markets that now constrain the development of smaller firms. Producers in these communities can also be stimulated to undertake purposeful actions to develop the capability of indigenous entrepreneurs through purchases of inputs and subcontracting arrangements. A more open and liberal investment environment would foster closer and mutually profitable business links; it might be appealing to all parties. In terms of training and managerial skills, the Government may want to take a similar approach. Make a compact, whereby as investment restrictions are
2.20 Most smaller entrepreneurs face credit scarcity. It is essential that the financial system be opened to new agents with the capital and skills to stimulate business development and the growth of income-earning activities. At present, two commercial banks cater to the financial needs of industry. However, they leave unassisted a vast number of medium, small and micro enterprises as a result of very conservative practices concerning collateral requirements, minimum firm size, age, and market position. Banks basically finance well endowed and positioned producers who carry no risk, for all practical purposes. There is no question that the real sector would benefit from a more competitive financial market. Improved financial services require the Government to implement non-discriminatory rules and practices regarding entry into financial markets (as long as minimum capital requirements and other broadly accepted prudential regulations are obeyed).

2.21 An Investment Promotion Board—with Political Clout. A key step to stimulate investment in Malawi would be the formation of an investment promotion board (or center or agency) to implement the new political directives under a simplified and promotion-oriented investment code. The board should be a small, flexible and responsive agency, an interface between investors and government authorities or administrative staff. It should be in permanent contact with potential investors, supplying information, speeding decisions, matching needs with resources, agents and opportunities. Decisions should not take more than a specified period of time. On the aggregate, the whole investment approval process should not take more than 30 days, with one 30-day extension. This would be the most effective way to facilitate and actively promote investment.

2.22 The board would thus function as a one-stop window to which potential (foreign and domestic, indigenous or otherwise) investors would go for all government clearances and relevant investment-related information. This information would include investment opportunities, price and
availability of infrastructural services, labor market regulations, export facilities, etc. In addition, the board should be in position to furnish data on local partners, their interests, areas of expertise, and business plans.

2.23 The board should be staffed with investment promotion officers—counterparts of potential investors and the investors' liaison to government agencies. Is it of the utmost importance that an investment promotion board be staffed with individuals who are entrepreneurial, highly motivated, willing to take some risks, cut through the bureaucratic maze, talk to government players, and get things done. Investment case officers should come equally from the public and private sectors, in order to mix experience and skills, and for a set period of time (3-5 years). It is equally important that the managing director of the board have the confidence and support of the highest authorities and thus be able to back up the decisions of case officers. The actions of the board should be transparent, clear of discrimination or favoritism. For the board to succeed it needs at the outset an explicit and clear commitment from the President and the ministers to its promotion objectives and, progressively, an attitudinal change among government officials at all levels.

2.24 Establishing an effective investment board and opening the banking sector to new and more competitive actors would go a long way to stimulate productive investment in Malawi. Yet there are many other complementary actions needed to sustain investment and output growth, thereby allowing Malawi to grow out of its dependence on the donor community and multilateral finance institutions. These actions range from simplifying the tax structure and better targeting of tax instruments, establishing more effective export promotion mechanisms (drawback, surtax exemption and profit adjustment regimes appear to function quite poorly), expanding the network for training technical personnel, to improving institutional support for quality control, standardization and industrial technology development. These, however, are subject areas beyond the scope of this paper.
III. CONSTRAINTS FACING SMALLER FIRMS IN MALAWI:

SURVEY RESULTS

3.01 Malawi, like most other developing countries, is populated by many medium, small and micro enterprises (including self-employed producers). Concentrated in labor-intensive activities, they play an important role in employment creation and in income generation for the poor. In view of the seasonality of the economy, those activities are often critical for smoothing income flows and allowing families to cushion low levels of labor demand in the off season. In an aggregate, economywide sense, employment and income generation by smaller firms promotes the expansion of narrow domestic markets and brings improvements in income distribution.

3.02 Smaller producers in Malawi face thin and unstable markets with very scarce endowments. Their basic constraint (although not always perceived as such) is the inability to break the demand barrier, establish linkages with traders and larger firms, cater to broader markets, and thereby generate sufficient cash internally. Producers, being cash-strapped, point to input costs as excessive, are unable to meet customers' credit demands, and are continuously starved for credit, mainly for working capital purposes. Credit in particular, though important, only appears to be the underlying binding constraint; in fact, firms face problems of insufficient cash flow from catering to a narrowly confined market.

3.03 There are no precise statistics describing the universe of small and medium non-farm producers in Malawi.\textsuperscript{11} It is estimated that excluding one-person establishments, there are some 10,000 units in this category, most of them with fewer than four workers. Adding self-employed individuals engaged in manufacturing of some sort, the aggregate must reach 40,000. Smaller producers face a multiplicity of

\textsuperscript{11/} Most firms surveyed do not belong to the informal sector, if by "informal sector" it is understood to be the non-taxpaying segment of the economy; 89.6% of respondents paid taxes, and this proportion was nearly uniform across firm size.
constraints on their operations and on their ability to seize opportunities and enter new areas. The purpose of this section is to discuss the nature of such constraints and measures to overcome them. Much of the discussion is illustrated by a sample of 55 Malawian firms, concentrated in garments, furniture and other wood products, and metal products.¹²

3.04 As in other surveys of small enterprises in Malawi, the sample suggests a number of related obstacles to development of smaller firms. Most of these obstacles are an expression of highly constrained operating and investment budgets. Thus, major restrictions on firms' operations were the high price and limited access to credit for the purchase of raw materials, demand seasonality, and an excessive number of firms in the same business, with demand-related constraints more prevalent among smaller firms (Table 2).¹³ At the same time, marketing and distribution did not come up as an important restriction on firm operations despite perceived problems of feeble demand and excessive competition--it was mentioned in only 1.8% of the cases.

¹² Some of the propositions contained here also reflect findings from other surveys and assessments of small and medium enterprises in Malawi. We have drawn information from the following: a nationwide survey taken in 1986 of 1383 businesses, including 423 manufacturing, for the Rural Enterprises and Agrobusiness Development Institutions Project--here referred as the 'Readi survey'--the results of which can be found in A. Bobe et al., "New Directions for Promoting Small and Medium Scale Enterprises in Malawi: Constraints and Prospects for Growth," mimeo, June 1987; F. O'Regan et al., "Malawi: Informal Sector Assessment," mimeo, July 1989, which base their conclusions mainly on interviews with 76 entrepreneurs engaged in tailoring and metalwork in seven cities, towns and villages; D. Mead et al., "Strategies for Small and Medium Enterprises in Malawi," mimeo, August 1989; M. Nyanda, "The Pilot Credit Scheme for the Rural Landless Malawi Mudzi Fund--Draft Report of the Findings of a Baseline Survey Presented to the Government of Malawi," Mimeo, October 1989, reporting findings of a sample of 952 households in two districts (Mangochi and Chiradzulu); and World Bank, Malawi--Industrial Sector Memorandum, Report no. 7402-MAL, December 14, 1989.

¹³ When aggregating the three largest problems these firms face, the high price of raw materials again comes at the top (12.0%), followed by transportation costs (10.5%), credit for raw materials (9.8%), demand seasonality (9.8%), excessive competition (6.0%), other demand problems (5.3%), and need to give customers credit (4.5%). Many of these findings do not deviate from results of previous surveys and studies. In these, major restrictions on small firms included difficulty of obtaining funds for investment, little or no working capital, high cost of raw materials, tools and machinery, and constrained demand. See, for example, A. Bobe et al., op. cit., pp. 75-78; and F. O'Regan et al., op. cit., pp. 8 and 16.
Table 2: Major Operational Constraints by Firm Size \( g/ \)
(percentage of respondents)

<table>
<thead>
<tr>
<th>Problems</th>
<th>All Firms</th>
<th>Micro</th>
<th>Small I</th>
<th>Small II</th>
<th>Medium/Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. People aren't buying because it is the off season</td>
<td>10.9</td>
<td>11.8</td>
<td>10.0</td>
<td>7.7</td>
<td>20.0</td>
</tr>
<tr>
<td>2. Too many other firms in the same business</td>
<td>10.9</td>
<td>23.5</td>
<td>10.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>3. Other demand problems</td>
<td>9.1</td>
<td>11.8</td>
<td>15.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Input, Prices, Availability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Price of local raw materials is too high</td>
<td>16.4</td>
<td>11.8</td>
<td>25.0</td>
<td>15.4</td>
<td>0.0</td>
</tr>
<tr>
<td>5. Price of imported raw materials is too high</td>
<td>3.6</td>
<td>0.0</td>
<td>0.0</td>
<td>15.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Can't get credit for raw materials or working capital</td>
<td>16.4</td>
<td>17.6</td>
<td>15.0</td>
<td>15.4</td>
<td>20.0</td>
</tr>
<tr>
<td>7. Profits are too low to finance enough raw materials</td>
<td>5.5</td>
<td>0.0</td>
<td>5.0</td>
<td>15.4</td>
<td>0.0</td>
</tr>
<tr>
<td>8. Have to give too much credit to customers</td>
<td>3.6</td>
<td>5.9</td>
<td>0.0</td>
<td>7.7</td>
<td>0.0</td>
</tr>
<tr>
<td>9. Can't get credit for equipment</td>
<td>3.6</td>
<td>0.0</td>
<td>5.0</td>
<td>7.7</td>
<td>0.0</td>
</tr>
<tr>
<td>10. Other credit problems</td>
<td>3.6</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>40.0</td>
</tr>
</tbody>
</table>

\( g/ \) Firms are broken down into four size categories with 17 firms being classified as micro (1-3 workers, including owner and family members), 20 as small I (3-9 workers), 13 as small II (10-29 workers), and 5 firms as medium/large (30+ workers).

3.05 Limited Markets. In fact, it is producers' inability to overcome the confines of their markets that underlies most of the constraints pointed out in the sample. It is suggestive that among producers that have expanded production or capacity utilization since 1986, 73% were responding to a shift in demand. Among those that reduced output or capacity utilization in the same period, again two-thirds were responding to demand-related factors. Looking from a prospective angle, 57.1% of sampled firms that were planning to stay at the same level or reduce production were responding to demand restrictions. A similar
proportion of firms that were not producing more "at present" indicated the same class of reasons. Generally, therefore, the survey found producers to be demand constrained.

3.06 Producers in Malawi face an excessively circumscribed and variant demand base. Geographically, most products tend to be sold in the local town markets or in markets of nearby towns. Thus, for example, the ability to cater to distant buyers, domestically or overseas, was characteristic of only 7% of the sampled firms. Even more significant are the weak links to large-scale buyers and marketing networks. Less than a third of sampled producers sold their products to traders or other manufacturers (in the latter case, to serve as inputs), with the smallest firms characterized by the weakest market connections (Table 3). The generalized perception that competition has intensified, with a measured increase in the number of firms producing competitive products (in 45.5% of the cases in the sample, there were more than 10 firms manufacturing and selling in the producer's main market) is partly a reflection of the inability of firms to identify new market niches. Uncovering the latter would allow producers to move away from traditional sources of demand. Similarly, demand seasonality, for example, could be overcome if small firms were connected with larger markets directly, or more likely, through traders and producers.

3.07 Stuck in "small, isolated and slowly growing markets"14 and unable to retain enough profits, smaller firms can't accumulate capital at a fast enough pace to allow them to transform conditions of supply (revamping product lines, improving product quality, aggressively catering to broader markets) and thereby break the low/unstable demand equilibrium trap in which they are caught. Firms do save from profits, but the savings do not appear sufficient to change the way firms operate or the pace at which they invest.

14/ As aptly put by D. Mead et al., op. cit., p.iii.
### Table 3: Market Connections by Firm Size

<table>
<thead>
<tr>
<th>Nature of Buyers</th>
<th>All Firms</th>
<th>Micro</th>
<th>Small I</th>
<th>Small II</th>
<th>Medium/Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rural people/farmers/villagers</td>
<td>14.8</td>
<td>35.3</td>
<td>5.0</td>
<td>7.7</td>
<td>0.0</td>
</tr>
<tr>
<td>2. Low-income urban people</td>
<td>25.9</td>
<td>41.2</td>
<td>35.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>3. Upper-income</td>
<td>5.6</td>
<td>11.8</td>
<td>5.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>4. Foreigners</td>
<td>7.4</td>
<td>5.9</td>
<td>5.0</td>
<td>7.7</td>
<td>40.0</td>
</tr>
<tr>
<td>5. Traders</td>
<td>20.4</td>
<td>0.0</td>
<td>30.0</td>
<td>38.5</td>
<td>0.0</td>
</tr>
<tr>
<td>6. Shops/retailers</td>
<td>7.4</td>
<td>0.0</td>
<td>10.0</td>
<td>15.4</td>
<td>0.0</td>
</tr>
<tr>
<td>7. Government</td>
<td>5.6</td>
<td>5.9</td>
<td>0.0</td>
<td>7.7</td>
<td>20.0</td>
</tr>
<tr>
<td>8. Other industries</td>
<td>13.0</td>
<td>0.0</td>
<td>10.0</td>
<td>23.1</td>
<td>40.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Products Sold Directly to Large Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. On regular contract basis</td>
</tr>
<tr>
<td>10. Occasionally</td>
</tr>
<tr>
<td>11. No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Considering Producing for Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. Yes</td>
</tr>
<tr>
<td>13. No</td>
</tr>
</tbody>
</table>

### 3.08 Credit Restrictions

Credit restrictions. Meager cash flows, a weak collateral base, and excessively conservative lending practices by commercial banks deny most smaller firms access to credit. In the sample survey, only 16.4% of the firms had obtained a loan from a bank or promotion agency since start-up for either maintaining or expanding their business—6% of micro firms, 10% of small I firms, 31% of small II firms, and 40% in case of medium/large firms. In 52.7% of the cases, the primary source of finance was retained

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15/ In rural areas, credit coverage is even thinner. In the Mudzi Fund survey, less than 1% of the households ever obtained a loan for off-farm income generating activities. See M. Nyande, op.cit., p. 24.
earnings, the low volume of which helped dampen firm growth. Personal savings (12.7%) and profits from another business activity (5.5%) also provided funds to operate firms.

3.09 Investment finance, in particular, was in nearly 90% of the cases sourced from retained profits and personal savings. When the sample is broken down by size, there do not appear to be significant differences in terms of the mode of financing new investment. Profits from business and personal savings were the main source in the overwhelming majority of cases across all types of firms. In only one instance (for a small I firm), did a loan from a bank or promotional agency provide key finance.

3.10 Facing narrow and competitive markets, slow growing and seasonal demand, and unable thereby to mobilize internally or externally the volume of resources required to break out of this cycle, small firms tend to be credit starved. Of the sampled firms, 32.7% found that investment credit with nominal annual interest rates of approximately 50% (some 35% in real terms) to be "moderate to very useful". For working capital, the proportion of firms willing to borrow at these (very high) rates was 60%. In fact, 65.5% of the respondents thought that it would be "somewhat difficult" or "very difficult" to obtain a loan from a commercial bank, even if the bank had resources available to lend to business people like the respondents. These results reflect the fact that 72.8% of producers either had tried to get a loan from a bank or promotion agency, but failed, or were insufficiently encouraged to try (though not less than 83.6% of respondents had bank accounts and transacted with banks on a regular basis as depositors).

3.11 Although the proportion of firms receiving loans from banks or (more likely) promotion agencies increased from 12.5% to 20%, 30.8%, and 75% as one moves from micro to small I, small II and medium/large firms, access to credit seems to be uniformly limited across firm size, or at least is perceived to be so by firms of different sizes. Indeed, between 60-70% of producers in all size categories (except for

16/ In the "Readi" survey, 96% of the businesses interviewed "funded business expansions out of business savings", whereas "only 16% applied for any loan during the previous two years [from the time of interview]." (p.39).
medium/large, where the proportion was 80%) asserted that to obtain a loan from a commercial bank would be "somewhat or very difficult;" similarly, 60-80% of firms expressed the belief that getting credit was a "moderate or major problem." Equally important, loans for working capital and new investment at high real interest rates (in the order of 35% per annum) were "moderately or very useful" for equally large proportions of firms in the sample, independent of their size category.17

3.12 Yet obtaining credit per se would hardly be the deus-ex-machina for their prosperity. There is no question that credit is a major problem in the sense that coverage by Malawi's two commercial banks and the government promotion agencies is quite limited. The impression is that there are a very large number of profitable investment opportunities that medium, small and micro enterprises are unable to respond to in view of credit constraints. Yet first and foremost, producers have to connect with broader, more stable and larger markets.18 The transformation of the Malawian small enterprise productive structure needs to be demand driven. Missing market links appear to be the most binding constraint to small producer development.

3.13 It is telling that while a limited market was perceived by 58.8% of micro firms to be a "moderate or major problem" (in contrast to only 35% of small I firms and 15.4% of small II firms), marketing and access to distributors was a restriction perceived to be significant ("moderate or major problem"), mostly among small II firms (in 66.7% of the cases). It is among these relatively larger firms, many in the process of "graduating" towards medium size, owned by individuals with less circumscribed horizons, that one finds a greater preoccupation with establishing effective marketing channels.

Despite such intensely felt need for credit, in only one case did a producer admit to having obtained funds from a "katapila" (money lender). Similarly, in the survey of tailors and metalworkers conducted by F. O'Regan et al., op.cit., none of the interviewees admitted to receiving loans from a "katapila" (p.28). Such low frequency could be related either to the illegal nature of the transaction and the fear of reporting it (according to the Money Lenders Act nominal interest rates are limited to 30% yearly whereas interest rates in Lilongwe range from 40-50% and up to 100% for the term of the loan--usually 30-90 days) or to the fact that "katapila" credit is said to be extended largely for salaried workers' consumption purposes.

See D. Mead et al., op.cit., section II.
Credit constraints are possibly most binding at the time of entry, when firms have just been formed and sales are naturally small. Marketing efforts do not translate into immediate cash generation, and unless credit is available, entry is unlikely for many potentially successful small producers. Indeed, at start-up it is not altogether clear which producers will succeed and which will not. Such uncertainty suggests that credit for promoting entry should be less discriminatory than credit for incumbents, which have already developed a track record. In addition, the economic benefits from entry of new agents in the market and the importance of supporting income-generating activities to improve distributional equity, justify broadening credit activities by bank and promotional agencies.

Access to credit at start-up was considered to be a moderate or major problem by 76.4% of sampled firms (that expressed their opinion). Most producers in the sample (61.8%) resorted to personal savings as the primary (and often only) source of finance for start-up, whereas loans or gifts from family or friends supplied major funding in only 10.9% of the cases (Table 4).\textsuperscript{19} In fact, the difficulty of obtaining entry funds from family members was considered a problem—moderate or major—by 80% of producers. Other factors that function as entry barriers are cost of credit (a moderate or major problem for 57.4% of producers), cost of equipment and raw materials (52%), marketing and access to distributors (45.1%), location approval (42.8%), transportation (41.5%), level of demand (38.1%), and government's attitude towards private investment (37.5%).

\textsuperscript{19/} According to the "Readi" survey, "nearly all businesses were started with owners' own funds...Frequently the savings came from earnings or sale of other businesses. Relatives or 'friends were the source of loans for [6-7% of] firms."
### Table 4: SOURCES OF START-UP FINANCE

<table>
<thead>
<tr>
<th></th>
<th>All Firms</th>
<th>Micro</th>
<th>Small I</th>
<th>Small II</th>
<th>Medium/Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Personal savings</td>
<td>67.8</td>
<td>76.5</td>
<td>65.0</td>
<td>53.8</td>
<td>20.0</td>
</tr>
<tr>
<td>2. Profits from another business activity</td>
<td>12.7</td>
<td>0.0</td>
<td>15.0</td>
<td>15.4</td>
<td>40.0</td>
</tr>
<tr>
<td>3. Loans or Gifts from family or friends</td>
<td>10.9</td>
<td>11.8</td>
<td>10.0</td>
<td>7.7</td>
<td>20.0</td>
</tr>
<tr>
<td>4. A loan from a bank or promotional agency</td>
<td>9.1</td>
<td>5.9</td>
<td>10.0</td>
<td>15.4</td>
<td>0.0</td>
</tr>
<tr>
<td>5. A loan from a money lender</td>
<td>3.6</td>
<td>5.9</td>
<td>0.0</td>
<td>0.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

3.16 Regarding government regulations, it is worth noting that obtaining location approval is a "major problem" not only for a significant proportion of micro firms (46.7%) but particularly so for small II and medium/large firms (50% and 66.7%). More generally, the Malawi Government's attitude toward private investment was perceived to be a "major problem" among relatively few micro firms (16.7%) but for an increasing proportion of micro I, micro II and medium/large firms (respectively 22.2%, 30.8% and 60%). These results are consistent with the view espoused by numerous agents in the business community, namely that the policy and regulatory regimes in Malawi are not supportive of firm growth and investment expansion.

3.17 Confined Horizons. A number of other constraints affect the development of small firms in Malawi. They are related to producers' limited ability to search and seize new opportunities. Most firms ignore how to move out of their low-level equilibrium demand "trap;" their world view is quite restricted. What is being described is not a problem of absence of motivation, an unwillingness to take risks, move into new activities or improve one's lot. To the contrary, there is considerable entrepreneurial spirit among small producers. Most were relatively young at start-up (they averaged 31 years) and went into business either because they trained for it (though not necessarily through formal channels)—in 32.7% of the cases—or because they saw a profitable opportunity and took it—in 27.3% of the cases. In only 16.4% of the cases,
the fact that parents/relatives were in business was the defining factor. Absence of job opportunities elsewhere (10.9%) or loss of job (7.3%) were even less important factors.

3.18 One also finds much optimism among producers. A majority intends to expand production and capacity "substantially" (47.3%), expand production though not necessarily capacity (10.9%) or shift to new products (12.7%). Only 25.5% intended to produce at the same output level and composition in the future, and none was interested in reducing production. These views are significant in that they suggest an expanding commitment to the business of production despite considerable odds. In part, such a growth-oriented attitude may be explained by the fact that uncertainty about the economy does not appear to be a major or even moderate problem for the vast majority of producers (over 85%).

3.19 Clearly, however, these are merely statement of intentions, as many producers may not be in a position to implement their plans. This is not only due to weak market links (as already argued) but also in view of relatively low education levels. Lack of education implies a limited understanding or vision of market opportunities and inability to respond to technological challenges. More generally, education is important to overcome a parochial view of the world. It allows one to speak an increasingly universal language of business opportunities and transactions. Education is critical if small producers are to break into larger and more competitive markets and have a better grasp of commercial relations. It would provide the skills to identify partners or buyers, understand contracts, negotiate on equal terms (except for market-determined asymmetry in power), in sum, the means to understand and manipulate the business environment.

3.20 In the sample, 41.9% of owners had only primary or no education at all, whereas just 27.3% completed technical or post-secondary education. Equally important, most producers neither had engaged

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20/ In the Readi survey, most entrepreneurs said they intended to expand or improve their businesses by buying more equipment (69%), offering better or new products or services (89% and 78% respectively).
in apprenticeship (51.9%) nor had participated in government training or industrial extension programs (70.9%). Producers are, however, eager to obtain training; and interest in improving their basic entrepreneurial skills was expressed in the demand for short (two-week) training courses in marketing (34.5%), skills to obtain financial services from a bank (20.0%), accounting, and to gain more familiarity with different technologies (18.2% each).

3.21 Macro Environment. The development constraints faced by smaller producers in Malawi and their structurally subordinate position in the economy do not allow for an optimistic view of their capability to generate investment and output growth. In fact, the prospects for small producers in Malawi depend above all on the overall strength of the economy. To the extent that the adjustment process supports a more stable macroeconomic environment, decreases foreign exchange scarcity, and improves policy credibility, it creates conditions for the resumption of moderate rates of growth over the medium term. Economic growth and income expansion are primary conditions for entry of new agents in the market and progressive expansion of small firms that already populate it. As economic conditions improve, entry tends to accelerate. In the survey, for example, 27.3% of the firms entered the market in 1989 alone.

3.22 Thus, difficulties facing small producers have not appeared to deter entry as long as economic prospects and profit expectations were positive, as they have been since the late 1980s. Yet the probability of smaller firms moving into larger markets depends less on one-time entry moves and more on their ability to generate resources and accumulate capital. Positive economic prospects and the incentives they provide for entry are only necessary conditions for small firms to expand their activities, improve their product line and "graduate" into more dynamic and profitable markets.

3.23 In this respect, the survey results suggest that among smaller producers, one size category seems to be particularly responsive to a more supportive macro environment. Firms employing between 10 and 29 workers ("small II") appear to the most dynamic in many respects. First, in terms of investment response: nearly 92% of these firms purchased equipment since 1986, a proportion significantly higher than
all other size categories (which averaged 69%), including medium-large firms. No doubt this was partly a reflection of the fact that since that year, the largest proportion of firms which increased production were in the small II category.

3.24 Second, if change in product mix denotes responsiveness to shifting market demand, again the small II size category seems to the most responsive to buyer needs: 63.6% of all such firms changed product mix since 1986, above the average of all other sampled categories (48.9%). High responsiveness to shifting consumer patterns is also denoted by the fact that small II firms were the ones most aware of the importance of marketing efforts and access to distribution channels: over 66% thought they constituted a "major problem," whereas samplewide average was just 39.2%.

3.25 Finally, although small II firms are at least as constrained as others when it comes to government regulations (as noted above in terms of location approvals), access to credit (nearly 77% of such firms responded that access to credit was a "major problem") and other operational restrictions, their business plans for the future more often than not call for substantial expansion of production. The presence of such firms in the market, and their responsiveness to a more stable, open and competitive environment, bodes well for the future of Malawian industry.
IV. CONCLUDING REMARKS

4.01 In the last decade Malawi has undergone considerable efforts at adjusting its economy to adverse shocks in terms-of-trade and transportation costs. At the same time there was a relatively successful attempt to cope with a large refugee influx despite rapid population growth and limited resource base. Due to a mixture of conservative economic management, political and institutional stability, and commitment from international institutions and the donor community, Malawi is now poised for a period of sustained growth. Yet sustainability will be critically dependent on the size and nature of the investment response.

4.02 The Government should facilitate and actively promote productive investment by larger firms. These firms have an effective capacity for rapid capital accumulation and for bringing smaller producers of seasonal-dependent activities into larger and more stable markets. Yet these agents encounter systematic blockages to their investment decisions. Some of these are active barriers in terms of firm registration and investment licensing and other elements of a regulatory character. More often, however, the blockages are of a passive nature, an unwillingness by officials to speed up the process, furnish information, cut the red tape.

4.03 If for larger producers and traders the barriers to investment are mostly related to administrative practices and bureaucratic habits and procedures, for smaller firms and micro producers what hurts most is their inability to access larger and fast-growing markets. Limited in their ability to generate internal resources, small producers tend to be credit starved, in an environment where commercial banks are unresponsive to their needs. They lack the skills to crack the system and use financial institutions and instruments for their basic working capital and investment requirements.

4.04 Small firm development in Malawi depends fundamentally on the progressive integration of such firms into private marketing and trading networks, and in their ability to act as suppliers/
subcontractors to larger enterprises. In this sense, the expansion of the trading network in Malawi should not be regarded as adverse to the growth of productive forces in the small-scale sector. Traders (just as larger producers) should be stimulated to link up more closely with domestic producers.

4.05 Integration by small firms into market networks, as well as their participation in input linkages and subcontracting arrangements, should be actively promoted. Members of successful business communities should be encouraged to "lend a helping hand" to indigenous firms, including promising start-ups. In the short term it would generate good will; in the medium and longer term it means good business. Increased efforts in general education, the dissemination of entrepreneurial skills, and in-house management "apprenticeship" will also be required for small producers to integrate into larger and more stable markets. Producers must learn to look beyond their immediate horizon. They need to forge new relationships with progressive traders and more successful producers upstream. They need to be educated and trained to take full advantage of new opportunities.

4.06 This suggests a two-track, mutually reinforcing strategy towards private investment. On the one hand, the Government would actively promote substantial investment outlays by speeding up decisions, supplying information on a timely basis, simplifying procedures, and facilitating the operation of firms. A focus on larger traders and producers would not be to the exclusion of smaller enterprises, however. Improved market connections, greater access to finance, less stringent location rules and a focus on entrepreneurial education and training, would be major steps to promote their development.
BIBLIOGRAPHY


QUESTIONNAIRE FOR SMEs AND INFORMAL SECTOR

(Circle the number next to the correct response.
If no response is given, circle the number next to N/A, except where instructions say to leave blank)

A. Basic Information

/1. Name of person interviewed: ______________________________________________

/2. Position of person interviewed: ____________________________________________

/3. Name of firm: __________________________________________________________

/4. Address: __________________________________________________________________

5. Principal product/activity: ________________________________________________

[ 6. Coder: ISIC Code ______________________________________________________________________
N/A = 9999

/7. Secondary product/activity: ________________________________________________

N/A = 9999

/9. Origin of firm. Why it was started and when, by whom, with what products? Major differences now vs. when it was established? (Do not prompt; more specific questions will be asked later)

___________________________________________________________________________

___________________________________________________________________________

___________________________________________________________________________

Note: / before a question means it will not be coded.
B. **Current Problems**

10. What are the three largest problems affecting your business now?

   ![Code] **Explanation** *(Write down the responses)*

<table>
<thead>
<tr>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>10A.</td>
</tr>
<tr>
<td>10B.</td>
</tr>
<tr>
<td>10C.</td>
</tr>
</tbody>
</table>

(After respondent gives own answers, follow up if necessary to discover the root problem; circle up to 3 responses below.)

**Demand**

1. People don't have enough money (generally)
2. People aren't buying because it is the off season
3. Too many other firms in the same business
4. Too many imports
5. Other demand problems (specify) ____________

**Raw Materials**

6. Can't get enough local raw materials
7. Price of local raw materials is too high
8. Can't get enough imported raw materials
9. Price of imported raw materials is too high
10. Other; (specify) ________________________

**Technology. Equipment**

11. Equipment is old and needs replacing or updating
12. Replacement costs are too high
13. Can't get spare parts
14. Other; (specify) ________________________

**Finance**

15. Have to give too much credit to customers
16. Profits are too low to finance enough raw materials
17. Profits are too low to finance new equipment
18. Can't get credit for raw materials or working capital
19. Can't get credit for equipment
20. Banks are too difficult to deal with
21. Interest rates are too high
22. Other; (specify) ________________________
Labor

41. Lack of skilled workers; workers don't have the right skills
42. Lack of unskilled workers
43. High wages and benefits for skilled workers
44. High wages and benefits for unskilled workers
45. Not allowed to lay workers off
49. Other; (specify) ________________________________

Infrastructure

51. Lack of electricity
52. Interruption of electricity
53. Transportation costs are too high
59. Other; (specify) ________________________________

Business Environment

61. Taxes
62. Regulations, licensing, permits
63. Obtaining foreign exchange
64. Rules and policies change too often
65. Standards and quality requirements (e.g., for gov't. procurement)
69. Other; business environment (specify) ________________________________

Marketing and Distribution

71. Too few distributors
72. Distributors won't handle my product
73. Distributors will pay too little for my products
79. Other; (specify) ________________________________
90. Other; (specify) ________________________________
99. N/A = not asked, not applicable, no answer

C. Owner's Training and Use of Institutions

11. Why did you go into business?

1. because parents/relatives were in business
2. few job opportunities elsewhere
3. training prepared me for it
4. saw a profitable opportunity and took it
5. lost my job or was laid off
6. other (specify) ________________________________
12. Current age: _______ years old  
[coder: leave blank if not answered]

13. Years of school: ____ (including formal training)  
[coder: leave blank if not answered]

14. Highest level of school completed: 0. None 1. Primary 2. Middle  
7. Post-Secondary 9. N/A

15. Years of apprenticeship: 0. None ____ years  
[coder: leave blank if not answered]

16. Have you participated in government training or industrial extension  
programs? 1. Yes 2. No 9. N/A

If so, what kind of program? ____________________________________________

17. Would you be interested in a two-week training course in any of the  
following subjects? (circle only the most important one)

0. none  
1. accounting or bookkeeping skills  
2. marketing  
3. skills to obtain financial services from a bank  
4. more familiarity with different technologies  
5. other (specify) ____________________________  
9. N/A

18. Are you a member of a trade association or other membership  
organization? 1. Yes 2. No 9. N/A

If so, name of association ____________________________________________

D. Firm Characteristics

19. Ownership of firm: 1. 100% Private Malawian 2. 100% Private non- 
indigenous Malawian 3. Joint indigenous and non-indigenous Malawian  
4. Other 9. N.A.

20. What year did this firm begin production? ____________________________

21. What is the value of monthly sales? MK ____________________________  
[Interviewer: if unknown, go to 22].  
[If answered, go to 23].

/22. What quantity of your principal product do you sell:

<table>
<thead>
<tr>
<th></th>
<th>(number)</th>
<th>(units)</th>
<th>per month</th>
<th>per week</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>________</td>
<td>________</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What is the price per unit? [coder: calculate monthly sales and enter in 21]

Current Labor (enter 0 for none; leave blank if no answer)

23. ______ Full-time wage workers
24. ______ Part-time wage workers
25. ______ Apprentices
26. ______ Owners and full-time family members
27. ______ Total, all workers, owners and family members
of which:
28. ______ males
29. ______ females
(Note: #28+#29 = #27)

Previous total workers
(including apprentices, owners, and full-time family members)

30. ______ at start-up
31. ______ in 1981
32. ______ in 1986
33. ______ at peak (year: 19____)

E. Product Marketing and Competition

34. Are you selling everything that you produce? (Follow up)

1. Yes, and could sell more (Go to 35)
2. Yes, but couldn't sell much more (Go to 36)
3. No (Go to 36)
9. N/A

/35. If you could sell more than you are producing, what is the main reason you are not producing more?

36. If you could sell all that you produce, how much more could you reasonably produce with your existing equipment and workers? (Assume unlimited demand)

_______ % more than at present
9999. Firm not presently operating

[For N/A leave blank]

[37. Programmer: Capacity utilization = 100/(1+(<#36>/100))]
38. Where are most of your products sold? Additional sales to:
(circle one only) (circle as many as apply)
1. in the local town market
2. in markets in surrounding towns
3. mostly in Blantyre/Lilongwe
4. overseas
5. other (specify) _________________
9. N/A

39. What kind of people buy most of your products? Additional sales to:
(circle one only) (circle as many as apply)
1. rural people/farmers/villagers
2. low-income urban people
3. upper-income
4. foreigners
5. traders
6. shops, retailers
7. government
8. other industries (as inputs)
9. N/A

40. Who are your main competitors? (circle one)
0. none
1. other small firms
2. large domestic firms
3. large and small about equally
4. imports
5. others (specify) ________________________________
9. N/A

41. How many other firms produce and sell in your main market?
0. None 2. 1-2 3. 3-5 4. 6-10
5. More than 10 9. N/A

42. Has the number of firms producing your product become greater since 1986?
1. Yes 2. No 9. N/A

43. Do you export your product (directly or through traders)?
1. Yes, export directly
2. Yes, export mainly through traders
3. No (Go to 49)

44. If yes, about what % of output is exported: ___%

45. Are you considering producing for exports? 1. Yes 2. No 9. N/A
If so, what are the main obstacles? ________________________________
F. **Input-Output Linkages**

46. What proportions of your raw materials (or final goods if trader) are:
   
   ___ % imported by you or an importer (coder: enter this)

   ___ % local: produced nearby (including waste and scrap, even if generated from imported goods)

   ___ % local: produced elsewhere in Malawi

47. Compared to 1986, is the proportion of your raw materials that is imported:

   1. greater  
   2. about the same  
   3. less  
   9. N/A

48. Do you buy raw materials directly from large firms in Malawi:

   1. Yes, regularly; What?

   2. Yes, when can't get in the market; What?

   3. No  
   9. N/A

49. Do you sell your products directly to large firms in Malawi?

   1. Yes, on regular contract basis; What?

   2. Yes, occasionally

   3. No  
   9. N/A

50. Which public services does your business use? (Circle one)

   0 none

   1. electricity only

   2. water only

   3. electricity and water

   4. other (specify) ____________________________

   9. N/A

51. What main problem have you had with these services?

   0 none

   1. occasional interruption

   2. frequent, longer or serious interruptions

   3. too expensive

   4. delay in obtaining

   5. other (specify) ____________________________

   9 N/A
G. Impact of Adjustment

52. Have you purchased new equipment since 1986? 1. Yes 2. No 9. N/A

53. If yes, what was the main source of finance to pay for it?

0. profits from the business
1. personal savings
2. funds from a savings group
3. money lender
4. a loan or gift from family or friends
5. a loan from a local credit or savings society
6. a loan from a bank or promotional agency
7. a co-investor
8. other (specify) ___________________________
9. N/A

54. Have you changed your mix of products since 1986? 1. Yes 2. No 9. N/A

Few products ___________________________
Producing more of ___________________________
Producing less of ___________________________
Stopped production of ___________________________

55. Since 1986, how has your production (or capacity utilization) changed? For what single most important reason? (circle only one)

0. No significant change
1. Increased, because foreign exchange (inputs) more available
2. Increased, because local raw materials are more available
3. Increased, because demand has increased as economy has grown
4. Increased, other reason (specify) ___________________________
5. Decreased, because demand is weak
6. Decreased, because of competition from imports
7. Decreased, because of increased domestic competition
8. Decreased, because of high costs of imports (specify) ___________________________
9. Decreased, other reason (specify) ___________________________
99. N/A

56. Is your business currently making profits? (are you getting any income out of it?)

1. Yes 2. No 9. N/A
57. Is your business more or less profitable now than at this time last year?

0. About the same
1. More profitable
2. Less profitable
9. N/A

58. What do you plan for your business in the future? (Circle One)

0. Maintain production at the same level and composition
1. Maintain production level but switch to a new product
2. Substantially expand production and capacity (increase size of the firm)
3. Expand production without substantially changing capacity (keep firm about same size)
4. Reduce production
5. Other (specify) ________________________
9. N/A

59. If you plan to stay at the same level or reduce production, why are you not interested in expanding your business?

Main reason (circle only one) Additional reasons: (circle as many as apply)

1. It meets my needs at the present level. 1.
2. I couldn’t sell more if I produced more. 2.
3. Seasonality of demand. 3.
4. No funds to finance an expansion. 4.
5. Afraid to risk a new investment 5.
6. Other (specify) ________________________ 6.
9. N/A
### H. Finance and Credit

#### 60. How did you finance the start-up of your business? (up to two answers)

<table>
<thead>
<tr>
<th>60A. Primary source (circle one)</th>
<th>60B. Secondary source (circle one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. profits from another business activity</td>
<td>0.</td>
</tr>
<tr>
<td>1. personal savings</td>
<td>1.</td>
</tr>
<tr>
<td>2. funds from a savings group (village)</td>
<td>2.</td>
</tr>
<tr>
<td>3. a loan from a money lender (catapilla)</td>
<td>3.</td>
</tr>
<tr>
<td>4. loans or gifts from family or friends</td>
<td>4.</td>
</tr>
<tr>
<td>5. a loan from a local credit or savings society</td>
<td>5.</td>
</tr>
<tr>
<td>6. a loan from a bank or promotional agency</td>
<td>6.</td>
</tr>
<tr>
<td>Name of bank or agency</td>
<td></td>
</tr>
<tr>
<td>7. one or more co-investors</td>
<td>7.</td>
</tr>
<tr>
<td>8. other (specify)</td>
<td>8.</td>
</tr>
</tbody>
</table>

#### 61. Since start-up have you gotten additional funds for expanding or maintaining this business from: (up to two answers)

<table>
<thead>
<tr>
<th>61A. Primary source (circle one)</th>
<th>61B. Secondary source (circle one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0. profits from another business activity</td>
<td>0.</td>
</tr>
<tr>
<td>1. personal savings</td>
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<td></td>
</tr>
<tr>
<td>7. one or more co-investors</td>
<td>7.</td>
</tr>
<tr>
<td>8. other (specify)</td>
<td>8.</td>
</tr>
</tbody>
</table>
62. In the past, how have you normally financed your purchases of raw materials? (up to two answers)

<table>
<thead>
<tr>
<th>62A.</th>
<th>Primary source (circle one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>advances from customers</td>
</tr>
<tr>
<td>2.</td>
<td>from business profits, cash reserves</td>
</tr>
<tr>
<td>3.</td>
<td>credit from suppliers</td>
</tr>
<tr>
<td>4.</td>
<td>bank overdraft</td>
</tr>
<tr>
<td>5.</td>
<td>loan from bank or promotional agency</td>
</tr>
<tr>
<td>6.</td>
<td>other (specify)</td>
</tr>
<tr>
<td>9.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>62B.</th>
<th>Secondary source (circle one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>advances from customers</td>
</tr>
<tr>
<td>2.</td>
<td>from business profits, cash reserves</td>
</tr>
<tr>
<td>3.</td>
<td>credit from suppliers</td>
</tr>
<tr>
<td>4.</td>
<td>bank overdraft</td>
</tr>
<tr>
<td>5.</td>
<td>loan from bank or promotional agency</td>
</tr>
<tr>
<td>6.</td>
<td>other (specify)</td>
</tr>
<tr>
<td>9.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

63. Suppose you have an important order to complete next month and you need money to purchase the necessary raw materials. From which of the following sources are you most likely to be able to obtain the finance:

<table>
<thead>
<tr>
<th>63A.</th>
<th>Most likely source (circle one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.</td>
<td>could not get any finance</td>
</tr>
<tr>
<td>1.</td>
<td>cash reserves of the business</td>
</tr>
<tr>
<td>2.</td>
<td>personal/family savings</td>
</tr>
<tr>
<td>3.</td>
<td>suppliers of the materials</td>
</tr>
<tr>
<td>4.</td>
<td>money lender</td>
</tr>
<tr>
<td>5.</td>
<td>credit or savings society</td>
</tr>
<tr>
<td>6.</td>
<td>bank overdraft</td>
</tr>
<tr>
<td>7.</td>
<td>loan from bank or promotional agency</td>
</tr>
<tr>
<td>8.</td>
<td>other (specify)</td>
</tr>
<tr>
<td>9.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>63B.</th>
<th>Secondary source (circle one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.</td>
<td>could not get any finance</td>
</tr>
<tr>
<td>1.</td>
<td>cash reserves of the business</td>
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<td>2.</td>
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<td>suppliers of the materials</td>
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<td>5.</td>
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<td>bank overdraft</td>
</tr>
<tr>
<td>7.</td>
<td>loan from bank or promotional agency</td>
</tr>
<tr>
<td>8.</td>
<td>other (specify)</td>
</tr>
<tr>
<td>9.</td>
<td>N/A</td>
</tr>
</tbody>
</table>

64. How useful would it be for your enterprise to receive credit for the following purposes, at approximately 50% annual interest (i.e., pay MK 40/month interest on MK 1,000 loan until can pay back the MK 1,000):

<table>
<thead>
<tr>
<th>Not so Useful</th>
<th>Moderately Useful</th>
<th>Very Useful</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>63. rehabilitation</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>64. new investment or</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>65. working capital</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>
65. If credit would be useful to you and if commercial banks have money available to lend to businesses like yours, how easy do you think it would be to obtain a loan from one:

<table>
<thead>
<tr>
<th>Very easy</th>
<th>Somewhat easy</th>
<th>Somewhat difficult</th>
<th>Very difficult</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

66. Since 1986, have you tried to get a loan from a bank or promotion agency?

1. Yes, loan received
2. Yes, but not successful
3. No
9. N.A.

67. Do you have an account in a bank?  

1. Yes  
2. No  
9. N/A

I. Regulation and Other Constraints

68. Is this firm registered or licensed?  
(circle as many as apply)

0. No
1. Registered as a business  
2. Manufacturing license from MTIT 78A. ____
3. Other registration 78B. ____
(specify) __________________________
4. District Council: Is this just an annual fee?  
   ____ Yes  ____ No
9. N/A

69. If licensed with MTIT, how long did it take to obtain a manufacturing license?

0. Same day 1. less than a month; or # of months ____
[coder: leave blank if not answered]

70. Are taxes paid to local (district or town) authorities?  

1. Yes  
2. No  
9. N/A

71. Are taxes paid to national authorities?  

1. Yes  
2. No  
9. N/A
Suppose that a Malawian wants to **invest** in a manufacturing enterprise (in the same subsector as the interviewee), what sort of obstacles will he or she face, and how serious are they (on a scale from 1 = no problem to 4 = major problem):

<table>
<thead>
<tr>
<th>No Problem</th>
<th>Minor Problem</th>
<th>Moderate Problem</th>
<th>Major Problem</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>72. Getting registered</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>73. Getting Location Approval</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>74. Getting other Government approvals</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>75. Government attitude toward private investment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>76. Uncertainty about the economy</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>77. Getting funds from family members</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>78. Getting credit</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>79. Cost of credit</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>80. Level of demand (not enough buyers; limited market)</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>81. Getting technical assistance</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>82. Getting skilled workers</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>83. Level of taxes</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>84. Getting electricity, water</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>85. Transportation</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>86. Marketing, access to distributors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>87. Getting equipment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>88. Cost of equipment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>No Problem</td>
<td>Minor Problem</td>
<td>Moderate Problem</td>
<td>Major Problem</td>
<td>N/A</td>
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<tr>
<td>------------</td>
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<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

89. Getting raw materials
90. Cost of raw materials

/91. Please specify which government regulation you would most like to have abolished or reduced, and why: ________________________________  
________________________________________________________  
________________________________________________________  
________________________________________________________
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