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**STUDY ON OPTIMAL SME
INSTITUTIONAL SET-UP**

FINAL REPORT

Price Waterhouse Associates



69A
Taville

**STUDY ON OPTIMAL SME
INSTITUTIONAL SET-UP**

FINAL REPORT

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MAY 1991

TABLE OF CONTENTS

	Page No.
1. INTRODUCTION	
1.1 Background	1
1.2 Scope of Work	2
1.3 Conduct of the Study	6
1.4 Structure of the Report	7
2. DEVELOPMENT OF OPTIONS	
2.1 Development of Option	8
2.2 Summary of Issues and Option	11
2.2.1 SME Policy Formation, Coordination and Monitoring	12
2.2.2 Prioritising Institutional Support	13
2.2.3 Project Identification and Promotion	14
2.2.4 Organisational and Management	14
2.2.5 Finance	15
2.2.6 Advisory Services	16
2.2.7 Training	17
3. SELECTED OPTIONS	
3.1 Introduction	18
3.2 Summary of Issues and Selected Options	18
3.2.1 SME Policy Formation, Coordination and Monitoring	18
3.2.2 Prioritising Institutional Support	19
3.2.3 Project Identification and Promotion	20
3.2.4 Organisational and Management	21
3.2.5 Finance	22
3.2.6 Advisory Services	23
3.2.7 Training	24
3.3 SME Definition of Enterprise size	24
4. IMPACT OF SELECTED OPTIONS ON SME SECTOR AND CORE INSTITUTIONS	
4.1 Introduction	26
4.2 Office of the President and Cabinet (OPC)	27
4.3 Ministry of Trade and Industry (MTI)	29
4.3.1 Policy Formulation, Evaluation and Monitoring	30
4.3.2 Small Scale Industries Unit (SSIU)	32
4.3.3 Income Generating Activities/Micro Enterprises	37
4.3.4 Project Identification and Promotion	32

4.4	Small Enterprise Development Organisation of Malawi (SEDOM)	33
4.4.1	Management	34
4.4.2	Loan Portfolio	34
4.4.3	Loan Appraisal	35
4.4.4	Training	36
4.4.5	Implementation	36
4.5	Investment and Development Fund (INDEFUND)	37
4.6	Malawi Union of Savings and Credit Cooperatives (MUSCCO)	38
4.7	Development of Malawi Traders Trust (DEMATT)	38
4.7.1	Management	39
4.7.2	Structure	39
4.7.3	Training	41
4.7.4	Implementation	41
4.8	Malawian Entrepreneurial Development Institute (MEDI)	41
4.9	National Rural Centres Programme (NRCP)	42
4.10	Other Support Services	42
4.10.1	Provision of Credit/Advisory Services to IGA/Micro Sector	42
4.10.2	Project Officer Training	43
5.	FINANCIAL IMPLICATIONS	
5.1	Introduction	45
5.2	Summary	46
5.3	Office of the President and Cabinet	47
5.4	Ministry of Trade and Industry	47
5.4.1	Policy Formulation, Evaluation and Monitoring Unit (PEMU)	47
5.4.2	Small and Medium Scale Industries Unit (SMIU)	48
5.5	SEDOM	48
5.6	INDEFUND	49
5.7	MUSCCO	50
5.8	DEMATT	50
5.9	MEDI	50
5.10	NRCP	51
5.11	POET	51
6.	IMPLEMENTATION	
6.1	Introduction	52
6.2	High Level Implementation Plan	52
6.3	Implementation Plans for Specific Institutions	54

		Page No.
6.3.1	General	55
6.3.2	SEDOM	55
6.3.3	INDEFUND	56
6.3.4	DEMATT	56
6.3.5	MEDI	57
6.3.6	POET	57

EXHIBITS - SME SECTOR FINANCIAL REQUIREMENTS

- A - Office of the President and Cabinet - SME Sectoral Coordinating Committee (SMEC)
- B - Ministry of Trade and Industry, Policy Formulation, Evaluation and Monitoring Unit (PEMU)
- C - Ministry of Trade and Industry, Small and Medium Scale Industries Unit (SMIU)
- D - SEDOM
- E - INDEFUND
- F - MUSCCO
- G - DEMATT
- H - MEDI
- I - POET

1. INTRODUCTION

1.1 Background

Over the last ten years or so, a number of institutions/projects have been established, with the aid of donor funding, to provide the small and medium scale enterprise (SME) sector with access to advice, training and credit. The purpose of this study was to review the roles each of these service organisations play, in relation to each other and to the sector as a whole. The emphasis of the study was to review the sector institutions from the perspective of providing the most effective services within the constraints of limited resources - fiscal and human - with the view of recommending modifications to the roles SME institutions play over the next five to ten years to achieve stated macro-economic objectives.

The justification for this assessment of the effectiveness of the current institutional set-up arose from two major considerations, namely:

- the Government's decision, as reflected in the Statement of Development Policies (DEVPOL) 1987 - 1996, to give the industrial sector greater importance to achieve macro-economic policy objectives;
- the examination of complementarity of donor funding of the SME institutions to ensure there is no functional overlap of major SME services leading to inefficient use of resources.

The major focus of the study was aimed at a number of key institutions (identified as "core" institutions in the Terms of Reference (TOR) for the study) impacting on the SME sector. Seven organisations were identified as being core institutions, namely:

- Small Enterprise Development Organisation of Malawi (SEDOM)
- Investment and Development Fund (INDEFUND)
- Malawi Union of Savings and Credit Cooperatives (MUSCCO)
- Development of Malawian Traders Trust (DEMATT)
- Malawian Entrepreneurial Development Institute (MEDI)
- National Rural Centres Programme (NRCP)

- Ministry of Trade, Industry and Tourism (MTIT)
(now Ministry of Trade and Industry (MTI))

In addition to the above, a number of other support institutions impacting to some extent upon the sector were contacted for a general overview of the availability of SME services, including, inter alia, the Investment and Development Bank of Malawi (INDEBANK), National Bank of Malawi (NBM), Commercial Bank of Malawi (CBM), Malawi Development Corporation (MDC), Malawi Bureau of Standards (MBS), Commonwealth Development Corporation (CDC), Malawi Export Promotion Council (MEPC), Project Officers and Entrepreneurial Training Programme (POET), Mudzi Fund, various ministries and Government departments, donors and a number of organisations (public and private) involved in technology development.

For the purposes of the study, the TOR defined SMEs as comprising of formal and informal enterprises involved in all off-farm activities. Therefore, the scope of the support services covered by the study includes all off-farm ventures ranging from those that are part-time income generating activities to the largest medium scale enterprise. However, there has not been a generally accepted classification of enterprise size in Malawi.

1.2 Scope of Work

The study was planned to be conducted in four separate but inter-linked phases. It was hoped that the project would be completed by the end of February 1991. However, the actual date of completion was dependent on the GOM's response time between the presentation of the Draft Final Report and the go-ahead for the consultants to complete the Final Report. For planning purposes, this was assumed to be four weeks.

The full TOR are reproduced in Appendix 1. An outline of the original work plan for each of the four phases of the study is given below, together with any adjustments to the plan made.

Phase I

The purpose of this phase was for the consultants to familiarise themselves with the SME sector - its past history, current situation and planned development. This was to be done by exploiting existing information on the sector and by holding preliminary discussions with the major "players" involved.

Towards the end of this first phase, the consultants planned to hold a workshop to discuss their preliminary findings and to outline possible strategies for the future development of the sector and the institutions involved. It was hoped that representatives of the ministries, institutions and donor community involved would attend. The objective was to "brainstorm" a number of strategic options and to narrow down these options to a limited number of possibilities.

The first phase started on 17 September 1990 and was completed by 13 October as planned.

Due to problems in gathering together the key participants essential for a meaningful discussion, the holding of a workshop at this time proved to be impossible. However, as progress during the first phase was better than expected, the consultants felt that a more valuable approach was to prepare an Issues Paper.

The Issues Paper outlined the consultants' observations, identified key issues believed to be critical to the future development of the SME sector and listed possible options to address these issues. This paper was given to MTIT for wide distribution to interested parties. They were requested to review the Issues Paper during the next four weeks and to forward their comments direct to the consultants prior to the commencement of Phase II on 19 November 1990.

Phase II

During this phase, the consultants undertook an in-depth study of all the institutions supplying services to the SME sector. All the identified core institutions were covered together with other bodies considered to have relevance to the project.

Aware of the time pressures regarding the completion of the project, the consultants decided to assist the decision and discussion process by preparing a Preliminary Options Memorandum (POM) towards the end of Phase II. The purpose of the POM was to enable GOM to advise the consultants on those options identified at that stage that would be non-implementable. This process helped to minimise GOM's deliberations between the Draft and Final Reports.

Phase II started in mid-November and was completed within four weeks as planned. The completion of the POM was delayed until after the completion of the phase due to an unplanned attendance at the SME Workshop organised by USAID. It must

be recorded that the consultant's believe that this did contribute positively to the study as many of the identified issues were reviewed and fully discussed by the representatives of SME support institutions.

Phase III

This phase was concerned with the preparation of the Draft Final Report. The purpose of the report was to critically analyse the organisational structure of the SME sector and the performance of the support and promotional institutions and compare the current situation with the Government's implemented and intended promotional policies. The objective of the report was to help develop an overall strategy for the support institutions to ensure a proper allocation of functions, to minimise duplication of effort and to eliminate critical gaps in services.

Using the data collected during the two previous phases, the report examined the Government's capacity to formulate, evaluate and monitor policy, analysed the strengths and weaknesses of each core institution and other relevant organisations, raised critical issues affecting the performance of the support services to the sector and discussed possible options for attaining an optimal institutional set-up.

The main issues raised, in addition to policy matters, concerned the following functions:

- . SME sector funding
- . business and technical advisory services
- . entrepreneur development and training
- . support institution staff development and training and
- . technology development.

The preparation of the report was assisted by the feed-back obtained from the MTIT on the issues set out in the Preliminary Options Memorandum (POM) drawn up at the end of Phase II.

Work on Phase III started on 14 January and the team completed the draft on 2 February. The final editing and printing of the report was completed during the week commencing 4 February and distributed the following week. The issue of the Draft Final Report was some two weeks later than planned due to a one week delay in the start of the third phase, caused by the unforeseen delay in the preparation of the POM, and by the size of the report which was far greater than had been envisaged.

Phase IV

The purpose of this final phase was to prepare the Final Report. The Government had discussed the findings and recommendations developed in the Draft Final Report and instructed the consultants which options to elaborate upon.

The selected options were be used to prepare an outline for the development of the individual core institutions in the coming years. This Final Report also contains an implementation plan based on the retained options.

It was hoped that the Government would have completed their deliberations within four weeks of receiving the Draft Final Report, thus allowing the preparation of the Final Report to start around the middle of March.

The actual start of this phase was delayed by some weeks primarily due to the transfer of the Deputy Secretary of MTIT, who was the consultant's main Government contact, to OPC. In the event, Phase IV started on 29 April 1991 and the Final Report (in draft) completed on 10 May 1991.

1.3 Conduct of the Study

The study was undertaken by a team of Price Waterhouse consultants led by the Project Director. The study team involved were:

- Stuart Cruickshank, Team Leader/Institutional Development Specialist
- Evan Rohr, SME Financial Institutions Specialist
- Robin Andrews, Business and Technical Advisory Services Specialist
- Renuka Alladi, Training Specialist.
- Gordon Davies, Technology Development Specialist

Messrs. Cruickshank and Rohr were involved in all four phases of the study, Ms. Andrews and Mrs. Alladi in the first three and Mr. Davies completed his inputs during Phase II.

In addition to the above, the team were assisted by the Assignment Partner and Krishna Savjani, Legal Advisor, as required throughout the assignment.

A Steering Committee was to have been established to act as a focus for the consultants. This committee, was to have consisted of representatives from interested Government ministries and departments, including the Ministries of Finance, Trade and Industry, Labour and the Department of Economic Planning and Development, and the donor community. It was to be available to oversee the conduct of the study and provide guidance on the key issues and possible options. In the event, the committee was not set-up and the consultants liaised with the Deputy Secretary of MTIT. Opportunities for wider involvement in the development of issues and options were given through the circulation of the Issues Paper and the POM as described in the previous section.

During the course of the study, the consultants visited many institutions and had meetings and held discussions with a large number of individuals. A full list of the institutions and individuals contacted is given in Appendix 2.

1.4 Structure of the Report

The remainder of the Final Report is set out under the following headings:

- development of options
- selected options
- impact of selected options on SME sector and core institutions
- financial implications
- implementation

2. DEVELOPMENT OF OPTIONS

2.1 Development of Options

As stated above, the consultants were to critically examine the current SME institutional set-up with the view to establishing its effectiveness in meeting the GOM's objectives and goals for the future development of the sector. Having established the present situation and identified institutional strengths and weaknesses and any gaps and overlaps in the provision of services, the consultants were to prepare options as how best to minimise these weaknesses, gaps and overlaps and to build on the strengths to ensure that sectoral objectives would be better met in the coming years by a revised and "optimal" institutional set-up.

While it was recognised that there could be many options for each issue, consideration was given to the limitations within the Malawian environment, namely

- scarcity of suitably trained human resources
- constrained financial resources
- underdeveloped infrastructure.

Using the information collected and feed-back from the Issues Paper, POM and SME Workshop, the Draft Final Report was prepared during Phase III of the study. In this report, the findings and conclusions were discussed, issues raised and options developed for the future structure of the SME support institutions.

As a result of the study, the consultants identified a number of crucial factors affecting the development of the sector. The factors identified were as follows:

- . policy formation and evaluation
- . coordination of sectoral support
- . project identification and promotion
- . prioritisation of support services
- . organisation and management of public sector institutions

- . availability of finance
- . availability of advisory services
- . entrepreneurial development and training
- . access to appropriate technology.

The first five factors were considered critical to the development of the sector. Unless these issues are properly addressed, the impact of actions taken to improve the specific services provided by the individual support institutions will be limited and SME sectoral growth restricted. The main findings regarding these five critical issues have been summarised below.

Policy Formulation and Evaluation

Information regarding the structure and economic impact of the SME sector is extremely limited. No sectoral studies have been carried out to establish the size of the sector, its contribution to the economy, the extent of the requirement for services, gaps in supply, opportunities for domestic resource usage, potential linkages and the effects of current policies.

GOM should extend its capacity and capability to study the economic impact on the sector of proposed policy changes. Without this, adjustments to the policy environment could have a detrimental effect rather than encouraging faster development. With such a capability, policies aimed specifically at the sector could be evaluated prior to implementation.

Coordination of Sectoral Support

Coordination of the sector's support services is limited. MTIT, through the READI Project, provides some coordination to those institutions for which it is responsible. However, a degree of coordination for all the institutions and organisations involved in the development of the sector is required. GOM's goals and objectives must be fully understood by all. All organisations must have a clear understanding of their role, institutional objectives and appreciate the inter-relationships with other organisations. The institutions must be aware of the expectations of others in the sector.

This can only be achieved if coordination is undertaken. The report puts forward options as to how this function might be carried out.

Project Identification and Promotion

None of the support institutions are involved in the identification, appraisal and promotion of project opportunities. In spite of its name, the Malawi Development Corporation does not currently undertake this role. With very few exceptions, funding of projects is restricted to established sub-sectors. Projects new to Malawi are not being identified and promoted. There is a strong case for this role to be carried out.

In order to utilise Malawi's natural endowment, investment opportunities need to be identified, appraised and promoted. In addition, if sectoral studies are completed, further opportunities will be identified which should then be developed. The report contains a number of suggestions as to how this role could be established.

Prioritisation of Support Services

All the core institutions target their services to some extent at specific sectors. In theory, SEDOM provides credit to small-scale enterprises, primarily in the productive sector and INDEFUND provides credit for medium-scale enterprises. However, both use size of loan as the criteria and not enterprise size. This in part is due to the fact that there is no generally accepted definition of what is small-scale and what is medium-scale. DEMATT was set up to provide advisory services to the rural trading sector but has now expanded its activities to the industrial sector as well and intends to concentrate its efforts on assisting those enterprise that can achieve a minimum level of growth. MEDI develops entrepreneurs who have a basic skill and enough funds to start up in business. NRCP is primarily aimed at the promotion of income generating activities in rural centres.

Without knowledge of the economic impact of different sub-sectors, further prioritisation is difficult, if not impossible. However, once this data is available, this should be looked at again.

As noted above, MEDI targets a specific sector of the market. SEDOM and INDEFUND, however, do not adequately assess management capability in project appraisal. Both report that the majority of the problems faced by their clients are due to inadequate financial skills. The report raises the question of whether or not these institutions should insist on a minimum level of training prior to accepting a new client.

Organisation and Management of Public Sector Institutions

The degree of autonomy given the public sector core institutions is inadequate. The degree of direct control over the day to day operations needs to be relaxed. The original intent of the trust deeds whereby GOM gave policy direction to the Boards needs to be put into practice. DEMATT is now operating outside its legal remit which restricted it to the trading sector. Its trust deed needs to be up-dated. However, the donors have provided an opportunity for DEMATT to be turned into an NGO. This should be considered carefully.

Most of the core institutions suffer from a high level of staff turnover and there are many posts vacant. The salary scales and other conditions of employment need examination to enable the institutions to retain staff on whom considerable effort and money has been spent on training. None have an appropriately qualified professional as chief executive. This is essential if these institutions are to be run in a commercial manner. If an institution is not to have an experienced suitably qualified professional chief executive, or an appropriately qualified senior management team, it cannot be expected to perform efficiently and effectively. Due to vacant posts and inappropriately trained staff, this is not generally the case at present.

2.2 Summary of Issues and Options

From a critical examination of the factors outlined above and as a result of the review of the support institutions, the consultants developed a number of options that needed to be considered to eliminate the identified gaps and to improve the provided services. The issues and options identified are summarised below.

2.2.1 SME Policy Formation, Coordination and Monitoring

Issue	Option
In which ministry should a Policy, Evaluation & Monitoring Unit (PEMU) be established	a) EP&D of OPC b) MTIT
If in MTIT, where in organisation structure should PEMU be	a) A central unit for all departments b) A separate unit for each department c) A combination of above
Where should SME sectoral coordination be undertaken	a) OPC b) MTIT
Scope of responsibility of MTIT's Small-Scale Industries Unit (SSIU)	a) Remain as is b) Expand to include medium-scale industries c) Expand to include all small and medium scale enterprises
If MTIT is to be responsible for SME coordination, where should the secretariat be established	a) A separate unit reporting to the chairman of the SME Coordinating Committee b) A function undertaken by the SSIU (or its replacement) c) A function undertaken by PEMU

2.2.2 Prioritising Institutional Support

Issue	Option
There is a need to define "small", "medium" & "large"	<ul style="list-style-type: none">a) Use the definition developed by SSIUb) Use the definition developed during the SME Workshopc) Develop another definition
To what extent should core institutions be involved in supplying support services to IGA/Micro enterprises	<ul style="list-style-type: none">a) Continue as at presentb) Become fully responsible for required supportc) leave all activity in this field to other responsible institutions
Should entrepreneurs be prioritised for eligibility to receive support services	<ul style="list-style-type: none">a) Services available to allb) Restrict services to those with a basic level of management skillc) Train people to a minimum standard before assistance can be givend) Provide on-the-job training during the establishment of the businesse) A combination of the above
Further prioritisation of target sectors	<ul style="list-style-type: none">a) Based on identified economic activityb) Develop a "Credit Scoring Scheme" based upon GOM priorities

2.2.3 Project Identification and Promotion

Issue	Option
Which institution should be responsible for project identification and promotion	a) MTIT b) Undertaken by an identified institution other than MTIT c) Public sector to identify projects, NGO's and private sector to promote and develop d) A combination of the above

2.2.4 Organisational and Management

Issue	Option
How should increased autonomy and responsibility be implemented for GOM controlled support institutions	a) Leave as is, but implement the intent of the original trust deeds regarding the degree of autonomy envisaged b) Privatise these institutions c) A combination of the above
Required background and experience of top institutional management	a) All top managers should have professional experience appropriate to the institution b) If not a), all other top posts should be filled by professional staff
How to improve staff retention rates	a) Improve salary scales b) Improve job satisfaction and working conditions

2.2.5 Finance

Issue	Option
How to improve access to working capital	<ul style="list-style-type: none">a) Provide lines of credit specifically for working capitalb) Develop and promote credit guarantee schemec) Encourage commercial banks to increase lending to SMEsd) Improve cash management skills of entrepreneurse) A combination of above
How, and should, term financing availability be increased	<ul style="list-style-type: none">a) Seek increase in funds for on-lendingb) maintain existing approachc) prioritise sub-sectors and entrepreneurs
Should institutional loan performance be a criteria for level of future funding	<ul style="list-style-type: none">a) Carry on as at presentb) Do not provide additional funding until improved performance can be guaranteedc) Limit growth in loan disbursements to institutional capability
How can access to equity capital be improved	<ul style="list-style-type: none">a) Funds to be provided to DFIs for equity participationb) Implement component of proposed credit guarantee fund which can provide equityc) Create a venture capital fund

Need for collateral cover

- a) Continue with current discretionary policies
- b) Implement credit guarantee scheme's 100 percent guarantee of collateral shortfall
- c) Abolish the need for collateral

Loan size overlap between SEDOM and INDEFUND lending policy

- a) Maintain as at present
- b) Continue with loan size definition but eliminate overlap
- c) Use enterprise size definition to target enterprises for lending - SEDOM restricted to small and INDEFUND to medium

2.2.6 Advisory Services

Issue

Option

Should all institutions offer advisory services

- a) Continue as at present
- b) Restrict provision to specialised institutions
- c) A combination of above

Degree of cost recovery required by the provision of advisory services

- a) Require advisory services to be self-financing
- b) Keep financing as is
- c) Seek to recover an agreed proportion of costs

2.2.7 Training

Issue	Option
Who should undertake staff training	a) All training to be done by external resources b) All training done in-house c) A combination of above
What should be done with the POET project	a) Institutionalise b) Amalgamate with an existing institution
How should entrepreneurial training be undertaken and expanded	a) Provide additional funds to those currently involved b) Improve the capability of appropriate NGOs to provide these services

In addition to the issues and options summarised above, the Draft Final Report examined the past and current situation regarding access to and the availability of advice on appropriate technology. The report discussed the need for and the structure of institutions supplying assistance in this field. The chapter concluded that the steps being taken by the GOM in establishing an Industrial Research and Technology Development Centre were appropriate to the needs of the sector. However, the report questioned the emphasis on the establishment of a capability to undertake computer-aided design. In view of the current status of the SME sector, it is felt that such a capability is, at best, premature, especially as no needs analysis has been undertaken.

3. SELECTED OPTIONS

3.1 Introduction

The Draft Final Report was prepared and issued to MTIT in 20 copies at the completion of Phase III of the study in the middle of February 1991. MTIT distributed the report to interested donors and the core institutions for comment.

At the beginning of the last phase of the study the consultants met with a number of managers in the Ministry of Trade and Industry (MTI)' to identify which options were to be selected for further development. While it was originally intended in the TOR that this selection would represent GOM's decisions on the options available this was not in fact the case. As the steering committee had not been formed it was not possible to obtain a GOM decision on each of the options. It was felt however that through the involvement of management of MTI and other ministries such as OPC it was possible to identify those options which were most appropriate. This was done at the start of the final phase and the consultants elaborated on the options considered to be most appropriate.

A summary of the issues and the selected options, together with reasons for the choice, is given below.

3.2 Summary of Issues and Selected Options

3.2.1 SME Policy Formation, Coordination and Monitoring

Issue	Selected Option/Reason
In which ministry should a Policy, Evaluation & Monitoring Unit (PEMU) be established	MTI. The ministry needs to be involved in the development of policies affecting the sector.
If in MTI, where in organisation structure should PEMU be	Report in first instance to Industry Department. Currently economic policy activities are focused on Manufacturing enterprises as highlighted in DEVPOL. The

In the period between the end of Phase III and the start of Phase IV, Tourism was reallocated to another ministry leaving MTIT as the Ministry of Trade and Industry.

monitoring of these is undertaken by this department, including matters affecting tariffs and their impact on the industrial sector. This unit will however work closely with trade, economic services and will service the needs of these users.

Where should SME sectoral coordination be undertaken

OPC.
Since many ministries and GOM departments are involved either directly or indirectly with the SME sector, coordination needs to be carried out by an apex agency.

Scope of responsibility of MTIT's Small-Scale Industries Unit (SSIU)

Expand to include medium-scale industries.
MTI accept that the problems faced by the small and medium sectors are similar. Inclusion of non-industrial sector rejected as emphasis must be on developing productive industry.

3.2.2 Prioritising Institutional Support

Issue

Selected Option/Reason

There is a need to define "small", "medium" & "large"

Develop another definition (see Section 3.3 below).
Rejected Workshop definition as being too complicated. Want to make minor changes to the borders between categories.

To what extent should core institutions be involved in supplying support services to IGA/Micro enterprises

Leave all activity in this field to other responsible institutions.
MTI accept that the development of these activities require different skills and support from the business sector.

Should entrepreneurs be prioritised for eligibility to receive support services

A combination of:

- a) Restrict services to those with a basic level of management skill
- b) Train people to a minimum standard before assistance can be given
- c) Provide on-the-job training during the establishment of the business.

MTI accept that successful entrepreneurs require knowledge of a number of management skills. Without a basic minimum skill level a business is likely to fail.

Further prioritisation of target sectors

- a) Based on identified economic activity
- b) Develop a "Credit Scoring Scheme" based upon GOM priorities

It should be possible to achieve a further level of prioritisation once the Industrial Sector Opportunities Study has been carried out and the finding of this study should be incorporated into the action plans of the Ministry.

3.2.3 Project Identification and Promotion

Issue

Selected Option/Reason

Which institution should be responsible for project identification and promotion

MTI in conjunction with other institutions, including MIAS if established.
Already a core activity within

MTI and will continue to be so. Accept that MTI cannot do all promotional work themselves so must involve others.

3.2.4 Organisational and Management

Issue	Selected Option/Reason
How should increased autonomy and responsibility be implemented for GOM controlled support institutions	Leave as is, but implement the intent of the original trust deeds regarding the degree of autonomy envisaged. Agree that degree of autonomy must be improved. GOM will however continue to monitor the effectiveness of the organisations in their development objectives through representative on their boards etc and will assist management meet their development objectives.
Required background and experience of top institutional management	All top managers should have professional experience appropriate to the institution. Agree that the institutions should operate in a professional and commercial manner.
How to improve staff retention rates	Improve job satisfaction and working conditions (through the "professionalising" of top and senior management). Do not believe that lower salary rate is the prime reason for people leaving. Believe one of the main reasons is to do with senior management abilities.

3.2.5 Finance

Issue	Selected Option/Reason
How to improve access to working capital	Develop and promote credit guarantee scheme. This should widen access to working capital.
How, and should, term financing availability be increased	Prioritise sub-sectors and entrepreneurs. MTI believe that lending performance needs to be improved, therefore there is probably enough funds available for bankable projects.
Should institutional loan performance be a criteria for level of future funding	Limit growth in loan disbursements to institutional capability. Unless project appraisal improved, higher lending will result in more wasted use of funds. Quality rather than quantity.
How can access to equity capital be improved	Implement component of proposed credit guarantee fund which can provide equity.
Need for collateral cover	Continue with current discretionary policies, and implement credit guarantee scheme's 100 percent guarantee of collateral shortfall.
Loan size overlap between SEDOM and INDEFUND lending policy	Use enterprise size definition to target enterprises for lending - SEDOM restricted to small and

INDEFUND to medium.

Both were set-up to service these sectors, therefore should concentrate on them. It was recognised however that a great deal of thought had gone into setting guidelines to categorise enterprises and to arrive at a meaningful workable definition. This having been achieved it will be necessary to continue to review this to ensure that flexibility in lending is retained.

3.2.6 Advisory Services

Issue	Selected Option/Reason
Should all institutions offer advisory services	Continue as at present. The lending institutions must have the ability to assist their clients as seen fit. Focus of all technical advisory services must be within the promotional areas originally envisaged for that institution.
Degree of cost recovery required by the provision of advisory services	Initially seek to recover an agreed, increasing, proportion of costs with the eventual target of being self-financing. MTI believe the institutions (particularly DEMATT) must recognise that donor funding may be discontinued at some point in the future and should be focusing on achieving adequate levels of self sufficiency.

3.2.7 Training

Issue	Selected Option/Reason
Who should undertake staff training	A combination of in-house and external training; must be for development of the institution. Training should be appropriate to requirements of the organisation, and not to be carried out solely for the benefit of the individual. Training must fit in with career plans and job evaluation. All training must be directed at improving the performance of the institution in the short term.
What should be done with the POET (a component of READI Project)	Not sure but believe the relevant training could be undertaken by another institution such as MIM, MEDI or Polytechnic as it is not felt that a separate specialist unit is required for this area i.e project officer and enterprenuer training.
How should entrepreneurial training be undertaken and expanded	Continue as at present but constantly strive for improvement.

3.3 SME Definition of Enterprise Size

The need for a generally recognised definition of enterprise size has been well documented in previous reports and papers. MTI, in conjunction with representatives of interested support institutions, have developed parameters for categorising enterprises by size. An enterprise can be classified as belonging to one of four categories, namely micro, small, medium or large.

The proposed definition is as follows:-

	<u>Micro</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
Capital Investment (MK)	≤5,000	≤200,000	≤500,000	>500,000
Employment Levels (No.)	1-4	5-20	21-100	>100
Turnover (MK)	≤12,000	≤400,000	≤1 mill	>1 mill

Notes: An enterprise shall be classified as micro, small, medium or large if it satisfies any two of the above parameters, and, in the event that an enterprise falls in all three categories, the middle category will apply.

Adding that in Manufacturing, capital investment will imply cost of plant and machinery excluding working capital and cost of land and buildings. In all other enterprises, capital investment will imply the cost of all capital (fixed and working) excluding cost of land and buildings.

The consultants recommend that GOM formally accepts the above definition as soon as practicable.

4. IMPACT OF SELECTED OPTIONS ON SME SECTOR AND CORE INSTITUTIONS

4.1 Introduction

The impact of the selected options to be implemented on the sector as a whole and on the core institutions will be considerable. The degree of impact on each individual institution will vary given that the chosen options affect some to a far greater degree than others. For instance, the effect on MEDI's future plans will be far smaller than the changes required of SEDOM or DEMATT.

Although the selected options will affect each institution to a greater or lesser degree, this chapter examines the impact of all the chosen policies on each of the affected institutions. It must be recognised that many of the policy options chosen cannot be implemented immediately, but will require careful planning, reorientation training, improved management and, in some cases, the development of other institutions where current services are withdrawn or redirected.

In this chapter, only the impact and changes required by each institution are discussed. The next chapter outlines an action plan for each together with target dates for each element of the plan. The effects upon institutions and services are set out below in the following order:

- Office of the President and Cabinet (OPC)
- Ministry of Trade and Industry (MTI)
- Small Enterprise Development Organisation of Malawi (SEDOM)
- Investment and Development Fund (INDEFUND)
- Malawi Union of Savings and Credit Cooperatives (MUSCCO)
- Development of Malawian Traders Trust (DEMATT)
- Malawian Entrepreneurial Development Institute (MEDI)
- National Rural Centres Programme (NRCP)
(the former Rural Growth Centres Project)
- Other Support Services

4.2 Office of the President and Cabinet (OPC)

The need for improving SME sectoral coordination has been recognised. As the sector is defined as consisting of all formal and informal enterprises in off-farm activities, many ministries and Government departments are directly, or indirectly, involved with the development of the sector. SME sector coordination needs to be undertaken by an agency with the necessary authority and capacity to ensure that approved GOM policies and strategies are carried out in the most efficient and effective way possible. OPC, being the prime policy making body of Government, is in the ideal position to undertake this role.

In OPC, economic planning and development is the responsibility of the Department of Economic Planning and Development (EPD). It is recommended that EPD should establish an SME Sectoral Coordinating Committee (SMEC) which would have the responsibility for ensuring that GOM policy, or any other activity to be undertaken by individual institutions, be implemented.

As the SME sector has many strong and important linkages with other sectors in the Malawian economy, including agriculture, fisheries and forestry, membership of the committee would be drawn from all other ministries and government departments with an interest in the sector, possibly together with representatives from the implementing support institutions and from NGOs representing the entrepreneurs. The development of the sector is dependent, and is likely to remain so for the foreseeable future, upon financial and technical assistance from multi-lateral and bi-lateral donors. Consideration should therefore be given to the inclusion on the committee of nominees from the donor community to ensure that developed strategies and action plans are acceptable to the providers of essential funds. It may however be felt that this particular aspect of coordination should be handled separately.

Committee membership should include representatives from the following Government institutions:

- EPD (Chairmanship)
- MTI
- Ministry of Finance

- Ministry of Agriculture
- Ministry of Labour
- Ministry of Community Services
- Ministry of Forestry and Natural Resources.

The committee would meet to review progress and suggest policy adjustments, agree goals, objectives and institutional targets and ensure cooperation between all participants in the sector. Sub-committees would be expected to be established to undertake specific coordinating tasks as identified by the full committee. For example, matters pertaining to the inter-relationships, linkages and cooperation expected between core institutions could be dealt with by a Core Institutions Sub-committee.

As suggested above, representatives of the support institutions could be co-opted onto the main committee, although it could be that their membership was restricted to appropriate sub-committees. This could also apply to NGOs such as the Association of Chambers of Commerce and Industry, African Businessmen's Association and the National Association of Business Women.

It is envisaged that SMEC would meet only two or three times a year although the activities of sub-committees may require a more onerous schedule. Since the development of the sector is an essential element of GOM policy, SMEC should be chaired by a senior staff member of EPD; it is suggested that this role should be undertaken by the Deputy Secretary, EPD.

SMEC would require a secretariat function. One individual should be identified to undertake this function on behalf of the Chairman of SMEC. The secretariat would be responsible for day-to-day coordination, the collection, assimilation and analysis of data, ensuring the committee's decisions and recommendations were disseminated to all concerned and to monitor progress. Although these functions would be handled within EPD, close cooperation between the secretariat and the Policy Evaluation and Monitoring Unit (PEMU) of MTI would be required.

The first steps that SMEC should undertake would be the development of an action oriented implementation plan, based on this report, giving affected institutions the objectives and targets to be met. To ensure that GOM support institutions are given an acceptable level of autonomy, responsible ministries should be requested to draw up clear and precise guidelines for the respective roles, responsibilities and relationships between the ministry, board and management of the institution.

4.3 Ministry of Trade and Industry (MTI)

In the period between the preparation of the Draft Final Report and the Final Report, responsibility for tourism has been transferred from MTIT to the Department of National Parks and Wildlife leaving the ministry to concentrate on trade and industry. This change has not affected the strategy for strengthening the institutional capacity of the ministry regarding the SME sector.

It is felt that the GOM's objective of developing the SME sector can best be served by instituting the following changes within the ministry:

- the strengthening of the ministry's capacity to formulate, evaluate and monitor policies aimed at the development of the trade and industry sector with emphasis on the SME sector;
- the expansion of the remit of the Small Scale Industries Unit to include medium scale industries;
- as the development of income generating/micro activities is more closely aligned to welfare services and has different problems associated with such development, this function should be undertaken by the Ministry of Community Services.

In addition to the changes outlined above, industrial promotion will remain a core activity within the Industry Department.

The impact on MTI of the above is discussed below.

4.3.1 Policy Formulation, Evaluation and Monitoring

Although OPC is the prime policy making body for GOM, MTI, as with the other sectoral ministries, has the responsibility for the implementation and monitoring of commercial and industrial policies. It is not envisaged that this role should change. Currently, MTI has only a limited institutional capacity to formulate, evaluate and advise the GOM on policies affecting the development of the commercial and industrial sector.

To undertake this crucial role, a new Policy Formation, Evaluation and Monitoring Unit (PEMU) for the commercial and industrial sector needs to be established. The main focus of the Ministry as stated in DEVPOL is the development of manufacturing enterprises. This has been undertaken by the Industry Department. It is felt appropriate therefore that PEMU will be a unit within that department.

The unit will require to have the capability to undertake or initiate sectoral and sub-sectoral studies to evaluate policy options, identify potential investment opportunities to utilise Malawi's natural resources and agricultural output, establish gaps in supply, and catalogue areas of potential linkages between industries in the small, medium and large-scale sectors.

Current GOM practice is that all economists are seconded to the ministry from EPD. It is suggested that the head of PEMU be a permanent member of MTI to ensure continuity. Other economic staff would rotate in accordance with current policy. A large staff is not envisaged as the major studies required on the sector would be contracted out to suitably qualified experts (domestic or foreign as appropriate). The suggested initial professional staffing level is three - a head of the unit and two economists. All three should be suitably qualified in trade and industrial economics. However, as it is unlikely they would have the necessary experience to undertake the full range of activities required, the unit would need technical assistance provided for a period of at least two years. Such TA could be funded by one of the major donors, for example UNDP, World Bank or USAID.

To assist the monitoring of the sector, MTI needs to develop and establish a comprehensive sectoral database together with an analytical capability. The ministry has been the subject of an organisation and management assessment by consultants in which such a capability is recommended. Although, the consultants have not had access to this assessment, it is recommended that consideration being given to putting this facility under PEMU.

In order to undertake its role, PEMU needs to have an overview of the structure of the sector. At present little is known about the performance of the sector as a whole, the opportunities for investment, and gaps and linkages in supply and demand. Without this data, planning and prioritising support services with any degree of accuracy is impossible. Therefore the first task of the PEMU should be to set in motion the collection of the necessary data and statistics. The consultants understand that an Industrial Sector Opportunities Study (ISOS) is to be initiated. This will provide a good basis for industrial promotion activities and assist in prioritising support services to take advantage of identified opportunities. The study should also be of use in identifying those areas in which further investment is not required. Resulting from this study PEMU should be able to identify priority sub-sectors or branches of manufacturing needing further study.

In addition to the ISOS and subsequent studies mentioned above, a census of manufacturing industry should be carried out in order to establish the current structure of the sector. Again this information is essential to the development of future policies to ensure the optimal development of the sector.

4.3.2 Small Scale Industries Unit (SSIU)

As the main thrust of the development of the SME sector is directed at the manufacturing sector, it is felt appropriate that the SSIU should widen its remit to cover medium scale industries. It is not envisaged that the activities of this unit within the Industry Department will change. The definition of what constitutes small and medium is being finalised. The difficulties faced by the two categories in Malawi are similar therefore considering them together is felt appropriate.

The activities of the support institutions impacting on the SME sector will require coordination at ministry level in accordance with the overall objectives laid down by SMEC. The SMIU could carry out this role on behalf of MTI and also be responsible for project coordination as necessary.

To some extent this role is currently being done through the auspices of the READI Project. In future, MTI must have the institutional capacity to undertake this role. If done as suggested, additional staff will be required in the SMIU. In the event of the proposed READI 2 Project going ahead, coordination should be undertaken under the auspices of MTI through the SMIU which would be responsible for overall coordination on behalf of the ministry.

4.3.3 Income Generating Activities/Micro Enterprises

The implementation of the accepted definition of the sector set out in Section 3.3 above effectively leaves the development of income generating activities/micro enterprises to other institutions. This has no effect on the organisational structure of MTI. Indeed, changes would only have been required had MTI been chosen to have this responsibility.

The promotion and development of IGA/micro enterprises is discussed below in section 4.10.1.

4.3.4 Project Identification and Promotion

Project identification and promotion is currently one of the core activities in MTI's Industry Department. It is necessary that in future this role assumes a higher profile. The ISOS will provide invaluable information to assist in increasing industrial promotional

MTI does not, nor should it have the capacity to undertake all the work necessary to identify and promote industrial investment opportunities. However, the section needs to coordinate efforts being made in this field and to instigate initiatives through supporting organisations. Although ISOS will identify opportunities, it is likely that the private sector will only take up a few of the larger investment ideas without further development work being carried out. MTI will have to ensure that feasibility studies are developed to the stage that they can be promoted to possible investors.

The ministry's task will be to identify an organisation or institution which can undertake the necessary work. Such organisations should include DEMATT, MDC, institutions of higher learning and the proposed Industrial Research and Technology Development Centre. Promotion of developed investment ideas should be carried out through institutions supplying credit, including SEDOM, INDEFUND, INDEBANK and the commercial banks, and other appropriate organisations. Another institution that would assist in these promotional activities is the proposed Malawi Investment Advisory Service which is likely to be set-up with support for the World Bank's Financial Sector and Enterprise Development Project.

4.4 Small Enterprise Development Organisation of Malawi (SEDOM)

The selected options that directly impact on SEDOM are:

- increased autonomy
- withdrawal of involvement in IGA/micro enterprises
- borrowers to meet minimum management skill criteria
- the need for increased level of self-sufficiency

The above will affect the rate of development and orientation of SEDOM in a number of areas, including re-focusing management efforts and necessitating improved professional capability and capacity, the future profile of the loan portfolio, staffing levels and training (staff and entrepreneurs). There is also a requirement for SEDOM to improve its operational procedures to maximise the economic use of its loan funds. The changes involved in this re-orientation are discussed below.

4.4.1 Management

A greater degree of autonomy will only be possible if the Board and management improve the operating capacity in this changed environment. Unless performance, is meeting desired objectives and targets the ministry will have to take an active role in day-to-day manangement to provide the level of support necessary to line management. This is obviously not what is desired. Therefore, the Board and senior management will have to ensure that all concerned have the necessary training and experience to meet institutional objectives.

4.4.2 Loan Portfolio

The removal of funding IGA/micro enterprise activities from SEDOM's target market will alter the profile of the loan portfolio in the future. As the classification of enterprise size is new, an analysis of the current portfolio is required to establish the current number of loans that fall into the micro sector. It is likely that a significant number of current mini loans would fall outside SEDOM's future lending criteria.

SEDOM was established to cater to the small scale sector, therefore, there is no justification for joint funding of projects which are outside INDEFUND's upper lending limits.

The above changes will have two effects. Firstly, the volume of loans applications, and therefore the work load, will drop accordingly. As there is a need to improve project appraisal (discussed below), this should not affect the numbers of professional staff employed, although a reduction in numbers of support staff could be achieved. Secondly, the removal of the least cost effective lending will have a positive affect on the degree of self-sufficiency that can be achieved.

It must be recognised that this adjustment to the loan criteria is not intended to exclude IGA and micro enterprise from access to credit facilities. Other credit institutions, more appropriate to funding this level of activity will need to be available to fill the gap. Credit Unions and the likes of the Mudzi Fund have proven to be more economic means of supplying this type of credit support.

Until other sources of credit for the micro sector are established, SEDOM will continue with this lending. However, all loan applications should be classified into size category. This will also enable SEDOM to evaluate the costs of supplying credit to the different categories of enterprise.

Another factor that requires further appraisal is the growth rate in the loan portfolio predicted in SEDOM's latest five year plan. The plan envisages lending to increase from its 1989 level of approximately MK 5 million to MK 8 million in 1991 and rising to over MK 16 million by 1995. SEDOM's own figures suggest that there is little justification for assuming such a high growth; indeed the numbers of loan applications have actually been dropping since 1988 as shown below.

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990(i)</u>
Applic. Recd	na	na	1094	1371	1135	1308	1040	585
Applic. Appr	46	220	736	798	718	652	507	468
Source: SEDOM								

Note: i) 9 months to September

4.4.3 Loan Appraisal

SEDOM's Impact Monitoring Unit (IMU) have assessed current loans in arrears at around 60 percent by volume and 24 percent by value. The IMU also established that cash flow predictions contained in project appraisals were greatly over-estimated - on average by a factor of four. There could be several explanations for this situation including incorrect assessment of the market and/or sales achievement levels, inadequate enterprise management skills or unpredictable externalities.

However, there is a strong case for improving loan appraisal procedures with particular attention being made to the following areas:

- market assessment and potential sales achievement
- cash flow, profit and loss and balance sheet forecasts for all term loans, covering a period of at least the term of the loan
- assessment of enterprise management capability

Loans in future will be conditional upon the management of the proposed enterprise meeting minimal skill requirements. SEDOM should ensure that these requirements are met by continuing to supply suitable training through the organisation of appropriate courses and the provision of on-the-job training as appropriate. Costs of this training should be built into the loan.

4.4.4 Training

As stated above, SEDOM needs a management and staff cadre that has the capacity and capability to meet the objectives of the organisation. The changes outlined above will inevitably lead to retraining and an improved skill requirement. All training must be directed at improving the capacity of the organisation and not solely for the benefit of the staff.

Some training will be undertaken in-house while other needs will only be met through the utilisation of external resources.

SEDOM already provides a range of courses for the benefit of its clients. In view of GOM's policy that all recipients of credit should have basic management skills, these activities will need strengthening.

4.4.5 Implementation

To assist SEDOM in achieving the changes required, a number of studies should be undertaken to define the programme of activities. These should include the following:

- an audit of the current loan portfolio to establish the true exposure to potential bad debts and to examine the likely effects on loan volumes of the changes outlined above. An assessment of the actions required to improve the quality of the portfolio should also be undertaken
- a corporate strategy review which should include a re-assessment of the organisation structure and manning levels needed and a staff training needs analysis
- a review of entrepreneurial training needs. Curriculum development should be done in conjunction with MEDI, who could run many of the courses - for a fee.

Funding for these studies could be obtained from current credit lines subject to donor approval or separate funding could be sought. Such costs of increased training activities could also be eligible for funding through the training fund component of the World Bank's Financial Sector and Enterprise Development Programme.

4.5 Investment and Development Fund (INDEFUND)

The impact of the selected options will have little affect on the operations of INDEFUND. The exclusion of SEDOM from joint funding of projects too large for INDEFUND to handle alone will eliminate such future projects from the portfolio. There are other sources of credit for these large projects in any case including INDEBANK.

The impact on INDEFUND of projects facing difficulties is far less than that of SEDOM. However, constant efforts need to be made to improve both project appraisal and pre and post investment entrepreneur training. Assistance in developing appropriate courses and curriculum should be obtained from MEDI. As with SEDOM, INDEFUND could be eligible for funding assistance from the World Bank programme.

INDEFUND are projecting that the rate of disbursement will triple in the next five years. There seems little evidence at present for such optimism. Currently, little is done to promote INDEFUND's activities. Increased opportunities for fundable projects could be helped if more effort was made in

promoting INDEFUND. In addition, the results of the ISOS could identify potential investment opportunities which would fall within their scope. INDEFUND should assist in the marketing and promotion of suitable projects indicated in the ISOS.

4.6 Malawi Union of Savings and Credit Cooperatives (MUSCCO)

If access to credit for IGA/micro enterprises through SEDOM is withdrawn, this will increase the potential demand on those institutions supplying such credit. One of the main sources of finance for the micro sector will be the credit unions. MUSCCO has successfully expanded the credit union system throughout the country. Loan disbursements are projected at over MK 10 million in the next five years which is 10 times the size of the present portfolio.

Every effort must be made to ensure that MUSCCO's ambitious plans succeed. This is especially important for the rural sector where the development of IGA/micro activities is crucial to meeting GOM's objectives. In view of the importance of their role, a review of MUSCCO's corporate plan should be carried out to ensure that they would have the institutional capacity to achieve the objectives and to identify any additional assistance that may be required.

4.7 Development of Malawian Traders Trust (DEMATT)

The selected options affecting the future orientation of DEMATT are:

- increased autonomy
- separating IGA/micro activities from the SME sector
- the need to achieve self-sufficiency.

The above will necessitate significant changes to DEMATT's current structure and organisation during the next few years. The impact of the selected options are discussed below.

4.7.1 Management

As in SEDOM's case, increased autonomy will enable the Board and senior management to concentrate on the development of the institution within the guidelines set by GOM. The requirement to achieve self-sufficiency will require that all services are provided in a thoroughly professional manner and that the benefits to the recipients of these services are demonstrable.

Therefore, the senior management team, and all professional staff, must meet minimum levels of capability and experience within the areas they are operating. Supportive and appropriate training will be required to ensure these standards are achieved.

4.7.2 Structure

DEMATT's orientation has changed significantly over the years. Originally set up to provide business advisory services to rural Malawian traders, DEMATT now estimate that 67 percent of their clients are in the manufacturing sector and traders only consist of 21 percent, the balance being in the service sector.

While it is appreciated that the changes made to widen the support services target groups, beyond that of traders, has been done with the full approval of GOM, these activities are outside DEMATT's remit as laid out in its Trust Deed and, therefore, illegal in the strictest sense. The opportunity should be taken to make the necessary changes to the deed incorporating the reorientation suggested in this report.

Although the Field Services Department is now concentrating on assisting enterprises that can grow, a number of the services offered will encompass enterprises which will fall into the micro enterprise category. An assessment of those assisted by size classification will need to be undertaken to determine the impact on DEMATT's organisation and structure if micro enterprises are to be excluded from core activities. As with SEDOM, advisory and promotional services will still need to be supplied but by a specialist institution.

The greatest impact will be felt with the requirement for self-sufficiency. If taken literally, DEMATT's core programme activities would have to be paid for by its clients. The most common reported problem that is faced by entrepreneurs operating small enterprises is one of poor cash flow and profitability and thus those would be unable to pay an economic rate for these services. DEMATT and GOM are thus faced with two alternatives, namely:

- do not make advisory services available to those who cannot afford them, or
- devise a scheme to subsidize the sector rather than direct subventions to DEMATT.

The second of the above would meet DEVPOL's stated objectives, whereas the first would not. It is recommended that a contract be drawn up between GOM, through MTI, and DEMATT for supplying advisory services to that element of the SME sector who are unable to pay the full cost of the provision of the services. Payment would be retrospective and based on actual delivery of services. Performance and effectiveness would be subject to at least an annual audit. In this way, GOM would be seen to be subsidizing the sector and not DEMATT. DEMATT would be forced to ensure that it operated effectively and economically.

A formula should be worked out to ensure that the sector contributed to costs to the extent of its ability. The proportion of the cost carried by GOM could be reduced over the next few years, with DEMATT recovering the remainder directly from its clients. The consultants are aware that USAID have been considering establishing an endowment fund to cover DEMATT's recurrent budget; if established, this fund could be used to pay for the delivered services.

If the above proposal is accepted, the current demarcation between core and non-core activities would be unnecessary as all services would be provided under contract conditions. Once DEMATT have proved the value of their work, other contracts could be taken on, including assistance to other institutions' clients on a fee basis.

4.7.3 Training

Whether or not the above scheme is implemented, DEMATT must ensure that its services are provided by a competent and experienced cadre of advisors. Constant efforts must be made to continuously upgrade staff capability and capacity.

DEMATT must critically examine its current staff training programmes to ensure that its objectives can be met. As with other institutions, additional training requirements could be eligible for funding under the World Bank training programme. Such training must be aimed at institutional development and not just to meet the aspirations of individual staff.

4.7.4 Implementation

Prior to the above major changes being implemented, the following work needs to be undertaken:

- an analysis of DEMATT's current core client base to establish the proportion classified as in the micro sector and to draw up a plan for DEMATT's withdrawal from this sector in conjunction with the establishment of replacement services
- a study to establish contractual conditions and work to be undertaken by DEMATT for the provision of its future "core" services and to set-up funding procedures.
- a strategy review to include a re-assessment of the organisation structure and manning levels needed in its new role. The review should also include a training needs analysis for DEMATT staff.

4.8 Malawian Entrepreneurial Development Institute (MEDI)

The effect on MEDI of the selected options is minimal. The recently developed corporate plan is appropriate and should further strengthen MEDI's major objective of developing potential entrepreneurs.

It is suggested that one area of activity be increased. The requirement that an enterprise's management must be able to demonstrate a minimum level of management skills will of necessity increase demand for training in a number of fields. As MEDI is the prime entrepreneurial development institute operating in the SME sector, there is a need for assisting the credit and advisory service institutions develop appropriate curricula and courses. MEDI could also be involved with the delivery of such courses.

To help improve the institutional capacity in this area, MEDI should utilise the assistance available under the World Bank's training fund.

4.9 National Rural Centres Programme (NRCP)

The main activity within NRCP concerned with the SME sector is the work undertaken by its Economic Promotion UNIT (EPU). This unit is involved in the promotion of IGA and micro enterprises in rural areas. MTI's decision to exclude IGA/micro enterprises from its coverage of the SME sector, together with the fact that NRCP is soon to be wound up, means that the EPU either ceases to be or is taken up by another institution. It is recommended that EPU should be integrated within the Ministry of Community Services (see below).

4.10 Other Support Services

4.10.1 Provision of Credit/Advisory Services to IGA/Micro Sector

The decision to separate IGA and micro enterprises from the remainder of the SME sector has a significant impact on the future provision of credit and advisory services to these organisations. As pointed out above, this decision does not involve the withdrawal of services from this element of the sector, but rather it recognises that the requirements of each and the skills necessary to deliver essential services are different.

To fill the gap that will be left with SEDOM's withdrawal of credit services to the micro sector, other initiatives will be required. It is recognised that a number of other sources already exist for the provision of rural credit to this sector. However, it is recommended that additional efforts are made to increase availability.

The role of MUSSCO in this field and the plans to expand credit unions have been covered above. Loan default on credit provided under conditions of peer pressure has proven to be a more successful method than the more traditional means.

The initial results from the Mudzi Fund's pilot projects are very encouraging. The success of the Grameen Bank in Bangladesh - on which the Mudzi experiment is based - augers well for the future development of this fund. Over the next few years, the gradual expansion of the Mudzi Fund is planned. The fund will have to be institutionalised during this period and it is suggested that this be done under the auspices of the Ministry of Community Services (MOCS).

Advisory and extension services to this sector are provided by NRCP's EPU and DEMATT as well as a variety of other organisations and institutions including PVOs, and NGOs. As suggested above the EPU should be absorbed by MOCS; however, if responsibility for the Mudzi Fund is transferred to MOCS, the two could be combined. Consideration should also be given to the absorption of those services currently supplied by DEMATT to IGA/micro activity by an expanded Mudzi Fund. Indeed, if, as is likely, the re-organised DEMATT cannot justify keeping all their Field Offices open, these could form the basis of the developed Mudzi Fund.

4.10.2 Project Officer Training

The Project Officers and Entrepreneurs Training (POET) project set up under the READI Project was established for the purpose of training project officers employed by SME support organisations. Elements of the courses (project implementation) are also suitable for potential or existing entrepreneurs.

The rationale for this training is sound. There is a need to improve the skills and capabilities of project officers within the sector. In future, POET plans to train some 340 participants a year. There is also pressure to institutionalise the project. However, the number of project officers needing to be trained a year must be questioned. Certainly there will be a need for a continuous requirement for this type of training, but the numbers predicted appear excessive.

Entrepreneur training does need strengthening and expanding, but to-date, POET has provided training to entrepreneurs in only one area. There may well be a need in the future for an additional institute to provide entrepreneurial training beyond that supplied by the support institutions themselves. The case for POET moving beyond an essential short term expediency has not been made. Project Officers could be trained on specialised courses which could be run by Malawi Institute of Management.

If funds for subsidized training for entrepreneurs are to be made available in larger amounts than at present envisaged, then a study should be carried out to review the most appropriate and economical way in which additional training facilities could be provided.

5 FINANCIAL IMPLICATIONS

5.1 Introduction

Section 4 of this report identified the impact of the options selected by MTI on the various organisations involved in the SME sector. In this section we outline the financial implications of these options on each of the organisations discussed in the previous section.

In 1990, each of the core SME institutions developed five-year plans which included financial budgets. Following the SME workshop in December 1990, these budgets were reviewed and revised and a comprehensive proposal for financing the SME sector for the next five years was developed. We have relied upon these revised budgets for the core SME institutions and then modified them in light of the chosen options and their impact on the organisations. Where it has been identified that a particular institution such as DEMATT or SEDOM may not be responsible in future for certain of the functions they presently perform the financing requirements of these tasks have been left in the projections. These tasks although not performed by the core institutions will still need to be done and financing will be required. Lending to the micro enterprises for example will still need to be continued. How this should best be done will need to be agreed by Government and a reallocation of funding requirements made.

Further organisations such as DEMATT and SEDOM need to review their strategies in terms of their role and objectives. This again is likely to have a further impact on their individual funding requirements. It will however be likely that significant savings in overall funding will be achieved. If funds are not required in the SME sector it is unlikely this will be needed in the micro or IGA sector.

The financial proposal further identified the funding sources for the needed money. Except for revenue generated by the institutions, this report makes no attempt at specifying which donor should fund which organisation to what degree.

Some of the projections prepared by the institutions appear to have been made in constant kwacha (inflation has been ignored) while others seem to have factored in inflation. In our financial projections, we have assumed an inflation rate of 20 percent per year for kwacha expenditures (salaries and operations, and staff training) and 7.5 percent per year for forex expenditures (technical assistance, studies and commodities). A kwacha exchange rate of US\$ 1 = MK 2.8 was

used.

5.2 Summary

The financial resources needed by the various SME institutions are summarised in the table below.

SME Sector Financial Requirements - By Organisation						
(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
OPC - SMEC	70	48	58	69	83	328
MTI - PEMU	2,320	2,287	2,481	1 998	2,181	11,267
MTI - SMIU	3,365	7,577	7,262	6,140	3,909	28,253
SEDOM	8,358	13,835	11,675	12,285	14,727	60,880
INDEFUND	6,846	9,846	8,759	8,208	8,530	42,189
MUSSCO	4,585	4,722	5,203	5,852	7,121	27,483
DEMATT	9,390	11,491	9,724	10,186	10,499	51,290
MEDI	4,514	4,267	4,010	3,119	3,573	19,483
POET	700	821	965	1,137	1,341	4,964
	<u>40,148</u>	<u>54,894</u>	<u>50,139</u>	<u>48,994</u>	<u>51,962</u>	<u>246,137</u>

Table 2 presents this same information by major expenditure category.

SME Sector Financial Requirements - By Expenditure						
(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
Salaries/Operations	13,731	16,619	20,123	24,375	29,539	104,387
Tech Assistance	7,070	8,110	7,170	5,741	5,816	33,908
Staff Training	1,437	1,733	2,090	2,521	3,042	10,823
Studies	6,280	7,160	5,970	5,286	5,203	29,899
Commodities	1,790	1,529	1,613	1,704	1,802	8,439
Credit Funds	10,446	13,942	17,112	19,901	23,001	84,401
Construction	4,432	9,024	4,650	2,890	295	21,291
	<u>45,186</u>	<u>58,117</u>	<u>58,728</u>	<u>62,418</u>	<u>68,698</u>	<u>293,148</u>
Self-Generated	9,171	7,920	11,180	15,094	17,775	61,141
	<u>36,015</u>	<u>50,197</u>	<u>47,548</u>	<u>47,324</u>	<u>50,923</u>	<u>232,007</u>
Non-Core	4,134	4,697	2,591	1,670	1,038	14,130
Funding Gap	<u>40,149</u>	<u>54,894</u>	<u>50,139</u>	<u>48,994</u>	<u>51,961</u>	<u>246,137</u>

5.3 Office of the President and Cabinet

An SME Sectoral Coordinating Committee (SMEC) is to be established within the department of Economic Planning and Development of the Office of the President and Cabinet.

Since the committee will consist of civil service officials of the relevant ministries, there will be no incremental cost for the committee members.

This committee will require a secretariat, however, and we have recommended that one individual should carry out this function on behalf of the chairman of SMEC. Although the committee will meet only two or three times a year, there will probably be numerous subcommittees which will meet fairly regularly. The secretariat, therefore, will require one full-time person. This person should be an official from OPC who is assigned to the secretariat. Since this official would otherwise be employed elsewhere, there is an incremental cost for this person's salary and administrative support equipment.

Exhibit A presents our estimate of the financial needs of SME for the first five years.

5.4 Ministry of Trade and Industry

The selected options have two major financial consequences for MTI: the formation of a new Policy Formulation, Evaluation and Monitoring Unit and the strengthening of the Small and Medium Scale Industries Unit.

5.4.1 Policy Formulation, Evaluation and Monitoring Unit (PEMU)

In Section 4.3.1, we recommended that this unit be staffed with three professional economists with one technical assistant. It should contract out most of the studies which are required. In order to finance the major studies which this unit needs to initiate, we have budgeted US\$ 500,000 per annum. In addition, one technical assistant for three years at a total annual cost of US\$ 200,000 has been budgeted. The costs of setting up and operating this unit are estimated to be MK 11 million over the next five years. Full details can be found in Exhibit B.

5.4.2 Small and Medium Scale Industries Unit (SMIU)

A Small Scale Industries Unit (SSIU) has already been established within the Ministry of Trade and Industry with UNDP financial assistance. The remit of this unit is proposed to expand in two ways: to cover medium scale industries and to undertake overall coordination of the SME support institutions.

Exhibit C presents our estimate of SMIU's financing costs over the next five years. This exhibit incorporates the costs of the present SSIU as well as the funds needed to expand its remit to cover its new coordination role.

5.5 SEDOM

The decision that SME support institutions should not target micro enterprises mean that much of SEDOM's lending (mini loans) may no longer be undertaken by SEDOM. The elimination of this business, however, does not necessarily lead to a smaller organisation. There may possibly be some savings in support staff costs and in office running overheads. This will however most probably be compensated for by increases required in other areas such as additional training etc. These changes will be identified as part of the strategic review of SEDOM. Projected salaries and operations figures for the next five years, therefore, have not been adjusted.

SEDOM's five year plan shows expected loan disbursements of almost MK 63 million over the period. This contrasts with only MK 19 million over the past five years. We believe SEDOM's plans are overly optimistic as:

- . the number of loan applications has been falling since 1988. It is not evident where the demand for such significantly increased credit will come from
- . very little work has been done to identify realistic demand for credit from the SME sector. Projections have not been substantiated by research
- . our discussions with senior officials of SEDOM indicate that they are not now turning away good-quality projects. If the current level of funding is adequate to meet good projects, any increased funding will have to be given to more marginal projects which are riskier

- over 60 percent of SEDOM's present clients are in arrears, representing some 24 percent by value. While many of these are undoubtedly mini loan clients, these unacceptably high figures indicate a potential serious problem in debt collection at SEDOM.

SEDOM's priority should be to bring its present operations under tighter control before it significantly expands its operations.

We do not feel that SEDOM has the institutional capability at present to appraise, monitor and collect loans at the level which it is projecting and to at the same time improve its existing portfolio.

In our projections, therefore, we have reduced SEDOM's needs for loan funds by 50 percent.

Exhibit D presents our projections of funding requirements for SEDOM for the next five years. It should be noted that there still exists a significant funding gap which needs to be critically examined in the strategy study.

5.6 INDEFUND

INDEFUND is a considerably smaller operation than SEDOM. Nonetheless, approximately forty percent of its clients are in arrears. They represent, however, only 5 percent of the value of loans outstanding. INDEFUND is projecting loan disbursements over the next five years of over MK 65 million. This contrasts with less than MK 8 million in the past five years. Our discussions with senior INDEFUND officials indicate that existing levels of finance are adequate to meet all the good projects with which they are presented. Significantly increased funding levels, therefore, will need to be taken up by riskier projects, which require better evaluation and closer supervision by INDEFUND. Again as with SEDOM little research has been carried out on future demand for credit.

We have therefore reduced INDEFUND's projected funding needs for onlending by one-third. Exhibit E presents our projections of INDEFUND's financing needs for the next five years.

5.7 MUSCCO

The withdrawal of the other core SME support institutions from assisting micro enterprises will place an increasing demand on the credit union system. MUSCCO's loan disbursements are expected to be almost MK 11 million over the next five years, up from MK 1.5 million in the last three years. These figures are only for the lending by MUSCCO to credit unions and do not include direct lending by credit unions to their members.

Since MUSCCO's lending is to individual credit unions and not direct to members, and because credit unions will have to play a bigger role in the future in financing micro enterprises, we have not adjusted MUSCCO's projections for credit needs. It is also likely that MUSCCO will be the recipient of some of the potential excess funding which may exist in other organisations.

Exhibit F presents our financing requirements for MUSCCO for the next five years.

5.8 DEMATT

The impact of the chosen options on DEMATT, discussed in Section 4.7, indicate significant financial changes to DEMATT's current five year projections. There does however appear to be a need for the technical advisory services performed by DEMATT. Whether these are done by DEMATT or by some other organisation they will still need funding. For completeness we have left these costs in DEMATT but they should be considered as costs associated with the provision of advisory services. DEMATT's projections, also, do not appear to include a factor for inflation. In addition, the costs of technical assistance seem low. Exhibit G adjusts for these factors and presents our estimate of DEMATT's funding requirements for the next five years.

5.9 MEDI

Section 4.8 indicated that the effect on MEDI of the selected options is minimal. Except for factoring in inflation, no significant adjustments to MEDI's five year projections have been made. Exhibit H presents our projections.

5.10 NRCP

Since NRCP is being wound up and its Economic Promotion Unit clearly targets micro enterprises and income generating activities, there is no financing need as far as SME is concerned for these organisations.

5.11 POET

As discussed earlier in this report it is felt that there is probably no need for a separate organisation for this particular training requirement. We have also questioned the level of expected demand for this type of training. Our financial projections, presented in Exhibit I, therefore, have reduced POET's funding needs from MK 7 million to MK 5 million. This funding is what is considered necessary to support the training requirements. Given the earlier comments regarding the need for a separate organisation it is likely that this will be utilised elsewhere in the SME sector.

6 IMPLEMENTATION

6.1 Introduction

This report has outlined the options chosen by government to strengthen the support given to the SME sector. The impact of the selected options on each of the core SME institutions has been identified and financial projections of the funding requirements have been prepared. This section presents an action plan to implement the selected options.

The implementation plan can be conveniently divided into two: a high level one which needs to be pursued by MTI and more specific actions which need to be implemented by individual institutions.

6.2 High-Level Implementation Plan

It has been decided that a number of newly-established or strengthened units should play a greater role in overall coordination of the sector. The immediate priority, therefore, must be to get these units properly established and functioning. In addition, there is a need to identify and confirm funding sources for the financing requirements of the SME institutions over the next five years.

The high-level implementation plan should consist of the following actions.

-
- o Obtain Agreement of the Office of the President and Cabinet to Host the SME Sectoral Coordinating Committee (SMEC)

This will be the highest level unit of overall policy coordination within the SME sector and it is essential that it be established and functioning quickly in order that it can be involved in the implementation process of the options chosen during the course of this study.

- o After approval from OPC has been obtained, the following specific actions are required.
 - Have the various ministries appoint their representatives to the committee
 - Identify and then appoint a suitable official to be the fulltime secretariat to the committee

- Have the committee endorse the recommendations and action plan of this report
 - Identify ways in which greater autonomy can be given to GOM-controlled support institutions
 - Begin to identify ways in which micro enterprises and income generating activities can be supported
- o Establish the Small and Medium Scale Industries Unit (SMIU) within the Ministry of Trade and Industry

SMIU will have the responsibility for the day to day coordination of the SME support institutions. It will incorporate the functions and responsibilities of the present Small Scale Industries Unit as well as the READI Coordinating Unit. Unlike READI, however, it will have responsibility for all SME support institutions. Staffing of the SMIU should initially be done from the two existing units.

- o Specific actions which will be required from SMIU are the following.
- Identify and appoint a suitable technical assistant to oversee the coordinating role
 - Identify consultants to carry out various studies and strategy reviews set out in Section 4 of this report
 - Review and agree with the individual organisations the financing requirements for the next five years for the SME sector
 - Prepare a project financial proposal for support to all the SME organisations for the next five years. In conjunction with Treasury, begin discussions with interested donors on meeting the financial needs
 - Identify ways in which the structure and management of GOM-controlled support institutions can be strengthened
 - Identify ways in which staff retention rates can be improved at the support institutions

- Establish guidelines for Ministry's interaction with SME institutions and clearly identify roles and responsibilities of all parties.

- o Establish the Policy Formulation, Evaluation and Monitoring Unit (PEMU) within the Ministry of Trade and Industry

This unit will be responsible for enhancing MTI's institutional capability to evaluate and monitor the effects of government policy on the SME sector in order to help improve on these policies. The proposed Industrial Sector Opportunities Study will be a good foundation upon which to establish PEMU.

- o The following specific actions will be required.
 - Obtain approval from the department of Economic Planning and Development to have the economist chosen to head up this unit be a permanent employee of MTI
 - Identify and appoint the senior economist to head the unit and two other economists
 - Identify and appoint a technical assistant
 - Make PEMU responsible for overseeing the execution of the Industrial Sector Opportunities Study
 - Make PEMU responsible for establishing a comprehensive sectoral database with an analytical capability
 - Have PEMU initiate a census of manufacturing industry in order to establish the current structure of the sector
-
-

6.3 Implementation Plans for Specific Institutions

The previous section outlined the high-level implementation plan which MTI needs to oversee. In this section, action plans for the individual SME institutions are presented. Most of these can be implemented immediately and do not have to await the completion of the high-level action plan. The strengthened SMIU should monitor these activities.

6.3.1 General

There is one general action which all SME institutions need to perform.

-
- o Identify the Implication of Not Supporting Micro Enterprises and Income Generating Activities

Each SME institution needs to review its five year plan in order to amend it, if necessary, in light of the decision that the institutions are not to target their support only to enterprises falling within the definition of the sector as it now stands. The effect on organisation structure, staffing levels and credit requirements need to be taken into account, new strategies need to be identified and implemented.

6.3.2 SEDOM

Given the proposed changes identified in this report SEDOM in one of the organisations which will be most effected. This provides SEDOM management with the ideal opportunity to strengthen the institution and to significantly improve its financial capability. At present the poor loan repayment performance of SEDOM's portfolio threatens to jeopardise its continued existence. Without significant donor support to pay for ongoing operations and new lending it is difficult to see how SEDOM can continue to survive. SEDOM needs to implement the following actions.

-
- SEDOM needs to develop specific measures to improve its loan monitoring and debt collection function in order to generate acceptable cash flows from its existing portfolio. In addition, it must significantly improve its loan appraisal function to prevent the current situation from repeating itself in the future
 - Undertake an audit of the current loan portfolio to establish the true exposure to potential bad debts
 - Critically analyse its own institutional capability and determine whether it can continue to be responsible for so many peripheral activities at a time when all resources need to be concentrated on improving its performance in its core lending activity

- Undertake a staff training needs analysis
 - Review its entrepreneurial training needs and explore cooperation with MEDI in the areas of curriculum development and course presentation
-

6.3.3 INDEFUND

Although INDEFUND shares some of the same problems with SEDOM, the scale of the problems is not as severe. INDEFUND should implement the following action plan.

- Identify ways in which its loan monitoring and debt collection can be improved
 - Improve its project appraisal
 - Explore cooperation with MEDI in the areas of curriculum development and course presentation for entrepreneurial training
-

6.3.4 DEMATT

Like SEDOM the impact of the selected options on DEMATT will be extensive. Until the actions set out in 6.3.1 above are undertaken it is not possible to predict the extent of the changes which DEMATT will need to make to its current level of activities or the range of the services offered. Once this initial review has been undertaken then DEMATT should implement the following action plan.

- Amend DEMATT's trust deed so that it reflects its agreed scope of future operations
- Develop a financing proposal by which GOM, and donors through GOM, support DEMATT in a method which better links payment for actual services delivered and results achieved. Since GOM requires DEMATT to become more self sufficient, but the types of clients DEMATT supports are those who find it difficult to pay the full cost of the services provided, there is a need for a better link between DEMATT's costs and the services it provides. The present open-ended arrangement whereby funds are provided

regardless of results cannot be supported indefinitely

- Undertake a staff training needs analysis and then develop a plan to bridge the gap between the organisation's skill requirements and those offered by its staff
-
-

6.3.5 **MEDI**

The decision that clients of SME support institutions should be able to demonstrate minimum levels of management skills will increase demand for training in a number of fields. MEDI should implement the following action.

- Develop stronger links with the other core SME support institutions to explore ways in which MEDI can assist them in curriculum development and course presentation to better meet their client entrepreneurial training needs
-
-

6.3.6 **POET**

There is significant doubt over the need for a separate organisation to carry out the functions performed by POET. POET needs to be reviewed to establish the most appropriate method of carrying out this training.

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit A

Office of the President and Cabinet
 SME Sectoral Coordinating Committee (SMCC)

(K\$ 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	15	19	22	26	31	113
2 Technical Assistance						0
3 Staff Training	25	30	36	42	52	185
4 Studies						0
5 Commodities	30					30
6 Credit Funds						0
7 Construction						0
8 Subtotal	70	49	58	68	83	328
Revenue						
9 Self-Generated	0	0	0	0	0	0
10 Funding Gap	70	49	58	68	83	328

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit B

Ministry of Trade and Industry

Policy Formulation, Evaluation and Monitoring Unit (PEMU)

(Mk 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	100	120	144	173	207	744
2 Technical Assistance	560	602	647			1 809
3 Staff Training	50	60	72	80	104	372
4 Studies	1 400	1 505	1 618	1 739	1 870	8 132
5 Commodities	210					210
6 Credit Funds						0
7 Construction						0
8 Subtotal	2 320	2 287	2 481	1 998	2 181	11 267
Revenue						
9 Self-Generated	0	0	0	0	0	0
10 Funding Gap	2 320	2 287	2 481	1 998	2 181	11 267

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit C

Ministry of Trade and Industry

Small and Medium Scale Industries Unit (SMIU)

(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	600	720	664	1,027	1,244	4,455
2 Technical Assistance	840	903	971	1,044	1,122	4,679
3 Staff Training	200	240	288	346	415	1,489
4 Studies	1,400	1,120	840	700	700	4,760
5 Commodities	100	100	116	124	134	581
6 Credit Funds						0
7 Construction	225	4,466	4,164	2,630	255	12,060
8 Subtotal	3,365	7,577	7,262	6,140	3,909	28,253
Revenue						
9 Self-Generated	0	0	0	0	0	0
10 Funding Gap	3,365	7,577	7,262	6,140	3,909	28,253

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit D

SEDOM

(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	4,646	5,575	6,690	8,028	9,694	34,574
2 Technical Assistance	1,110	1,332	1,094	674	809	5,019
3 Staff Training	400	480	576	691	829	2,977
4 Studies	700	840	324	348	374	2,586
5 Commodities	400	430	462	497	534	2,323
6 Credit Funds	4,046	5,369	6,419	7,314	8,214	31,461
7 Construction	2,394	2,729				5,123
8 Subtotal	13,696	16,755	15,565	17,502	20,494	64,062
Revenue						
9 Self-Generated	5,338	2,920	3,890	5,266	5,766	23,180
10 Funding Gap	8,358	13,835	11,675	12,285	14,727	60,880

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit E

INDEFUND

(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	2,130	2,698	3,417	4,329	5,492	18,057
2 Technical Assistance	560	672	806	968	1,161	4,167
3 Staff Training	125	158	201	254	322	1,059
4 Studies	1,650	2,480	1,883	1,095	750	7,858
5 Commodities	200	215	231	245	257	1,168
6 Credit Funds	5,000	6,972	8,693	10,087	11,237	41,991
7 Construction	550	1,000				1,550
8 Subtotal	10,215	14,197	15,232	16,661	19,221	75,845
Revenue						
9 Self-Generated	3,369	4,351	6,473	8,773	10,691	33,656
10 Funding Gap	6,846	9,846	8,759	8,209	9,530	42,189

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit F

MUSCCO

(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	818	982	1,178	1,414	1,690	6,087
2 Technical Assistance	1,200	1,290	1,387	1,491	1,603	6,970
3 Staff Training	150	180	210	258	311	1,116
4 Studies	280	301	324	348	374	1,626
5 Commodities	175	188	202	217	234	1,016
6 Credit Funds	1,400	1,600	2,000	2,500	3,450	10,950
7 Construction						0
8 Subtotal	4,023	4,541	5,306	6,229	7,667	27,766
Revenue						
9 Self-Generated (1)	360	500	645	800	1,080	3,430
10 Funding Gap - Core	3,663	4,041	4,661	5,379	6,587	24,331
11 Non-Core	922	681	542	470	504	3,152
12 Funding Gap - Total	4,585	4,722	5,203	5,852	7,121	27,483

- 1 MUSCCO does not consider loan repayments as being available to finance the funding gap. It intends to place such money in an interest-earning deposit account to act as a reserve for when donor funding is insufficient to meet operating needs. Naturally, if such funds were deducted from total needs (as with the other credit institutions) the funding gap would be less.

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit G

DEMATT

(MIL 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	4,091	4,909	5,891	7,069	8,483	30,444
2 Technical Assistance	1,260	1,806	971	1,044	561	5,642
3 Staff Training	187	227	222	222	222	1,080
4 Studies	160	160	170	170	200	860
5 Conferences	500	400	400	400	400	2,100
6 Credit Funds						0
7 Construction						0
8 Subtotal	6,188	7,501	7,764	9,022	10,032	40,448
Revenue						
9 Self-Generated	10	26	27	33	39	135
10 Funding Gap - Core	6,178	7,475	7,677	8,989	9,993	40,312
11 Non-Core	3,212	4,015	2,049	1,197	500	10,978
12 Funding Gap - Total	9,390	11,490	9,726	10,186	10,492	51,290

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit H

MEDI

(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	831	997	1,197	1,438	1,723	6,184
2 Technical Assistance	1,540	1,505	1,294	522	551	5,422
3 Staff Training	200	240	288	340	415	1,485
4 Studies	600	645	693	745	803	3,485
5 Commodities	125	134	144	155	167	726
6 Credit Funds						0
7 Construction	1,263	809	466			2,538
8 Subtotal	4,559	4,331	4,083	3,249	3,657	19,843
Revenue						
9 Self-Generated	45	64	73	85	94	361
10 Funding Gap	4,514	4,267	4,010	3,119	3,573	19,482

SME SECTOR FINANCIAL REQUIREMENTS

Exhibit I

POET

(MK 000)	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Costs						
1 Salaries and Operations	500	600	720	864	1,037	3,721
2 Technical Assistance	0	0	0	0	0	0
3 Staff Training	100	120	144	173	207	744
4 Studies	100	109	116	124	134	581
5 Commodities	50	54	58	62	67	290
6 Credit Funds						0
7 Construction						0
8 Subtotal	750	821	1,037	1,220	1,444	5,336
Revenue						
9 Self-Generated	50	60	72	86	104	372
10 Funding Gap	700	821	965	1,137	1,341	4,966