



**USAID**  
FROM THE AMERICAN PEOPLE

**LEO BRIEF**  
Leveraging Economic  
Opportunities

## PORTFOLIO OWNERSHIP AMONG AGRIBUSINESS SMES IN MALAWI

This assessment of agribusiness small and medium enterprises (ASMEs) was commissioned by USAID/Malawi, to scan the ASME landscape, identify the constraints, and present a menu of possible ways to address those constraints. The study, undertaken by Jason Agar of Kadale Consultants, Malawi for ACDI/VOCA, utilized a mixed quantitative/qualitative methodology, combining existing secondary material from the 2012 FinScope Micro, Small and Medium Enterprise (MSME) study, with additional, mainly qualitative, primary data from interviews with 68 SMEs in the seven target districts<sup>1</sup> in USAID's Feed the Future (FTF) Zone of Influence, as well as financial institutions and public- and private-sector stakeholders. This integration of quantitative data and qualitative findings brought additional insights and served to triangulate the data. The final document can be found on Microlinks.<sup>2</sup>

A number of the study's findings are instructive not just in understanding the situation in Malawi, but also have more universal relevance in Africa and indeed elsewhere in less developed economies. This learning synthesis emphasizes these most widely relevant points, only briefly referencing the more Malawi-specific quantitative results and recommendations.

The assessment found an ASME sector with diversified business ownership, in which owners commonly operate multiple businesses and can be classed as **'portfolio' owner-managers** spanning both agribusiness and non-agribusinesses. A portfolio enables them to move resources to **address cashflow shortages and seasonality** in each business, **manage uncontrollable downside risks** by moving resources from businesses affected by such a risk, and **manage growth opportunities** by investing in businesses that are making most progress. A key implication is that it is difficult for public-sector entities and donors to invest in specific value chains, as owners move resources within a portfolio of businesses that span more than one value chain and may include non-agribusinesses. The analysis that was conducted in Malawi examined ASME access to finance, use of business development services (BDS), collaborating and clustering, use of information and communication technology (ICT), and the enabling environment.

### GENERAL CHARACTERISTICS OF TARGET VALUE CHAINS

The study focused on three value chains of strategic importance to Malawi, and in particular to USAID/Malawi: soybean, groundnut, and dairy. In general, there was little specialization in **groundnut** or **soybean**, with input suppliers, traders, and transporters handling both crops in addition to other district-specific crops. There were relatively few **dairy** players at the district level other than producers and milk bulking groups, which act as aggregators and input/service providers. This is due to the need to integrate production with (urban-based) processors, which eliminates the scope for traders to intermediate between producers and processors, and leads to more direct relationships between the two groups.

### ACCESS TO BDS AND FINANCIAL SERVICES AMONG ASMES

In general, as in other countries in sub-Saharan Africa, there is a dearth of both business services and appropriate financial services available to ASMEs. In particular, very limited BDS are used by the ASMEs surveyed, with no specialist BDS providers located in the districts, though there are a few business (accountants) and technical (mechanics/technicians) service providers providing some business services. National-level private, public and NGO

<sup>1</sup> These districts are Balaka, Dedza, Lilongwe Rural, Machinga, Mchinji, Mangochi and Ntcheu.

<sup>2</sup> [www.microlinks.org/sites/default/files/resource/files/Report\\_Agri-business\\_SMEs\\_in\\_Malawi\\_Final\\_508Compliant.pdf](http://www.microlinks.org/sites/default/files/resource/files/Report_Agri-business_SMEs_in_Malawi_Final_508Compliant.pdf)

BDS providers depend on subsidy for service provision. The relevance of BDS is currently low, so a more demand-driven approach would be needed that responds to the needs of owner-managed ASMEs, rather than treating ASMEs as if they were small ‘corporates.’ Also, for BDS to be relevant to the reality of this sector, more attention would need be paid to meeting the challenges of managing a portfolio of ASMEs.

There is low adoption of financial services other than **bank accounts**, which are primarily used for managing transactions and the safe storage of cash. ASMEs tend to have multiple accounts if they have multiple outlets or businesses. ASMEs reported limited **saving**; rather, cash is invested in different enterprises, with temporary saving used to manage cashflow. ASMEs identified **risks** relating to theft and robbery, premises (flood, fire) and operations (inflation, transport), with 34.5% of small and 87.5% of medium enterprises having suffered a loss in the previous year. ASMEs managed these risks by taking preventive measures, rather than buying **insurance**.

Around 40% of SMEs surveyed in the FinScope 2012 survey were **borrowing**. However, as also found in the primary research, borrowing from ‘business friends’ was much more likely than from a formal financial institution (FI), as finance was immediately available and often interest free. Potential FI borrowers need the title for a property, which is hard to provide. Lending of stock and transport was also common. There is a core of ASME owners that will not take formal finance from fear of losing their assets.

All FIs in Malawi have SME sections or departments, but with limited actual product tailoring to SME needs; mostly these are re-branded personal banking products. FI staff have limited training and understanding of SMEs; often FI staff are frustrated with SME owner behaviors, such as diverting funds, lack of records, poor finance management skills, etc. FIs are risk averse in their ASME lending, relying on collateral rather than analysis of capacity or willingness to pay. Due to the absence of land or property title, many ASMEs therefore cannot access bank finance. Adoption of financial services increases with enterprise size, but financial services are not well adapted for ASMEs, limiting overall uptake.

## **USE OF ICT AMONG ASMES**

While the study found high mobile phone ownership, there was low use of other forms of ICT, low use of mobile-money options for payments and receipts (with some nascent interest), low ownership of computers, and low use for email and web activities among those computer users. Just under half of the ASMEs in the primary research had smartphones, and 87% of smartphone owners were using it to access email and the web in ways that they had not previously done on a computer. A few ASMEs had begun to try mobile-money services. High smartphone ownership, use of the web and email, and the advent of mobile-money services suggest there is scope for interventions that speed and extend uptake and use. This could include smartphone-based access to BDS and/or financial education, development and access to tailored Apps for ASMEs, and access to cloud-based storage for working documents, all of which address critical ASME constraints by building upon the emerging interest among ASME owner-managers in using smartphones to access email and the web.

## **ENABLING ENVIRONMENT**

While much of the study’s analysis was highly context-specific (and thus less relevant to other countries), two overarching constraints were found related to the enabling environment that are common in sub-Saharan Africa, and transferable in terms of lessons. First, registration is practically difficult and time consuming for those businesses that want to register; and second, understanding of and compliance with rules and regulations is low among ASME owners. Further complicating efforts to make improvements in this area, owner-managers of SMEs generally pay limited attention to enabling environment issues, due to weak enforcement by the government of Malawi (GoM). Initiatives to improve service delivery from GoM to ASMEs could, however, improve this. For example, offering

business registration on-line would improve efficiency, encourage compliance by owner-managers, and address the lack of knowledge of enabling environment rules. Doing so on smartphone-enabled platforms would allow access to downloadable materials and further strengthen such an effort.

## PORTFOLIO OWNERSHIP

Multiple business ownership as a ‘portfolio’ is common; it enables owners to manage cashflow, manage risk, and manage growth between the different businesses. FinScope (2012) found multiple enterprise ownership, with an estimated 987,480 MSMEs<sup>3</sup> owned by 760,000 owners.

**TABLE 1: NUMBER OF BUSINESSES OWNED BY SME OWNERS, 2012**

How many businesses with less than 100 employees do you own? (A1a) <sup>4</sup>	% of small enterprise owners owning....	% of medium enterprise owners owning.....	% of all SME owners owning....
1 business	65.7	62.5	65.5
2 businesses	29.6	25.0	29.3
3 businesses	4.6	12.5	5.2
4+ businesses	0.0	0.0	0.0
Total	100.0	100.0	100.0

Source: FinScope (2012) database – consultant’s analysis

Across all SMEs, 34.5% of respondents said they owned more than one business (FinScope 2012). The primary research, which asked more pointed questions regarding multiple business ownership, found that 62.1% (42 of 68) of ASME owners had more than one business, with 11% (8 of 68) stating they owned six businesses or more. The operation of multiple businesses as a ‘portfolio’ was not only common, but a deliberate strategy for managing *cashflow*, *risk* and *growth*. These three sub-purposes<sup>5</sup> fit a strategy of dealing with immediate needs (cashflow), limiting the ‘downside’ (risk) and benefitting from the ‘upside’ (growth).

As a strategy for **managing cashflow**, 76% (32 of 42) of those owners who own more than one business moved capital (cash) from one business to another according to business needs and to avoid borrowing from formal or informal sources. Sometimes the need *related to a particular business problem*, for example a feed manufacturer had problems getting paid by milk bulking groups, which in turn were not being paid by the processor they were supplying. In other cases, owners were moving cash between businesses to *take advantage of different seasonal demand in different businesses*. For example a trader who buys soybean, groundnut and other crops (April to September), moves his cash from crop trading into cement sales from October to December, which is the peak period for small-scale construction. At this time, he also transfers capital into farm inputs for the planting season, which peaks at the onset of the rains. From January to March (the ‘hungry season’), he focuses his cash on stock for retail sales of food crops when prices peak, and shifts into grocery from April onwards when farmers receive cash from crop sales and want to buy groceries. This seasonal synchronizing of business activities is supported by the movement of cash to buy stock.

<sup>3</sup> The FinScope (2012) report does not provide the basis for these estimates, so the split for SME ownership cannot be extracted.

<sup>4</sup> FinScope requires that over 50% of what the business makes or does should be sold to exclude subsistence farmers.

<sup>5</sup> These were not necessarily explicitly stated, but were also discerned by the consultants from owner comments about their behaviors.

This business owner has found a seasonal formula to utilize his scarce cash resources through a portfolio business approach.

A second reason for a portfolio of businesses was to **manage downside risks**. ASME owners gave examples in which one of their businesses was affected by an external factor beyond their control, such as government intervention on pricing or low production resulting in insufficient volumes for processing and trading. For example, the GoM offered an attractive forward soybean price, making it difficult to buy at market rates for trading. In such situations, the owner moves capital and effort to other businesses not directly affected. 30 respondent ASMEs with more than one business were assessed to be managing risk in this way.

Finally, in the primary research, 27 owners used their portfolio **to invest where growth was strongest**. In this case, the portfolio was a means to test and try different businesses and markets to determine which were most attractive. For example, one trader disposed of a mini-bus to add capital in his trading business. Finding the best business is often trial and error, with owners making choices more based on the owner's knowledge and 'gut-feelings,' than on a systematic analysis of the market and opportunity (or 'business plan'). There was no evidence of formal market appraisals being undertaken; rather maintaining a range of businesses meant that owners could respond rapidly to new situations.

## COLLABORATION AND CLUSTERING

Some traders *collaborate* to reach stock-sharing arrangements: for example, if one has an order to fulfill but insufficient stock, the others can supply it and share some of the profit. In other cases, one trader collects stock from other traders from rural towns for sale in Blantyre townships, rather than each one seeking that market themselves.

The other main examples of collaboration are related to transport.<sup>6</sup> One trader had formed a link with a wholesale business at Muloza on the Mozambique border. He regularly delivers produce there and has negotiated to take backloads from Muloza to Limbe/Blantyre on his way back to Ntcheu. This provides a cost efficiency that is shared between them.<sup>7</sup> Most of the transporters indicated that they collaborate when trying to get contracts with bigger firms. The large firms do not want to negotiate with lots of transporters for multiple vehicles, but want one contract, leaving the transporters to sort out their logistics. The transporters form informal groups and have informal agreements on how to fulfill the contract, including sharing the profits. For example, the transporters in Machinga collaborate to get ADMARC contracts.

In relation to *clustering*, there were examples in which several businesses of the same type are co-located: these were less deliberate choices to co-locate, but rather clustering in areas where there were more business opportunities.<sup>8</sup> For example, there is a concentration of groundnut traders in Mchinji, and this appears to attract international buyers from Southern and West-Central Africa due to high demand in their home markets. However, the traders have not deliberately clustered for mutual advantage, but rather are in centers like Waliranji where there is a high concentration of supply and proximity to the border for ease of formal and informal access. This is clustering through competition, not as a strategic choice. Supporting services are also clustered for the same reasons, such as transport.

---

<sup>6</sup> Sometimes this is just about one transporter with a contract having committed his vehicles to another contract, and so needing additional vehicles. This is essentially a subcontracting arrangement rather than a true collaboration

<sup>7</sup> If the trader did not have a backload, it is likely that his drivers would negotiate their own deals and be transporting goods using his transport, but with the money being paid to the driver, so having certainty on backloads avoids this risk.

<sup>8</sup> Transporters forming a transport rank for vehicles to hire, is a form of clustering through choice, as it attracts customers through offering a wide range of choices, but this not the type of clustering that is sought in this study.

## CONCLUSION

The study served as a basis for generalized recommendations on how USAID/Malawi might contribute to ASMEs' growth and their ability to drive upgrading and change in their sectors. These recommendations included prioritizing BDS, access to finance, and ICT access, with lesser emphasis on the enabling environment. Increased collaboration and clustering among ASMEs would be an effective characteristic of the approach in all three of these priority areas. Specifically, the recommendations included identifying and encouraging BDS providers' low-cost delivery models for business information and advisory services; supporting demand-led financial innovations targeting ASMEs as well as ASME financial education; and supporting smartphone-based access to BDS, financial education, tailored ASME Apps, and cloud-based storage.

In addition, some of the observed characteristics of the sector can spark new ways of thinking about why ASMEs behave as they do. In particular, the importance of the portfolio approach to ASME management—and the implications of this phenomenon in terms of managing cashflow, risk, and growth opportunities—serves as the principal insight of this study, and the one with most relevance to other agriculture-focused economies in less developed countries. In particular, this approach creates significant challenges for donor programs designed to focus on and invest in specific value chains, since many owners move resources within a portfolio of businesses that span more than one value chain. Furthermore, this phenomenon influences the lack of appropriate BDS and financial services, as the few service providers who do attempt to serve this segment, fail to take this management approach into account, tending to treat ASMEs as smaller versions of corporations rather than as a portfolio of seasonally differentiated lines of business. Finally, the common collaboration and clustering strategies utilized by ASMEs—informal consolidation of orders and transport, and geographic clustering through co-location—are also highly relevant to similar economies, where ASMEs follow similar strategies.