

**An Investigation into the Limitations the Rural Characteristics Have on  
the Operations of Rural Based MSMEs in Malawi.**

*MPHATSO GIDEON MISSION-PHIRI*

***X14112884***

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## **Abstract**

The purpose of this study is to investigate the constraints that the Rural Characteristics have on the operations of MSMEs in the rural areas of Malawi by looking at rural infrastructure (roads, telecommunication and electricity), rural financing, standards of rural education, the most popular type of the business amongst rural MSMEs, traditional cultural beliefs and gender practices.

The study is a quantitative research using a self- completed questionnaire to collect research data from a sample of MSMEs drawn from seven administrative districts of Malawi.

The investigation will first analyse the rural characteristics of Malawi in relation to rural infrastructure (roads, telecommunication and electricity), rural financing, standards of rural education, the most popular type of the business amongst rural MSMEs, traditional cultural beliefs and gender practices and thereafter, will establish the challenges that the rural characteristics present on the operations of rural MSMEs.

The findings from the literature review were that the rural characteristics put constraints in the operations of MSMEs. The field survey confirmed the issues raised in the literature.

The findings make a positive contribution to some of the solutions to the problems faced by the rural MSMEs in Malawi.

The implications of the research findings are that unless the improvements in the rural characteristics, the rural MSMEs in Malawi are going to continue to experience limitations on their operations hence affecting their growth.

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## **Chapter 1 INTRODUCTION**

### **1.1 Country Description**

Malawi is a small landlocked country in southern Africa with an area of 118,480 square km. It is bordered by Tanzania to the North, Zambia to the West and Mozambique to the south West, South and south East. Malawi has a sub-tropical climate, and the rainy season which is the planting season, is from November to April. The country is divided into three administrative regions namely the Southern region, Central region and Northern region (MG, 2012; USAID, 2007).

Agriculture is the main source of income of the majority of the population and most of agricultural production is rain fed and it is subsistence farming mostly practiced by smallholder farmers. Agriculture contributes to about 35 – 39% of the GDP with crops such as tobacco, tea and sugar contributing close to 85% of the total exports of Malawi.

Malawi has a population of about 15 million people with 85% of these living in the rural areas (MG, 2012; USAID, 2007).

Malawi is one of the poorest countries in the world. According to the United Nations Human Development Index report of 2015, Malawi was ranked as the 173<sup>rd</sup> poorest country in the world out of the 188 countries while the 2016 report by Global Finance ranked Malawi as the fifth least developed country in the world with the Niger, Liberia, Democratic Republic of Congo and Burundi as the other countries below it. It is worth highlighting that the three countries that are ranked below Malawi have been ravaged by civil wars for a long time unlike Malawi which has enjoyed long periods of relative peace.

### **1.2 MSMEs in Malawi**

Micro, Small and Medium Enterprises (MSMEs) play a major role in the economic growth and industrial development of a country. They make contributions in improving the economy of a country through the creation of employment, investments, development of indigenous skills and technology and promoting entrepreneurship (Finscope, 2012). They are the primary vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations.

Realizing the importance of the contribution that MSME's make to the country's economy, the Malawi government came up with the MSME Policy Strategy in 1998 which was updated in 2012 (MG, 2012; USAID, 2007). The policy is part of the government's long-term goal of reducing poverty through sustainable economic growth and infrastructure development. It aims at 'creating a modern and effective framework to guide the development of profitable, competitive and sustainable MSME's that will in the end contribute to the stimulation and growth of the Malawi economy.

The 2012 Malawi MSME Survey states that there were some 755 thousand small business owners in the country, operating about 980 thousand enterprises. The MSMEs in Malawi generate revenue of about US\$2.0 billion a year.

85% of the MSMEs are located in the rural areas, with 49% the MSMEs operating from the Central Region, 11% from the Northern Region and Southern Region having 40% of the MSMEs.

Many MSMEs are mainly involved in agro based small businesses. Some 30% of these businesses sell agricultural products, and another 23% conduct general trade and vending (FinScope 2012).

The MSMEs are responsible for the income contribution to 25% of households and contribute 15.6% to the Gross Domestic Product (GDP).

The majority of MSMEs in Malawi are micro enterprises employing 1-4 people with 59% of the MSMEs being individual entrepreneurs who employ no other people, while the remaining 41% of enterprises generate employment. This 41% of the MSMEs employ about one million people with about 250 thousand employees working full time. Of those employed, 81% work for Micro enterprises, 17% work for Small enterprises whilst only 2% work for Medium enterprises (Finscope, 2012)

As the majority of MSMEs are micro businesses, their net profit is relatively low. About 35% of MSMEs make a net profit of not more than US\$155 a month.

When it comes to gender, men operate 54% of the businesses while women owned 46% of the enterprises.

Therefore, it can be concluded that the contribution of micro, small and medium scale businesses to the socio-economic growth and development of Malawi takes varying forms including boosting public revenue collections through various means of taxation, provision of goods and services to the general public and, more importantly, poverty alleviation through creation of employment and economic empowerment of citizens.

### **1.3 Key Research Question**

This study aims at exploring the limitations the conditions that are characteristic to the rural areas of Malawi have on the performance of the Micro, Small and Medium Enterprises (MSMEs).

The rural areas in Malawi are characterised by poor infrastructure in terms of poor roads and telecommunications network and inadequate electricity supplies; a weak human resource base characterised by high illiteracy levels and low skill level, no incentives to attract commercial banks and other credit organisation into investing in rural areas, poor technological awareness and advancement, traditional cultural beliefs and gender practices that negatively affect the MSMEs among others. (Finscope, 2014)

This research study is, therefore, highly relevant and important especially for a country like Malawi which considers promotion of the economic status of its rural masses as one of the key means to poverty reduction (MG, 2012, USAID, 2007).

In general, it is expected that through the promotion and provision of support to the rural areas, the performance of MSMEs, as well as the economic status of the rural communities in general, is supposed to improve (MG, 2007).

Hence, this study seeks to understand the rural characteristics of Malawi and to unearth and highlight and establish the constraints the rural characteristics have on the running of rural MSMEs.

## **1.4 Aims and Objectives of the Study**

### **1.4.1 Aims of the Study**

The main aim of this study is to investigate the constraints of the Rural Characteristics on the day to day running of MSMEs in rural areas of Malawi.

### **1.4.2 Objectives of the Study**

The aims of the study will be achieved using two objectives which are:

#### **1.4.2.1 Objective 1**

To analyse the rural characteristics of Malawi in relation to:

- a. Infrastructure (Roads, Telecommunication and Electricity)
- b. Rural Financing
- c. Standards of Education
- d. Nature of the Business
- e. Traditional Cultural beliefs and Gender practices

#### **1.4.2.2 Objective 2**

To establish the challenges that the rural characteristics present to the running of rural MSMEs in relation to:

- a. Infrastructure (Roads, Telecommunication and Electricity)
- b. Rural Financing
- c. Standards of Education
- d. Nature of the Business
- e. Traditional Cultural beliefs and Gender practices

## **1.5 Structure of the Dissertation**

This research study consists of six chapters as follows:

### **1.5.1 Chapter 1: Introduction**

The Introduction presents an overview of the study including the background of country of the study, Malawi, the aims of the research and its objectives

### *1.5.1 Chapter 2: Literature Review*

Chapter 2 presents a review of the relevant literature pertaining to the research topic and is presented in thematic form with the following themes:

- a. Infrastructure (Roads, Telecommunication and Electricity)
- b. Rural Financing
- c. Standards of Education
- d. Nature of the Business
- e. Traditional Cultural beliefs and Gender practices

### *1.5.3 Chapter 3: Research Methodology*

This chapter presents research methodology process that the researcher used to gather data for this research study. This includes an examination of the research problem and its objectives.

### *1.5.4 Chapter 4: Research Findings*

This chapter analyses the data from the self-administered questionnaires and presents the major research findings in relation to the objectives of the study

### *1.5.5 Chapter 5: Discussions*

This Discussion chapter, presents a discussion of the key findings from the previous chapter by looking at comparisons with the discussion in Literature review chapter.

### *1.5.6 Chapter 6: Conclusion, Limitations and Recommendation*

This chapter presents the conclusions of the study by analysing the aims and objectives of the study as well as the key findings that have been achieved and offering recommendations for future academic studies

## **Chapter 2 LITERATURE REVIEW**

### **2.1 Introduction**

The chapter presents a detailed review of the relevant literature on the constraints facing the rural MSMEs brought about by the conditions which are characteristic to the rural areas of Malawi.

The chapter is presented in a thematic form with sub-topics which are related to the objectives of the study.

### **2.2 Defining Micro, Small and Medium Enterprises**

Micro Small and Medium Enterprises (MSME) are defined differently by international institutions and countries globally. According to the United States International Trade Commission (USITC, 2010) and as collaborated by Kayanula and Quartey (2000), researchers overwhelmingly agree that there is no single, uniformly acceptable definition of MSMEs. As a result, each country and/or economic region has come up with its own definition of MSMEs that fits into its own context largely depending on the geographical location and the size and scope of its economy.

Although there have been differences in the way individual institutions and countries apply the said definition, basically there is a similarity on how these countries base their definition of MSMEs. Thus, there are same criteria that the countries and organisations use to define MSMEs. These criteria are based on the number of employees, value of total assets, and value of annual sales or turnover.

But the challenge has been the fact that considering that enterprises have different levels of capitalisation, sales and employment, and as such, definitions which employ measures of size (number of employees, turnover, profitability), when applied to one country, lead to firms being classified as small, while the same size definition, when applied to a different country or economic region, could lead to firms being classified as medium; which is a different classification altogether (Kayanula and Quartey, 2000).

For instance, in the economic region of Europe, the European Union (EU) adopted a standard definition of MSMEs which came into force on January 1, 2005. This enabled that enterprises would be treated uniformly across the whole of the region (EU Journal, 2003). Thus, in the European Union, the MSME are defined as shown Table 2.1 below:

*Table 2.1: Classification of MSMEs in the European Union*

Type	No of Employees	Annual Turnover (Euros)
Micro	< 10	< 2 Million
Small	< 50	< 10 Million
Medium	< 250	< 50 Million

While in South Africa, according to the National Credit Regulator (NCR) report of 2011, and the National Small Business Act of South Africa of 1996, as amended in 2003, the Republic of South Africa which is the second largest economy in Africa after Nigeria, defines the MSMEs differently from the way the European Union defines it. This is shown in Table 2.2 below.

*Table 2.2: Classification of MSMEs in the South Africa*

Type	No of Employees	Annual Turnover (SA Rand)	Annual Turnover (Euros)
Micro	< 05	< 0.20 Million	< 14,000
Small	< 50	< 12.0 Million	< 0.9 Million
Medium	< 200	< 50.0 Million	< 4.0 Million

**Note: €1.00 = SAR 14.00**

### **2.2.1 The Malawi Definition of Micro, Small and Medium Enterprises**

The official definition of MSMEs in Malawi by the Ministry of Trade and Industry was made in 1992 and later revised in 1998. The definition is based on the number of employees and the firm's annual turnover.

The Ministry of Trade and Industry in 1998 defined the MSME as shown in Table 2.3:

*Table 2.3: Classification of MSMEs in the Malawi*

Type	No of Employees	Annual Turnover (Malawi Kwacha)	Annual Turnover (Euros)
Micro	01 – 04	< 120,000	< 160
Small	05 – 20	< 4.0 Million	< 5,300
Medium	21 – 100	< 10.0 Million	< 13,300

**Note: €1 = MK 750.00**

Since the official definition was given in 1992 and later revised in 1998, the present economic situation in Malawi has changed drastically. The annual turnover figures have been rendered meaningless due two factors namely; the inflation over the period and the depreciation of the local currency, the Malawi Kwacha, which is currently trading at around 12 times the rate to the US\$ now as compared to 1998.

It is, therefore, prudent for the government of Malawi to consider revising the existing official definition as it seems to be out of date (Kayanula and Quartey, 2000; USAID, 2007).

As a result, the Malawi government mainly uses the employment criterion when defining the term MSMEs. But the use of the employment criterion has its drawbacks. The economy of Malawi is agriculture based and as such, most enterprises employ seasonal workers. Also, Malawi is a low wage economy and enterprises employ mostly low paid employees.

Therefore, because of these factors, the size of an enterprise can generally be overstated (FinScope, 2012).

## **2.3 Infrastructure**

The World Development Report (1994) defined infrastructure as consisting of two entities.

- i. Public utilities which include power, telecommunications, piped water supply, sanitation and sewerage, solid waste collection and disposal.



- ii. Public works which include roads, major dam and canal works for irrigation and drainage. Other transport sectors-urban and inter-urban railways, urban transport, ports and waterways, and airports.

Many studies recognise that infrastructure investment has a strong impact on the country's development especially on rural livelihoods. Infrastructure is critical to achieving the growth and social objectives of a government.

Poor and inadequate infrastructure is one of the major features of rural characteristics. Such infrastructure is characterised by a poor roads network, a poor telecommunications network, inadequate power supply and inadequate water supply among others. This is one of the most critical factors that causes low levels of investments and poor performance of enterprises and therefore, acts as a barrier to the success of the MSMEs. (Rodriguez, 2003; Chirwa, 2003; Kamunge, Njeru, Tirimba, 2014).

Governments investments in the transport infrastructure such as roads, rail and water has a direct impact in linking production and markets as well as improving access to social services. Improvements in the transport infrastructures has the potential of reducing transport costs which in turn has the making of creation of marketing networks (Kulemeka, 2010).

### **2.3.1 Transport Network**

Studies have shown that rural road transport infrastructure is one of the most important factors for the development of rural areas and that poverty is more prevalent in areas where there are inadequate and unreliable transport networks (Lebo and Schelling 2001).

In many developing nations, the rural road transport networks are inadequate, underdeveloped and of poor quality with an estimated population of about 900 million rural dwellers in those developing countries having an unreliable all-season access to the main road networks and a population of about 300 million people in rural areas don't have motorized access at all (Lebo and Schelling, 2001).

Most of the rural roads and rural access roads in Malawi are unpaved, gravelled or even just earth roads. Malawi has a road network consisting of 15,451km. 74% of the road network is of gravel surface. There is another 9,478km of undesignated road network which serve the rural areas. (NASFAM,2004)

Inaccessible roads have been a major impediment to the operations of MSMEs in the rural areas of Malawi. Factors for the presence of the poor road network in rural Malawi include the poor designing and construction of the roads and lack of funds from the government to properly maintain the roads.

Many rural roads become impassable mainly during the rainy season (NASFAM, 2004). This is collaborated in the Malawi NCG (2002) report which further states that about 38 percent of the undesignated roads in the rural areas are not passable during the rainy season.

The poor road network in rural Malawi, increases the costs of doing business as the transportation costs of products, both raw materials for production and finished products, to and from the markets increases, thereby pushing up the prices of the said products considerably (Ellis, 2000).

This is supported by Skinner (2005) and Fan, Zhang and Zhang (2004) who argue that long distances to the national markets and the bad terrain of the roads limits the MSMEs access to those markets.

Transportation plays an important role in the growth of an enterprise. But despite this, most developing countries, especially in Africa and Malawi in particular, are characterized by inadequate and poor rural transport infrastructures thereby affecting the operations of rural MSMEs.

### **2.3.2 Telecommunications Network**

Telecommunications can be defined as the sharing of information over a distance. It involves the transmission of messages, by electrical means, far beyond the limits of hearing distances. The investments in the telecommunication infrastructural services in the rural areas are driven by both technological and economic reasons (Adediran, Opadiji, Faruk, Bello, 2016).

Rural areas of Malawi are inadequately covered in terms of telecommunications infrastructure because they are not considered as a profitable investment by the main telecommunication operators; Malawi Telecommunications Limited (MTL), Telecommunications Networks of Malawi Network (TNM) and Airtel Company.

Rural areas have low investments in the telecommunications infrastructure because the service providers are deterred to invest in these regions as the costs of installing their network infrastructure is very high against the low demand for their services considering that the investors have to recover their investment. As such, these areas are deemed to be commercially not viable.

Also, the inadequate power supply prevalent in the rural areas of Malawi deters investments in the telecom infrastructures as it increases the operations costs since the operators have to rely on other forms of energy such as diesel-powered generators to run their machinery.

Poor telecommunications network means that MSMEs have limited access to the appropriate communication technologies such as the internet, fixed and mobile phone networks and therefore, operate in poor information environments (Olukayode, Osman, Hussein, Ismael, Masoud, Mansor, 2014).

This has adverse effects as it affects the operations of the MSMEs. It limits the access to acquire modern market information such as information on prices, information on supply and demand and trade contacts (Chimucheka and Mandipaka, 2015).

Also, poor telecommunication network, limits the rural enterprises from acquiring information on new technologies which affect incentives to innovation – the ability of a firm to create new products and services ahead of its competitors (Kayanula & Quartey, 2000) which is a necessary tool for enterprises to grow and to remain competitive in the highly competitive and ever-changing business environment (Chimucheka and Mandipaka, 2015; Rodriguez, 2003; Skinner 2005)

### **2.3.3 Electricity Supply**

Infrastructures in electricity and its subsequent consumption are closely associated with increased productivity and economic growth of a country (Rud, 2012).

The Electricity Supply Commission of Malawi (ESCOM) is the parastatal entity that provides electricity in Malawi. Electricity power supply remains confined to the urban and town centres in Malawi while supply to the rural areas is very low.

There is currently a rural electrification programme aimed at improving the supply of electricity to the rural areas of Malawi but unfortunately the programme is moving at a snail's pace as ESCOM largely depends on commercial loans to fund the programme whose projects are non-commercial (NASFAM, 2004).

Adequate supplies of electricity support production and processing through value added on of products which would result into increased output and therefore, more profits for the business to ensure business success.

Inadequate supplies on the contrary, a feature of rural characteristics, bring challenges to the operations of MSMEs thereby affecting their operations (Scott, Darko, Lemma, and Juan-Pablo, 2014).

Many enterprises rely on electricity for production but there is inadequate, inconsistent and unreliable power supply in rural areas of Malawi. This inability to ensure an adequate, consistent and reliable power supply has adverse effects on the operations and performance of MSMEs in many ways.

It limits the extent to which MSMEs can use modern and efficient equipment for production, which mostly rely on uninterrupted electricity to operate. (Chirwa, 2004). MSMEs are unable to fully operate production equipment such as maize and rice mills, refrigerators, air conditioners and other valuable machineries (Scott, Darko, Lemma and Juan-Pablo, 2014; ISSER 2015). As a result, rural MSMEs are not able to operate profitable businesses such welding, maize and rice milling, butchery among others.

The power outages also cause damages to the said valuable production equipment and related machineries inflicting a heavy financial setback on their capital investments (Scott, Darko, Lemma and Juan-Pablo, 2014; ISSER 2015).

In an attempt to mitigate the hash effect of the poor power supplies on their businesses, some MSMEs use alternative sources of energy.

Unfortunately, electricity cannot be substituted cheaply. All the alternative energy supplies available in Malawi are very costly such as diesel-powered generators. These increase the costs of operations for enterprises. (Doe and Asamoah, 2014)

Many MSMEs have a low financial capital base and therefore, cannot afford the high costs of alternative energy supplies. As such, they employ production cutting tactics such as reducing the hours of work, and vary the working hours (ISSER, 2015).

This has the potential of having a negative impact on the quantity and quality of the products produced which lead to a reduction in sales and therefore, leads to low profitability which affect operations of MSMEs in form of re-investments and expansions of the business (Doe and Asamoah, 2014)

The availability of quality of infrastructure can affect the growth prospects of MSMEs in rural settings. Many rural areas countries suffer from deplorable state of basic infrastructure like transportation, telecommunication, water supply and electricity which has a negative impact on the operations of MSMEs.

## **2.4 Rural Financing**

Financial service providers are very reluctant to open branches or agencies in rural areas and as a result, the presence of financial institutions in the rural communities is very low. This low presence affects negatively on the operations of MSMEs operating in these areas in terms of lack of access to finance for the smooth operation of their enterprises (Finscope, 2014).

Malawi has several commercial banks operating throughout the country but their presence in the rural areas is low. There are many reasons as to why these financial institutions avoid the rural areas of Malawi.

According to Chirwa (2004), transaction costs for financial service providers to operate a small retail bank in the rural areas of Malawi are high. This is due to the poor roads, power and telecommunications infrastructures prevalent in the rural areas. Also, the volume of transactions is low and this means that banks are not compensated for by the corresponding high revenue levels.

Financial institutions also shun the rural clientele because they perceive the rural MSMEs to be risky clients (Finscope, 2014). The perception of risk is derived from low financial management skills among entrepreneurs (Finscope, 2014) caused by low levels of education prevalent among the business owners in the rural settings. This lack of financial management knowledge, makes it difficult for the said business owners to draw up business plans and provide documentation to support loan applications such as cash flow statements and valuation reports (Finscope, 2014).

Another factor which hinders access to finance are the lending terms of the financial institutions which do not correspond with the specific features of rural clients and types of investments in rural areas for instance, the need by the banks for a collateral (Rodriguez, 2003) and the repayment methods of loans (IFC, 2012; Finscope, 2014).

Many rural MSMEs fail to access finance from these financial institutions because they lack the necessary collateral which is a requirement for banks granting out loans.

Since in Malawi many rural MSMEs are in agriculture based businesses and therefore, seasonal businesses, it means that their cash flows are seasonal. The financial service providers do not have customised loans for MSMEs in regard to their seasonal cash flows (IFC, 2012). Instead, the banks offer standard terms and conditions, thereby creating repayment problems for agriculture based MSMEs (Finscope, 2014).

To provide services in the rural areas while circumventing the high operation costs needed, some financial service providers operate mobile banking facilities. But insecurity which is prevalent in the rural areas, limits financial service providers to fully said operation of mobile banking to be scaled, as this makes the handling of cash difficult (Chirwa, 2004).

The failure of these commercial banks to service the rural areas has led to the mushrooming of semi-formal finance institutions in the form of savings co-operatives and microfinance institutions. They include the Foundation for International Community Assistance (FINCA), the Malawi Union of Savings and Credit Cooperatives (MUSCCO) through Savings and Credit Cooperatives (SACCOs), Pride Malawi (PM) and the National Association of Business Women (NABW) (Chirwa, 2004).

These institutions have products which are designed and more tailored to serving the rural clientele. They have flexible loan products which do not need to produce a collateral, they use the local language in dealing with the clients and have flexible loan repayment schedules to suit the seasonal cashflows of many rural MSMEs.

The drawback of many of these semi-formal finance institutions is lack capital. They rely on grants in order to expand their programmes and therefore, the lack of capital affects the extension of services in rural areas. Another drawback of these semi-formal finance institutions is that the loan amounts which they give out to clients are usually small not enough to finance full scale operations of enterprises. The problem of insecurity which is prevalent in the rural areas of Malawi also greatly affects the presence of these institutions in the rural areas.

The Malawi government introduced some credit programmes which also had customised business needs of the rural enterprises. But many of these programmes are heavily politicised and the loans are mainly granted to the known sympathisers of the governing political parties at the expense of genuine MSMEs (USAID, 2007).

Institutions like the MARDEF (Malawi Rural Development Fund), MASAF (Malawi Social Action Fund), MRFC (Malawi Rural Finance Company) among others, collapsed due such political interference. Borrowers were discouraged from paying back the loans at the expense of political patronage and therefore, these credit programmes did not generate enough revenue from the clients to cover their high operations costs which negatively affected their operations. Furthermore, these government supported financial institutions are often known to provide inferior service, highly inefficient, and incur large continuing losses. (FinMark Trust, 2012).

In the absence of external financing from the commercial financial service providers, the main source of finance for starting and running small businesses are own funds from savings and personal loans from relatives (Skinner, 2005).

Another source is of finance available to the rural enterprises is usury from moneylenders. This source of finance is popular among other MSMEs because the moneylenders are often located right within the community and provide the loans immediately (FinMark Trust, 2012). Furthermore, there are no transaction costs involved and collateral is not required.

However, own financial resources are limited in amounts whilst the drawback for usury is that the moneylenders often charge very high interest rates and sometimes recover the loans by violent means (FinMark Trust, 2012)

Rural Enterprises need loans for investments, as a working capital, seize economic opportunities and purchase agricultural inputs. The lack of access to external funds have caused many rural SMEs to operate at very low efficiency and at a limited scale of operations, which in the end negatively affects their growth.

## **2.5 Standards of Education**

FAO and UNESCO (2003) have jointly written that the rural areas of developing countries, Malawi inclusive, have an acute problem of access to education which is a powerful tool to fight against rural poverty and rural development.

The Malawi government has neglected the provision of education to its rural masses. As a result, this has created low levels of education standards among the rural inhabitants and as such has had a negative impact in the running of micro, small and medium businesses in terms of the business owners' ability to lead, manage and run an enterprise and the supply of trained personnel to the labour market.

There is a lack of education infrastructure in rural areas Malawi. This education infrastructure includes teachers, school buildings, school furniture, learning materials (such as curriculum materials for students, textbooks, chalk, paper, pencils, exercise books) (DFID, 2001).

Rural schools are disadvantaged when it comes to teacher housing and availability of suitable housing within the vicinity of the school. This negatively affects the deployment of teachers to teach in schools located in the rural areas. Many teachers resist to be posted to rural areas, leading to the understaffing of teachers in rural schools. The ones deployed there, are discontented and therefore, less motivated to contribute positively to the improvement of rural education (Croft 2002). These factors negatively affect the academic progress of students in rural areas.

In agreement to this, the World Bank Project Report 1 (2000) states that school children in rural Africa are confronted by negative challenges such as poor infrastructure, poor learning facilities, untrained and discontented teachers and negative cultural beliefs and practices. This is a very true scenario for rural Malawi.



Children in rural areas have more alternative demands on their time, such as helping with family chores like agricultural tasks especially in the planting season which will have a negative impact on their school attendance as well as their progression educationally (Taylor and Mulhall, 2001).

Thus, Malawi's rural areas are educationally disadvantaged, that is they have impediments to education which arise from the social and economic disadvantages which prevent students from getting the appropriate benefits from education leading to low levels of education.

There is a lack of skilled labour in an environment where the education standards are low. Education is the genesis of skills development and low education levels equate to low development of labour skills. Skilled development enables people to work to their fullest potential thereby increasing productivity. Therefore, the absence of skilled labour in rural areas means many rural enterprises are not operating to their full capacity hence this affect their performance (ILO, 2010)

Education of the entrepreneurs has a significant effect on the success or failure of an enterprise. The literature has shown that there is a relationship between a business owner's level of education and the performance of such a business in terms of growth or failure of such business. Higher levels of education of the owner of an enterprise have shown to contribute to higher business growth while lower levels of education have shown to be a hindrance to such growth. (Kasseeah, H; Kangasharju and Pekkala, 2002).

Education has shown to be an important factor in the success of a business as it increases business knowledge, leads to the awareness and use of new technology and makes business owners to adjust more rapidly to technological changes. These are important in imparting skills such as management skills, creativity, problem solving and communication skills and for the development of industrial capabilities through innovation thereby improving productivity and growth of a business (Gasperini, 2000).

Shane and Venkataraman (2000) argues that entrepreneurship is composed of two interrelated processes. These are the discovery of business opportunities and the exploitation of those opportunities. Entrepreneurs with higher levels of education may be at an advantage in both processes than those with lower levels of education.

A higher level of education will provide the necessary cognitive skills so that the individual can make better use of the opportunities as they arise. Entrepreneurs with a higher level of education are better equipped to exploit those opportunities successfully than their counterparts with lower levels of education. This will lead to higher productivity and efficiency leading to the success and growth of the business.

A higher level of education also increases levels of self-confidence and facilitating the exploration of entrepreneurial activity. As such the perceived risk of business failure is reduced, as those individuals usually consider that they will find employment more easily in the labour market, should their businesses fail (Shane and Venkataraman, 2000).

Higher levels education contributes to the productivity and growth of a business. It makes entrepreneurs acquire skills that enable them to be more productive, makes them to be more likely to adopt new technologies and makes them to manage and function more effectively in their businesses. Thus, it can be concluded that the low levels of education, which are prevalent in the rural regions will greatly impact negatively on the successful performance of MSMEs.

## **2.6 The Nature of the MSME**

According to the World Bank (2007) and Oxfam (2009), almost three-quarters of the population of developing countries live in rural areas, and about nine out of every ten depend upon agriculture for their livelihoods. Therefore, agricultural investment is one of the most popular and predominant type of businesses in rural areas.

As stated earlier, 85% of Malawi's population live in the rural areas and 85% of MSMEs in Malawi operate from the rural areas. 44% of MSMEs are engaged in agriculture based businesses. Out of these;

- 41% of the MSMEs grow produce and sell.

- 37% of the MSMEs buy the produce and resell it the in the same form

- 6% of the MSMEs buy the produce and repackage

- 4% of the MSMEs are involved in rearing and selling of livestock

Malawi's rural agro based MSMEs activities include the supply of farm inputs, services to farming, trading of farm produce, storage and transportation of farm produce, processing and retailing of farm produce among others (IFC, 2012).

Malawi relies heavily on rain fed agriculture practiced by the small holder farmers in rural areas and therefore it is very seasonal. There is a period of time from planting to harvesting for crops (November to May) and for livestock from birth to slaughter. As such cash flows are also seasonal and irregular which affects invested capital as investments are spread over a longer time horizon (IFC, 2012). These investment opportunities in the end hinder the full - scale operations of MSMEs.

The agro based MSMEs are dependent on climatic factors for production of both crops and livestock and therefore, are exposed to the risks of drought (IFC, 2007, FinScope, 2014). Drought has the capability of erasing the entire investment of primary agro business as there will be loss of assets in the form of crops and livestock. Low agriculture production will result into little agro business activities to be undertaken both in agro vending and in agro processing thereby limiting the profits to be made and hence affecting the performance of the MSMEs.

The absence of modern technologies and market information leads to the lack of innovation in coming up with new products and services in the rural areas. This has encouraged copycat entrepreneurship whereby many MSMEs are involved in similar ventures and therefore, the production of the same products by the many MSMEs. As a result, there is over production of similar products which has led to competition of price. The end result has been the offering of products and services at low price leading to lowering of profits.

In times of good climatic conditions, the harvests are plenty which make the agro products to be overproduced. The risk of market price comes again in leading to low prices as well.

The low prices make enterprises not to recoup the capital invested leading to losses thereby affecting the performance of the business (USAID, 2014; IFC, 2012).

All these scenarios will not appeal to the financial institutions as the seasonal businesses means that there will be irregular repayments of loans from the borrowers and the risks of drought and market price will mean the MSMEs defaulting on their repayments hence the reluctance by the financial institutions to grant credit to the rural agriculture based enterprises (USAID, 2014; IFC, 2012)

The rural agro based industries sell their products as raw materials instead of adding value to their products by processing them. This is a resultant of many factors. Poor infrastructure especially in the energy sector has seen the absence of industries which would have added value to the raw products produced. There is an absence of the milling industry which require abundant supplies of electricity to operate. These would have processed agriculture products such as flour from maize and cassava which would have been sold at a relatively higher price thereby contributing to the growth of the businesses. (Charles Mather, 2005)

Malawi has an agro-based economy relying heavily on rain fed agriculture which is dependent on climatic condition and therefore prone to the risk of both drought and market price.

The nature of the type of enterprises in rural Malawi is agriculture based. This agriculture based enterprising is susceptible to many risks and therefore not attractive to financial service providers to release capital for investments in this sector thereby affecting the operations of the MSMEs.

## **2.7 Culture and Gender**

The rural settings are characterised by social - cultural values and preferences that hinders the development of MSMEs. These include traditions, customs and social norms that govern the life of rural societies. Some of these act as a constraint on the activities of women and restrict their ability to compete on the same level terms with their male counterparts through its emphasis on among other issues, the gender roles (Shields, 2005).

Gender attitudes are generally less accepted in some cultures in the rural areas of Malawi and therefore, these traditional beliefs about gender roles act as barriers to women's progress in entrepreneurship.

In many traditional societies of Malawi, men are considered as heads of households and breadwinners responsible for all the household members including women whilst the major role of a woman is to ensure the continuity of the family lineage and the performance of all household chores. (Jennings and McDougald, 2007). The household chores performed by the females, effectively reduces the time for women to pursue valued business activities and this which undermines the operations of women headed enterprises (Van Scheers, 2012; Jennings and McDougald, 2007).

The few women who decide to venture into businesses are driven only by the need to provide for their families and not by profits or growth of the business – out of necessity rather than opportunity. They have to combine the domestic duties with management of the business (Van Scheers, 2012; Jennings and McDougald, 2007).

Thus, these gender beliefs impact the operations of women owned micro, small and medium enterprises as their businesses, are to a large extent, affected by conflicts between work, home and family demands.

Boys are preferred to girls to have formal education to prepare them for their roles as men while it is considered that girls do not need formal education to perform their roles. (Tsikata, 2001). Therefore, women do not have the necessary preparations to successfully run an enterprise as they are not nurtured from the beginning unlike their male counterparts.

According to Orr and Orr (2000), some traditional cultural attitudes and beliefs on how to run a business prevalent among the rural population in Malawi, hinders entrepreneurship in a number of ways.

For instance, huge successes in business is often associated with witchcraft - the use of the supernatural powers to acquire wealth. It is thus assumed, that to be a successful entrepreneur, the owner should acquire charms and not necessarily work hard and explore opportunities in the business. Because success in business is often associated with witchcraft, businesses owners do not work hard in their ventures in case they become or appear very successful and be perceived to be using charms. This factor impacts on the growth of such businesses (Orr and Orr, 2000).

Malawi being an agro based economy, businesses such as maize and rice milling are very profitable but such businesses are shunned upon in the rural areas because it is believed that to excel in such businesses, the owner has to kill a family member through magic and then the ghost of the dead person is the one that does the milling.

Some funeral practices require that the affected households and those nearby not open for business for some considerable days. This comes at a cost of losing business hours leading to a business incurring huge losses. In addition, some religious organisations forbid their flock to venture into the production and sale of liquor, which is a highly profitable enterprise especially in the marketing season, as consumption of beer is regarded as a sin in the conservative rural religious settings (Orr and Orr, 2000).

Therefore, it can be argued that the cultural and traditional practices and beliefs on business and gender prevalent in rural areas of Malawi and the expectations of what is the expected role for women, present barriers to the operations of rural MSMEs and women entrepreneurship (Zafar & Khan, 2013) respectively.

## **Chapter 3: PROPOSED METHODOLOGY**

### **3.1 Introduction**

The aim and purpose of this chapter is to outline the research methodology used in this study, to comment on how the research was done and to ensure validity and reliability of the research data and procedures associated with the subsequent analysis and presentation of the data

This chapter presents the general methodology and design used in developing the whole thesis.

The sub-topics included in this chapter include: Research philosophy, research approach, research design, research strategy, time horizon, data collection methods, sampling, validity and reliability and data analysis

### **3.2 Definition of Research Methodology**

Research Methodology has been defined in many ways.

According to Bowling (2002), methodology is the complete structure of the research study which include the practices and techniques that are used to collect data and the processes that are used to analyse data while according to Polit and Beck (2004) methodology refers to the processes of gathering, systematising and analysing data

Buyss (2002) defined research methodology as the processes in which the researchers undertake in order to solve problems while Collis and Hussey (2009) described research methodology as the overall approach to all the processes that constitute the research study

### **3.3 Research Purpose and Objectives**

A research question allows a researcher to express what the research study is all about while research objectives allow the researcher to express the steps to follow in order to answer the research question. (Saunders, Lewis and Thornhill, 2012).

This study aims at finding out how the operations of the MSMEs operating from the rural areas of Malawi are impacted by the social-economic conditions that are characteristic to the rural areas of Malawi.

The researcher came up with two objectives for this study and they are:

1. To analyse the rural characteristics of Malawi in relation to:

a. Infrastructure (Roads, Telecommunication and Electricity)

To analyse the status of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi

b. Rural Financing

To analyse the presence/absence of financial institutions and their operations in rural areas of Malawi

c. Standards of Education

To analyse the standards of education in the rural areas of Malawi

d. Nature of the Business

To analyse the popular type of business by the majority of rural MSMEs

e. Traditional Cultural beliefs and Gender practices

To analyse some traditional, cultural and gender beliefs practiced by some rural communities

2. To establish the challenges that the rural characteristics have on the running of rural MSMEs in relation to:

a. Infrastructure (Roads, Telecommunication and Electricity)

To establish the limitations the poor state of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises

b. Rural Financing

To establish the constraints that rural financing in rural areas of Malawi has and how it affects the business operations of rural micro, small and medium enterprises

c. Standards of Education

To establish the limitations the low levels education standards prevalent in the rural areas of Malawi:



have and how they affect the business operations of rural micro, small and medium enterprises;

have and how they contribute to the business management knowledge of the owners of enterprises and how they affect the business operations of rural micro, small and medium enterprises

d. Nature of the Business

To establish the limitations the popular type of enterprise for the majority of rural MSMEs has and how it affects the business operations of rural micro, small and medium enterprises

e. Traditional Cultural beliefs and Gender practices

To establish the limitations the traditional cultural beliefs and gender roles prevalent in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises

### **3.4 Research Philosophy**

A research philosophy according to Saunders, Lewis and Thornhill (2012) refers to the development of knowledge and the nature of that knowledge. Therefore, it can be described as a process of developing knowledge, in a particular area and in a specific way.

Bryman (2012) describes it as a set of assumptions about human knowledge which concern the nature of the reality being investigated. The assumptions that are created by a research philosophy provide the criterion for how the research will be carried out. Researchers have argued that a research study could follow any research philosophy. The choice of a research philosophy to be adopted, is influenced by the type of knowledge being investigated in the research.

According to Saunders, Lewis and Thornhill (2012), there are four research philosophies and these are: Positivism, Pragmatism, Realism and Interpretivism

### **3.4.1 Positivism**

The positivism philosophy deals with observing realities through the collection of data. This process leads to the production of credible data. The aim is to search for and identify causal explanations and fundamental laws that explain regularities in human behavior to create generalisations (Gill and Johnson, 2010).

In a positivism research approach, the researcher adopts the philosophical stance of a natural scientist, working with observable reality resulting into a law-like generalisation.

A research based on positivism is carried out in a value-free way as the researcher is independent of the data.

Large of amount data is often required for a positivist study and therefore, a research based on positivism would favour the use of quantitative methods to analyse large-scale phenomena.

Having studied the different research philosophies and considered that the nature of the current research is quantitative, requiring large amount of data, the researcher has deduced that the appropriate research philosophy for this study is a positivism philosophy.

## **3.5 Research Approaches**

There are two research approaches namely, Deductive Research approach and the Inductive Research approach

### **3.5.1 Deductive Approach**

The deductive approach is the approach whereby propositions or hypotheses are developed from a related existing theory and a research strategy is formulated to test it (Silverman, 2013, Saunders et.al, 2012).

The deductive approach is characterised as generalising from the general to the specific, since the general theory and knowledge base is first established and the specific knowledge gained from the research process is then tested against it.

Since the deductive approach allows the formulation of hypotheses and the statistical testing of expected results to an accepted level of probability, then it can be concluded, therefore, that the deductive approach is inclined towards the positivist approach (Saunders et.al, 2012).

A research based on a positivist philosophy tends to be based on deductive strategy.

### **3.5.2 Inductive Approach**

The Inductive approach is where the data is collected first and then the theory is developed from the results of the data analysed. The observations are the starting point for the researcher, and thereafter, patterns are looked for in the data. The result of this analysis, therefore, would be used to formulate a theory which is generally in a form of a conceptual framework.

The inductive approach is characterised as generalising from the specific to the general (Bryman & Bell, 2011).

This approach is largely concerned with the context in which the events are taking place and as a result it will generally require a study of a small sample of subjects. (Saunders et.al, 2012). Therefore, this method is usually used in qualitative research

### **3.5.3 Choice**

Having studied the two research approaches and considered that this study is a quantitative research, focussing on data to test the theory, the appropriate research approach to this study is the deductive approach. Therefore, the researcher has opted for a deductive approach to the study.

## **3.6 Research Design**

A Research Design is an overall methodological plan of how a researcher proceeds to answer a research question. It is the framework of how a research is conducted which include all the steps necessary to obtain information for set objectives

### **3.6.1 Methodological Choice**

There are two methodological choices and these are a mono method and a multiple method.

A Mono method is a method which uses a single data collection technique and a corresponding analytical procedure to answer a research question. The corresponding analytical procedure can either be a quantitative research design or a qualitative research design.

A Multiple method uses more than one data collection technique method and analytical procedure to answer a research question.

In this research, the researcher will use a single data collection technique. Therefore, the methodological choice be followed is a Mono method.

### **3.6.2 Quantitative research design**

Quantitative research is an inquiry into a social problem which explains phenomena by gathering numerical data that are analysed using mathematically based methods. Quantitative research is characterised by examining relationships between variables which are measured numerically and analysed using statistical techniques (Saunders et al, 2012).

This method, allows the researcher to get the facts and not the abstract about the aim of a research (Bryman and Bell, 2011). According to Matthews & Ross (2010) quantitative research methods are basically applied to the collection of data that is structured and which could be represented numerically.

Generally quantitative research design is applied when the quantitative data is collected and the researcher has adopted a positivist research philosophy. In terms of a research approach, the quantitative research design is associated with a deductive approach where quantitative data is collected and analysed and used to test the theory. In terms of research strategies, this method is applied to survey and experimental research strategies.

As previously stated that this is a quantitative study, all of the above characterisation of a quantitative study design fit into this study.

### **3.7 Research Strategy**

A research strategy is a process of how a researcher plans to achieve his goals of carrying out his research. Research strategies are associated with research philosophies and research approaches.

Saunders et al (2012), list the following research strategies

- Experiment
- Survey
- Grounded Theory
- Action Research
- Case Study
- Ethnography



### **3.7.1 Survey**

Zikmund (2003) defined survey as a method of gathering primary data based on communication with a representative sample of population. Survey is the most popular research strategy in business and management research.

This survey strategy allows the collection of quantitative data which can be analysed quantitatively using descriptive statistics. The survey strategy gives a researcher more control over the research and it generates findings that are representative of a whole population at a lower cost. Surveys are more suited to quantitative studies.

A survey as a research strategy will be appropriate for this study. Surveys includes such methods as questionnaires, personal interviews, door to door interviews, telephone interviews among others. The researcher has opted for questionnaires.

### **3.7.2 Questionnaire**

Questionnaires are a practical way of collecting a large quantity of first-hand primary data. It is a method of data collection whereby each individual is asked to respond to the same set of questions in a predetermined order.

According to McNeill and Chapmans (2005), questionnaires are one of the most common methods of data collection and it is the method which is often used to reach out to a large sample of the population.

Questionnaires are a quicker method of data collection in that they are convenient for a respondent to complete and they require less skills than the interview method.

Questionnaires are a less expensive method to conduct and as they provide an easy way of obtaining standardised data. This, in return, enables easier coding of responses.

Also, they are a relatively easy research method to implement when gathering first hand primary data and the researcher is assured that he is collecting data which is up-to-date.

Another advantage of using questionnaire as a data collection method is that they require little involvement from the researcher since the questions can be answered in the absence of the interviewer. As the interviewer effect is eliminated, there is no subjective bias by the researcher.

Within the survey research strategy, the most widely used method of collecting data is the questionnaire.

For these reasons, the questionnaire has been selected as a method for collection of data for this study.

### **3.8 Time Horizon**

There are two types of time horizons. These are in form of cross-sectional and longitudinal time horizons.

As per definitions, cross-sectional study design is the type in which the study is carried out during one point in time with no repetition or observation for a long period of time. Some scholars refer to it as a snap shot study design. It is the study of a particular phenomenon at a particular time (Saunders, Lewis and Thornhill, 2012)

It is important to note, however, that the kind of results obtained in this kind of study design only represents the situation on the ground by the time the study was being carried out and cannot be used to argue for what happened thereafter. In simple terms, the researcher did carry out the study at only one single point in time without making any further follow-up.

According to Saunders et al (2012), a cross-sectional study is mostly suited for a Survey. Therefore, for this study, since it has adopted a survey research as its research strategy, the appropriate time horizon will be the cross-sectional study approach.

A longitudinal study is the process whereby there is a continuous gathering of data over a period of time. It is also known as a diary.

### **3.9 Data Collection Methods**

#### **3.9.1 Primary Data**

Primary data is the data that is collected from an original source directly by the researcher (Collins and Hussey, 2009). It is the data which is collected for a specific purpose by focussing on a current research problem. Primary data is collected for the first time and it is the data that has not been published before (Avasarikar, 2007).

Since primary data is directly collected from the source, the researcher will have a data that is more accurate, latest and up to date. Also, as the data is collected and processed by the researcher himself, the problem of bias is eliminated.

The original sources of primary data include; surveys, interviews, focus groups and questionnaires among others.

The researcher has used, for this study, a survey research in form of self-completed questionnaires for primary data.

### **3.9.2 Secondary Data**

Secondary data is the data that has been collected by others for other purposes other than the research at hand.

There are three main types of secondary data. These are documentary, survey and multiple source.

Secondary data can furnish additional knowledge, interpretations and conclusions as well as it can lead to unexpected new discoveries when the data is further analysed.

Secondary data provide a source of data that can be easily checked by others and is in a form that is permanent.

It is cheaper to use secondary data than to collect raw data, therefore, a researcher saves resources in form of time and finances when using secondary data.

Secondary data can be accessed from existing materials from the internet, newspapers, academic journals publications, books, conference papers and dissertations among other sources.

The researcher had used all the mentioned resources for his secondary data.

### **3.9.3 The Self – completed Questionnaire**

As stated earlier in previous sections, for data collection, this study will rely on the questionnaire as a source of primary data. This is a self-completed questionnaire – the one which is completed by the respondents.

The questionnaires had formulated statements which required those being interviewed to agree or disagree with statements related to the research question and its objectives.



The questionnaire used simple, clear and unambiguous language so that it should be easily understood by the respondents

Respondents did not have to disclose their identities when responding to the questionnaire. All the responses were treated as strictly confidential. The confidentiality helps participants to better express their opinions, views and convictions freely without any pressure.

The questionnaire used close ended questions. The use of closed-ended questions allows respondents to simply tick or cross in a box to indicate their responses which results into data being collected relatively easy within a minimum time frame and with little effort.

The close ended questions also generate quantitative data which could then easily be illustrated in graphs with ease to identify any general patterns or trends and this enables the researcher to easily make comparisons.

The respondents are given a range of options to choose from in the questionnaire with closed-ended questions, this enables responses to be interpreted and quantified quickly. Also, since in the use of closed-ended questions respondents simply indicate their responses from pre-determined answers, thus this results in responses of greater reliability

#### **3.9.3.1 Questionnaire Content**

The questionnaire design was a simple self-completed questionnaire with limited closed-ended questions and using a series of check boxes. The assumption was that this could easily be completed by respondents who are, otherwise, ever busy. This enabled the respondents to avoid writing down lengthy answers as they had to select one of the given options

The questionnaire had a 5 Likert scale questions whose answers ranged from “1” Strongly Disagree to “5” Strongly Agree. For instance, the statement like “there are difficulties for MSMEs to get loans and running capitals from banks” would be placed for the respondents to state whether they Strongly Agree, Agree, Not Sure, Disagree or Strongly Disagree as illustrated below by ticking “X” into the appropriate box against the appropriate scale shown;

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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The questions were organized efficiently and reasonably in each appropriate section. Also, instructions were provided on how best to respond to the items in each section to help the participants answer them without difficulty and with minimal effort. For example: *'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

The questionnaires had different sections of questions.

The first section, Section A, involved the general demographic information of the individual respondents like age, gender, location, level of education, experience in the business and type of business.

The other sections involved questions which were aimed at identifying information on how the rural characteristics impact on the operations of rural MSMEs in Malawi.

Section B involved questions which were related to the status of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi and how they affect the business operations of rural micro, small and medium enterprises.

Section C involved questions which were related to rural financing and how it affects the business operations of rural micro, small and medium enterprises

Section D (a) involved questions which were related to the education standards prevalent in the rural areas of Malawi and how they affect the business operations of rural micro, small and medium enterprises

Section D (b) involved questions related to the education standards prevalent in the rural areas of Malawi and how they contribute to the business management knowledge of the owners of enterprises and how they affect the business operations of rural micro, small and medium enterprises

Section E involved questions which were related to the type of enterprise being carried out and how it is affected by the business operations of rural micro, small and medium enterprises

Section F involved questions which were related to the traditional cultural beliefs and gender roles prevalent in the rural areas of Malawi and how they affect the business operations of rural micro, small and medium enterprises

Questionnaires were personally hand delivered to the rural MSMEs (delivery and collection questionnaires). This ensures that the right respondents are reached who will complete the questionnaire without any pressure or external influence thereby eliminating bias.

In 2012, The Ministry of Trade conducted a comprehensive survey of MSMEs in Malawi called the Malawi national MSME Survey of 2012. One of the tasks involved was to construct a sampling frame from the initial done in 2008. After the exercise, local organisations were given a task to be updating the frame yearly in readiness for another survey in 2018.

The researcher worked hand in hand with these organisations such as Small Enterprise Development Organisation of Malawi (SEDOM), Development of Malawian Enterprises Trust (DEMAT), Indigenous Business Association of Malawi (IBAM), African Business Association of Malawi (ABAM) and the Malawi Entrepreneurs Development Institute (MEDI) to use their sampling frame of MSMEs and to trace the sample and to locate their business premises from their register of MSMEs both for the smooth and orderly hand delivery and collection of the questionnaire.

A period of two weeks was stipulated for completion of the questionnaire, upon which the responses could be physically collected from the MSMEs.

#### **3.9.3.2 Pilot Testing of Questionnaire**

A pre-test was conducted on the questionnaire with the general aim of making sure that questions asked were both clear and precise for easy understanding of the sample to enable accurate gathering of all information needed in the study. A pre -test of the questionnaire enables the researcher to correct any defects, duplications and omissions found in the questionnaire. It is recommended that the questionnaire should be pre-tested on a small population or pilot study.

Therefore, by following the said recommendation, a draft questionnaire was sent to 10 MSMEs with the purpose of obtaining feedback regarding any issue that they had in understanding the questionnaire.

The pilot study indicated that the respondents had no difficulties with any aspects of the questionnaire.

### **3.10 SAMPLING**

A sample can be defined as a section of a population who are selected to be participants in a study. The said selection of participants gives an overall representation of the whole population.

Polit and Beck (2009) defined Sampling as the process of selecting portion of the population to represent from the entire population element. A small group of people is selected for a study with the purpose of making generalization from large population based on research findings.

It is not possible to collect data from the whole population because of budget and time constraints. Therefore, the sampling techniques provide a range of methods that enable the researcher to minimise the amount of data the researcher needs to collect. As a result, data collection is faster, the costs are minimised, and since the data set is smaller, there is an improvement in the accuracy and quality of the data.

### **3.10.1 Sampling Techniques**

There are two sampling techniques available. These are probability or representative sampling and non-probability sampling.

#### **3.10.1.1 Probability / Representative Sampling**

The sampling techniques in Probability sampling include simple random, stratified random, systemic random and cluster sampling.

#### **3.10.1.2 Simple Random sampling**

Simple Random sampling is a sampling technique whereby a researcher selects the sample at random from the sampling frame. In Simple Random sampling, the sampling frame is the complete list of individuals cases in the population.

This technique is appropriate when there is a sampling frame that list the whole population where the said sampling frame is accurate and is easily accessible. Simple random sampling technique has the advantage of eliminating the problem of bias in the selection of a sample.

#### **3.10.1.2.1 Cluster Sampling**

Cluster sampling involves the population being divided into groups known as clusters.

Cluster sampling consists of two stages. The first stage involves the random selection of the sample of areas known as clusters and the second stage involves random selection of the sample of respondents within the clusters. Thus, the researcher randomly samples clusters, and then randomly samples elements from within the selected clusters.

Unlike in random sampling where the sampling frame is the complete list of individuals cases in the population, in cluster sampling, the sampling frame is the complete list of clusters.

This sampling technique is appropriate in geographically dispersed population where the costs to reach the sample are very high. In geographically dispersed populations, the elements within each cluster are physically closer to one another. As a result, the costs of locating or reaching the sample are lowered.

Thus, Cluster Sampling enables a researcher to use a large sample within a limited budget

#### **3.10.1.2.2 Non-probability sampling**

The non-probability sampling include quota, haphazard, volunteer and purposive sampling Simple random sampling

#### **3.10.2 Location and Target Population**

The research did target a sample of Micro, Small and Medium Enterprises operating in the rural areas of Malawi.

As noted earlier, Malawi is divided into three administrative regions namely the Southern Region, Central Region and Northern Region as such the research, to be representative of Malawi, was conducted in all the administrative regions. Administrative districts in each region were selected for the study.

The Southern Region, has eleven administrative districts. Therefore, a cluster sampling of the districts was carried out. All the eleven administrative districts formed a sampling frame and each district was given a number from cluster 1 to cluster 11. A simple random sampling was done to select the three administrative districts. The administrative districts of Mwanza (Cluster 3), Chiradzulu (Cluster 6) and Chikwawa (Cluster 10) were selected.

The Central Region has nine administrative districts. Therefore, a cluster sampling of the districts was carried out. All the nine administrative districts formed a sampling frame and each was given a number, from cluster 1 to cluster 9. A simple random sampling was done to select the two administrative districts. The administrative districts of Mchinji (Cluster 5) and Dowa (Cluster 7) were selected for the study.

The Northern Region has six administration districts. The same process of cluster sampling, as was done both in the Southern and Central administrative regions, of selecting the two administrative districts was repeated for the Northern region. The administrative districts of Mzimba (Cluster 2) and Rumphi (Cluster 4) were selected.

Hereinafter, for this study, the clusters were reorganised as follows:

The Southern Region, in the administrative districts of;

Mwanza - Cluster 1, Chiradzulu - Cluster 2 and Chikwawa - Cluster 3

Central Province in in the administrative districts of the rural districts of

Mchinji - Cluster 4 and Dowa - Cluster 5

Northern Province in in the administrative districts of the rural districts of

Nkhata Bay - Cluster 6 and Rumphi - Cluster 7.

Once the clusters were selected, a simple random sampling was done to select the sample of MSMEs within the selected clusters. The sampling frame was the total number of MSMEs in each cluster. Thus, using simple random sampling, 75 MSMEs in each cluster were selected for the study.

Thus, the self- completed questionnaires were hand delivered by the field staff to approximately 75 MSMEs in each administrative district to be sampled.

### 3.11 Data Analysis

The self-completed questionnaires were sent to all the sample selected for the study. A total of 525 questionnaires were hand delivered, 75 questionnaires were sent to each of the seven clusters.

Below is the breakdown of the distribution of the questionnaire to the sample to each cluster.

Table 3.1: Breakdown of the Sample

<b>Classification</b>	<b>No. of Questionnaires Distributed</b>
Cluster No. 1	75
Cluster No. 2	75
Cluster No. 3	75
Cluster No. 4	75
Cluster No. 5	75
Cluster No. 6	75
Cluster No. 7	75
<b>Total</b>	<b>525</b>

### 3.12 Response Return Rate

After two weeks from the date of hand delivery of the questionnaires, responses were received which represented a response rate of 70 percent. This is a high response rate and very suited to the study.

The high response rate can be attributed to the collection procedures which the researcher employed. Letters were sent to inform the respondents of the impending survey; the importance of the survey to the operations of their businesses was emphasised. After the hand delivery of the questionnaires, two reminders were sent to the sample to improve the response rate.



Table 3.2: Response Return Rate

<b>Classification</b>	<b>No. of Questionnaires Distributed</b>	<b>No. of Responses</b>	<b>Percentage of Responses against No. of Questionnaire Distributed (%)</b>
Cluster No. 1	75	50	66.7
Cluster No. 2	75	47	62.7
Cluster No. 3	75	52	69.3
Cluster No. 4	75	41	53.3
Cluster No. 5	75	56	74.7
Cluster No. 6	75	66	88.0
Cluster No. 7	75	63	84.0
<b>Total</b>	<b>525</b>	<b>368</b>	<b>70</b>

## CHAPTER 4: RESULTS AND INTERPRETATION

### 4.1 Introduction

This chapter analyses the data from the self-administered questionnaires and presents the major research findings in relation to the objectives of the study. The data were collected and interpreted in relation to the research objectives. The researcher presented the data in frequencies and percentages in tables. The Statistical Package for Social Sciences (SPSS) was used to generate frequency distributions using descriptive statistics in order to examine the patterns of the responses.

### 4.2 Demographic background

The demographical data collected the personal data of the respondents that comprised of gender, age, education level and experience in the business to understand characteristics of the respondents

#### 4.2.1 Gender Respondents

The researcher sought to identify the gender representation in the running of MSMEs. This gender respondent was not to answer any research question but to give insights into the respondents in the sample. The responses were as shown in table 4.1.

*Table 4.1: The gender of respondents.*

<b>Gender</b>	<b>No. of Questionnaire Distributed</b>	<b>Total No. of Responses</b>	<b>Percentage of Male &amp; Female Questionnaire Distribution (%)</b>	<b>Percentage of Total No. of Responses against No. of Questionnaire Distributed (%)</b>
Male	439	298	83.6	67.9
Female	86	70	16.3	81.7
<b>Total</b>	<b>525</b>	<b>368</b>	<b>100</b>	<b>70</b>

There is a high representation of male headed enterprises at 83.6% than the female headed enterprises at 16.3%. This is a true reflection on the ground as to the distribution of the male to female headed enterprises which is predominantly dominated by men.

There is a high responsiveness from the female headed enterprises at 81.7% than from those headed by the males at 67.9%. The high response rate among the females might be due to a number of reasons such as interest in the topic, which has gender roles as one of its objectives but this research will not explore the reasons for this.

#### 4.2.2 Age of the respondents

The researcher sought to find out the ages of the respondents. The age of the respondents is usually related to the experience and maturity in running an enterprise. As a result, the researcher wanted to find out whether this factor influenced the working capability of running an MSME.

*Table 4.2: The age of respondents.*

<b>Age (Years)</b>	<b>No. of Responses</b>	<b>Percentage of Respondents Against Total (%)</b>
18 – 25	26	7
26 – 35	176	48
36 – 45	147	40
46 – 55	15	4
55 +	4	1
<b>Total</b>	<b>368</b>	<b>100</b>

Table 4.2 indicates that the majority of business owners are between 25 - 35 years at 48% followed by those between 36 - 45 years at 40%.

Thus, the majority of enterprises are owned by businessmen between the ages of 26 - 45 years who own 87.8% of the enterprises. This indicates the energy and the maturity of respondents to run enterprises and in the way of answering questions.

### 4.2.3 Education Qualifications of the Respondents

Basic education is important to the owners of enterprises because it provides the basic numeric and literacy skills and other business management skills for the operation of an enterprise.

The table below shows the distribution of business owners by education level.

*Table 4.3: The Education Qualifications of the Respondents.*

<b>Qualification</b>	<b>Total No. of Responses</b>	<b>No. of Responses</b>	<b>Percentage of Respondents Against Total Respondents (%)</b>
No qualification; never attended school	368	4	1
No qualification; dropped out of Primary school	368	19	5
Primary School Certificate	368	132	36
Secondary School Certificate	368	118	32
Tradesman Certificate	368	48	13
College Cert /Diplomas	368	37	10
University Degree	368	11	3
<b>Total</b>	<b>368</b>	<b>368</b>	<b>100</b>

The majority of small business owners have low levels of education. 42% of business owners range from no qualification to primary school certificate. Those with Secondary school education certificate are at 32%.

Business owners with Tradesman certificate are at 13% and those with College certificates /diplomas are at 10%. Only 3% have at least a university degree.

At least 96% of business owners have attended some school and therefore, it can be assumed that they can read and write. This means that the research questions were clearly understood by the respondents as most respondents had at least attended some level of educational.

#### 4.2.4 Experience of respondents

The researcher sought to find out the level of experience of respondents in the running of MSMEs.

*Table 4.4: The Experience in the business of the respondents.*

<b>No of Years in the Business</b>	<b>No. of Responses</b>	<b>Percentage of Respondents Against Total (%)</b>
0 – 3	140	38
3 – 6	158	43
6 – 9	59	16
10 +	11	3
<b>Total</b>	<b>368</b>	<b>100</b>

Enterprises with less than three years of existence are said to be in a start - up phase according to the business life cycle analysis. According to this study, 38% of MSMEs are in start – up phase

Enterprises with less three years but less than six years of existence are said to be in a growth phase according to the business life cycle analysis. According to this study, 43% of enterprises are said to be in the growth phase

Enterprises with less over six years of existence are said to be in an established stage according to the business life cycle analysis. According to this study, 19% of enterprises are in the established stage.

The majority of respondents, 62% have over three years of experience managing an MSME. This shows that the respondents had relatively reasonable experience in the industry and therefore, their responses could be trusted

## 4.3 Research data

### 4.3.1 Infrastructure: Roads, telecommunications & Electricity

The research data from the questionnaire was used to investigate rural infrastructure in terms of roads, telecommunications & electricity.

An analysis of table 4.5 reveals the level of agreement/disagreement by the respondents to the various questions based on the objectives of the study.

*Table 4.5: Infrastructure: Roads, telecommunications & power*

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree		
Question Item		Response: Percentage % Frequency				
		1	2	3	4	5
Poor Status of Infrastructure in Areas:		0%	0%	0%	4%	96%
		0	0	0	15	353
High costs due to the status of infrastructure		0%	0%	1%	10%	89%
		0	0	2	38	328
High prices due to the status of infrastructure		1%	6%	2%	27%	64%
		0	0	4	76	288
Inability to venture into other type of enterprises due to the status of infrastructure		1%	6%	2%	27%	64%
		5	23	6	98	236
No value adding		1%	27%	2%	34%	36%
		5	99	6	124	134
Poor access to market information		0%	2%	10%	26%	62%
		0	10	35	96	227
Performance constrained due to the status of infrastructure		0%	0%	0%	24%	76%
		0	0	0	88	280
Performance would improve with presence of good infrastructure		0%	0%	0%	24%	76%
		0	0	0	88	280
		Negative View			Positive View	

1. The objective is to analyse the status of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi.

*Respondents were asked about the poor status of the infrastructure (roads, telecommunications and electricity) in their areas of operations.*

- 96% strongly agree
- 4% agree

Thus, there is a general agreement amongst all the respondents that they are operating their businesses in an environment where the status of infrastructure in terms of roads, telecommunications and electricity is poor.

2. The objective was to establish the limitations the poor state of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises

*Respondents were asked whether the poor status of the infrastructure network causes increases in the costs of production in terms of transport costs due to poor road network.*

- 89% strongly agree
- 10% agree

*Respondents were asked whether the poor status of the infrastructure network causes increases in the price of products in terms of transport costs due to poor road network*

- 64% strongly
- 27% agree

There is a unanimous agreement that the poor status of the infrastructure is affecting the operations of MSMEs. Enterprises are incurring high costs of production which in turn is causing the MSMEs to increase the prices of their products.

*Respondents were asked whether the poor status of the infrastructure network prevents enterprises from accessing modern market information due to poor telecommunications networks*

- 62% strongly agree
- 26% agree
- 10% are not sure
- 2% disagree

There is a general high positive response among the respondents (86%) that they are being starved of modern market information by the poor telecommunications networks.

*Respondents were asked whether the poor status of the infrastructure network (electricity) prevents enterprises from operating other type of business ventures.*

- 64% strongly agree
- 27% agree that
- 2% are not sure
- 6% disagree
- 1% strongly disagree

There is a positive response (91%) that respondents cannot venture into other types of enterprises because of poor supplies of uninterrupted electricity.

*Respondents were asked whether the poor status of the infrastructure (electricity) network makes it impossible to add value to products due to lack of product processing.*

- 36% Strongly agree.
- 34% agree
- 2% are not sure
- 27% disagree

Respondents strongly agree (70%) that there is no value added to their products because there is lack of processing of products due to power shortages.

*In conclusion;*

*Respondents were asked whether the poor status of the infrastructure network within their areas of business operations has negatively affected the performance of businesses*

- 76% strongly agree
- 24% agree

*Respondents were asked whether improving the status of infrastructure within their area of business operations would improve the performance of business*

- 76% strongly agree
- 24% agree



There is a positive response that MSMEs' operations are being affected by the poor status of the infrastructure network within their areas of business operations and that efforts by those responsible at improving the status of infrastructure would go a long way at improving the performance of business

### 4.3.2 Rural Financing

The research data from the questionnaire was used to investigate rural financing.

An analysis of table 4.6 reveals the level of agreement/disagreement by the respondents to the various questions based on the objectives of the study.

*Table 4.6: Rural Financing*

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree		
Question Item		Response Percentage & Frequency				
		1	2	3	4	5
Presence of:						
Banks in localities		40%	23%	4%	15%	18%
		146	85	15	56	66
Mobile Banks		41%	22%	3%	4%	30%
		150	82	10	16	110
Microfinance		0%	1%	2%	15%	81%
		0	5	8	56	299
Source of Finance obtained from:						
Banks		53%	29%	0%	6%	13%
		199	109	0	22	48
Microfinance		2%	3%	0%	5%	89%
		8	12	0	20	328
Usury		51%	22%	0%	17%	10%
		186	82	0	64	36
Own funds		0%	0%	0%	0%	100%
		0	0	0	0	368
Loans from relatives		1%	33%	0%	14%	53%
		2	120	0	50	196

High Interest rates being offered	0%	0%	0%	0%	100%
	0	0	0	0	368
Inflexible Credit Terms (Banks)	0%	0%	0%	0%	100%
	0	0	0	0	368
Inflexible Credit Terms (Microfinance)	80%	14%	0%	3%	3%
	296	50	0	10	10
Business Performance constrained due to lack of finance	0%	2%	0%	6%	92%
	0	7	0	21	340
Business Performance would improve with availability of finance	0%	2%	0%	6%	92%
	0	7	0	21	340
	<b>Negative View</b>			<b>Positive View</b>	

1. The objective was to analyse the presence/absence of financial institutions and their operations in rural areas of Malawi

*Respondents were asked whether there is a presence of commercial banks operating within their areas of business operations*

- 18% strongly agree
- 15% agree
- 4% are not sure
- 23% disagree
- 40% strongly disagree

There is a generally positive response amongst the respondents (63%) that the presence of commercial bank in their areas of business is very low whilst only 33% say that there is a presence of commercial banks.

*Respondents were asked whether there is a presence of mobile banks operating within their areas of business operations*

- 30% strongly agree
- 4% agree
- 3% are not sure
- 22% disagree
- 41% strongly disagree

There is a generally negative response amongst the respondents (63%) that the presence of mobile bank operations is very low whilst only 34% say that there is a presence of mobile banks.

*Respondents were asked whether there is a presence of microfinance institutions operating within their areas of business operations*

- 81% strongly agree
- 15% agree
- 2% are not sure
- 1% disagree

There is a positive response amongst the respondents (96%) that the presence of micro finance institutions is high.

2. The objective was to establish the constraints that rural financing in rural areas of Malawi has and how it affects the business operations of rural micro, small and medium enterprises.

*Respondents were asked whether they access sources of finance from commercial banks*

- 13% strongly agree
- 6% agree
- 29% disagree
- 53% strongly disagree

82% of the respondents do not get loans from commercial banks.

*Respondents were asked whether they access source of finance from micro finance*

- 89% strongly agree
- 5% agree
- 3% disagree
- 2% strongly disagree

There is a positive response that MSMEs access loans from microfinance institutions (94%).

*Respondents were asked whether they access source of finance from usury*

- 10% strongly agree
- 17% agree
- 22% disagree
- 51% strongly disagree

There is a negative response that MSMEs obtain source of finance from usury. 73% of the respondents do not use this source of finance.

*Respondents were asked whether they access source of finance from own funds*

- 100% strongly agree

There is an overwhelming response that all MSMEs use own funds as a source of finance.

*Respondents were asked whether they access source of finance from relatives*

- 53% strongly agree
- 14% agree
- 33% disagree
- 1% strongly disagree

There is a positive response of 67% that MSMEs access source of finance from relatives.

*Respondents were asked whether High Interest rates offered by the financial institutions prevents businesses from obtaining loans*

*Respondents were asked whether the Inflexible credit terms offered by the commercial banks prevent businesses from obtaining loans*

- 100% agree

There is a unanimous agreement among the respondents that MSMEs are deterred from obtaining loans from commercial banks by the high interest rates and the inflexible credit terms offered.

*Respondents were asked whether the Inflexible credit terms offered by the microfinance institutions, prevent businesses from obtaining loans*

- 3% strongly agree
- 3% agree
- 14% disagree
- 80% strongly disagree

There is an overwhelming response among respondents (94%) that say microfinance institutions offer flexible credit terms.

*In conclusion;*

*Respondents were asked whether the business operations are constrained due to lack of finance*

*Respondents were asked whether business operations would improve with availability of finance*

- 92% strongly agree
- 6% agree
- 2% disagree

There is an overwhelming response among the respondents in agreeing that their business operations are constrained due to lack of finance and that their business operations would improve with availability of finance.

### 4.3.3 Rural Education

The research data from the questionnaire was used to investigate rural education.

An analysis of table 4.7 reveals the level of agreement/disagreement by the respondents to the various questions based on the objectives of the study

*Table 4.7 Rural education*

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree		
Question Item		Response Percentage & Frequency				
		1	2	3	4	5
Areas accessed by good schools;						
Primary Schools		0%	6%	0%	39%	55%
		0	22	0	143	203
Secondary Schools		0%	46%	0%	24%	30%
		0	156	1	102	109
Technical Colleges		83%	13%	0%	4%	0%
		304	40	0	16	0
Availability of trained personnel		76%	10%	0%	5%	9%
		280	36	0	19	33
Business Performance affected by lack of personnel		13%	15%	0%	18%	55%
		46	55	0	66	201
Business Performance can improve with availability of trained personnel		4%	8%	3%	23%	61%
		15	29	12	86	223
		Negative View			Positive View	

1. The objective is to analyse the standards of education in the rural areas of Malawi

*Respondents were asked whether there is an availability of good schools with experienced teachers and school infrastructure (school buildings, school furniture and learning materials) within their area of business:*

a. Primary Schools

- 55% Strongly agree
- 39% agree
- 6% disagree

There is a positive response (94%) that their areas of business operations are accessed by good primary school.

b. Secondary Schools

- 30% Strongly agree
- 24% agree
- 46% disagree
- 0% Strongly disagree

Respondents agree that their areas of business operations are accessed by good secondary schools (54%) while 46% disagree.

c. Technical Colleges

- 4% agree
- 13% disagree
- 83% Strongly disagree

Respondents disagree that their areas of business operations are accessed by technical colleges.

2. The objective is to establish the limitations the low levels education standards prevalent in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises

*Respondents were asked whether their enterprises easily access skilled personnel to employ within our business area*

- 9% Strongly agree
- 5% agree
- 10% disagree
- 76% Strongly disagree

Respondents objected (86%) to the fact that they do have skilled personnel in their areas of business operations.

*Respondents were asked whether their business operations are affected by lack of suitable personnel.*

- 55% Strongly agree
- 18% agree
- 15% disagree
- 13% Strongly disagree

Respondents agree (73%) that their business operations are affected by lack of skilled personnel.

*In conclusion;*

*Respondents were asked whether their business operations can improve with availability of skilled personnel in their areas of business operations*

- 61% Strongly agree
- 23% agree
- 8% disagree
- 4% Strongly disagree

Respondents agree overwhelmingly (84%) that their business operations can improve with availability of skilled personnel in their areas of business operations.

#### 4.3.4 Education and Business Management Knowledge

The research data from the questionnaire was used to investigate rural education and business management knowledge of business owners.

An analysis of table 4.8 reveals the level of agreement/disagreement by the respondents to the various questions based on the objectives of the study.

*Table 4.8: Education and Business Management Knowledge*

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree		
Question Item		Response Percentage & Frequency				
		1	2	3	4	5
The skills possessed by the business owners:						

Leadership & Communication Skills	16%	66%	0%	18%	0%
	59	242	0	67	0
Financial Controls & Management	30%	57%	2%	5%	7%
	109	208	6	20	25
Cashflow Management	24%	64%	4%	8%	1%
	87	235	13	30	3
Business Plans write up	45%	43%	2%	7%	3%
	166	160	8	24	10
Technology Awareness	27%	45%	3%	20%	4%
	101	166	11	74	16
Business Performance affected by lack of business knowledge	0%	21%	0%	24%	55%
	0	79	0	88	201
Business Performance can improve with business knowledge	2%	21%	1%	22%	54%
	7	78	3	81	199
<b>Positive View</b>			<b>Negative View</b>		

1. The objective is to establish the limitations the low levels education standards prevalent in the rural areas of Malawi have and how they contribute to the business management knowledge of the owners of enterprises and how they affect the business operations of rural micro, small and medium enterprises

*Respondents were asked whether the owner of the enterprises possesses the following business management skills*

- a. Leadership & Communication Skills
  - 30% Strongly agree
  - 57% agree
  - 5% disagree
  - 7% Strongly disagree
- b. Financial Controls & Management
  - 0% Strongly agree
  - 18% agree
  - 66% disagree
  - 16% Strongly disagree
- c. Cashflow Management
  - 24% Strongly agree
  - 64% agree
  - 8% disagree



d. Writing Business Plans.

- 45% Strongly agree
- 43% agree

- 7% disagree
- 3% Strongly disagree
- 45% disagree
- 27% Strongly disagree

e. Technology Awareness

- 4% Strongly agree
- 20% agree

*In conclusion*

*Respondents were asked whether the business owners business management is affected by lack of business knowledge*

- 55% Strongly agree
- 24% agree
- 21% disagree
- 0% Strongly disagree

*Respondents were asked whether the business operations can improve with business knowledge*

- 54% Strongly agree
- 22% agree
- 21% disagree
- 2% Strongly disagree

There is an overwhelming positive response that business owners lack the necessary business management knowledge to effectively lead an enterprise to its full potential.

There is an overwhelming positive response that lack of business management knowledge is affecting the operations of MSMEs and that the business operations can improve with increased business management knowledge.

#### **4.3.5 Culture and Gender**

The research data from the questionnaire was used to investigate the traditional cultural practices and rural gender beliefs.

An analysis of table 4.9 reveals the level of agreement/disagreement by the respondents to the various questions based on the objectives of the study.

Table 4.9: Culture and Gender

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree		
Question Item		Response Percentage & Frequency				
		1	2	3	4	5
Due to Rural tradition and cultural beliefs:						
Inability to venture into certain types of business		11%	18%	2%	45%	25%
		40	65	8	164	91
Loss of business hours in some circumstances		3%	15%	1%	57%	25%
		10	55	3	208	92
Religious beliefs; inability to venture into some type of business		1%	27%	1%	59%	13%
		4	100	2	216	46
Woman’s role; Household chores		1%	11%	0%	27%	61%
		2	39	0	101	226
Women enterprises; affected by work and family life balance		0%	1%	4%	83%	13%
		0	2	15	305	46
		Positive View			Negative View	

1. The objective is to analyse some traditional, cultural and gender beliefs practiced by some rural communities which affect businesses.
2. The objective is to establish the limitations the traditional cultural beliefs and gender roles prevalent in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises.

*Respondents were asked whether the local traditions and cultural beliefs practised within their area of business operations:*

- a. Prevent enterprises from venturing into other type of businesses such as the milling business which is associated with witchcraft.*
  - 25% Strongly agree
  - 45% agree
  - 18% disagree
  - 11% Strongly disagree

There is a general positive response (70%) that MSMEs are not able to venture into some type of businesses due to witchcraft beliefs.

*b. Make enterprises to close their business premises during some traditional occurrences like funerals thereby losing trading hours*

- 25% Strongly agree
- 57% agree
- 15% disagree
- 3% Strongly disagree

There is a general positive response (82%) that MSMEs lose some business hours in some circumstances due to some beliefs in funeral rituals of close relations.

*Respondents were asked whether religious beliefs prevent enterprises from venturing into other types of high profitable businesses such as those related to alcohol*

- 13% Strongly agree
- 59% agree
- 27% disagree
- 1% Strongly disagree

There is a general positive response (62%) that some religious beliefs practiced in some rural areas make them not able to venture into some type of business.

*Respondents were asked whether woman's role is perceived to be taking care of household chores*

- 61% Strongly agree
- 27% agree
- 11% disagree
- 1% Strongly disagree

There is a general positive response (88%) that a woman's role is to perform household chores.

*Respondents were asked whether the enterprises owned by women are affected by trying to balance between work and family life*

- 13% Strongly agree
- 83% agree
- 4% are not sure
- 1% disagree

There is a general positive response (96%) that Women headed enterprises are affected by work and family life balance.

#### 4.3.6 Nature of Business

The research data from the questionnaire was used to investigate the most popular type of business for rural MSMEs.

An analysis of table 4.10 reveals the level of agreement/disagreement by the respondents to the various questions based on the objectives of the study.

*Table 4.10: Nature of Business*

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree		
Question Item		Response Percentage & Frequency				
		1	2	3	4	5
Type of Enterprise:						
Risk of Drought		0%	10%	4%	28%	57%
		0	38	15	104	211
Copycat Business - overproduction		0%	3%	3%	82%	12%
		0	10	11	302	45
Sold as a raw material		27%	5%	0%	33%	35%
		99	20	0	120	129
Seasonal business		5%	14%	0%	27%	54%
		18	50	0	101	199
Seasonality affects financing from financial institutions		0%	11%	1%	33%	56%
		0	41	2	120	205
Risk of drought affects financing from financial institutions		0%	9%	0%	35%	56%
		0	32	0	30	205
		Negative View			Positive View	

1. The objective was to analyse the popular type of business for the majority of rural MSMEs
2. The objective was to establish the limitations the popular type of enterprise for the majority of rural MSMEs has and how it affects the business operations of rural micro, small and medium enterprises.

*Respondents were asked whether the type of business that they are involved in;*

*a. Is prone to the risk of drought;*

- 57% Strongly agree
- 28% agree
- 4% are not sure
- 10% disagree

Respondents agree that the type of business they are involved in is prone to the risk of drought.

*b. Is prone to copycat business leading to overproduction and low prices*

- 12% agree
- 82% are not sure
- 3% disagree
- 3% Strongly disagree

There is positive response of 94% that MSMEs are involved in similar ventures and therefore, they produce the same products which results into overproduction of similar products on the market resulting into price competitions.

*c. The products are sold at low prices as raw material with no value adding*

- 33% Strongly agree
- 35% agree
- 5% disagree
- 27% Strongly disagree

There is a positive response (68%) respondents agree that the type of business they are involved in has its products sold in its original form.

*d. Is seasonal and this affects the investment plans of the enterprise*

- 54% Strongly agree
- 27% agree
- 14% disagree
- 5% Strongly disagree

There is a positive response (81%) that the type of business they are involved in is a seasonal business thereby affecting investment plans.

*Respondents were asked whether financial institutions are reluctant to provide finance because:*

*a. The seasonality of the enterprise affects loan repayments*

- 56% Strongly agree
- 33% agree
- 1% are not sure
- 11% disagree

Respondents (89%) agree that seasonality of the type of business they are involved in affects financing from financial institutions.

*Respondents were asked whether financial institutions are reluctant to provide finance because:*

*b. MSMEs are involved in the type of business with a high risk of drought*

- 56% Strongly agree
- 35% agree
- 0% are not sure
- 9% disagree

Respondents agree (89%) that the risk of drought affect financing

## **CHAPTER 5: DISCUSSIONS**

### **5.1: Introduction**

This chapter will discuss the results of the findings in chapter 4 by looking at each research objective with references being made to the literature review to identify if these findings support the secondary research.

### **5.2 Infrastructure: Roads, Telecommunications & Electricity**

The objective is to analyse the status of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi.

The objective is to establish the limitations the poor state of Infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises

This study found out that the status of infrastructure in terms of roads, telecommunications and electricity in the rural areas of Malawi is very poor and it is affecting the operations of rural MSMEs in a number of ways.

These results agree with Rodriguez (2003), Chirwa (2004), Kamunge, Njeru, Tirimba (2014) who pointed out that rural areas are characterised by poor roads network, a poor telecommunications network, inadequate power supply and inadequate water supply among others.

The findings as presented in Table 4.1 confirms how the poor status of the rural infrastructure is limiting on the operations of rural MSMES.

Respondents agreed that there are high costs of production and high prices caused by the poor road networks and inadequate electricity supplies. These results, therefore, agree with what was explained in the literature review, what Skinner (2005) and Fan, Zhang and Zhang (2004) explained in their studies that the poor road networks limit the access to national markets as such there are long distances to markets. This increases the costs of doing business through transportation costs and it has the resultant effect of pushing up the prices of products.

Not only are the high costs and high prices caused by the poor road networks, but also by poor supplies of electricity in the rural areas. Poor supplies of electricity cause MSMEs to switch to other alternative sources of energy such as diesel - powered generators which are unfortunately, very expensive to run. This increases costs of production and hence increases prices. (Doe and Asamoah, 2014)

The study has also confirmed the other limitations in the operations of rural MSMEs caused by poor and inadequate supplies of electricity. As stated by Chirwa (2004), MSMEs are not able to venture into other types of very profitable businesses such as butchery, welding and rice and maize milling businesses which require abundant supplies of uninterrupted electricity.

Also, inadequate supplies of electricity hinder the MSMEs participation in value adding. MSMEs have no choice but to sell their products as raw materials and therefore, at low prices because there is no processing of products because of power shortages. This observation, agrees with studies by Mather (2005).

MSMEs are limited in their operations by the presence of poor telecommunication networks in rural Malawi. Poor telecommunication networks in the rural areas means poor access to the internet, fixed and mobile phone networks and other telecommunication gadgets which are used to acquire modern market information such as information on prices, information on supply and demand, trade contacts and information on new technologies. This agrees, as stated in the literature review, with Chimucheka and Mandipaka (2015) and Kayanula & Quartey (2000).

### **5.3 Rural Financing**

The objective is to analyse the presence/absence of financial institutions and their operations in the rural areas of Malawi

The objective is to establish the constraints of rural financing in the rural areas of Malawi and how it affects the business operations of rural micro, small and medium enterprises.



The study found that the presence of commercial banks in the rural area is generally low. These results agree with Finscope (2014) who said the poor infrastructure prevalent in the rural areas deter banks to operate there as it increases the transaction costs for the banks. The low volume of transaction in rural areas also act as a deterrent for the banks to open up branches in rural Malawi.

In contrast, there is a large presence of microfinance institutions in the rural areas. These results agree with Chirwa (2004) who stated that microfinance institutions are popular among the small businesses and rural MSMEs because they have products which are designed and more tailored to serving them. For instance, their use of the local language in dealing with clients has made them popular in the rural areas, where the education standards are low, unlike with the commercial banks which use complicated technical banking language.

On sources of finance, the study has found out that the most popular sources of finance for MSMEs are own funds and from microfinance institutions.

This agrees with studies by (Skinner, 2005) who pointed out that MSMEs plough their profits back into the business. Unfortunately, the amounts which are reinvested are very small to have a big impact on the operations of the enterprises.

As stated earlier, microfinance institutions have banking products which are designed and more tailored to serving the small businesses and the rural clientele. These products include loans which do not require businesses to produce a collateral and flexible loan repayment schedules which suit the seasonal cashflows of many rural MSMEs (Chirwa, 2004). The loan amounts given by the micro finance institutions are usually small and not enough to satisfy the need for financing for the MSMEs.

Loans from relatives are another popular source of finance accessed by MSMEs mainly by micro enterprises because they are usually soft loans of which there are no transaction costs and usually offer no interest. Loans from relatives are usually very limited in amounts and therefore, have a small impact on the MSMEs.

Other sources of finance available on the market are not popular such as those from commercial banks and usury.

Usury as a source of finance, even though there are no transaction costs involved, is not popular among the MSMEs because of among other things, the high interests offered are very high, even higher than those offered by commercial banks (FinMark Trust, 2012)

Apart from the high interest rates offered by the commercial banks, MSMEs are deterred from obtaining loans from commercial banks by the inflexible credit terms offered. These results are collaborated by studies by IFC (2012), Finscope (2014) and Rodriguez (2003) who wrote that financial service providers do not have customised loans for small businesses and rural MSMEs in regard to their seasonal cash flows. The application process for a loan from commercial banks is difficult as it requires among other things, a collateral and some financial documentation which many MSMEs do not possess.

#### **5.4 Rural Education**

The objective is to analyse the standards of education in the rural areas of Malawi

The objective is to establish the limitations the low levels education standards prevalent in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises

There is a positive response from the respondents that their areas of business operations are accessed by good primary and good secondary schools.

These results do not agree with the literature available on the status of rural primary schools in rural areas and in rural Malawi which says rural schools lack the necessary education infrastructure which includes teachers, school buildings, school furniture, learning materials (such as curriculum materials for students, textbooks, chalk, paper, pencils, exercise books) (DFID, 2001). There is lack of teachers housing which deter teachers from being deployed to rural areas.

In summary, these characterise the rural schools; poor infrastructure, poor learning facilities, untrained and discontented teachers.

Therefore, the only reason the respondents could have given a positive response could be that they have never been to an urban primary and secondary school to see how well equipped they are in order to make the necessary comparisons and between the two to competently answer the question posed to them.

The study found out that the MSMEs have problems in accessing skilled labour for their enterprises. This confirms the fact that there are few skilled personnel in their areas of business operations. These results agree with studies by ILO (2010) who talked of lack of skilled personnel in rural areas. Skilled personnel are crucial to the development of an enterprises in terms of work input and innovations. In an area where the education standards are low, the levels of skills development are also low as education is the key to the development of skills.

Therefore, the absence of skilled labour in rural areas means that many rural enterprises are not operating to their full capacity hence this affect their much of the operations

## **5.5 Education and Business Management Knowledge**

The objective is to establish the limitations the low levels education standards prevalent in the rural areas of Malawi have and how they contribute to the business management knowledge of the owners of enterprises and how they affect the business operations of rural micro, small and medium enterprises

The study found out that the owners of MSMEs do not possess the following skills:

- Leadership & Communication Skills
- Financial Controls & Management
- Cashflow Management
- Business Plans write up
- Technology Awareness

This can be attributed to the lower education standards that prevail in the rural areas. This point agrees with studies by Kasseeah, Kangasharju and Pekkala (2002) and Gasperini (2000) who pointed out that higher education levels increase business knowledge and leads to the awareness and use of new technology which in turn impart business management knowledge skills whilst low levels of education prevalent in rural areas do not provide business knowledge.

The business management knowledge will enhance creativity and the development of industrial capabilities of business owners through innovation, and ability to exploit business opportunities successfully than those with lower levels of education and hence little business management knowledge.

Therefore, the lack of the above listed skills among the business owners of many rural based MSMEs, negatively affect the operations of their enterprises

## **5.6 Nature of Business**

The objective was to analyse the popular type of business for the majority of rural MSMEs

The objective was to establish the limitations the popular type of enterprise for the majority of rural MSMEs has and how it affects the business operations of rural micro, small and medium enterprises.

Malawi is dependent on agriculture and therefore, agriculture related businesses are the most popular type of businesses for most MSMEs in rural areas of Malawi.

The study found out that the type of businesses, agriculture based businesses, that most MSMEs are involved in are prone to the risk of drought.

These results agree with studies by IFC (2007) and FinScope (2014) who said that many MSMEs are in agro based businesses and as such are dependent on climatic factors for the production of both crops and livestock and therefore, are exposed to the risks of drought.

Drought can affect the whole agro business industry through loss of assets in the form of crops and livestock or through low production of both crops and livestock.

Both scenarios will result into little agro business activities to be undertaken both in agro vending and in agro processing thereby limiting the profits to be made and hence affecting the performance of the MSMEs.

Agro business industry is seasonal business. There is time for planting to harvesting for crops and time for birth to slaughter for livestock. The seasonality of the business means that the cashflows are also seasonal and therefore, irregular thus affecting investment plans of enterprises.

The seasonality of the businesses affect financing of the MSMEs. Commercial banks are deterred to finance these MSMEs to avoid the irregular repayments of the loans since banks do not have customised loans for seasonal businesses. This notion collaborates with what IFC (2014) wrote in their studies.

The agro business industry has revealed to perform similar ventures and therefore, produce the same products which result into overproduction of similar products on the market resulting into price competitions. These results agree with studies by USAID (2014) and IFC (2012).

There are several reasons why MSMEs perform similar ventures.

Poor telecommunication networks in the rural areas deny MSMEs access to modern technologies and market information. Erratic power supplies also deny MSMEs the ability to process products. These scenarios cause MSMEs to lack innovations in coming up with new products and services in the rural areas. The price competitions lower the prices of their products thereby affecting their operations.

## **5.7 Culture and Gender**

The objective is to analyse some traditional, cultural and gender beliefs practiced by some rural communities which affect businesses;

The objective is to establish the limitations the traditional cultural beliefs and gender roles prevalent in the rural areas of Malawi have and how they affect the business operations of rural micro, small and medium enterprises;

The study found out that there are some traditional, cultural and gender beliefs practiced by some rural communities which have a negative impact on the operations of small businesses.

Some traditional and cultural beliefs practised in the rural areas, limit MSMEs to venture into other type of businesses due to witchcraft beliefs. These observations are in collaboration with what was pointed out by Orr and Orr (2000) that some businesses such as the milling (maize and rice) business is highly associated with witchcraft. The main food crops of Malawi are maize and rice, therefore, the business of milling of these crops, is one of the most profitable. But the association of this type of business to witchcraft and use of supernatural powers cause may MSMEs not to venture into the milling business thereby losing out in huge profits.

There are some religious beliefs also practiced in some rural areas prevent MSMEs from venturing into some type of businesses. Some rural conservative religious organisations forbid their flock to venture into very profitable businesses like the production and sale of liquor. These churches believe that the production, selling and consumption of liquor is a sin. Many business owners affiliated to these churches are losing out on a profitable business which is very popular especially in the marketing season of agricultural products.

The study also confirmed that some traditional and cultural beliefs practised in some rural areas are responsible for MSMEs to lose some business hours. Respondents agreed that some traditional customs, like some funeral practices, require that the affected households and those nearby not to open their business for some considerable days. This corresponds to what was pointed out in the literature review by Orr and Orr (2000). The loss of business hours has a profound effect on the operations of MSMEs through loss of production and therefore, loss in sales which affect the profits of the business.

Some beliefs about the gender, especially about the roles of women have an impact of the operations of women owned enterprises. There is a general belief in many rural cultural settings that men are considered as heads of households whilst the major role of a woman, is the performance of all household chores and child bearing.

This is confirmed in studies by Jennings and McDougald (2007). As a result, the household chores performed by the females reduces the time for women to pursue business activities. This point agrees to what Van Scheers (2012) and Jennings and McDougald (2007) stated that, women headed enterprises are affected by work and family life balance.

## **Chapter 6- CONCLUSION AND FUTURE RESEARCH**

### **6.1 Introduction**

The main aim of this study is to investigate the constraints of the Rural Characteristics on the day to day running of MSMEs in the rural areas of Malawi.

In order to answer the research question, the researcher identified the main objectives to obtain in depth, more knowledge and a greater understanding of the limitations that the rural characteristic have on the day to day running of a rural enterprise. These objectives were:

To analyse the rural characteristics of Malawi in relation to:

To establish the challenges that the rural characteristics have on the running of rural MSMEs in relation to:

- Infrastructure (Roads, Telecommunication and Electricity)

- Rural Financing

- Standards of Education

- Nature of the Business

- Traditional Cultural beliefs and Gender practices

The study of literature, which is a review and an analysis of the relevant literature and past research papers, pertaining to the research topic was presented in thematic form with the following five headings:

- Infrastructure (Roads, Telecommunication and Electricity)

- Rural Financing

- Standards of Education

- Nature of the Business

- Traditional Cultural beliefs and Gender practices

In order to accomplish the set objectives, a research methodology was designed where a self- completed questionnaire was compiled and was used to collect research data from a sample of MSMEs drawn from seven administrative districts of Malawi.



The questionnaires were collected and then the research data was analysed. The results of the data analysis were presented and the finding

## **6.2 Conclusions**

### **6.2.1 Infrastructure**

From the findings of the research, the following conclusions can be deduced from the study with regard to the status of rural infrastructure.

The study has confirmed that the status of infrastructure in the rural areas is poor and this presents many limitations on the way rural MSMEs carry on with their operations. MSMEs are faced with both high cost of production and high prices of their products as a result of poor road networks and inadequate supply of electricity.

The study has also confirmed the other limitations in the operations of rural MSMEs caused by poor and inadequate supplies of electricity. Inadequate supplies of electricity are causing MSMEs;

- to face limitations in venturing into other types of very profitable businesses such as butchery, welding and rice and maize milling businesses because these types of business require abundant supplies of uninterrupted electricity.

- to face limitations in value adding of their products. As a result, MSMEs sell their products as raw materials and therefore, at low prices.

Poor telecommunication networks in the rural areas are limiting the MSMEs' access to the internet, fixed and mobile phone networks and other telecommunication gadgets which are used for communicating and to acquire modern market information.

### **6.2.2 Rural Financing**

From the findings of the research, the following conclusions can be deduced from the study with regard to rural financing;

The study found that MSMEs are limited in acquiring finance from the commercial banks because the presence of commercial banks in the rural area is generally low.

Poor infrastructure prevalent in the rural areas deter banks to operate there as it increases their transaction costs.

The other available sources of finance such as from microfinance institutions, own funds, loans from relatives and usury, although their presence in the rural areas is high, the amounts of loans that they give out are very small and therefore not enough to satisfy the need of finance for the MSMEs.

### **6.2.3 Type of business**

From the findings of the research, the following conclusions can be deduced from the study with regard to the type of business;

The study has confirmed that the most popular types of businesses for most MSMEs in rural areas of Malawi are agriculture related businesses. These businesses are seasonal and are prone to the risk of drought because of their dependency on climatic factors.

Severe drought will affect the MSMEs assets (crops and livestock) by lowering their production thereby inflicting heavy losses.

The seasonality factor means that the cashflows are also seasonal and therefore, irregular thus both affecting investment plans of the enterprises and the ability to obtain finance from banks which do not accept the irregular loan repayments.

### **6.2.4 Culture and Gender**

From the findings of the research, the following conclusions can be deduced from the study with regard to traditional cultural practices and gender beliefs;

The study confirmed that there are some traditional, cultural and gender beliefs practiced by some rural communities which limit the operations of small businesses.

MSMEs are limited to venture into other type of businesses due to witchcraft beliefs. For instance, the profitable milling (maize and rice) business is highly associated with witchcraft practice in rural areas.

There are some religious beliefs practiced in some rural areas which limit MSMEs from venturing into some type of businesses like the very profitable businesses of the production and sale of liquor.

Some funeral practices require that the affected households and those nearby not to open their business for some considerable days thereby causing loss of business hours to the affected MSMEs

#### **6.2.5 Rural Education**

The study confirms that rural areas are accessed by good primary and secondary schools.

These results do not agree with the literature available on the status of rural primary schools in rural areas of Malawi.

It can be deduced therefore, that respondents have never been to an urban primary and secondary school in order to make the necessary comparisons between the two to competently answer the question posed to them.

The study found out that there is lack of skilled personnel in the rural areas of Malawi and therefore, MSMEs are limited in accessing skilled labour for their enterprises. Education is the key to the development of skills. Rural areas have low standards of education, as a result, the levels of skills development are also low.

The study confirmed that the owners of MSMEs do not possess the following skills:

- Leadership & Communication Skills
- Financial Controls & Management
- Cashflow Management
- Business Plans write up
- Technology Awareness

This is because of the lower education standards that prevail in the rural areas. As such, the MSMEs are not operating at their highest potential because those leading them lack business knowledge and skills.

### **6.3 Recommendations for future research include**

The research was done based on a sample drawn only from the seven administrative districts out of a total of twenty- seven administrative districts of Malawi. This was because of time and financial constraints on the part of the researcher.

This is a small sample size to determine the findings of the whole country. A larger sample would precisely give an accurate determination of the study. Therefore, the researcher recommends a future study with a larger sample.

The research only selected a few social – economic rural characteristics namely; infrastructure, financing, education, traditional cultural beliefs and gender practices and the popular type of business. There are many social – economic rural characteristics which the researcher did not tackle in this research because of time constraints. As such, the researcher recommends a future study on the other rural characteristics not tackled in this research.

The research dwelled on the premise of MSMEs as whole. Future research can be done by looking at the categories of the MSMEs separately. That is for instance,

“.....the limitations of rural characteristics on rural Small sized Enterprises”

“.....the limitations of rural characteristics on rural Medium sized Enterprises”

The present research could form the basis for a longitudinal study. That is another research, a follow up research, on a similar population sample to be conducted in the next two years. This type of research, would find out if at all there are changes in the attitude of respondents especially when it comes to the traditional cultural beliefs and gender practices.

The research has noted that in the micro enterprises category (1-4 employees), there is a very large proportion of individual entrepreneurs (persons who work on their own). It is of the researcher’s opinion that the micro enterprise category further be broken down into two namely; micro enterprises (2-4 employee) and individual entrepreneurs (1 employee).

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## APPENDIX 1

### QUESTIONNAIRE

#### SECTION A: DEMOGRAPHICS

1. Number of employees.....

1b. Location: .....

2. Type of Enterprise.....

3. Gender. (Tick "X" in appropriate box))

Male	Female
------	--------

4. Age of Respondent (Tick "X" in appropriate box)

18 - 25	26 – 35	36 - 45	46 - 55	55+
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5. Experience in the business (Tick "X" in appropriate box)

0 – 3	3 – 6	6 – 9	10+
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6. Education Qualifications (Tick "X" in appropriate box)

No qualification; never attended school	
No qualification; dropped out of Primary school	
Primary School Certificate	
Secondary School Certificate	
Tradesman Certificate	
College Cert /Diplomas	
University Degree	

## SECTION B: Infrastructure

The following statements are related to the current status of infrastructure in terms of Roads, Telecommunications and Electricity in the rural areas and how they affect the business operations of rural micro, small and medium enterprises.

*'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

1. The status of the infrastructure network within our area (Roads, Telecommunications and power) is in poor condition.

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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2. The status of the infrastructure network within our area:

- a. Increases the costs of production in terms of transport costs due to poor road network.

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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- a. Increases the price of products in terms of transport costs due to poor road network

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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- b. Prevents enterprises from accessing modern market information due to poor telecommunications networks

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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- c. Prevents enterprises from operating other type of business ventures due to poor road network and poor electricity supplies

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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- d. Makes it impossible to add value to products due to lack of product processing caused by poor electricity supplies

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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- 5 The status of the infrastructure within our area has negatively affected the performance of our business

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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- 6 Improving the status of infrastructure within our area would improve the performance of business

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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### SECTION C: Rural Financing

**The following statements are related to rural financing and how it affects the business operations of rural micro, small and medium enterprises**

*'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

1. Presence of Financial institutions:

- a. There are commercial banks operating within our area

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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- b. There are mobile banks operating within our area

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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- c. There are micro finance institutions operating within our area

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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2. Sources of finance for the enterprises were obtained from;

- a. Commercial banks

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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b. Microfinance

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
---------------------	------------	------------	---------	--------------------

c. Usury

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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d. Small loans from relatives

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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e. Own funds

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5 = Strongly Agree
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3. High Interest rates offered by the financial institutions prevents businesses from obtaining loans

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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4. Inflexible credit terms offered by the financial institutions prevent businesses from obtaining loans

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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5. Lack of finance from the financial institutions has negatively affected the performance of enterprises

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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6. Access to finance from the financial institutions will improve the performance of enterprises

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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## SECTION D:

### a. Education

**The following statements are related to the education standards prevalent in the rural areas and how they affect the business operations of rural micro, small and medium enterprises**

*'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

1. There is an availability of good schools with experienced teachers and school infrastructure (school buildings, school furniture and learning materials) within our area:

#### a. Primary schools

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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#### b. Secondary Schools

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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#### c. Technical colleges

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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2. Enterprises easily access trained personnel to employ within our business area

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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3. Business Performance is affected by lack of suitable personnel

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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4. Business Performance can improve with availability of suitable personnel

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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## SECTION D:

### b. Knowledge of Business Management

**The following statements are related to the education standards prevalent in the rural areas and how they contribute to the business management knowledge of the owners of enterprises and how they affect the business operations of rural micro, small and medium enterprises**

*'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

1. The owner of the enterprises possesses the following business management skills;

a. Leadership and Communication Skills

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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b. Financial Management and Control

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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c. Cashflow management and controls

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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d. Ability to write business plans

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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e. Technology awareness

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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2. Business Performance is affected by lack of business knowledge

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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3. Business Performance can improve with acquisition of business knowledge

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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## SECTION E: The Nature of the Enterprise

**The following statements are related to the most popular type of enterprise being carried out and how it affects the business operations of rural micro, small and medium enterprises**

*'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

1. The type of enterprise you are involved in;  
a. Is prone to the risk of drought

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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b. Is prone to copycat business leading to overproduction and low prices

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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c. Is seasonal and this affects the investment plans of the enterprise

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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d. The products are sold at low prices as raw material with no value adding

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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2. Financial institutions are reluctant to provide finance because:

c. The high risk of drought

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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d. The seasonality of the enterprise affects loan repayments

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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## SECTION F: Culture and Gender

**The following statements are related to the traditional cultural beliefs and gender beliefs prevalent in the rural areas and how they affect the business operations of rural micro, small and medium enterprises**

*'In this section, please indicate the extent to which you agree with the following statements by marking an "X" against the appropriate scale shown.'*

1. The local traditions and cultural beliefs practised within your area of business:

a. Prevent enterprises from venturing into other type of businesses such as the milling business which is associated with witchcraft.

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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b. Make enterprises to close the business during some traditional occurrences like funerals thereby losing trading hours

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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2. Religious beliefs prevent enterprises from venturing into other type of high profitable businesses such as those related to alcohol

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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3. A woman's role is perceived to be taking care of household chores

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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4. Enterprises owned by women are affected by trying to balance between work and family life.

1=Strongly Disagree	2=Disagree	3=Not Sure	4=Agree	5= Strongly Agree
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