



Promoting the performance and growth of informal baobab enterprises in Malawi

William Dumenu & Dietrich Darr

Key message

- Informal baobab enterprises can be productive
- Entrepreneurial motivation and adoption of good business practices influence their performance
- Policymakers should implement measures to enhance the growth potential of promising baobab enterprises for economic development

What is the issue?

The baobab processing industry holds the promise to catalyze the development of rural economies and reduce poverty in producer countries such as Malawi, Zimbabwe, and Mozambique. In southern Africa, baobab is regarded as the highest earner of all traded non-timber forest products¹. It is projected to generate an annual income of 1 billion US dollars and employment for 2.5 million households when fully commercialized². The attainment of this prospect rests on the continuous performance and growth of enterprises involved in the processing and marketing of baobab products.

In Malawi (the leading producer country), baobab enterprises are predominantly informal, micro, and small-scale. Informal micro and small enterprises are perceived to underperform, have little prospect for growth, and contribute marginally to economic development³ hence, unworthy of development support.

That notwithstanding, recent findings have demonstrated the potential for these enterprises to transition into productive formal businesses, and even outperform their registered counterparts. This policy brief aims at providing recommendations for policymakers on how to support and promote the performance and growth of informal baobab enterprises in Malawi.



¹ Wynberg R, van Niekerk J, Kozanayi W, Laird S. 2012. Formalisation and the non-timber forest product sector: Experiences from Southern Africa. Report.

CIFOR, Bogor, Indonesia.

² RTFP (Regional Trade Facilitation Programme). 2007. New Brief No. 2, Regional Trade Facilitation Programme. <http://www.rtfp.org>. Accessed on 21 May, 2020

³ Gelb, A., Mengistae, T., Ramachandran, V. & Shah, M.K. 2009. To formalize or not to formalize? Comparisons of microenterprise data from southern and east Africa.

CGD Working Paper No. 175. Washington D.C: Center for Global Development.

Research approach

The study draws on firm-level data from 305 informal baobab enterprises in Malawi to assess factors that influence the performance of the enterprises using structural equation modeling. The study investigated the effect of entrepreneurial motivation and business practices on firm performance (measured as annual net profit).

Key findings

- Informal baobab enterprises driven by opportunity motives perform better and achieve higher profits compare to those motivated by necessity.
- Adoption of good business practices such as marketing, financial planning, and costing and record keeping positively influence the financial performance of informal baobab enterprises.
- Baobab enterprises with the greatest potential for growth that can be targeted with performance/growth-enhancing policies are those that are opportunity-driven and adopt good business practices.

Table 1. Factors influencing performance of informal baobab enterprises

| Independent variable | Standardized co-efficient | S.E. | t-value | p-value |
|--|---------------------------|-------|---------|--------------------|
| Business practices | 0.309 | 0.188 | 1.638 | .101 |
| Opportunity motivation | 0.566 | 0.232 | 2.435 | .015* ^a |
| Necessity motivation | 0.013 | 0.137 | 0.092 | .927 |
| Opportunity motivation x Business practices | 0.578 | 0.142 | 4.069 | .000* ^a |

Notes. * $p < .05$. ^a significant

Policy recommendations

- ❖ Target opportunity-driven informal baobab enterprises that implement good business practices with tailored-support to enhance their potential for growth and contribution to economic development.
- ❖ Develop and implement small business management training programs for owners/managers of promising baobab enterprises on good business practices (e.g. financial planning), and personal initiative to enhance their performance.
- ❖ Establish a mechanism that facilitate access to business advisory services or mentoring to help opportunity-driven informal baobab enterprises that adopt good practices to improve their business management capacity for increased performance.
- ❖ Facilitate access to affordable capital through the establishment of microfinance initiatives or innovative financing options tailored to the needs of promising informal baobab enterprises to enable them acquire equipment or technologies to increase their productive capacity and performance.



This brief was prepared by William Dumenu and Dietrich Darr based on the paper "Effect of entrepreneurial motivation and business practices on informal microenterprises' performance"

Contact

William Dumenu
Faculty of Life Sciences
Rhine Waal University of Applied Sciences
william.dumenu@hochschule-rhein-waal.de