



**SUBMISSION ON THE MAJOR FINDINGS OF THE REPORT OF THE  
AUDITOR GENERAL ON THE PERFORMANCE AUDIT OF THE  
GOVERNMENT INTERVENTIONS ON MICRO, SMALL AND MEDIUM  
ENTERPRISES**

**Submitted to the Committee on National Economy, Trade and Labour matters**

June 2022

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## **1. Introduction**

This memorandum was prepared by the Zambia Institute for Policy Analysis and Research (ZIPAR), in response to a request made by the Committee on National Economy, Trade and Labour Matters of the National Assembly of Zambia on 13<sup>th</sup> June 2022. The request was for ZIPAR to prepare and submit a memorandum commenting on the major findings and recommendations of the report of the Auditor General on Government interventions on Micro, Small and Medium Enterprises (MSMEs) in Zambia. In line with the Committee's request, this memorandum presents ZIPAR's analytical views on the aforementioned.

The memorandum is structured as follows: the first section provides an analysis of the contribution of MSMEs to economic development, and this is followed by our analytical comments on the major findings of the Auditor General's report. The last section offers our recommendations on how to realise the recommendations of the report.

## **2. Contribution of MSMEs to Economic Development**

Policymakers and scholars have widely avowed the crucial role of MSMEs in economic development and job creation. Globally, they account for most businesses and are important contributors to job creation and global economic development. The World Bank estimates that MSMEs represent about 90 percent of businesses and more than 50 percent of employment worldwide (World Bank, 2022). In Africa, MSMEs play an essential role in the continent's economic activity. They represent more than 90 percent of businesses and employ about 60 percent of workers (International Trade Centre, 2018). Although there is scanty information on MSMEs in Zambia, the 2010 National Economic Census and other studies indicate that about 97 percent of the total enterprises in Zambia were either in the small or medium category, implying that only 3 percent constituted the large enterprises. Nevertheless, the MSMEs also account for 70 percent of Zambia's GDP and 88 percent employment (FSD Zambia, 2017).

## **3. Major Findings of the Report of the Auditor General**

The Government has been undertaking various interventions through the Ministry of Commerce, Trade and Industry (MCTI)<sup>1</sup> and its statutory bodies—Citizens Economic Empowerment Commission (CEEC) and Zambia Development Agency (ZDA) aimed at maximizing the segment's potential to contribute to the Country's wealth and job

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<sup>1</sup> This mandate has been taken up by the newly formed Ministry of Small and Medium Enterprise Development.

creation. Against this backdrop, the overall aim of the Auditor General's report was to establish the effectiveness and efficiency of the Government's interventions in the MSME sector at promoting private sector-led economic growth.

In this section, we present our analytical comments on the three main strands of the findings of the report and highlight what we deem as possible contributing factors to the situation. Our assessment is based on existing literature and analysis of secondary data.

### 3.1 Has MCTI ensured that the SME Sector Contributed to Economic Development and Job Creation in Zambia?

#### *Auditor General's Findings on Impact of SMEs on Job Creation*

The Eighth National Development (8NDP) plan recognizes MSMEs as main contributors to the attainment of the Vision 2030. Particularly, the 8NDP identifies the potential of MSMEs to create jobs in light manufacturing, tourism, and agriculture.

The Office of the Auditor General carried a performance audit on Government's interventions in the MSME sector through MCTI which was overseeing the development and contributions of MSMEs to job creation and gross domestic product (GDP). Although this mandate is now the responsibility of the newly created Ministry of Small and Medium Enterprises, the findings in the Auditor General's report on the performance of MSMEs under the auspice of the MCTI and units such as the ZDA and CEEC are key. Below is an analysis of findings of the audit:

- *MCTI, CEEC and ZDA made efforts to facilitate the creation of employment and development of SMEs. Yet, there were no statistics or reports to show the levels that the MCTI had achieved through its statutory bodies.*

This finding of the audit indicates a lack of traceable records on the impact of Government interventions on employment and development of MSMEs. Further, this fact alone weakens the credibility of the claims that the stated institutions created the jobs. The lack of records and statistics also poses a notable challenge on the criteria of selection of MSMEs adopted under each intervention, growth of such MSMEs and quantification of the contribution of individual MSMEs to GDP of Zambia.

The lack of statistics could be attributed to lack of investments in information management systems, weak data management skills, inconsistencies or failure in monitoring and evaluation (M&E) mechanisms of SMEs and lack of coordination among the key actors in the MSME space. Evidence-based policy is crucial for effective MSME policy formulation. Thus, the paucity of information on the

performance of MSMEs and the Government support programs raises concerns about the budgetary justifications for the institutions. This is especially important given the Country's fiscal woes.

Given that SMEs are a key employment and income source for a broader layer of the population, more attention on monitoring their growth should be emphasized. Therefore, there should be devoted standard M&E procedures that are consistently followed to ascertain MSMEs impact on employment and contribution to GDP. A national MSMEs database accessible at all levels of public administration should further be established, maintained, regularly checked, and updated for information on operations, growth, innovation and even tracing those that fall out of operations. Maintaining such a data base is imperative if MSMEs are to help Zambia attain the vision 2030.

- *Viabile MSMEs under the auspices of the MCTI were expected to benefit from improved access to appropriate and affordable business infrastructure (industrial yards), leading to growth and eventual creation of Multi facility Economic Zones (MFEZ). Yet, industrial yards are not operational.*

The identification of viable MSMEs is important given that these MSMEs were the ones earmarked as spinners in production with expectations of up to 500 jobs created in light manufacturing. Although a disbursement of K172, 630, 799.95 was made in 7 provinces for the purpose of constructing 8 industrial yards for MSME operations, audit findings indicate that the industrial yards were generally not operational. The industrial yards were to accommodate 172 MSMEs, yet only 28 (16%) MSMEs were accommodated. Consequently, the CEEC as a coordinating body lost annual revenue of about K744,000 per year. The MCTI as the mother body lost a substantial K8, 928,000 per year, which was estimated to be bloated up to K13, 392,000 by April, 2021.

Failure to adequately manage MSME business infrastructure was attributed to delays in land acquisition for constructing industrial yards, encroachments on earmarked land and even red tape in managing project handovers. There is need for stronger monitoring of the processes of acquisition of resources and execution of roles required for successful business infrastructure set-up. Further, this finding speaks to the deficiency of project management skills in implementing agencies, an issue which should be urgently reexamined and appropriately addressed.

- *CEEC expected to receive funding of about K500 million kwacha and empower SMEs to boost their operations and create at least 150, 000 direct jobs by 2021. All things being equal, if CEEC received K100 million each year, it was expected to create 30, 000*

*jobs through supported SMEs. CEEC reports that 17, 174 jobs were created between 2017 and 2021 but does not provide supporting evidence for the existence of these jobs.*

An Audit of 61 MSMEs revealed that of the 61 MSMEs that were captured, only about 44 (72%) MSMEs reported to have created between 0-5 jobs, up to 10 (16%) MSMEs created 6-10 jobs, 2 (3%) MSMEs created 11- 15 jobs and 8 (13%) MSMEs created above 16 jobs. Overall, there is a mismatch between jobs that the CEEC reported to have been created by MSMEs and the jobs that some MSMEs stated that they actually created. This discrepancy is a great concern given Zambia's tight fiscal space. This resource use inefficiency if not urgently addressed may continue to cost the Zambian economy. The principal of value for money and accountability should be upheld at all levels of public expenditure management. The discrepancy also identifies the need for harmonizing data management on SMEs in a transparent and clear manner. The lack of supporting documentation on impact of MSMEs on job creation provides a huge limitation for identifying the contributions of MSMEs to job creation and economic growth.

### 3.2 Has the MCTI, CEEC and ZDA provided Business Development

#### Interventions to MSMEs in Zambia?

Apart from having access to funds, one of the major constraints MSMEs face is lack of business development services (BDS). BDS are services provided to businesses to enhance their performance. Therefore, the lack of business development support may adversely affect growth and development of MSMEs in a country. Zambia recognizes the importance of MSMEs in the economy in terms of job and wealth creation and income growth, hence it has come up with deliberate interventions to help MSMEs to grow. Initiatives such as the inclusion of BDS in their strategy to support the growth and development of MSMEs were made to reduce the attrition risk of the MSMEs they supported. Further, the Government has incorporated the Sustainable Development Goals (SDG) – particularly, SDG No. 8, on Decent Work and Economic Growth – addressing MSME development in its strategic plans as demonstrated in the 8NDP to improve MSME contribution to job and wealth creation.

Both CEEC and ZDA provide BDS interventions which are either financial or non-financial to MSMEs. While the CEEC and ZDA are supposed to provide finances and BDS to MSMEs, their support has been dismal. In terms of financing, the CEEC which is the financing arm of the Government to MSMEs disbursed only K35 million (8.6%) out of a budget of K405 million from the Treasury in the period 2015-2021, which highly limited the impact of the Commission on MSME jobs and wealth creation. For non-financial support, the CEEC did not provide the required BDS to the MSMEs as

they only provided prefinance training without other services such as contract handhold and transfer, contract turn around services, mentorship, training, business linkages and preferential procurement certificates.

Overall, the lack of BDS support has ultimately resulted in failure of improving the contribution of the MSMEs to job and wealth creation. The poor BDS support is evident through the following:

1. Delayed funding from the time of application to the time of accessing the fund.
2. Lack of due diligence before providing the funds to the SMEs, resulting in most SMEs not being funded the required working capital to commence operations
3. Lack of M&E of projects in which support has been provided.
4. Failure to provide support in the different stages of the value chain resulting into gaps.
5. Partial funding of loans applied for, resulting in the loss of value of money due to the passage of time.

### 3.3 Has MCTI and its Statutory Bodies Monitored and Coordinated the Implementation of MSME Development Programmes?

As provided for in the MSME development policy of 2008, the MCTI, CEEC and ZDA shall conduct monitoring exercises per year. However, the report indicates that the MCTI, CEEC and ZDA were not consistently monitoring MSMEs. The lack of monitoring activities was mainly attributed to the lack of funding to the Ministry and statutory bodies to undertake this function. While this is true and a reflection of the overall constrained fiscal environment in the country which has seen reduced spending on economic activities due to high debt servicing requirements, our analysis of selected yellow books for the years 2015 to 2017 showed that monitoring activities were not even indicated in the Ministry's workplans. This indicates that beyond funding challenges, there is little emphasis placed on monitoring activities.

The failure by MCTI, CEEC and ZDA to carryout M&E activities created the existing information gaps with the status of the MSMEs which were supported. The revelations by some sampled MSMEs who were of the view that any M&E activities undertaken usually focus on ensuring that MSMEs are up to date with loan repayments is significant. M&E activities should be comprehensive and wide ranging to ensure that MSMEs grow. It is commendable that institutions such as ZDA have been innovative to combine their M&E activities within other funded programmes. In the wake of a constrained fiscal space, such innovativeness will be cardinal in fostering MSME development.

The report also revealed that interviews with MSMEs revealed that the MCTI did not coordinate the activities with MSMEs, CEEC and ZABS. MSMEs received interventions from CEEC to improve their businesses, however, the weak coordination of statutory bodies by MCTI contributed to the dismal performance of the value chains and thus the business operations of the MSMEs. For instance, one company that received a loan to commence its operations and purchased new equipment was not functional due to the delayed issuance of a certificate by ZABS. This reflects a lack of coordination among statutory bodies in the Ministry and a lack of coordination of activities by the Ministry. Relatedly, the multiplicity of actors in the MSME space, coupled with multiple licences contribute to the poor performance of the businesses in Zambia.

Coordination and a holistic – value chain – approach to MSMEs is cardinal if this segment of the economy will record meaningful growth. Institutions responsible for providing support and services must move in the same directions and work towards consistency in service provision.

## 4. Recommendations

To attain the recommendations made in the report, we suggest some key interventions as follows:

### (i) Improved Accountability

To enhance support towards MSMEs, there is need to enhance accountability from the Ministry and other institutions on public spending. This will help to enhance resource use inefficiency which if not urgently addressed may continue to cost the Zambian economy. The principal of value for money and accountability should be upheld at all levels of public expenditure management.

### (ii) Enhanced M&E systems

Monitoring and Evaluation systems are cardinal for tracking progress among MSMEs. In that regard, the Ministry and statutory bodies should include Monitoring and Evaluation Activities in their work plans.

### (iii) Improved coordination by MCTI

The Ministry of Commerce Trade and Industry must improve its coordination activities specifically among statutory bodies to seamlessly support MSMEs in a better coordinated manner. This will create a holistic approach towards MSME support which will be more effective.



(iv) Improved funding to MCTI and statutory bodies

While the country's fiscal space is limited, there is scope for increased funding to the Ministry of Commerce Trade and Industry, the CEEC and ZDA specifically for MSME related interventions. Many of the recommendations suggested are reliant upon adequate financing. In the same vein, the Ministry must engage cooperating partners to finance these MSME programmes and make use of other existing programmes to include MSME activities. The tight fiscal space also calls for efficiency in utilization of available resources.

(v) Widen services and not restrict to financial interventions

The recommendation on the need for the Ministry and statutory bodies to widen the services offered to include Business Development, M&E among others can be attained through inclusion of these activities on the respective institutions' workplans. Further, consultations with relevant MSMEs and their associations should regularly be undertaken to ensure that the needs of the MSMEs are provided.

(vi) Strengthen the institutional, regulatory and policy frameworks for the MSME sector.

The Auditor General's Report unearthed institutional weaknesses, including fragmented frameworks that hinder adequate support to the MSME segment. Therefore, the creation of the Ministry of SMEs should be complemented with more robust institutional and regulatory frameworks. For instance, stronger legislation around financing for SMEs could help resolve some of the issues at CEEC.