



## **Press Release**

*For Immediate Release*

11 November, 2020.

To: The News Editor

**STATEMENT ON THE AUDITOR-GENERAL'S PERFORMANCE REPORT ON THE SUPPORT OF MICRO, SMALL AND MEDIUM ENTERPRISES BY SMALL AND MEDIUM ENTERPRISES DEVELOPMENT CORPORATION UNDER THE MINISTRY OF WOMEN AFFAIRS, COMMUNITY, SMALL AND MEDIUM ENTERPRISES.**

The Performance Audit Report on Support Of Micro, Small and Medium Enterprises by Small And Medium Enterprises Development Corporation Under The Ministry Of Women Affairs, Community, Small and Medium Enterprises is out.

The purpose of this audit was to assess whether Small and Medium Enterprises Development Corporation (SMEDCO) was fulfilling its mandate of supporting small entrepreneurs. SMEDCO is a parastatal under the Ministry of Women Affairs, Community, Small and Medium Enterprises Development mandated by the SME Act, [Chapter 24:12] to promote and develop Micro, Small and Medium Enterprises (MSMEs) in the formal and informal sectors of the economy. It is a development finance institution that supports MSMEs through facilitating their establishment, giving financial assistance, training and offering other advisory services.

The MSMEs sector is considered to be a major player in the economy contributing an estimated 60% of GDP and an estimated 50% of total employment (Government's Medium Term Plan 2011 to 2015). In recent years the sector has, assumed greater prominence by providing sources of livelihoods to half of the country's unemployed population. Thus, the sector has greatly contributed to employment creation and poverty reduction and is playing a big role in the value addition and beneficiation component of the economy.

The contribution that this sector has on the country's economy coupled with financial leakages at SMEDCO as well as the media coverage of the institution's non-performance were the motivation behind this audit. My pre-audit study revealed that SMEDCO made perennial losses since 2010.

This audit was conducted in line with Section (6) (1) (b) of the Audit Office Act [Chapter 22:18] which states that the Auditor General may carry out an examination into the economy, efficiency and effectiveness with which a public body has used public resources in discharging its functions. It covered a nine year period spanning from 2010 to 2018. SMEDCO was almost inactive for four years during this period from 2013 to 2016. In 2015 and 2016 it only supported 1 and 12 MSMEs respectively.

### **Audit Findings**

The audit revealed weaknesses in the support of MSMEs by SMEDCO on three areas namely; provision of support services, compliance with established principles as well as the monitoring of financed MSMEs. The institution's operating expenses exceeded its revenue generation throughout the period under review.

- **Provision of support services:** The audit revealed that SMEDCO was not fully providing all the support services required for the growth of the MSMEs sector. It only provided working capital loans yet MSMEs need fixed capital loans to buy machinery and equipment as well as install the necessary fixtures and fittings for those who are in the manufacturing sector. Only 9 (0.25%) out of the 3 583 loans disbursed from 2010 to 2018 were for fixed capital purposes, the rest were working capital loans. The financial support extended to MSMEs significantly dropped from 1620 to 82 in 2014. In 2015 and 2016 only 1 and 12 MSMEs were supported financially by SMEDCO respectively. However, the number increased to 233 in 2017 when SMEDCO secured Treasury Bills to source funding from the market.

For the period running 2012 to August 31, 2018, SMEDCO trained 2 451 (30%) MSMEs against a target of 8 150. No training was done in 2010 and 2011, in fact there were no plans to do so in the institution's annual work plans. Some of the trained MSMEs did not get financial assistance from SMEDCO to capacitate them to run their businesses. Additionally, there was no evidence of financial support to new MSMEs by SMEDCO from 2010 to August 2018.

SMEDCO was unable to construct factory shells for MSMEs contrary to its 2010 to 2018 strategic plan to increase these by constructing 12 factory shells per year for its six branches. Inadequate provision of support services to the MSMEs was attributed to poor financial performance due to unmatched operational expenditure and revenue generation, fraudulent activities at the institution due to inadequate controls, weak debt recovery and rental collection systems and weak resource mobilisation strategies. SMEDCO lost a total of \$1 137 573 to internal fraud in 2011, 2012, 2013 and 2015.

- **Compliance with established principles:** SMEDCO failed to disburse loans in line with set sectoral targets to enable the fair representation of sectors and in line with the provisions of the National Gender Policy for the years 2011, 2012, 2013, 2014, 2017 to August 31, 2018. The Gender Policy stipulates that 30% of allocations are reserved for women. The allocation appeared tilted in favour of the retail sector at the expense of other sectors such as Micro SMEs and the mining sector. SMEDCO's loan repayment conditions that call for repayments after one month of allocation hindered the manufacturing sector from benefiting from this facility.

- **Monitoring of financed MSMEs:** The audit revealed that there was no compliance to operational procedures on defaulting MSMEs. SMEDCO only conducted pre-disbursement monitoring visits and of the 205 MSME files reviewed, pre-disbursement monitoring was done for all of them, while post-disbursement monitoring was done for only 45 MSMEs.

### **Recommendations**

Implementation of the following recommendations will ensure that SMEDCO puts in place systems and procedures to ensure that it fulfills its purpose and objectives. SMEDCO is therefore encouraged to:

- Ensure provision of support services to MSMEs by aligning expenditure to revenue generation with a view of channeling the bulk of its resources to its mandate;
- Reinvent its strategic goals so that it becomes a profitable organization, mobilise financial resources and strategise to turn around the entity into a profitable micro finance institution in line with its Credit Risk Management Policies which state that it is supposed to operate profitably so that it remains in business;
- Equitably distribute loans across all the sectors and consider reviewing repayment terms to encourage all sectors to take up the loans, consider other forms of collateral for women to ensure they take up the 30% threshold reserved for them and conduct awareness campaigns to the public to raise awareness on these loans and other support services that they offer.
- Enhance post-disbursement monitoring so that deserving MSMEs access more support. The identification of stressed MSMEs helps in managing risk and mitigates unnecessary losses.
- Strengthen internal controls to prevent loss of financial resources through fraud.

The Report was tabled in Parliament on the 7<sup>th</sup> of October, 2020 and is now a public document which can be accessed from the Office's website [www.auditgen.gov.zw](http://www.auditgen.gov.zw).

Attached to this press release is the Report on the Support of Micro, Small and Medium Enterprises by the Ministry of Small and Medium Enterprises Development Corporation for further information.

For more information or clarification contact the undersigned.

***Pretty Moyo***

***Head of Public Relations***

***0242-702826/ 0717 208 176***