



REPUBLIC OF ZAMBIA

REPORT

OF THE

COMMITTEE ON NATIONAL ECONOMY, TRADE AND LABOUR MATTERS

ON THE

REPORT OF THE AUDITOR GENERAL ON THE PERFORMANCE

AUDIT OF THE GOVERNMENT INTERVENTIONS ON MICRO, SMALL

AND MEDIUM ENTERPRISES IN ZAMBIA 2015-2020

FOR THE

FIRST SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

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REPORT OF THE COMMITTEE ON NATIONAL ECONOMY, TRADE AND LABOUR MATTERS ON THE REPORT OF THE AUDITOR GENERAL ON THE PERFORMANCE AUDIT OF THE GOVERNMENT INTERVENTIONS ON MICRO, SMALL AND MEDIUM ENTERPRISES IN ZAMBIA 2015-2020 FOR THE FIRST SESSION OF THE THIRTEENTH NATIONAL ASSEMBLY

1.0 Membership of the Committee

The Committee consisted of Mr Binwell Mpundu, MP, (Chairperson); Ms Sibseo K Sefulo, MP (Vice-Chairperson); Mr Elliot Kamondo, MP; Mr Mubika Mubika, MP; Mr Mutotwe L Kafwaya, MP; Mr Ronald K Chitotela, MP; Mr Davis Chisopa, MP; Mr David Mabumba, MP; Mr Gift Sialubalo, MP; and; Mr Njavwa Simutowe, MP.

The Honourable Madam Speaker
National Assembly
Parliament Buildings
LUSAKA

Madam

The Committee has the honour to present its Report on the Report of the Auditor General on the Performance Audit of the Government Interventions on Micro, Small And Medium Enterprises in Zambia 2015-2020 for the First Session of the Thirteenth National Assembly.

2.0 Functions of the Committee

Pursuant to the functions of the Committee set out under Standing Order No 198(g) of the National Assembly of Zambia Standing Orders, the Committee is mandated to consider special audit reports that may be referred to it by the House.

3.0 Meetings of the Committee

The Committee held ten meetings to consider the Performance Audit Report of the Auditor General on the Government Interventions on Micro, Small and Medium Enterprises in Zambia 2015-2020.

4.0 Procedure adopted by the Committee

In order to familiarise itself with the issues under its consideration, the Committee requested written and oral submissions from the stakeholders listed at Appendix II.

5.0 Standards used in carrying out the Audit

The Committee was informed that in accordance with the provision of Article 250 of the *Constitution of Zambia (Amendment) Act No. 2 of 2016*; the *Public Audit Act No. 13 of 1994*; and the *Public Finance Management Act No. 1 of 2018*, the Office of the Auditor General was

mandated to carry out performance audits in ministries, government departments and statutory corporations, and to report the results to the Republican President and the National Assembly. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions.

5.1 Background to the Audit

The Auditor General's Report stated that Micro, Small and Medium Enterprises (MSMEs) played a major role in most economies, particularly in developing countries. MSMEs accounted for the majority of businesses worldwide and were important contributors to job creation and global economic development. They represented about 90% of businesses and more than 50% of employment worldwide. Formal MSMEs contributed up to 40% of Gross National Income in emerging economies. These numbers were significantly higher when informal MSMEs were included. According to the estimates, about 600 million jobs would be needed by 2030 to absorb the growing global workforce, which makes MSME development a high priority for many governments around the world. However, access to finance was a key constraint to MSME growth and was cited as an obstacle facing MSMEs to grow their businesses in emerging markets and developing countries.

Africa had an estimated population of more than 1.3 billion people which was growing at over two percent (2%) annually in most countries, with more than 50 percent (50%) of the people in many countries below the age of twenty-five (25). This population had a growing need for the services, jobs and economic growth provided by locally based MSMEs. Like the rest of Africa and the world at large, MSMEs in Zambia also played an important role in production, employment and income. They represented 97% of all businesses in the country, 70% of Gross Domestic Product (GDP) and 88% of employment. MSMEs played a key role in society, as they tended to employ a large share of the most vulnerable segments of the work force. According to the MSMEs Development Policy of 2008, MSMEs in Zambia were defined as business enterprises registered with the Registrar of Companies. The major differences between a micro, small and medium enterprise related to the total value of the investments excluding land and buildings, total annual turnover and the number of persons employed by each enterprise.

At the global level, the Sustainable Development Goals (SDGs) No. 2- Zero Hunger; and 8 - Decent Work and Economic, growth had emphasised the importance of the MSMEs and encouraged access to financial services, markets and opportunities for value addition as well as promoted policies that were development-oriented and supported productive activities, decent job creation, entrepreneurship, creativity and innovation. The SDGs also encouraged the formalisation and growth of micro, small and medium-sized enterprises, including through access to financial services. The Government had particularly been committed to the development of the MSMEs sector such that in the Seventh National Development Plan (7NDP) 2017-2021, the Government planned to support 1000 MSMEs under the credit guarantee scheme by 2021, to review the MSME development policy by 2019, promote business and market linkages to 40% of youth and 30% of women MSMEs and build capacity that would enhance 5000 MSMEs by 2021. Further, the Government through the Ministry of Commerce, Trade and Industry had implemented several policies and regulatory measures to promote the growth and development of MSMEs.

Two of the statutory bodies under the Ministry of Commerce, Trade and Industry, directly linked to MSMEs development were the Zambia Development Agency and Citizen Economic Empowerment Commission. The Zambia Development Agency had developed strategies to make it easier for MSMEs to obtain finance, supply to chain stores, access Government contracts and export to complement Government initiatives. Additionally, the *Citizen Economic Empowerment Act No. 11 of 2006* was enacted to establish the Citizen Economic Empowerment Commission and the Citizens Economic Empowerment Fund whose main objective is to promote the economic empowerment of targeted citizens, citizen empowered companies, citizen influenced companies and citizen owned companies, among others.

5.2 Motivation for the Audit

The Auditor General's Report stated that MSMEs played a major role in most economies, particularly in developing countries. They accounted for the majority of businesses worldwide and were important contributors to job creation and global economic development. In 2017, Zambia introduced the Zambia Credit Guarantee Scheme through which the Government committed US\$5million to stimulate growth in priority sectors of the economy in order to reduce some of the challenges faced by the MSMEs. This was intended to provide partial guarantee of up to 50% of loans extended to MSMEs in the priority sectors. In addition, Parliamentary debates had also shown that the cost of credit had continued to be high with commercial banks average lending rates remaining at around 28.9% as at September 2016.

According to the World Bank website, estimates showed that about 600 million jobs would be needed by 2030 to absorb the growing global workforce, which made MSMEs development a high priority for many governments around the world. This was also articulated in the Sustainable Development Goal No. 8 - Decent Work and Economic Growth.

MSMEs in Zambia played an important role in production, employment and income as they represented 97% of all businesses in the country, 70% of GDP and 88% of employment. MSMEs played a key role in society, as they tended to employ a large share of the most vulnerable segments of the workforce.

5.3 Audit Objective

The Committee was informed that the audit objective was to establish the effectiveness and efficiency of the Government's interventions in the small and medium enterprises sector through the Ministry of Commerce, Trade and Industry, Citizens Economic Empowerment Commission and Zambia Development Agency to enable the small and medium enterprises sector to contribute to the country's wealth and job creation.

5.4 Audit Questions

Based on the audit objectives, the audit was designed to answer the questions set out below.

- i. To what extent does the Small and Medium Enterprises sector contribute to the economic development and job creation in Zambia?

- ii. To what extent has the Ministry of Commerce, Trade and Industry provided business development interventions to small and medium enterprises in Zambia?
- iii. To what extent has Ministry of Commerce, Trade and Industry and its statutory bodies monitored and coordinated the implementation of small and medium enterprises development programmes?

5.5 Audit Scope and Coverage

The audit covered the period 2015-2020. The target population was the Ministry of Commerce, Trade and Industry (MCTI) through Citizens Economic Empowerment Commission (CEEC) and Zambia Development Agency (ZDA). There was interaction with other stakeholders namely Ministry of Finance and National Planning; Zambia Credit and Guarantee Scheme (ZCGS); Zambia Statistics Agency; Ministry of Housing and Infrastructure Development; Road Development Agency; National Housing Authority and National Construction Council; The sample size consisted of twenty one out of the 116 districts, seven out of thirty-four funded value chains; five out of eight industrial yards; and sixty-one out of 250 registered businesses which benefited from CEEC; and twenty-five out of 541 registered businesses which received services from ZDA in the country. The selection was purposively selected due to concentration of businesses and limitation in resources.

5.6 Audit Research Design

The audit utilised the case study approach adopting a mixed method that was inclusive of quantitative and qualitative approaches. The two approaches were used due to the relevance to the study as they provided a basis for data analysis by comparing interpretations in the audit. Whilst the audit was designed to be qualitative and quantitative, it also adopted a descriptive approach to simplify data interpretation.

5.7 Documents Reviewed

The documents reviewed included the following:

- (i) 7NDP 2017 ó 2021 and its Implementation Plan;
- (ii) *Citizen Economic Empowerment Commission Act No. 9 of 2006;*
- (iii) *Zambia Development Agency Act of No 11 of 2006;*
- (iv) Monitoring Reports for ZDA for the period 2017 to 2019;
- (v) Ministry of Commerce, Trade and Industry Strategic Plan 2017 ó 2021;
- (vi) Citizen Economic Empowerment Commission Strategic Plan 2017 ó 2021 and CEEC's Strategic Implementation Plan;
- (vii) Micro Small and Medium Enterprises Development Policy 2008;
- (viii) National Industrialisation Policy 2018;
- (ix) List of operational industrial zones and the number of MSMEs operating from such zones;
- (x) Zambia Development Agency 2016 ó 2020 Development Plan;
- (xi) National Local Content Strategy 2018 ó 2022;

- (xii) Citizen Economic Empowerment Commission Business Development Services Manual; and
- (xiii) Citizen Economic Empowerment Commission Credit Risk Policy 2015.

5.8 Interviews

Interviews were conducted with key personnel from the relevant institutions namely ZDA, CEEC, Ministry of Housing and Infrastructure Development, ZCGS, Road Development Agency (RDA) that were charged with the task of development of Small and Medium Enterprises (SMEs) and selected SMEs to gain further insights on the SMEs operations and activities. Other institutions whose personnel were also interviewed during the audit included Ministry of Finance and National Planning, Zambia Statistics Agency, National Housing Authority, and National Construction Council.

5.9 Physical Inspections

Physical inspections were conducted at the SMEs and industrial yards that had received interventions in selected districts.

6.0 CONSIDERATION OF SUBMISSIONS ON THE AUDIT FINDINGS AND OBSERVATIONS

The Committee considered submissions from various stakeholders at Appendix I. The findings in the Report of the Auditor General; audit recommendations; submissions from stakeholders and subsequent responses from various Government institutions are presented below; followed by the observations and recommendations made by the Committee.

6.1 Ministry of Commerce, Trade and Industry

6.1.1 Streamline regulation on entry for MSME businesses and schemes

The Report of the Auditor General revealed that failure to access finance by MSMEs meant that businesses would have limited resources to expand their business which would negatively affect their contribution to the wealth and job creation.

Audit Recommendation

The Ministry of Commerce, Trade and Industry (MCTI) should task its statutory bodies to streamline the regulation on entry for MSME businesses and schemes for inviting private capital to improve access to finance in the MSME sector.

Stakeholder's Submissions

Stakeholders submitted that there was need also to review the existing laws and regulations that had to be complied with by start-ups. There was also need to review the many fees to be paid for registration of the companies. The requirements had been a setback for many MSMEs with

viable projects. They noted that the Patents and Companies Registration Authority (PACRA) was under MCTI; the Department of Cooperatives was under the Ministry of Small and Medium Enterprise Development; the Registrar of Societies under Ministry of Home affairs; and the National Youth Development Council (NYDC) was under Ministry of Youth, Sport and Arts (MYSA). Stakeholders submitted that there should be a way to streamline these entities and have them under one umbrella for ease of access by MSMEs, as their location also distorted data collection and analysis for any policy formulation or direction by the Government.

Ministry's Response

The Committee was informed that in order to streamline the regulation on entry for MSME businesses and schemes, provisions had been made in the draft MSME policy under revision. The objective of reviewing the legislation would be to strengthen the development of MSMEs by providing a uniform understanding of MSMEs in all sectors so that their interventions were focused on the classification of enterprises as would be provided under the law.

Committee's Observations and Recommendations

The Committee observes that the many fees to be paid for registration of the companies and the requirements for setting up a company had been a setback for many MSMEs with viable projects. The Committee recommends that the revision of the MSME Policy which has provisions to streamline the regulation on entry for MSME businesses and schemes should be expedited. This will reinforce development of MSMEs by providing a uniform understanding of micro, small and medium enterprises in all sectors so that their interventions are centred on classification of enterprises as will be prescribed by law.

6.1.2 Development of Value Chains

The Auditor General's Report revealed that the failure to establish the value chains entailed that the SMEs in districts where the value chains had not been developed and also where value chains were not fully developed, would not benefit from the initiative and therefore the affected SMEs would fail to contribute to job creation, poverty reduction and contribution to the GDP.

Audit Recommendation

The MCTI should focus on value chain clustering for MSMEs. This means that the emphasis should be on the full range of businesses or economic activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), and commercialisation, delivery to final customers and final product disposal after use.

Ministry's Response

The Committee was informed that one of the strategies in the draft MSME Policy was to facilitate the development of value chains in localities where there was a comparative and/or competitive advantage. . This would be achieved through the development of guidelines for the

industrial cluster development that would provide among other things, the infrastructure requirements for cluster development.

Committee's Observations and Recommendations

The Committee observes that the failure to establish the value chains entails that the SMEs in districts where the value chains have not been developed and also where value chains are not fully developed, will not benefit from the initiative. As a result, the affected SMEs will fail to contribute to job creation, poverty reduction and GDP growth. The Committee recommends that the Government should ensure that the programme for MSME pack stations and/ aggregation clusters is developed and implemented successfully. This will ensure the use of high level equipment in food processing and establish a point of contact for the growers and food distribution businesses.

6.1.3 Business infrastructure

The Report of the Auditor General revealed that delayed completion of industrial yards had impacted negatively on the economy as the objective of construction of the industrial yards to create jobs for citizens was not achieved. Further, the Report also revealed that activities which had not received interventions in the value chain had created gaps which meant that the benefits that had accrued to the members of the full value chain such as knowledge about the existence of suppliers of raw material at affordable prices and buyers willing to buy the product would not be experienced by the players of an incomplete value chain. As a result, there was no contribution to the GDP.

Audit Recommendation

The MCTI should encourage the development of aggregation facilities. The MCTI should focus on the provision of aggregation facilities to allow small-scale growers and producers to process and prepare foods for markets with high-level equipment, as well as act as a point of contact for the growers and food distribution businesses.

Stakeholder's Submissions

The Committee was informed that as at 31st December 2021, the construction of all the eight industrial yards was completed and that the Chipata, Kasama and Mongu Industrial Yards were operationalised. Further, the Commission would utilise part of the Empowerment Fund approved by Parliament to fully operationalise the eight Industrial Yards. So far, the Treasury had released K91,656,059 from the K350million. The Committee was also informed that fisheries and livestock programmes in industrial yards in Chipata, Mongu, Mansa and Kasama were still at planning stage and there was little collaboration between MCTI and the Ministry of Fisheries and Livestock. Further, stakeholders submitted that efforts could be made to develop non-agricultural value chains such as the mining value chain, from exploration activities to product development and manufacturing.

Whilst the mining value chain was a huge industry, local suppliers participated in a relatively small fraction. The value chain could be developed to support local companies through preferential procurement by compelling mining companies to prioritise local sourcing of goods and services. In addition, possible models could be developed to tap into opportunities relating to technology transfer and research and development for products and services on demand. Possible models could also be developed for a circular economy as well as capacity development needs on use of modern equipment and quality processes.

Ministry's Response

The Committee was informed that one of the activities, as stated in the draft MSME Policy, was to develop a programme for MSME pack stations and/or aggregation clusters. Further, the Ministry through the Zambia Agribusiness and Trade Project had been facilitating procurement of aggregation facilities in selected provinces for the MSMEs.

Committee's Observations and Recommendations

The Committee observes that the activities which have not received interventions in the value chain have created gaps. This means that the benefits that have accrued to the members of the full value chain such as knowledge about the existence of suppliers of raw material at affordable prices and buyers willing to buy the product, will not be experienced by the players of an incomplete value chain. The Committee recommends that the Government should develop guidelines for industrial cluster development that will provide among other things, the infrastructure requirements for cluster development.

Further, the Committee also observes that the Commission will utilise part of the Empowerment Fund approved by Parliament to fully operationalise the eight Industrial Yards. So far, the Treasury has released K91,656,059 from the K350 million. The Committee is dismayed by the intention of the CEEC to use part of the Empowerment Fund yet the funds to fully operationalise the Industrial Yards have already been availed to the Commission. The Committee therefore, recommends that the Commission should clearly state the need for more funding with regards to operationalisation of the industrial yards.

6.1.4 Value Chain Development Support

The Auditor General's Report revealed that eighteen (18) value chains that were funded did not receive assistance at the different stages of their respective value chains. They, therefore, failed to contribute to job creation and GDP.

Audit Recommendation

The MCTI should focus on the industrialisation of MSMEs. This is the act of transforming or value addition, on a commercial scale, of raw materials into finished or semi-finished products including the assembling of inputs into finished or semi-finished products.

Stakeholder's Submissions

Stakeholders submitted that development of industrial clusters was another solution to challenges MSMEs faced. Being in a value chain helped them reduce their dependence on one single supplier and also offset some of the constraints regularly faced. If transacting parties were located near each other, transport costs were saved, transaction costs due to imperfect market contract enforcement were lowered, and good products and superior production practices diffused quickly. Thus, industrial clusters generated agglomeration benefits such as division of labour among enterprises, the development of the market for skilled workers, and the dissemination of technical and managerial knowledge. This way institutions that offered coaching for instance but had limited capacity to do that could easily access the MSMEs of a particular value chain if found in one location. SMEs needed business development support to be efficient contributors to the sustainable development in the country and to become financially sustainable. They also needed to be able to access skills development programmes.

Ministry's Response

The Committee was informed that the Ministry had been promoting inclusive industrial development, and this entailed facilitating the development of enterprises, MSMEs included, to participate in and drive the country's industrialisation agenda. Among others, the Ministry introduced the industrial yards programme which had since moved to the Ministry of Small and Medium Enterprise Development. The programme was targeted at promoting manufacturing activities of the MSMEs.

In addition, the draft MSME Policy emphasised the development of industrial yards and other special economic zones that took into account the varied needs of MSMEs as a means to catalyse their manufacturing activities.

Committee's Observations and Recommendations

The Committee observes that eighteen value chains that were funded by CEEC did not receive assistance at the different stages of their respective value chains, therefore, failing to contribute to job creation and GDP. The Committee urges the Government to ensure that the industrial yards programme which is now under the Ministry of Small and Medium Enterprise Development and targeted at promoting manufacturing activities of the MSMEs, is successfully implemented.

6.1.5 Business incubation

The Report of the Auditor General revealed that 92% of the businesses were still in their initial stages and required assistance with the development of their products. Further 88% of the SMEs in the initial stages indicated that they did not have all the assets they needed to fully operate their businesses and had challenges accessing the machinery and necessary skills to operate the machinery to help them improve on the quality of their products and capacity to produce. It was further revealed that the lack of machinery for some businesses was due to a lack of tax

incentives for SMEs that import machinery for their businesses. This position, therefore, hindered the growth of SMEs and their contribution to jobs and wealth creation

Audit Recommendation

The MCTI through its cooperating partners should focus on a new business incubation Programme. This programme will aim at incubating new MSMEs related businesses at economic zones and industrial yards. In accordance with the increase in import and export cargo, new services in newly developed international and provincial logistics parks should be considered.

Stakeholder's Submissions

Stakeholders submitted that there was need to start profiling successful MSMEs to encourage new entrants. Start-ups and also to help change mind set of the MSMEs as regards credit repayment with anticipation that funders, especially banks, start changing their perceptions of MSMEs as being risky borrowers.

Ministry's Response

The Committee was informed that access to appropriate and affordable business infrastructure was key to MSME development. To this end, the draft MSME Policy envisaged the development of among others, business incubation infrastructure, pack stations and special economic zones. Under the category of special economic zones, export processing zones and logistics parks could be considered.

Further, the Committee was informed that the Cooperating Partners outlined below had been supporting MSME development.

i. Accelerated Growth for MSMEs Programme

The Accelerated Growth for MSMEs (AGS) was a Finnish funded programme aimed at increased access to finance, business development services and innovation development for MSMEs. The expected overall impact was the accelerated business growth and improved competitiveness of Zambian MSMEs and strengthened business partnerships between Zambia and Finland.

ii. Zambia Agribusiness and Trade Project

The Zambia Agribusiness and Trade Project (ZATP), was being implemented with support from the World Bank in supporting vulnerable and emerging farmers to the greatest extent possible. The project also sought to boost growth-oriented agribusiness SMEs by investing in both their technical and productive capabilities and business management skills.

iii. Women Entrepreneurs Financial Initiative

The Women Entrepreneurs Financial Initiative (We-Fi) Zambia project is working with the Bank of Zambia and Ministry of Commerce, Trade and Industry to scale up access to finance for women led SMEs, through tailored products and services, and firm capacity

building. The focus on financial management served to enhance credit worthiness of women led SMEs during a time when financial institutions were reluctant to lend to SMEs.

iv. World Trade Organisation Informal Working Group on MSMEs

The Informal Working Group on MSMEs was launched at the 11th World Trade Organisation Ministerial Conference in December 2017. The Group aimed to identify and address obstacles to MSME participation in international trade and make recommendations covering areas such as transparency and information sharing on MSMEs; trade facilitation; access to finance and cross-border payments; access to market information; and inclusion of MSMEs in regulatory developments.

v. Africa Leather and Leather Products Institute

The Ministry in collaboration with the African Leather and Leather Products Institute and working under the Common Market for Eastern and Southern Africa Regional Integration Capacity Building Project was implementing the Zambia Leather Value Chain Strategy (2016 ó 2025) with the objective to transform the Zambian leather value chain into a modern and competitive subsector, specialising in the production of value-added products.

Committee's Observations and Recommendations

The Committee observes that SMEs indicated that in the initial stages, they did not have all the assets they needed to fully operate their businesses and had challenges accessing the machinery they needed. They also did not have the necessary skills to operate the machinery to help them improve on the quality of their products and capacity to produce. Further, the lack of machinery for some businesses was due to a lack of tax incentives for SMEs that import machinery for their businesses. The Committee further observes that fisheries and livestock programmes in the industrial parks are still at planning stage and there is little collaboration between the MCTI and the Ministry of Fisheries and Livestock.

In this regard, the Committee recommends that the Government should ensure that the new business incubation programme is developed and implemented successfully. The Government should also ensure that tax incentives for MSMEs that import machinery for their businesses are provided. This will enhance the competitiveness of MSMEs and promote job creation. Further, the Committee recommends that collaboration between MCTI and other stakeholders should also be enhanced in the establishment of industrial yards in order to boost job creation amongst citizens.

6.1.6 Business Matching

The Auditor General's Report reviewed that failure to provide mentorship to SMEs, especially start-ups, made them vulnerable to the challenges in the market as they had to learn the dynamics of their businesses without an opportunity to interact with experienced businesses.

Audit Recommendation

The MCTI should focus on business matching and ICT programmes: MSME businesses in Zambia are unable to improve business management exercises due to not only financial weakness but also a shortage of ICT facilities or infrastructure, management skills, business network and capability of staff. This programme will aim at assisting MSMEs by providing the much-needed information with regular dialogue between private and public sectors in supporting MSMEs.

Stakeholder's Submissions

The Committee was informed that a local mentoring network offering to provide mentoring and handholding services could prove to be very costly with very little outreach to the SMEs; and yet when financial services and Business Development Services (BDS) provision were compartmentalised and delivered centrally, entrepreneurs in turn could benefit from the training provided within their areas of operation and the linkages that operating from the industrial park would provide.

Ministry's Response

The Committee was informed that in terms of business matching, the Ministry through the Zambia Development Agency was running the Business Linkage Programme. In terms of ICT, the Ministry worked closely with the National Technology Business Centre in order to promote research, innovation, technical know-how and use of technology among MSMEs. In addition, to promoting regular dialogue between private and public sector institutions supporting MSMEs, the draft MSME Policy proposed the establishment of strategic partnerships, particularly, the formation of a Technical Committee of the MSME representative organisations.

Committee's Observations and Recommendations

The Committee commends the Government for the programmes that have been developed with regards to business matching and ICT programmes. This will promote regular dialogue between private and public sector institutions supporting MSMEs. The Committee recommends that in addition to what has been put in place, strategic partnerships, particularly the formation of a Technical Committee of the MSME representative organisations should be established immediately the draft MSME Policy is approved.

6.1.7 Provision of easier access to funds through the Zambia Credit Guarantee Scheme

The Report of the Auditor General revealed that failure to operationalise the scheme had denied the planned 800 MSMEs the opportunity to access affordable loans from the financial institutions as they could not meet the collateral requirements. Consequently, there was no contribution to employment and GDP from the planned 800 MSMEs.

Audit Recommendation

MCTI should coordinate with the Ministry of Finance and National Planning to fully operationalise the ZCGS and to ensure that MSMEs can access affordable financing.

Stakeholder's Submissions

The Committee was informed that for the years 2020 and 2021 the ZCGS budgeted to receive K1.35 million for each of the years. However, the ZCGS was funded K1.35 million in 2020 and only guaranteed eight MSMEs representing one percent of the planned 800 MSMEs. As at 31st October 2021, the ZCGS had not received the budgeted K1.35 million for 2021. Further, the Committee was informed that the K1.35 million that was disbursed in 2020, had provided cover for loans up to K11million, a demonstration that with the improved funding under the 2022 budget, it would provide loans in excess of k102 million to the MSMEs.

Furthermore, the Committee was informed that the scheme was fully operationalised and had received tremendous support from the Government. There was a new management team in place with the relevant synergies embraced. It was expected that the scheme would work towards supporting the 800 MSMEs planned for, given the support it was receiving and also the increased number of partnerships that had been harnessed with partner financial institutions. The scheme had guarantee fund accounts with the Zambia National Commercial Bank, Zambia Industrial Commercial Bank Limited, INDO Zambia Bank, ABSA Bank Zambia and National Savings And Credit Bank of Zambia. This was done to spread the catchment for MSMEs and to mitigate the risk of dealing with one bank, to foster symbiotic relationships and exploit the skills and markets that the banks had and to accelerate access to financing by MSMEs as a large number of applications could be concurrently processed from the various banks. Therefore, the operationalisation of the scheme would accelerate efforts to support the planned 800 MSMEs the opportunity to access affordable loans from the financial institutions as collateral requirements would no longer be an impediment. Consequently, there would be contribution to employment and GDP from the planned 800 MSMEs in future. It was further anticipated that the ZCGS budget ceiling of grants for both operations and issuing of guarantees could be reviewed upwards following the operationalisation of the company, as ZCGS had a full staff compliment in place.

Ministry's Response

The Committee was informed that noting that the access to finance remained one of the key challenges faced by enterprises, the Ministry was keen to collaborate with key institutions to ensure access to finance for enterprises. The Ministry, until the creation of the Ministry of Small and Medium Enterprise Development, served on the SME Sub-Working Group under the Ministry of Finance, where the operationalisation of the Zambia Credit Guarantee Scheme was one of the activities being tracked.

Committee's Observations and Recommendations

The Committee observes that ZCGS has been operationalised and now has a full staff compliment in place. However, as at 31st October 2021, the ZCGS has not received the budgeted K1.35 million for 2021. The Committee recommends that the Government should as a matter of urgency release the K1.35 million which was supposed to be disbursed to ZCGS in 2021 and review the budget ceiling of grants for both operations and guarantees following the operationalisation of the Scheme and increase in staff.

6.2 CITIZENS ECONOMIC EMPOWERMENT COMMISSION

6.2.1 Provision of Business Development Services

The Auditor General's Report revealed that CEEC had not provided the required Business Development Services to the SMEs as they only provided pre-finance training without other services such as contract handhold and transfer, contract turn around services, mentorship, training, business linkages and preferential procurement certificates.

Audit Recommendation

The CEEC should put measures in place to ensure that their main services provided to the MSMEs are not limited to financial interventions but also improve on the provision of BDS as inscribed in their manuals to ensure a vibrant MSME sector whose contribution will be worth publishing.

Stakeholder's Submissions

Stakeholders submitted that they agreed with the Auditor General that the non-provision of business development services had led to lack of competitiveness of CEEC supported MSMEs resulting in less viable enterprises. This would in turn impact negatively on job creation, incomes at both business and household levels and increased poverty levels. With regard with the Aquaculture Seed Fund, the Ministry of Fisheries and Livestock through the Zambia Aquaculture Enterprise Development Project had enhanced business development services for pre-financing by promoting incubation programmes and provision of extension services. However, there was need to support business throughout the whole business development cycle.

Commission's Response

The Committee was informed that whilst the Commission did not facilitate linkages for every beneficiary, it had a target under this activity to create an average of thirty (30) objectively verifiable market linkages for funded clients every year, translating into approximately seven (7) market linkages per quarter. Addressing the audit observations, the Commission would increase the target from 30 to 300 per annum for sustainable market linkage facilitation in the new Strategic Plan for 2022-2026. The Commission would also set up a robust market linkage reporting mechanism that would clearly show the linkages that were being created between the promoters and buyers.

With regards to the provision of turnaround services, the Commission stated that it provided various types of BDS based on a needs analysis basis beyond the pre-finance training. The Commission had previously provided turnaround services to funded projects. Further, the Commission through its Memorandum of Understanding (MoUs) with institutions such as the Zambia Bureau of Standards, National Technology Business Centre and Kaizen Institute of Zambia, among others provided mentorship beyond pre-finance leading up to certification of the MSMEs. The Commission also used various forums to sensitise the public on the benefits of preferential procurement. As at the 4th quarter of 2020, the Commission had issued a cumulative total of 16,170 Preferential Procurement Certificates from inception as presented in Table 1.

Table 1. Issued PP Certificate from Inception

Quarter	PP Certificates Issued
2009 to 4 th Quarter 2014	7,070
1 st Quarter 2015	520
2 nd Quarter 2015	633
3 rd Quarter 2015	455
4 th Quarter 2015	427
1 st Quarter 2016	342
2 nd Quarter 2016	544
3 rd Quarter 2016	352
4 th Quarter 2016	532
1 st Quarter 2017	409
2 nd Quarter 2017	377
3 rd Quarter 2017	446
4 th Quarter 2017	340
1 st Quarter 2018	260
2 nd Quarter 2018	306
3 rd Quarter 2018	362
4 th Quarter 2018	263
1 st Quarter 2019	429

Quarter	PP Certificates Issued
2 nd Quarter 2019	315
3 rd Quarter 2019	314
4 th Quarter 2019	228
1 st Quarter 2020	251
2 nd Quarter 2020	355
3 rd Quarter 2020	422
4 th Quarter 2020	297
TOTAL	16,170

The Committee was informed that, in the new Strategic Plan of 2022 to 2026, the Commission would increase on working collaboration with business development service providers such as Womenø Entrepreneurship Access Centre, Mentor ME, Accelerated Growth for MSMEs in Zambia and United Nations Development Programme, among others. The Commission would use the industrial yards as business innovation and incubation centres for MSMEs.

With regards to the observation that CEEC funded clients did not receive mentorship services despite the deduction of mentorship fees, the Commission stated that it used the same mentorship fees to finance pre-finance training activities and also bring on board key stakeholders such as Kaizen, Zambia Bureau of Standards and National Technology Business Centre to train the beneficiaries. Additionally, the Commission noted the lack of standardised certification of business development service providers on the market and engaged TEVETA for the development of a curriculum. The MoU had since been signed and the curriculum had been developed. The Commission and TEVETA would embark on training local business development service providers in 2022 who would serve as mentors in the years to come.

Committee’s Observation and Recommendation

The Committee observes that the CEEC has not provided mentorship services to funded clients despite deduction of mentorship fees as the money collected from the clients was used to finance pre-finance training activities. The Committee recommends that CEEC should find alternative ways to finance pre-finance training activities as mentorship is equally a vital component in the provision of BDS to the SMEs.

6.2.2 Facilitation of Contribution to Employment Creation and GDP

The Report of the Auditor General stated that the facilitation of employment creation and development had been done, however, there were no statistics or reports to show the levels that the Ministry of Commerce, Trade and Industry had achieved through its statutory bodies. Therefore, the Micro, Small and Medium Enterprises would not contribute to GDP and

employment creation without the involvement of the Ministry of Commerce, Trade and Industry which was supposed to be instrumental to the sector.

Audit Recommendation

The CEEC should put measures in place to ensure that all data related to jobs created should be compiled and kept in a database.

Stakeholders' Submission

Stakeholders in the fisheries sector submitted that they agreed with the audit findings that facilitation for contribution to employment creation and GDP was done. This was evidenced by the growth in the aquaculture sector from 22,753 metric tonnes in 2015 to 38,800 metric tonnes in 2019. Similar increase in production had been recorded in poultry and other types of livestock. In terms of employment creation, the Aquaculture Seed Fund targeted to create 11,750 sustainable direct jobs along the value chain but only a total of 8,088 jobs were created as at June 2022 representing 68.9% success rate. They noted that in terms of statistics, they were of the view that statistics of project facilitation to employment creation were available although this was at project level. However, there was poor collaboration and aggregation by line Ministries to show the overall impact.

The Committee was informed that the Zambia Statistics Agency (ZamStats) appreciated that there was indeed lack of adequate statistical information on SMEs with respect to their contribution to economic growth and job creation. Availability of relevant statistical data was a national challenge. However, ZamStats in line with the *Statistics Act Number 13 of 2018* and the National Strategy for the Development of Statistics (NSDS2) had started collaborations with various agencies and line ministries including the MCTI in order to try and harmonise statistical operations and manage the information gap. This was through collaborative initiatives aimed enhancing statistical capacities in MPSAs.

Under the NSDS2, the Ministry of Commerce, Trade, and Industry working closely with the ZamStats had developed a draft statistics plan. It was important to note that the five (5) year NSDS2 had been mainstreamed into the Eighth National Development Plan (8NDP).

Committee's Observations and Recommendations

The Committee observes that although facilitation has been done, there are no statistics or reports produced by MCTI to show the levels of creation of employment and contribution to GDP that the MCTI has achieved through its statutory bodies.. In the absence of statistics, it is difficult to ascertain whether the Ministry carried out any activities to facilitate for creation and development of SMEs.

In this regard, the Committee recommends that there is need to ensure that the draft statistics plan is approved and subsequently implemented successfully. There is also need to enhance collaboration among line ministries and projects to strengthen the aggregation of statistics on

employment and wealth creation; and on production of data to adequately capture and trace important national statistics.

6.2.3 Monitoring of Projects

The Report of the Auditor General highlighted the failure to produce M&E reports by some provinces and lack of feedback given to beneficiaries. It revealed that monitoring was supposed to be carried out every quarter, however, this was not adhered to, as the monitoring programme had not been funded in the period under review. The lack of monitoring had a negative bearing on the fund as it was difficult for CEEC to assess SMEs' position and identify the challenges in the early stages of the business. Further, it caused SMEs to divert from the original business idea which led to business failure. In addition, SMEs who were empowered without collateral would change their phone numbers and relocate their businesses making it difficult to trace those defaulting on loan repayments.

Audit Recommendation

The CEEC should undertake and prioritise its monitoring activities in time to enable MSMEs that benefit from the fund to grow into a going concern.

Stakeholder's Submissions

The Committee was informed that there was need for a harmonised National Statistical System (NSS) to cure this information gap. ZamStats was already collaborating with MCTI, and other ministries such as Ministry of Education; Ministry of Health; Ministry of Agriculture; and the Gender Department, among others in developing an integrated and well-coordinated NSS as requirement by the Statistics Act. This should improve availability of relevant official data and support monitoring of development programmes.

Commission's Response

The Committee was informed that the Commission would strengthen capacity building of the provincial coordinators and strengthen feedback mechanisms to the beneficiaries. Additionally, the Commission had made a proposal to utilise 5 percent of the empowerment fund allocated to CEEC towards monitoring.

Committee's Observation and Recommendation

The Committee observes that the lack of monitoring the MSMEs by the CEEC has had a negative bearing on the fund as it makes it difficult for it to assess the SMEs' positions and identify the challenges in the early stages of the business. Further, it causes SMEs to divert from the original business idea which has led to business failure. In addition, SMEs who were empowered without collateral will simply change their phone numbers and relocate their businesses making it difficult to trace those defaulting on loan repayments.

The Committee, therefore, recommends that the development of the National Statistical System meant to improve availability of relevant official data and support monitoring of development programmes should be expedited.

6.2.4 Revolving Fund

The Auditor General's Report revealed that delayed disbursement of funds affected the implementation of projects due to stock-outs, increased prices of equipment and materials as compared to the prices which were prevailing at the time of application. This therefore, contributed to further delays as the SMEs were requested to provide new quotations. Consequently, the beneficiaries had not commenced operations as planned which led to delayed loan repayments thereby affecting the objective of the revolving fund.

Audit Recommendation

The CEEC should come up with a way of conducting assessment on implementation progress to timely devise ways that will help the fund achieve its objectives.

Stakeholder's Submissions

Stakeholders submitted that as had been observed by the Auditor General's report, adequacy and timely releases of funding to the Institution would not only translate to wider impact by way of the number of SMEs benefiting but also enable the institutions execute their mandates effectively. It was therefore critical that disbursement of funding from Treasury was timely and consistent. Under the 2022 budget ZCGS had been capitalised and it was expected that the portfolio would grow to over K100 million having signed MoUs with four (4) banks so far. The Committee was also informed that delayed funding to interventions such as fish hatcheries had a negative impact on sales due to the non-availability of fingerlings to sustain production. Further, the partial disbursement of funds led to low production capacity to supply big markets in other livestock value chains such as poultry, beef and dairy.

Commission's Response

The Committee was informed that the Commission had a revolving fund system in place where all the disbursements were funded. The Commission had not been receiving funds from Treasury and hence all disbursements were sustained from the collections and recoveries. This meant disbursing to the new applicants from the funds received from loan repayments. For example, block making and cassava value chains were financed from the revolving fund. The Committee was also informed that the Commission, had advertised all the nine (9) vacant Provincial Credit and Risk Officers, Director Credit and Risk Management, Credit Manager as well as Senior Credit Officer to strengthen loan recovery as this would result into an enhanced revolving fund system. The Commission had also proposed that 5 percent of the Parliament approved Empowerment Fund be allocated for monitoring and evaluation activities. Further, the Commission was developing a digital financial platform for loan repayment system that would encourage microfinance clients to make loan repayments via mobile phone networks.

Committee's Observations and Recommendations

The Committee observes that the delay in the disbursement of funds affects the implementation of projects and prevents the beneficiaries from commencing operations as planned, leading to delayed loan repayments, thereby affecting the objective of the revolving fund. In this regard, the Committee recommends that the Government should put in place measures to ensure that disbursement of funds from the Treasury is timely and consistent. Further, the development of the digital financial platform for loan repayment system that will encourage microfinance clients to make loan repayments via mobile phone networks should be expedited.

6.2.5 Inadequate staff at CEEC

The Auditor General's Report stated that interviews with sixty-one (61) SMEs revealed that (41) SMEs representing 67% stated that they were monitored by CEEC after receiving intervention, while eighteen (18) SMEs representing 30% stated that they were monitored by other institutions depending on the type of value chain. In addition, five (5) SMEs representing 8% of those that had been monitored either by CEEC, other institutions or both stated that CEEC provided them with monitoring reports. Thirty one (31) SMEs representing 51% received verbal feedback and twenty five (25) representing 41% did not receive any feedback or monitoring report.

Audit Recommendation

The CEEC should put measures in place to ensure that there is adequate staff with the required capacity to undertake different types of work in different positions of the provincial offices to reduce the failure rates of businesses that are empowered by the CEEC.

Commission's Submission

The Committee was informed that the Commission, had advertised all the vacant nine (9) Provincial Credit and Risk Officers, Director Credit and Risk Management, Credit Manager as well as Senior Credit Officer.

Committee's Observation and Recommendation

The Committee observes that there is inadequate staff at CEEC's provincial offices and acknowledges that the Commission, has advertised all the nine vacant positions of Provincial Credit and Risk Officers, Director Credit and Risk Management, Credit Manager as well as Senior Credit Officer. The Committee recommends that recruitment of the employees to fill the vacancies that have been advertised should be expedited.

6.2.6 Timely disbursements of loans to clients

The Auditor General's Report revealed that delayed processing of disbursement caused a number of challenges such as; suppliers of the machinery from whom the SMEs obtained quotations not having required stock at the time of payments, some equipment was being imported and there

were experiences of exchange losses arising due to passage of time from application to disbursements and the need for collateral-based loans to have the properties registered with the other stakeholders such as the Ministry of Lands among others.

Audit Recommendation

The CEEC should assess the loan disbursement system to identify the bottlenecks and further devise ways which will ensure that the applicants access the fund without delay.

Stakeholder's submissions

The Committee was informed that in recent years, the business environment in Lusaka and other towns had been very dynamic and there had been an upsurge of many business start-ups in form of SMEs. As a result of this, there was an increased demand for SMEs to access finance from financial institutions. However, collateral requirements, cumbersome administrative procedures and bureaucratic processes in loan appraisal and approval usually led to the delay in disbursement. By the time facilities were approved, the need for the facility would have already been fulfilled by a competitor and negatively impacted by inflation.

Commission's response

The Committee was informed that the credit policy was under review. The review was aimed at addressing the delay in disbursements whose waiting period was open as beneficiaries were able to access funds at any time after their loans were approved. This meant that beneficiaries could report themselves to the Commission at any time to formalise the loan processes and submit loan documentation since there had not been any policy to close such gaps. The Commission had also come up with a policy to quoting all the budgets on equipment in foreign currency prior to project approval. This included the Cost, insurance, and freight (CIF) for equipment to mitigate the future risk on price volatility due to foreign exchange fluctuations. This in the past had been contributing to delays in disbursements in the same year due to the long time it used to take to settle on the supplier to procure from.

Committee's observation and Recommendations

The Committee observes that delayed processing of disbursement causes a number of challenges for the MSMEs arising from to passage of time from application to disbursements. The Committee further observes that beneficiaries are able to access funds at any time after their loans are approved as there is no limit to the waiting period.

The Committee, therefore, recommends that the development of the credit policy should be expedited as it will address the delay in disbursements whose waiting period is currently open. . This will ensure timely disbursements of loans to clients.

6.3 ZAMBIA DEVELOPMENT AGENCY

6.3.1 Mentorship services to SMEs

The Auditor General's Report revealed that the Agency did not provide supervision of SMEs due to inadequate staff and lack of country wide presence as they were only present in three provinces namely; Lusaka, Southern and Eastern Provinces. The failure to provide mentorship services for the SMEs entailed that there were no platforms created for SMEs to learn from the experienced entrepreneurs to improve on their businesses. In addition, it was revealed that 27% of MSMEs interviewed had businesses that were declining, while 35% indicated that they were static and 38% indicated that they were improving. Having a majority of static or declining businesses would negatively affect the SMEs sectors contribution to employment and GDP.

Audit Recommendation

The ZDA should foster the implementation of decentralised operations to increase operational coverage and increase access to their services to MSMEs in various parts of the country.

Stakeholder's Submission

The Committee was informed that the Zambia Development Agency continued to play a key role in enterprise development. To this end the Ministry of Commerce, Trade and Industry began the process of decentralising the operations of the ZDA by opening up offices in Chipata and Livingstone. Noting the need for ZDA presence in all provinces and considering that funding of the provincial structures might be a long-term process, the draft MSME Policy proposed that existing Provincial structures, such as the Department of Cooperatives, should be capacitated with skills to support MSME development.

Agency's Response

The Committee was informed that the ability of the Agency to provide effective mentorship was adversely affected by its underfunding and inadequate staffing levels which limited its implementation of enterprise development interventions, such as the provision of mentorship services.

Committee's Observation and Recommendation

The Committee observes that the Zambia Development Agency does not provide supervision of SMEs due to inadequate staff and lack of countrywide presence as they are only present in three provinces namely: Lusaka, Southern and Eastern Provinces. The failure to provide mentorship services for the SMEs entails that there are no platforms created for SMEs to learn from the experienced entrepreneurs to improve on their businesses. This negatively affects the SMEs sectors contribution to employment and GDP. The Committee recommends that existing provincial structures, such as the Department of Cooperatives, should be capacitated with skills to support MSME development as proposed in the draft MSME Policy. The Committee further recommends that the draft policy should be approved as a matter of urgency.

6.3.2 Provision of Business Development Services

The Auditor General's Report revealed that ZDA did not work with the MSMEs to ensure that the national goals of job creation and contribution to GDP were achieved. Further, interventions being provided by the ZDA aimed at helping MSMEs to open new branches and diversify their businesses were yet to yield results that would impact both the SMEs and the economy in terms of employment creation and contribution to GDP. It was also revealed that the overall impact of the failure to facilitate linkage of SMEs to markets meant that business growth was limited to low levels of production as they would not be assured of the available markets for their products and supplies whether locally or internationally. This affected business expansion which led to a low contribution to job creation and GDP. Further, the impact of the failure by the Agency to facilitate SMEs exhibitions prevented SMEs to exhibit and interact with large numbers of prospective buyers and suppliers thereby affecting the generation of income resulting in reduced business growth and no contribution to job creation and GDP.

Audit Recommendation

The ZDA should formulate plans which will assist MSMEs to a point where they are established by ensuring that the BDS is provided to all the MSMEs that require such services.

Stakeholder's Submission

The Committee was informed that the Ministry recognised that Business Development Services (BDS) were key to MSME development. In this regard, the Ministry through the Zambia Development Agency, facilitated the establishment of the Business Development Services Providers Association of Zambia. To support the BDS providers to effectively assist MSMEs, the draft MSME Policy among others proposed the development of an Electronic Management Information system (EMIS) of BDS providers; and also proposed capacity building programmes for BDS providers.

Agency's Response

With regards to the revelation in the Auditor General's Report that the Agency did not work with SMEs, the Committee was informed that the sample of twenty-five was drawn from the general data base which had about 5,000 MSMEs registered with ZDA. Therefore, the sample size was too small to be representative. The sample should have been drawn from the list of MSMEs who had received intervention indicated in the 2017 ó 2020 Annual Reports. Overall, inadequate access to finance was perhaps the biggest constraint hindering the participation of Zambian enterprises in the economy. Inadequate finance caused the use of inappropriate or sub-standard equipment, failure to hire specialised staff, inadequate and unsustainable profit margins due to limited reinvestment, and the inability for human capital development, among others.

In addition, the business environment was not conducive for MSME growth. The business environment, which was subdued by macroeconomic challenges, limited the ability of local enterprises to grow since they could not spread risk by diversifying services. Among the root causes included: high corporate taxes; inadequate investment incentives for local MSMEs in the

sector; energy shocks; high inflation; high tax rates, depreciation of the Kwacha; unpaid domestic arrears; and inadequate policy and legal framework for MSME development (incentives). Furthermore, the delayed operationalisation of the Local Content Strategy through the enactment of local content legislation exacerbated the situation of limited demand for goods and services produced by MSMEs.

With regards to helping MSMEs to diversify their businesses, the Committee was informed that the Audit exercise was conducted during the peak period of the full effects of the COVID ó 19 crisis. In this period, many of the MSMEs were adversely affected and as such experienced decline and stagnation in business activities. The sample size also remained to a challenge in terms of being a representative sample. Furthermore, the subdued growth of SMEs was due to limited provision of public contracts which were awarded to domestic MSMEs in sectors such as construction and services. With regards to the failure to facilitate market linkages, the Committee was informed that from 2015-2020, 1,518 MSMEs were linked to markets.

With regards to promotion and development of MSME products for export, the Committee was informed that the underfunding of the Agency limited the number of MSMEs which were taken for trade fairs and missions. Compared to other countries in the region such as Rwanda, Zambia was among the least funded countries in terms of export development interventions. In the year 2017, forty-two MSMEs were facilitated to exhibit at the Luapula Expo and the Investment Forum. However, from 2017 onwards, ZDA did not hire an exhibition hall for its MSMEs, but encouraged them to exhibit in the SMEs exhibition hall provided by the Trade Fair or Show Society. This had been done to try and rationalise on the dwindling resource basket. The Agency together with other statutory bodies under MCTI exhibited at the MCTI stand.

Committee's Observations and Recommendations

The Committee observes that Business Development Services (BDS) are key to MSME development. However, BDS such as market linkages, promotion and development of products for exports and facilitation of participation in trade fairs have not been provided to some of the MSMEs. Further, the delayed operationalisation of the Local Content Strategy as a result of the failure to present the Local Content Bill for enactment into law, exacerbates the current limited demand for goods and services produced by MSMEs.

In this regard, the Committee recommends that the development of an Electronic Management Information System (EMIS) for BDS providers should be expedited once the draft MSME Policy is approved. This will enable the BDS providers to effectively assist MSMEs and enhance their contribution to job and wealth creation. Further, the Committee recommends that as a matter of urgency, local content legislation should be enacted and the Local Content Strategy operationalised in order to enhance demand for goods and services produced by MSMEs.

6.3.3 Monitoring of SMEs

The Auditor General's Report revealed that failure to monitor the SMEs implied that the ZDA would not be able to determine the challenges encountered to assist them with the necessary services. This would further affect the growth and sustainability of the SMEs.

Audit Recommendation

ZDA should intensify monitoring of MSMEs so that they may identify the gaps in the development of the sector and make appropriate recommendations to the MCTI.

Stakeholder's Submissions

The Committee was informed that one of the key challenges noted in effectively monitoring MSMEs was the lack of a comprehensive database for MSMEs, as there was no requirement for all MSMEs to register with the Agency. In that regard, the draft MSME Policy proposed that an electronic register of the various categories of MSMEs should be developed and maintained. This could be achieved through an MSME survey and baseline study to establish the size and status of the sector in Zambia. Reference could be made to the PACRA and cooperatives databases.

Agency's Response

The Committee was informed that the Agency had been conducting monitoring exercises hence the 19% of the sampled MSMEs who confirmed to have been monitored. However, monitoring and evaluation () was severely limited by the underfunding and understaffing of the Agency.

Committee's Observations and Recommendations

The Committee observes that failure to monitor the SMEs implies that the ZDA will not be able to determine the challenges encountered to assist them with the necessary services. This will affect the growth and sustainability of the SMEs. The Committee recommends that an electronic register of the various categories of MSMEs should be developed and maintained, as a matter of urgency.

6.4 MINISTRY OF INFRASTRUCTURE, HOUSING AND URBAN DEVELOPMENT

6.4.1 Implementation of the 20% Sub- Contracting Policy

The Report of the Auditor General stated that the failure by the Ministry of Housing and Infrastructure Development (MHID) to enforce penalties to defaulting contractors had disadvantaged many small contractors in the sector as they continued to be overlooked by large contractors. This had a negative impact on the development of the SME sector in construction as small businesses were unable to enhance their businesses and opportunities for income generation.

Audit Recommendation

The MHID should ensure that the 20% subcontracting policy is being adhered to and any contractors that are not complying are penalised.

Stakeholder's Submissions

Stakeholders raised concern that the 20% subcontracting policy was a mere pronouncement but had no legal backing. They stated that the policy faced resistance from main contractors and this was augmented by lack of legislation to compel them to comply. The policy initially only applied to road construction projects and not building works until later on. Since the policy only applied to road works, RDA had been identified to take a lead in the implementation of the policy. Despite RDA preparing the guidelines, the implementation was a challenge due to the following:

- (i) RDA had no legal mandate to enforce the policy;
- (ii) the design of the solicitation or tender documents and award of contracts did not accommodate a strategy to deliberately facilitate the 20% subcontracting of the local MSMEs;
- (iii) the subcontracting process and decision was largely still in the hands of the main contractors and all RDA could do was make recommendations;
- (iv) the Department of Infrastructure had no guidelines addressing the building sub-sector as the initial RDA guidelines focused on the road contracts; and
- (v) the NCC was initially not involved, but even with its involvement later on, it also had no clear legal provisions to effectively implement the Policy, despite slight improvements in numbers of subcontractors noted.

Other challenges included:

- (i) poor rates imposed on local SME contractors where the local contractors were subcontracted;
- (ii) unfair treatment and manipulation of local contractors on price of materials loaned to the local contractors, equipment hire, and payments for works done by the SMEs; and
- (iii) there was no legal basis for penalising non-compliant contractors concerning the 20% percent subcontracting policy in the absence of any regulation. The signed contracts also did not include any clear provisions stipulating the need for such subcontracting and how it was to be effected. So as far as the contracts were concerned, the Ministry had no basis to mete out punitive measures.

Ministry's Response

The Committee was informed that the blacklisting of defaulting contractors of the 20% Subcontracting Policy could not be enforced as there were no regulations in place to enforce it. However, following provisions in new legislation the repeal of *National Council for Construction Act No. 13 of 2003* and replacement by the *National Council for Construction Act No. 10 of 2020*, provided for mandatory sub-contracting under section 44. This provision read together with section 64(1)(e) had led to the development of the Statutory Instrument on subcontracting which provided for the requirements, procedures and guidelines for better implementation of the Subcontracting Regulations.

The draft Statutory Instrument also prescribed the value of contracts eligible for subcontracting and the percentage of the value of works to be subcontracted, which was proposed at 30%.

Further, the Statutory Instrument also made provision for procuring entities in consultation with relevant ministries, bodies as well as the NCC to reserve works for citizen owned contractors for special empowerment programmes. In addition, a schedule of guidelines detailing the subcontracting procedures and processes was provided for under this regulation.

The final draft Statutory Instrument was subjected to wider stakeholder consultations among them the Zambia Public Procurement Authority, Citizens Economic Empowerment Commission, Road Development Agency, National Road Fund Agency and Zambia Institute for Architects. The Statutory Instrument had already been submitted to Ministry of Justice for clearance and necessary action.

Committee's Observations and Recommendations

The Committee observes that the blacklisting of defaulting contractors of the Subcontracting Policy could not be enforced as there were no regulations in place to enforce the 20% Subcontracting Policy. The Committee acknowledges that the *National Council for Construction Act No. 10 of 2020* has now provided for mandatory subcontracting under section 44. This provision read together with section 64(1)(e) has led to the development of the Statutory Instrument on Subcontracting which will provide for the requirements, procedures and guidelines for better implementation of the Subcontracting Regulations, a move which the Committee welcomes.

The Committee further notes that the draft SI will provide for the requirements, procedures and guidelines for better implementation of the Subcontracting Regulations. The draft SI also prescribes the value of contracts eligible for subcontracting, the percentage of the value of works to be subcontracted, which is currently at 30%, and also makes provision for procuring entities to reserve works for citizen own contractors. Further, a schedule of guidelines detailing the subcontracting procedure and process is provided.

Arising out of the above, the Committee that recommends that there is need to expedite the issuance of Statutory Instrument. Further, there is also need for stakeholder sensitisation and public awareness campaigns on the provisions of the subcontracting provisions of the Statutory Instrument once it is operationalised.

7.0 CONCLUSION

Micro, Small and Medium Enterprises in Zambia play an important role in production, employment and income as they represent 97% of all businesses in the country, 70% of GDP and 88% of employment. The MSMEs sector is recognised as one of the key targets for poverty reduction programmes aimed at improving the quality of life for households due to its potential for wealth and job creation. As a result of this contribution the Government implemented key interventions to promote the development of the MSMEs. The interventions implemented by the Government include the facilitation of market linkages, financial linkages, business to business linkages, business information and market intelligence, business advisory services, business clinics and after care services. However, the Government's interventions on MSMEs have not had the expected effects with regard to contribution to employment creation and GDP. This is

due to factors such as lack of access to financing, delayed disbursement of funds, inadequate provision of business advisory services and failure to provide business infrastructure, among others. Therefore, it is vital that the approval of the draft MSME policy which provides for the development of among others business incubation infrastructure, pack stations and special economic zones, is expedited.

The Committee wishes to pay tribute to all stakeholders who appeared before it and tendered both oral and written submissions. The Committee also wishes to thank you, Madam Speaker and the Office of the Clerk of the National Assembly for the guidance and support rendered during its deliberations.



Mr Binwell Mpundu, MP
CHAIRPERSON

July, 2022
LUSAKA

APPENDIX I – List of National Assembly Officials

Mr Charles Haambote , Acting Principal Clerk of Committees (FC)

Mrs Doreen N C Mukwanka, Acting Deputy Principal Clerk of Committees (FC)

Mr Charles Chishimba, Acting Senior Committee Clerk (FC)

Mrs Mwape E Z Banda, Committee Clerk

Ms Fadah Mweenda, Intern

Mrs Grace Chikwenya, Typist

Mr Daniel Lupiya, Parliamentary Messenger

Mr Sean Kantumoya, Parliamentary Messenger

APPENDIX II – List of Witnesses

Office of the Auditor General
Ministry of Commerce, Trade and Industry
National Housing and Authority
Ministry of Infrastructure, Housing and Urban Development
National Council for Construction
Zambia Statistics Agency
Ministry of Fisheries and Livestock
Zambia Credit Guarantee Scheme
Road Development Agency
Zambia Development Agency
Zambia Institute for Policy Analysis and Research
Zambia Revenue Authority
Citizen Economic Empowerment Commission
Ministry of Finance and National Planning