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**FIFTH SESSION – EIGHTH PARLIAMENT**

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**FIRST REPORT**

**OF THE PORTFOLIO COMMITTEE ON SMALL AND MEDIUM ENTERPRISES AND**

**COOPERATIVE DEVELOPMENT ON**

**THE STATE OF FINANCIAL INCLUSION OF SMALL AND MEDIUM ENTERPRISES,**

**COOPERATIVES AND OTHER CHALLENGES AFFECTING THESE SECTORS**

**IN ZIMBABWE**

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*Presented To Parliament October 2017*

**S.C. 19, 2017**

**Announced:** Tuesday, 19<sup>th</sup> September 2017 That

the Committee consists of the following:

Hon. Chibagu G, Hon. Chidakwa S, Hon. Chitura L, Hon. Gezi T, Hon. Gonese I,  
Hon. Gwanongodza E, Hon. Kachepa N, Hon. Kaundikiza M, Hon. Kwaramba G,  
Hon. Machingauta C, Hon. Mahoka S, Hon. Mangami D, Hon. Mashonganyika D, Hon. Mlilo N,  
Hon. Mpala M, Hon. Mpofo M.M, Hon. Muchenje F, Hon. Mupereri V, Hon. Mupfumi I.F,  
Hon. Musabayana D, Hon. Muzenda T.M, Hon. Nduna D.T, Hon. Nyere C, Hon. Sansole T.W,  
Hon. Shava J, Hon. Uta K, Hon. Zemura L

**Hon. Mangami D to be Chairperson**

**ORDERED IN TERMS OF STANDING ORDER NO. 17:**

- (1) At the commencement of every session, there shall be as many Committees to be designated according to government policy as the Standing Rules and Orders Committee may deem fit.
- (2) Each select committee shall be known by the portfolio determined for it by the Standing Rules and Orders Committee.

**TERMS OF REFERENCE OF PORTFOLIO COMMITTEES STANDING ORDER NO. 20**

Subject to these Standing Orders, a portfolio committee shall-

- a) examine expenditure administration and policy of government departments and other matters falling under their jurisdictions as Parliament may, by resolution determine.
- b) consider and deal with all bills other than a Constitutional Bill, and statutory instruments or other matters which are referred to it by or under resolution of the House or by the Speaker;
- c) consider or deal with an appropriation or money bill or any aspect of an appropriation or money bill referred to it by these Standing Orders or by or under a resolution of this House;
- d) monitor, investigate, inquire into and make recommendations relating to any aspect of the legislative programme, budget, policy or any other matter it may consider relevant to the government department falling within the category of affairs assigned to it, and may for that purpose consult and liaise with such department; and
- e) consider or deal with all international treaties, conventions and agreements relevant to it, which are from time to time negotiated, entered into or agreed upon.

## **1.0 INTRODUCTION**

Mr Speaker Sir, financial inclusion is widely recognized as a critical development issue and aspect of formalization of the Small and Medium Enterprises (SMEs) sector. The International Monetary Fund (2016) acclaims financial inclusion as the bridge between economic opportunity and outcome which not only opens doors for families to smooth out consumption and invest in their futures through education and health, but enables businesses to expand, creating jobs and reducing inequality. The concept of financial inclusion generally entails delivery of financial services at affordable cost to the disadvantaged and low income segments of society.

SMEs and cooperatives play a key role in Zimbabwe's economic development. The Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset) and Ten Point Plan outlined in the 2015 State of the Nation Address accentuate the importance of SMEs and cooperatives in poverty alleviation and employment creation. The FinScope Survey of 2012 indicated that the SMEs sector employed approximately 5.7 million people. The 2017 Monetary Policy Statement estimated that SMEs contribute more than 60% to the country's Gross Domestic Product (GDP). Thus, the Portfolio Committee on SMEs and Cooperative Development conducted an inquiry into the state of financial inclusion of this economically strategic sector.

## **2.0 OBJECTIVES**

The major objectives of the Committee inquiry were to:

- a) assess efforts being made by the government to provide affordable capital to SMEs and cooperatives;
- b) ascertain barriers to the financial inclusion of SMEs and cooperatives, including access to loans and banking services;
- c) establish the impact of cash shortages and use of plastic money on small businesses and cooperatives;
- d) find out the effects of using United States dollars, alongside Bond Notes and mobile money transfers as mediums of exchange on SMEs and cooperative sectors; and e) identify challenges affecting operations of SMEs and cooperatives.

### **3.0 METHODOLOGY**

Mr Speaker Sir, your Committee used the following methodologies to gather information:

- a) Oral evidence and written submissions from the Ministry of Small and Medium Enterprises and Co-operative Development.
- b) Field visits to SMEs and cooperatives in:
  - Harare - Mbare Musika, Mupedzanhamo, Gulf Complex and Machipisa;
  - Bulawayo - Mashumba and Kelvin Complexes;
  - Gweru - Nyangara Steel Products, O.B Investments, Sun Engineering and Dalo Welders;
  - Chegutu - Danangwe District Youth in Mining Cooperative (DDYMC);
  - Hwedza - Hwedza Dairy Farmers Association, Hwedza Organic Producers Association and Hwedza Women's Savings and Credit Cooperative; and
  - Guruve - Mukaera Art village and furniture manufacturers at Guruve Centre

### **4.0 COMMITTEE FINDINGS**

#### **4.1 GOVERNMENT FUNDING INITIATIVES FOR SMES AND COOPERATIVE SECTORS**

Mr Speaker Sir, the Ministry of Small and Medium Enterprises and Cooperative Development apprised your Committee of initiatives made by government to provide loans to SMEs and Cooperatives as follows:

##### **4.1.1 Small and Medium Enterprise Development Corporation (SMEDCO)**

SMEDCO is the vehicle through which government provides financial loans to the SMEs sector. In 2015 the government approved the transformation of SMEDCO into a micro-finance bank, a process which has been delayed by capitalization challenges. A solution emerged in November 2016 when the Reserve Bank issued the entity Treasury Bills worth \$10 million with a tenure of 10 years, maturing in 2026. Fifty percent of the amount (\$ 5 million) was approved to support the application for a microfinance bank license to the Reserve Bank, while the remainder (\$ 5 million) was to be utilized to secure liquidity to restart operations of SMEDCO. Your Committee was informed that \$2,2 million was secured through a

borrowing facility with Agribank and lending is currently underway. In addition, the Committee learnt that SMEDCO was in the process of acquiring a \$5 million Retrenchees Loan Facility from the National Social Security Authority (NSSA) for on-lending.

SMEDCO was allocated \$ 2,1 million in the 2017 National Budget, as part of the revolving fund for on-lending to SMEs. The Committee was informed that by May 2017 no disbursements had been received from the Treasury. The Permanent Secretary further highlighted that the Ministry of SMEs and Cooperative Development was still to be advised by the Ministry of Finance and Economic Development on modalities pertaining to presumptive tax ring-fencing for on-lending to SMEs as proposed in the 2017 National Budget Statement. Your Committee was also informed that the Ministry of Finance and Economic Development had not yet unlocked the Arab Bank for Economic Development in Africa (BADEA) loan facility approved in 2014, as part of efforts to capitalize SMEDCO. Your Committee noted with concern that the loan facility was due to expire in October 2017.

**4.1.2** Mr Speaker Sir, your Committee was further informed of loan facilities availed by the Reserve Bank in May 2017 for SMEs and cooperatives in pursuit of the National Financial Inclusion Strategy (2016-2020) as follows:

**a) Cross-Border Facility**

The Committee noted that the total loan facility is US\$15 million and is aimed at financing exports and imports by members of the Cross Border Association. Your Committee was informed by the Ministry of Small and Medium Enterprises that loans were being disbursed through Agribank for local production and Homelink to members traveling out of the country for business. Loans are issued as per borrower's request subject to approval by the Cross Border Traders Association to members with proven bank accounts at Agribank. The interest rate is 10 percent per annum and the tenor is up to 6 months for working capital.

**b) Business Linkages Facility**

Mr Speaker Sir, the Minister of SMEs and Cooperative Development reported to your Committee that a US\$10 million loan facility was being targeted at financing value chain linkages of farmers to

manufacturing entities to enhance value addition. Under this scheme funding will be provided to farmers to produce agricultural commodities with a ready market in the manufacturing sector. Loans will be disbursed through Agribank and other participating banks at 10 percent interest rate per annum. The tenor is up to one year and a grace period of 6 months before repayment starts will be granted to enable the farmer to harvest.

**c) Gold Support Facility**

Mr Speaker Sir, the Reserve Bank introduced this loan facility in 2016. Initially the loan amount was US\$20 million and was later increased to US\$40 million in 2017. Its purpose is to support small-scale and artisanal miners in order to boost gold production in the country.

The eligibility criteria is existence of a traceable gold delivery track record to Fidelity Printers and Refineries or its accredited buying agents for a minimum period of one year. In addition, applicants should be willing to be subjected to regular monitoring by Fidelity Printers and Refineries officials through site visits and records inspection. It is disbursed to individuals through direct payment to supplies of goods and services and deposits into company accounts at 10 percent interest rate and maximum tenor of 3 years. In the event of breach, the outstanding balance attracts an interest of 15 percent per annum.

**d) Horticulture Facility**

Mr Speaker Sir, the Reserve Bank also launched a US\$10 million loan facility to finance horticultural production. Your Committee learnt that loans will be disbursed through Agribank and CBZ at an interest rate of 10 percent per annum. The maximum tenor is 12 months for working capital and 3 years for capital expenditure while the repayment frequency is monthly. Eligible horticultural crops are shown on Table 1 below:

**Table 1: Eligible Horticulture Crops**

<b>Vegetables</b>	Peas, Sugar snaps, Beans, Onions, Potatoes, Carrots, Cherry tomatoes, Mushroom, Butternuts, Baby marrow, Gem squash, Paprika, Chillies
<b>Fruits</b>	Citrus, Banana, Avocado, Grapes, Strawberry, Raspberry, Blueberry, Blackberry, Peaches Nectarines, Passion fruit, Apples, Pears, Papaya, Mangoes, Pineapples
<b>Nuts</b>	Macadamia, Cashew, Pecan, Hazelnuts

**e) Women Empowerment Fund**

Mr Speaker Sir, the Reserve Bank availed a US\$ 15 million loan facility targeted at financing projects owned and managed by women. It will be disbursed through the People's Own Savings Bank (POSB), commercial banks and micro-finance institutions at an interest rate of 10 percent per annum and up to a maximum tenor of 3 years. Participating financial institutions will determine the loan amount to be issued to applicants.

**4.1.3** Mr Speaker Sir, other funding projects for SMEs and cooperatives being spearheaded by the Ministry of SMEs and Cooperative Development in collaboration with development partners are:

**a) Organisation of Petroleum Exporting Countries (OPEC) Fund for International Development**

The Ministry of SMEs and Cooperative Development secured a US\$ 7.6 million loan under the OPEC Fund for International Development targeted at Poverty Alleviation Programmes. This fund was earmarked for three provinces, namely; Masvingo, Matebeleland North and Manicaland. It specifically supports the following projects: savings and credit cooperatives, income generating projects; livestock development projects; optimization of local endowments such as bee-keeping and farming activities; and setting up of entrepreneurial training institutes.

**b) Inclusive Growth and Sustainable Livelihoods Project (2016-2020)**

The United Nations Development Programme (UNDP) provided US\$ 5 million for Inclusive Growth and Sustainable Livelihoods Project covering four provinces, namely; Binga, Lupane, Nkayi and Gokwe South. Areas targeted by this funding include; technological innovation training, value-addition and start-up support, market access support, micro-credit support and strengthening national and sub-national capacities.

**4.2 FIELD VISITS TO SMES AND COOPERATIVES**

During the field visits to SMEs and cooperatives in various provinces of the country, your Committee's findings were as follows:

#### **4.2.1 Bank Accounts**

Mr Speaker Sir, your Committee found out that very few SMEs in the country have bank accounts. Only 40% of small scale miners at Danangwe District Youth in Mining Cooperative in Chegutu were reported to have individual bank accounts at the time of the Committee's visit. SMEs at Mupedzanhamo, Machipisa and Hwedza Women's Savings and Credit Cooperative informed the Committee that current cash shortages hampered them from opening and making use of bank accounts. Once a deposit is made, it becomes difficult for SMEs and cooperators to withdraw cash in order to restock wares and use in cooperative activities. Additionally, SMEs at Machipisa, Mashumba and Mupedzanhamo informed the Committee that business performance was low due to liquidity challenges currently faced by the country, thus too little profits were generated for them to deposit into bank accounts.

#### **4.2.2 Accessibility of loans**

A majority of SMEs indicated that they started business ventures using personal funds and were constrained from accessing bank loans by lack of collateral requirements, such as title deeds and pay slips. Furthermore, exorbitant loan interest rates imposed by banks and fear of attracting stiff penalties in case of failure to repay on time were reported to be major deterrents. Your Committee noted that most SMEs and cooperatives were not aware of the various government loan facilities which were launched on 5 May 2017. Players across both sectors expressed a strong desire to borrow affordable loans to purchase their own machinery and expand business ventures, including furniture manufacturers at Kelvin Complex, in Bulawayo, O.B Investments in Gweru and Hwedza Organic Producers Association.

#### **4.2.3 Mediums of exchange**

Due to cash shortages currently being experienced in the country, SMEs are finding it difficult to conduct transactions using EcoCash as they are unable to cash out the same. SMEs also denounced the emergence of unscrupulous EcoCash agents who levy a 10 percent charge on all withdrawn amounts. Operators in rural areas have also resorted to barter trade, for example, SMEs at Mukaera Art Village informed the Committee that they accepted products such as grain and clothing in exchange for pottery, baskets, stone sculptures and steel tins.

Mr Speaker Sir, out of all the provinces and sectors toured by the Committee, none of the SMEs and cooperatives used Point of Sale (POS) machines. This was attributed to lack of information and difficulties in accessing the gadgets from banks as they do not have bank accounts, delays in issuance and non-response to those who applied by banks. The requirement for a bank account in order to acquire POS machines was outlined as a key factor militating against use by SMEs. In addition, Mr Speaker Sir, SMEs at Mupedzanhamo Market highlighted that some individuals were renting out POS machines at a rate of \$70 per month. Further to that, traders at the same market highlighted that POS machines were “unsuitable” for their brisk business models. Other factors such as lack of electricity and limited internet connectivity at places where SMEs conduct their operations were also raised as factors derailing the uptake of POS machines.

Your Committee was informed that some suppliers require “hard cash” upfront while others hiked prices by 5 percent where the medium of exchange is Bond notes or coins in comparison to the United States (US) dollars. Traders at Machipisa Market, in Harare also highlighted that some suppliers required that at least 50 percent currency for purchasing goods be US dollars. Alternatively, some suppliers were reported to reject electronic and mobile money transfers as a way of avoiding high transactional costs. Mr Mutasa of Nyangara Steel Products in Gweru highlighted to the Committee that suppliers who accept electronic money transfers impose higher prices.

#### **4.2.4 Other challenges faced by SMEs and cooperatives**

##### **a) Inadequate infrastructure**

A considerable number of SMEs in urban areas conduct their businesses on undesignated areas, due to space challenges. In addition, some rent-paying SMEs operate in open areas, where their wares are exposed to weather elements, for example, furniture manufacturers at Guruve Centre and flea market traders at Machipisa. The challenge of ablution facilities was raised by SMEs operating in various areas, including, Mupedzanhamo, Guruve and Machipisa. The Committee learnt that the public toilet at Machipisa had been converted partly into a restaurant and storeroom after “sale” by Harare City Council to a private operator, leaving SMEs to pay for use of such facilities. Markets visited by the Committee

were also in a state of dilapidation as evidenced by cracked floors, leaking roofs and sewage pipes exposed at Machipisa and Mupedzanhamo in Harare.

In contrast, cooperative societies such as Danangwe District Youth in Mining Cooperative have built their own offices and clinic at the mining site in Chegutu. Additionally, Hwedza Women’s Savings and Credit Cooperative showed the Committee a shopping mall they were constructing at Hwedza Growth Point during its visit.

**b) High rental charges**

SMEs decried high space rental charges imposed by local authorities in view of poor business performance as shown on the table below:

**Table 2: Space rental charges at SME Complexes**

<b>Location</b>	<b>Monthly Rental charges</b>
Gulf Complex, Harare	\$300.00 per 20 square metres
Kelvin Complex, Bulawayo	\$150.00 per 4 square metres
Mashumba Complex, Bulawayo	\$100.00 per 6 square metres
Mupedzanhamo, Harare	\$60.00 per square metre
Mbare Musika, Harare	\$37.00 per 1,5 square metres
Machipisa, Harare	\$20.00 per square metre

**c) Taxation**

Traders at Mupedzanhamo Market lamented that high customs duty charges imposed by the Zimbabwe Revenue Authority (ZIMRA), currently pegged at \$5 per kilogram (kg) for second-hand clothing threatened the viability of their businesses. Your Committee learnt that there were about 2000 traders at Mupedzanhamo, out of which none brought goods into the country through the designated ports of entry in order to evade the prohibitive customs duty charges. Traders proposed that import duty for second-hand clothing be reviewed to between \$10 and \$25 per bale which is affordable.

**d) Difficulties in acquiring licenses**

Danangwe District Youth in Mining Cooperative in Chegutu informed the Committee that despite being registered as a cooperative since 2012 and delivering gold to Fidelity Printers and Refineries progressively over the years, the cooperative experienced difficulties in acquiring a mining license, due to an ownership wrangle with African Consolidated Resources, now Blackridge Investments. Consequently, there was uncertainty which negatively affected long term planning and infrastructural development at the mining site. Furthermore, Mush Leather Products at Kelvin Complex in Bulawayo bemoaned that exorbitant licensing fees imposed by the State Procurement Board, amounting to \$600 to acquire a vendor number prohibited them from bidding for tenders to supply safety shoes to the Bulawayo City Council. Moreover, steel fabricators in Gweru and hardware traders at Machipisa Market informed the Committee that they lacked information on how to acquire import licenses.

**e) Exclusion from local business opportunities**

Furniture manufacturers at Mashumba Complex in Bulawayo complained that funeral assurance and service companies in the city shunned their products and instead acquired coffins from other towns or import from neighbouring countries, such as South Africa. In addition, Mr Kwangware of Sun Engineering in Gweru bemoaned that SMEs in the steel fabrication business were looked down upon by government institutions such as the City Council and Midlands State University which contracted companies based in Bulawayo for purposes of supplying steel products and maintenance services. Furthermore, Nyangara Steel Products and O.B Investments noted that the government imports steel equipment which SMEs manufacture locally and meet international standards.

**f) Lack of markets**

SMEs visited by the Committee largely sell their products on the local market and require government assistance to secure external markets, for instance, Nyangara Steel Products in Gweru. Operators at Mukaera Art Village, in Guruve informed the Committee that the lack of markets for their products was a serious challenge.

### **g) Defaulting clients**

SMEs at Mashumba Complex decried losses incurred due to defaulting borrowers, particularly, civil servants while O.B Investments in Gweru noted that clients failed to pay for ordered products, such as bus trailers.

### **f) Centralisation of services**

Mr P. Moyo at Kelvin Complex in Bulawayo informed your Committee that furniture manufacturers experienced difficulties in acquiring Forestry Commission licenses to buy wood due to centralization of services in Harare.

## **5.0 COMMITTEE OBSERVATIONS**

**5.1** The \$ 2,1 million allocated to SMEDCO in the 2017 National Budget and portion to be ring-fenced from presumptive tax form part of the revolving loan fund for on-lending to the severely capital constrained SMEs.

**5.2** The BADEA loan facility which was approved in 2014 for the recapitalization of SMEDCO has not yet been operationalized and will expire in October 2017.

**5.3** Loans under the Cross-Border Facility can only be accessed by members of the Cross Border Association subject to approval by leadership of the Association.

**5.4** SMEs experience difficulties in accessing POS machines which ultimately affect business performance.

**5.5** There is variable pricing of goods and commodities for different mediums of exchange such as cash, EcoCash and electronic money transfers.

**5.6** SMEs and cooperatives lack adequate information on available loan facilities and support services offered by the Ministry of SMEs and Cooperative Development.

**5.7** High custom duty charges on second-hand clothing currently \$5 per kg discourage compliance and instead fuel smuggling.

**5.8** SMEs and cooperatives lack business management and marketing skills.

**5.9** Inadequate infrastructure and high rental space charges are major challenges faced by the SME sector.

**5.10** Some funeral assurance and service companies import coffins from neighbouring countries such as South Africa.

## **6.0 RECOMMENDATIONS**

**6.1** The Ministry of SMEs and Cooperative Development should immediately publicise available government loan facilities and its services through its website, media, local authorities and elected representatives in both urban and rural areas. In addition, Ministry officials at district level should adopt a ‘hands-on’ approach to ensure that SMEs and cooperatives obtain such information on time and other key issues, including taxes and how to acquire import licenses by November 2017.

**6.2** The Ministry of Finance and Economic Development should allocate adequate financial resources to the Ministry of SMEs and Cooperative Development in the 2018 National Budget, in particular for critical items, such as, furniture and vehicles to equip officers to effectively discharge their duties.

**6.3** Approval of loans should, with immediate effect, be left to banking institutions, particularly the Cross-Border Loan Facility in order to enhance fairness and transparency.

**6.4** The Ministry of Finance and Economic Development should disburse the \$ 2,1 million allocated to SMEDCO in the 2017 National Budget and finalise modalities of ring-fencing a portion of presumptive tax for on-lending to SMEs by December 2017.

**6.5** The Ministry of Finance and Economic Development should immediately find ways of unlocking the BADEA loan facility before it expires in October 2017.

**6.6** SMEDCO should expeditiously conclude the Retrenchees' Loan Facility with NSSA and decentralise its banking facilities to District level by December 2017.

**6.7** The Ministry of Finance and Economic Development should, with immediate effect, enforce one pricing regime for cash, mobile and electronic transactions in order to facilitate easy trading within the economy by mid-November 2017.

**6.8** Banking institutions should immediately issue POS machines free of charge to facilitate use of plastic money by SMEs and cooperatives. This should be accompanied by educational campaigns by the Ministry of Finance and Economic Development in collaboration with Ministry of SMEs and Cooperative Development on the use of point of sale machines. Banks would recover costs of acquiring POS machines through charges.

**6.9** The Ministry of SMEs and Cooperative Development should intensify business management training programmes for SMEs and cooperatives in both rural and urban areas.

**6.10** The Ministry of SMEs and Cooperative Development should continuously assist SMEs and cooperatives to secure markets for their products, for instance, by facilitating business linkages with large corporates.

**6.11** The Ministry of Finance and Economic Development should review customs duty for second-hand clothing downwards from \$5 per kg to \$0,20 per kg which is affordable in order to foster compliance and benefit the fiscus by December 2017.

**6.12** The Ministry of Industry and Commerce should, with immediate effect, ban importation of coffins since the country has the capacity to manufacture high quality coffins in adequate quantities to satisfy local demand.

## **7.0 CONCLUSION**

Mr Speaker Sir, the efforts being made by government to provide capital to SMEs and cooperatives are commendable. However, more can be done to facilitate the financial inclusion of this critical sector by addressing the fundamental issues highlighted above and earnest implementation of the National Financial Inclusion Strategy (2016 - 2020). If offered the necessary support, SMEs and cooperatives can turn around Zimbabwe's economy.