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The Portfolio Committee on Small and Medium Enterprises and Cooperative Development

Parliament of Zimbabwe

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MANDATE OF THE SME ASSOCIATION OF ZIMBABWE AND CHALLENGES FACED BY THE SMALL AND MEDIUM ENTERPRISES' SECTOR

In response to your much-appreciated invitation to our Association to brief the Committee on our mandate, as well as the challenges faced by the small and medium enterprises' sector, we are happy to present the following. We have categorized our presentation in two sections:

- a) The Association's mandate
- b) Current on-the-ground issues faced by SMEs

A. THE ASSOCIATION'S MANDATE

The SME Association of Zimbabwe is a duly incorporated entity established in December 2011 and formally incorporated as a trust in February 2012 (Registration Number 185/2012). Its mandate as spelt out by its Constitution (Clause 6) is as reproduced below:

- 6)** The objective of the Association shall be to advance the interests of SMEs and entrepreneurs involved in the running of SMEs. This objective shall be achieved, inter alia, through the following activities:
 - a)** Advocating for the rights of SMEs at all relevant national fora, which shall include but shall not be limited to:
 - i) Government ministries
 - ii) Quasi-government organisations
 - iii) Non-governmental organisations
 - iv) Councils and municipalities
 - v) Any other relevant local and international fora.
 - b)** Advancing the cause of SMEs through activities such as:
 - i) Promotion and development of markets
 - ii) Sourcing and channelling of capital and technical assistance to SMEs
 - iii) Education and training for entrepreneurs
 - iv) Developing or encouraging the development of infrastructure (factory shells, incubation units e.t.c) for the promotion of SMEs' activities.

- c) Interactions with other national associations and groupings in order to ensure SMEs' interactions with their members are mutually beneficial.

Providing training and services to SMEs to enable them to graduate to being large-scale industries.

We are proud to have achieved a number of the objectives set out in our Constitution, as demonstrated by the following:

- We have a powerful array of marketing tools for SMEs, some of which are:
 - A print business directory which is currently being printed, and which will be distributed nationally to promote our SMEs' businesses at very low costs.
 - Online media which include a business directory and online store (currently ranked as the 36th most popular website in Zimbabwe) featuring over 1 100 SMEs, and presence on social media with over 3 000 followers.
 - A powerful referral program which not only markets our members' products, but also creates employment opportunities for independent marketers.
 - A distribution program that will link kiosks and tuck shops to our major and smaller local producers, thus promoting local products and also promoting these small but very significant players in the local consumption industry.
- We have registered a Savings and Credit Cooperative (Registration number 6029) with the Ministry of Small and Medium Enterprises and Cooperative Development to provide funding to our members. This was done after two years of fruitlessly trying to engage the banking sector to get it to change its approach to SME lending, particularly the issue of collateral security, which has denied access to formal funding to over 95% of the sector.
- We recently secured office space tailored for SMEs in the CBD in an upmarket area from Old Mutual, one of the financial giants in the country. This project is a first in the country, and we hope to extend it to factory space and retail space, as well as broaden it to other cities and towns in Zimbabwe.
- We are a founding member of the COMESA Business Council Regional SMEs Association initiative, a body which brings together SME Associations from all COMESA countries. We have attended two meetings to date (Cairo and Kinshasa) on this program, and we are confident that once we get our sector up and running, there will be tremendous benefits coming out of this program.

There are several other achievements, but the above are the major ones indicating the extent of our work and commitment to the SME sector.

B. CURRENT ON-THE-GROUND ISSUES FACED BY SMEs

Contrary to popular belief, the current economic hardships have not spared the SME sector. It is important at this juncture to highlight that SMEs as formally defined in Zimbabwe are not just the informal sector (micro-enterprises), but also constitute formalized businesses with sizes up to \$1 million in assets, and even beyond, for certain industries. Micro-enterprises as formally defined have turnovers not exceeding \$10 000 per annum and/or less than five employees. The SME sector is therefore the space in between the two categories outlined.

The Association's mandate is primarily focused on the SME segment, and specifically relates to growth-oriented businesses. Most of our members therefore fall into the formalized category. To best respond to the Committee's call, we requested members to highlight their most pressing issues, and the issues below were most prevalent:

a. Non-payment of monies owed by Government and large corporations

The issue of receiving payments late, and sometimes not receiving payments at all after having supplied products/services ranked highest among the responses.

b. High rentals

Several complaints were received about the level of rentals, which have resulted in a situation where the SME is effectively working for the property owner, who gets away with most of the business' earnings.

c. Discriminatory practices by certain minorities

There was a disturbingly high percentage that reported that they were unable to access contracts, or supplies from certain white-owned businesses. This was noted in the leather industry, as well as in the construction industry.

d. Lack of Government spending

Apart from the issue of non-payments, it was noted that the level of Government spending in the local economy was low. This could partially be attributed to the constrained fiscal space, but the aspect of a lack of deliberate policy to favour local procurement cannot be ignored.

e. General economic decline

Whilst more a result than a cause, the general economic decline means that businesses are continuously having to down-scale and eventually shut down. Primarily, the economic decline is a result of the negative balance of payments position, which can only be addressed through import substitution and promotion of local industries.

f. Lack of incentives

No incentives are given to SMEs to grow their businesses, or to foster employment and instead most see Government as punishing them for trying to create employment and make a difference. Thus several businesses have shut down and are now operating as one-man-shows to avoid problems with Government agencies, labour laws and an apathetic work force.

g. Lack of funding

The issue of lack of funding in the sector is age-old, and it can only be addressed by the formation of Micro Finance Banks. Traditional banks have proved unmotivated to set up SME-specific products, and their SME banking divisions are always subservient to their “Corporate” divisions. This results in SME issues always being buried at the bottom of the tray.

In fact, our local financial sector has actually been promoting external competition by preferring to fund people going out to import goods including motor vehicles, rather than fund the local productive sector. This has been a major contributor to the current economic malaise.

h. Lack of SME capacity-building and education drive

Since Independence, there has not been a sustained, broad-based initiative to encourage SMEs to come into the formal sector. The sector has always been approached like the “illegitimate child” in the sense that whenever there is big news about it, it is about one blitz or another.

Most non-formalisation within the sector is because of ignorance. There is no curriculum that teaches anyone how to comply with statutory regulations, and the approach of most authorities is intimidatory, rather than helpful. If one cannot afford to hire a tax consultant, they cannot navigate the complexity that is ZIMRA. Thus they choose to evade.

We have been engaged in some initiatives with the National Manpower Development Corporation (NAMACO) where they have been doing road shows to educate SMEs about their function, and the overwhelming response from participants has been that they were unaware of its functions, and of the importance of things like the Manpower Levy and the ZIMDEF fund.

i. Unregistered major players in the informal sector

There has arisen a huge industry, mostly comprised of foreigners, that operates in the downtown area and is a source of inputs for many of our members. These downtown players are unregistered and they do not issue tax invoices. This prejudices our tax-compliant businesses as they cannot claim input VAT on such purchases.

It also poses unfair competition for registered businesses operating in the same industries.

j. Allocation of funds to the SME sector in the National Budget

Despite contributing conservatively 20% to income taxes (note the definition of SMEs highlighted above) there is hardly ever any allocation of funding to SMEs in the national budget. Even where Government has initiated schemes such as DIMAF for large corporations and the Youth Fund for start-ups, nothing has been structured for the infamous “missing middle” which constitutes our constituency. We are compliant with the law, but Government seems to have a blind spot when it comes to dealing with the issues prevailing.

k. Ease of doing business

Zimbabwe is ranked poorly in terms of the “ease of doing business” index, and this is felt chiefly by SMEs who do not have the connections or influence to get things done. Simple things like company registration or clearing goods for import and export take too much time, and are too costly.

l. High cost of registration in the mining sector

Even after the recent “reductions”, the licensing costs in the mining sector are proving discriminatory to local small players, who cannot raise such levels of cash purely for registration purposes.

We hope and pray that the Portfolio Committee as well as Parliament can look into these issues with a view to swift redress. We believe these are the issues hindering the long-awaited economic turnaround of our country.

The Association stands ready to play whatever part the Committee, Parliament and Government may deem necessary to find lasting solutions to these issues. I thank you.

Farai Clement Mutambanengwe

(Founder and Executive Officer)