



**THE UNITED REPUBLIC OF
TANZANIA
NATIONAL AUDIT OFFICE**



**PERFORMANCE AUDIT REPORT ON THE PROVISION OF
SUPPORT SERVICES FOR SMALL AND MEDIUM ENTERPRISES**

**THE MINISTRY OF INDUSTRY, TRADE AND INVESTMENT (MITI)
AND SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL OF
THE UNITED REPUBLIC OF TANZANIA**

MARCH 2018



**THE UNITED REPUBLIC OF
TANZANIA**
NATIONAL AUDIT OFFICE



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PREFACE

The Public Audit Act No. 11 of 2008, Section 28, authorizes the Controller and Auditor General to carry out Performance Audit (Value for-Money Audit) for the purposes of establishing the economy, efficiency and effectiveness of any expenditure or use of resources in the Ministries, Departments and Agencies (MDA), Local Government Authorities (LGAs) and Public Authorities and other Bodies. The Performance Audit involves enquiring, examining, investigating and reporting, as deemed necessary under the circumstances.

I have the honour to submit to His Excellency the President of the United Republic of Tanzania, Dr. John Pombe Joseph Magufuli and through him to the Parliament of the United Republic of Tanzania the Performance Audit Report on the Provision of Support Services for Small and Medium Enterprises in Tanzania. The main audited entities are the Ministry of Industry, Trade and Investments (MITI) and Small Industries Development Organization (SIDO).

The report contains findings of the audit, conclusions and recommendations that have focused mainly on improving the provision of support services to small and medium enterprises sector in the country on areas such as strategic and annual planning, implementation of planned support services and monitoring and evaluation of the support services provided.

The Ministry of Industry, Trade and Investments (MITI) and Small Industries Development Organization (SIDO) have been given the opportunity to scrutinize the factual contents and comment on the draft report. I wish to acknowledge that the discussions with the Ministry of Industry, Trade and Investments (MITI) and Small Industries Development Organization (SIDO) have been very useful and constructive.

My office intends to carry out a follow-up audit at an appropriate time regarding actions taken by the audited entities in relation to the recommendations of this report.

In completion of the assignment, the office subjected the report to the critical reviews of Dr. Felician Ifunya former SIDO Regional Manager and Dr. Wilhelm Mafuru, Senior Lecturer of Mzumbe University who came up with useful inputs on improving the output of this report.

This report has been prepared by Mr. Frank Nyoni - Team Leader, Ms. Anna Minja - Team Member under the supervision and guidance of

Ms. Asnath L. Mugassa - Audit Supervisor, Eng. George C. Haule - Assistant Auditor General and Ms. Wendy W. Massoy - Deputy Auditor General.

I would like to thank my staff for their assistance in the preparation of this report. My thanks should also be extended to the audited entities for their fruitful interaction with my office.

A handwritten signature in black ink, appearing to read 'Mussa Juma Assad', with a long horizontal stroke extending to the left.

Prof. Mussa Juma Assad
Controller and Auditor General
The United Republic of Tanzania
28th March, 2018

LIST OF ACRONYMS AND ABBREVIATIONS

CMC	-	Credit Management Committee
GDP	-	Gross Domestic Product
MITI	-	Ministry of Industry, Trade and Investments
M&E	-	Monitoring and Evaluation
SIDO	-	Small Industries Development Organisation
SMEs	-	Small and Medium Scale Enterprises
TDC	-	Technology Development Center
VIBINDO	-	Jumuiya ya Viwanda na Biashara Ndogondogo

EXECUTIVE SUMMARY

The SMEs sector is currently among the priority sectors as the country strives to become a semi-industrialized country by 2025. The SMEs sector is also a key player in promoting sustainable development in most of the developed and developing economies as described in the United Nation's 2030 Agenda for Sustainable Development Goals (SDGs). However, the current situation for SMEs sector does not provide a strong guarantee for the attainment of 2025 Development Vision and the National Five-Year Development Plan (FYDP) themed "Nurturing Industrialization for Economic Transformation and Human Development".

The sector is characterized by a significant contribution to the economy adding 35 percent to Gross Domestic Product (GDP) although lower than the planned level at 42 percent. Furthermore, the sector is not contributing adequately to country employment levels with a current rate of 40 percent which is below the targeted 60 percent. The sector is also not performing well in manufacturing for exports which is among the key milestones for a country that is attempting to become a semi-industrialized country with a current contribution at less than one percent of the manufactured exports. Overall, the sector is experiencing slow growth with its participants lacking business skills, limited access to finance and modern technologies and other administrative constraints.

Based on the above indications of unsatisfactory performance of the sector, the Controller and Auditor General decided to conduct a performance audit on the Management of Small and Medium Enterprises (SMEs). The objective was to assess whether the support services in technology, trainings, marketing and finance for the growth of Small and Medium Enterprises provided by the Ministry of Industry, Trade and Investments (MITI) and Small Industries Development Organization (SIDO) are effectively planned, executed and evaluated.

The audit specifically focused on assessing the formulation of strategies, identification and prioritization of SMEs needs at a planning level, dissemination, coordination, supervision and mentoring of services. It looked at implementation level as well as development and use of key performance indicators, performance reviews, and effective communication at monitoring and evaluation level as conducted by Ministry of Industry, Trade and Investments (MITI) and Small Industries Development Organization (SIDO).

The Performance Audit covered the Ministry of Industry, Trade and Investments (MITI), and Small Industries Development Organization (SIDO) with its six Regional Offices. The assessment was based on four financial years from 2013/14 to 2016/17. The following is the summary of major findings, conclusion and recommendations developed from this performance audit.

Major Findings

Weak performance of the SMEs sector

Currently, the SMEs sector is not growing at a satisfactory level as planned by the Ministry responsible for promoting growth of SMEs. The sector is currently growing at a rate of 5.6 percent while the failure rate for SMEs is at 8 percent, despite increasing number of SMEs annually. The sector contribution to employment is currently at 40 percent which is below the target level of 60 percent. The overall sector contribution to GDP is estimated at 35 percent which is below the targeted level of 40 percent.

Inadequate Strategic Planning for Provision of Support Services to SMEs

Strategies developed by MITI did not adequately cover the objectives of the SMEs policy which is the cornerstone for supporting SMEs sector in the country. The strategic targets were skewed into 2 objectives only while leaving the 5 other objectives with a single or two set targets. The Ministry had only implemented 6 out of 7 SMEs policy objectives. There still exists the risk of not attaining some of the objectives due to the fact that the new strategic plan of the Ministry provides the strategic objectives which are skewed into 3 out of the 7 SMEs policy objectives.

Low development budgets for SMEs at different levels of government

MITI and SIDO have not committed sufficient funds to develop SMEs. In the past four years MITI spent only 16 percent of the total funds received for development expenditure for enhancing the development of SMEs. The funds for development have been declining year after year since the financial year 2013/14. On the other side, SIDO which is spending an average of 14 billion per annum allocates an average of 30 percent of its funds for development of SMEs. The five SIDO regional offices visited, which are the ultimate implementers of supports services for SMEs, had received only 20 percent of the requested funds for development activities.

Ineffective implementation of training services to SMEs

The training support services which are expected to improve technical and business management skills are not adequate to sufficiently produce the desired output. The current performance indicates that the outreach of training services by SIDO is only 7 percent for registered SMEs at SIDO. The outreach is only 0.4 percent considering the overall estimated number of SMEs in the country. The support services have not been effective in assisting SMEs to grow, graduate or sustain their business. Despite receiving trainings 24 percent of SME registered at SIDO have failed. While the average rate of collapse countrywide is 8 percent the overall growth rate is 5.6 percent.

Insufficient Development of Technologies for SMEs

The Technology Development Centers are currently using machines installed more than 40 years ago for production of machines demanded by the SMEs in the recent market. The outdated machines cannot produce machines with competent technologies to compete with the recent imported technologies. The technology incubation centers which are currently being used to incubate innovative ideas in technologies and other categories of services are not sustainable. They have indicated weak performance whereby from 2013/14 to 2016/17, number of graduating ideas (commercialized) from incubation programs decreased from 165 to 24.

Insufficient management of credit facilities at SIDO

There is insufficient management of credit facilities at SIDO which is experiencing a slow growth of its loan portfolio. In the past four years the loan portfolio size combining both Regional Revolving Funds and National Entrepreneurship Development Funds grew by only 9 percent which is equivalent to an average growth of 2 percent per annum. There is a rising demand for funding and therefore making SIDO fail to meet the demand of SMEs in credit facilities. In the past four years, SIDO was not able to disburse 40 percent of the loans requested despite approving them due to the limited loan portfolio. The loan portfolio at SIDO is worn out by different factors including the significantly higher rate of arrears, increasing loans loss provisions and loans write offs. For instance, in the past four years the loans loss provisions have increased by 129 percent rising from TZS 860 million in the financial year 2013/14 to TZS 1.9 billion during the financial year 2016/17.

Weak system to monitor and evaluate provision of SMEs support services

The current system for monitoring and supervising the provision of support services is not working adequately. The number of monitoring and supervision visits is not adequate with MITI conducting only 25 percent of the required visits and SIDO conducting only 36 percent of the required visits. Furthermore, the few visits conducted are not effectively addressing the key matters in the visits and not providing the corrective actions for challenges observed.

The support services provided are not being followed-up to track SMEs performance. The Ministry is not conducting the important surveys to be able to determine the SMEs profile and prepare strategies and plans that are consistent with the current demand of SMEs. SIDO has not been conducting follow up to SMEs after provision of support services. Current situation indicate that 67 percent of the SMEs are rarely visited by SIDO after receiving any of their service.

Conclusion

Small and Medium Enterprises sector in Tanzania is not growing satisfactorily to enable its significant contribution to the economy to the level that will enable the country to become a semi-industrialized country by 2025. The SMEs sector have been experiencing higher rates of failure /collapsing than the rate of growth. For the past four years the average of failure rate and growth rate stood at 8 and 5.6 percent respectively. As a result, the sector is significantly characterized by new entrants who are highly unsustainable and dynamic.

The activities for the provision of support services for SMEs are not effectively planned, executed, coordinated and evaluated by Ministry of Industry, Trade and Investments and SIDO so as to promote growth of SMEs in the country. The provision of support services by the Ministry of Industry, Trade and Investments and SIDO has not brought out the intended results and do not guarantee sustainable growth of SMEs sector as per the requirement of SMEs policy.

Recommendations

The Ministry of Industry, Trade and Investments Should:

- 1) Establish the sustainable model for funding the SMEs' development activities and the mobilized funds for SMEs development.

- 2) MITI should collaborate with SIDO to develop and strengthen the system for collecting key information of the SME sector performance at the local level which will not require conducting expensive MSME surveys; and
- 3) MITI should develop comprehensive strategic targets to achieve SMEs policy objectives and plan for them in a more realistic and achievable manner.

Small Industries Development Organization should:

- 1) Develop a more explicit monitoring and evaluation mechanisms with clear, well stated and non-overlapping key performance indicators linked to the growth of SMEs;
- 2) Review the administration of its performance indicators by setting realistic and more attainable indicators and strengthening its follow up and verification in the regional offices;
- 3) SIDO should strengthen industrial cluster model by increasing the number of key stakeholders participating to actively include regulatory bodies and designing a sustainable funding model to support the development of self-sufficient clusters in terms of operation;
- 4) SIDO should strengthen the capacity of Technology Development Centers by equipping them with modern machines, and staffing them with personnel with diversified skills for carrying out innovative works and produce quality products to match and compete with the current demand of modern technologies; and
- 5) Strengthen the incubation programme in the regional offices to enable them to effectively recruit competent ideas that will be able to produce modern technologies or products that will add value to the SMEs sector.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Audit

The well performing Small and Medium Scale Enterprises (SMEs) have always been the stepping stone to industrialisation in most of the developed nations. Tanzania is among the countries with high proportion of small and medium scale enterprises as compared to large scale enterprises. SMEs sector is among the key sectors that spearhead the growth of the economy by stimulating socio-economic development of the country.

Small and Medium Enterprises are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries¹. The SMEs in Tanzania mean; micro, small and medium enterprises. It is sometimes referred to as Micro, Small and Medium Enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services².

Because of their labour-intensive operations, SMEs are bound to contribute significantly to employment creation, income generation, and stimulation of growth in both urban and rural areas, and therefore adding a significant proportion to the national product. Currently the SMEs sector in Tanzania contributes about 35 percent of the Gross Domestic Product (GDP)³.

In Tanzania, the importance and contribution of SMEs as a creator of employment, in particular to those with low skill levels is widely recognised. Tanzania has about 3 million SMEs contributing about 23.4 percent of the total employment and 27 percent to the GDP (URT 2012). This indicates how, important the sector is in the area of employment creation and economic development.

While recognizing the need to have a growing SMEs' sector, the Government of Tanzania has seen the need to promote the growth of SMEs as necessary for attaining its development vision 2025. The government of Tanzania has been carrying out different initiatives in terms of support services aimed at strengthening SMEs sector in the country. The recent efforts date back to 1973 when the Small Industries Development Organisation (SIDO) was established to play a central role

¹ OECD, 2005 SME and Entrepreneurship Outlook: OECD Paris, page 17.

² Small and medium Enterprises Development Policy-2003

³ MSME National Baseline Survey 2012

in managing the participation of government in supporting Small Scale Industries (SSI) in the country.

1.2 Motivation of the Audit

The audit was motivated by the following issues:

a) SME is the priority area of the Government of Tanzania

Small and Medium Scale Enterprises is the key to industrialization, being categorised among the priority areas of the Government of Tanzania. Tanzania National Five year Development Plan of 2016/17- 2020/21 is themed “Nurturing Industrialization for Economic Transformation and Human Development”. It is the priority area for the Fifth Government Phase that is committed to bringing about fundamental improvements in the lives of Tanzanians.

SMEs is among the major players in promoting sustainable development of any country as described clearly in the United Nation’s 2030 Agenda for Sustainable Development (SDGs). It supports four (4) of the seventeen (17) Sustainable Development Goals of the United Nations. Those four SDGs include: (1) Zero hunger, (2) Decent Work and economic growth, (3) Industry Innovation and Infrastructure, and (4) Reduced Inequalities.

b) Unsatisfactory performance of existing SMEs in Tanzania

Despite the government’s efforts being geared in supporting SMEs, the current performance of small and medium scale industries has not been satisfactory to the level of transforming the country into a semi industrialised country by 2025. SMEs in Tanzania are still facing various challenges including lack of business skills, limited access to finance and administrative constraints that have been impeding their growth for years⁴.

c) Unsatisfactory Contribution of SME to Gross Domestic Product of the Country(GDP)

Tanzanian economy, the country’s gross domestic product (GDP) was estimated to be US\$33 billion in 2013. Its labour force comprises some 22.1 million people, approximately 20 percent of whom are employed by SMEs. More than 95 percent of businesses in Tanzania are small and medium enterprises, and together they contribute about 35 percent of

⁴ World Bank Economic Update _Tanzania 2014

the country's GDP⁵. Based on the study conducted by World Bank in 2014, it was indicated that 6 out of 10 sampled SMEs either failed or stopped operating, 85 percent of SMEs are either stagnant or exit the market, hence creating and sustaining low quality jobs. SME sector have been unable to effectively contribute to economic competitiveness, exports, tax revenue, and economic growth.

d) Little contribution of SMEs to the Manufacturing exports

The stagnation and uneven growth of SMEs can limit the country from becoming semi-industrialized by 2025. With manufacturing industries accounting for less than 10 percent of national GDP, Tanzania remains one of the least industrialized countries in the world⁶. The SMEs in Tanzania contribute to less than 1 percent of the Manufactured Exports⁷. This is not satisfactory particularly for a country that is intending to become an industrialised country.

Therefore, the National Audit Office decided to conduct the performance audit on Management of Small and Medium Enterprises to assess whether support services for the growth of small and medium enterprises are effectively planned, executed and evaluated in Tanzania and then, suggest workable solutions in the form of recommendations to redress observed problems.

1.3 Design of the Audit

1.3.1 Audit Objective

The main objective of this audit is to assess whether support services for Small and Medium Enterprises (SMEs) are effectively planned, executed and evaluated by the Ministry of Industry, Trade and Investments (MITI)⁸ and Small Industries Development Organization (SIDO) in order to promote growth of SMEs in the country.

Specifically, the audit focused mainly on determining:

- a) The extent of growth of SMEs sector in the country with support services provided by MITI and SIDO;
- b) Whether the Ministry and SIDO are setting their plans in a manner that responds to the needs of SMEs;

⁵2014 World Bank report

⁶ Tanzania Industrial Competitiveness Report (2012)

⁷ Promoting Entrepreneurship and innovative SMES in a global economy June 2004 pg. 12

⁸Throughout this report the Ministry of Industry , Trade and Investment will be referred as the Ministry

- c) Whether the Ministry and SIDO are effectively implementing the planned support services to SMEs; and
- d) Whether the Ministry and SIDO are monitoring and evaluating the provision of support services to SMEs to ensure that targets are achieved.

In order to clearly operationalize the above audit objectives, more specific audit questions and sub - questions have been prepared as provided in **Appendix Two**.

1.3.2 Scope of the Audit

The main audited entities were the Ministry of Industry, Trade and Investments and Small Industries Development Organisation as they are the main entities responsible for the provision of support services to SMEs in the country.

The audit focused on assessing the overall strategic planning of the SMEs as determined by the Ministry of Industry, Trade and Investments. The audit also assessed the provision of support services to SMEs and monitoring and evaluation of the provision of support services.

The audit focused on formulation of strategies and needs identification, prioritisation of SMEs needs and coordination of key stakeholders at the planning level. At the implementation level, the audit looked on dissemination of services (rendering), coordination, supervision and mentoring of SMEs. In monitoring and evaluation level the audit assessed the development and use of key performance indicators, performance reviews, extent to identify the challenges which were addressed and redressed by SIDO and the Ministry as well as effective communication at the monitoring and evaluation level.

Among the priority sectors supported by SIDO, the audit focused on Agro-processing and Light Engineering subsectors. The two subsectors were chosen because they were the key priority sectors in the National Development Vision 2025 which is the nation-wide overall strategic guidance for the industrialisation initiative in Tanzania. Furthermore, these sectors are more linked to other SMEs sub-sectors like leather, textiles, services etc. and their improvements may easily impact on the other important sectors.

The audit covered a period of four years from 2013/14 up to 2016/17 for assessing the four major support services offered by MITI and SIDO to SMEs focusing on Agro-processing and Light Engineering subsectors. This is the period when the government has emphasised industrialisation initiatives. It also offers the perfect time to evaluate how SMEs have

evolved and changed so as to attain the overall government industrial development objective.

1.3.3 Sampling, Methods for Data Collection and Analysis

(i) Sampling techniques used

Based on their responsibilities and mandate, the audit team collected data from the Ministry and Small Industries Development Organisation (SIDO). Within SIDO the audit covered six (6) main regions of Mainland Tanzania whereby one SIDO Regional office from each geographical zone was selected for the purpose of gathering facts that have a nationwide geographical representation.

From each of the six zones, the team used purposive sampling technique for selecting the SIDO Regional offices basing on two main criteria; those regions implementing support programmes for both agro processing and light engineering subsectors, and those regions with high intensity in terms of number of support programmes among those implementing both programmes. The regions covered were Arusha, Dar es Salaam, Singida, Kagera, Mbeya and Mtwara.

Within the Ministry, data were collected from the department of Small and Medium Enterprises which is responsible for overseeing SMEs sector within the Ministry of Industry, Trade and Investments. Within SIDO, data were collected from the Regional Manager's office which is the main coordination/focal point for support programmes operating in regions. Additionally, within regions, data were also collected from the workshops/sites that are hosting evidences of practical implementation of support programmes.

For the purpose of getting relevant information to evaluate the support services rendered to SMEs by SIDO, the audit team made random sample of thirty-six (36) SMEs from the list of SMEs in the Regional Offices to be interviewed. The selection was based on two criteria; Selected SMEs which were either practising Agro processing and/or Light Engineering, and SMEs which received or were supposed to receive at least one of the support services provided by SIDO.

(ii) Methods for data collection

(a) Interviews

To be able to respond to the audit questions and provide adequate conclusions against the audit objective, interviews were conducted. The interviews assisted in obtaining more information and clarifications on the current and previous practice of the government in providing support services to SMEs. The audit team conducted interviews with officials from the Ministry, Small Industries Development Organization (SIDO), SIDO Regional Offices⁹, Small and Medium Enterprises Business Owners and Civil Society Organizations such as VIBINDO. Officials interviewed were at management and operational levels so as to acquire relevant information on the provision of support services to SMEs rendered by the Government and challenges encountered.

Details regarding officials and other individuals who were interviewed in this Performance Audit are provided in **Appendix Three**.

(b) Documents Review

The team reviewed documents from the Ministry, Small Industries Development Organizations head quarters, and regional offices¹⁰, Small and Medium Enterprises Business Owners and Civil Society Organizations such as VIBINDO (Jumuiya ya Viwanda na Biashara Ndogondogo) in order to get comprehensive, relevant and reliable information on the provision of support to SMEs rendered by the Government.

The review focused mainly on documents relating to implementation reports, strategic and annual plans, documented current challenges facing SMEs, monitoring and evaluation plans and implementation reports. The documents reviewed were those containing information within the selected audit timeline; 2013/14 - 2016/17. The documents included: (1) Planning documents (2) Performance and progress reports (3) Manuals and Guidelines (4) Policies and Acts and other relevant reports.

An account of the documents which have been reviewed is provided in **Appendix Four** of this report.

⁹Arusha, Dar es salaam, Singida, Kagera, Mtwara and Mbeya Regions

¹⁰Arusha, Dar es salaam, Singida, Kagera, Mtwara and Mbeya Regions

(c) *Physical Observation*

To have a better understanding of the level of support services offered to the SMEs, the team conducted site visits to the support service centres which offer variety of services.

The audit team accompanied by representatives from respective SIDO Regional Office visited six Training and Business Consultancy centres to observe training and mentoring sessions. Two Technology Development Centres, Five Incubation Centers and four workshops were visited to see the level of technological support services rendered to the SMEs.

Trade exhibitions that took place at Singida Region were attended by the audit team in order to assess the degree to which they are effective in promoting SMEs products. Display Centers were also visited to see the extent to which the displays promote SMEs products and the level of marketing support services provided to the selected SMEs. One Loan Disbursement Centres was also visited to see the level of financial support services to SMEs.

(iii) *Methods for data analysis*

The audit team used different techniques to analyse the qualitative and quantitative data that were collected during the execution of this performance audit.

(a) *Analysis of Qualitative Data*

Content analysis techniques was used to analyse qualitative data by identifying different concepts and facts that originated from interviews or document reviews and were categorised based on their assertions.

The extracted concepts or facts were either tabulated or presented as they were to explain or establish relationship between different variables originating from the audit questions.

The recurring concepts or facts were quantified depending on the nature of data being portrayed. The quantified information (concepts/facts) were then summed or averaged in spreadsheets to explain or establish the relationship between different variables.

(b) *Analysis of Quantitative Data*

Quantitative data with multiple occurrences were tabulated in spreadsheets to develop point data or time series data and relevant facts were extracted from the figures obtained. The tabulated data were

summed, averaged or proportioned to extract relevant information and relationships from the figures.

The sums, averages or percentages were portrayed using different types of graphs and charts depending on the nature of data to explain facts for point data or establish trends for time series data. Other quantitative information/data with single occurrence were presented as they were in the reports by explaining the facts they asserted.

1.3.4 Assessment Criteria

In order to assess the extent of the provision of support services to SMEs, different assessment criteria were drawn from different sources such as: Policies, Legislations Acts and Regulations), Guidelines and best practices for the provision of support services to SMEs. The assessment criteria used in this audit were based on the following specific areas.

Setting plans that respond to the needs of SMEs

The SIDO Act (1973) requires SIDO to plan and coordinate the activities of Small Enterprises in Tanzania. This is by promotion of enterprises and provision of the support services such as trainings, technological, financial and marketing.

SME Development Policy (2003) requires MITI and SIDO to put in place a number of strategies and programs aimed at addressing major constraints facing SMEs. Also, the Small Industries Development Organisation (SIDO) is required to facilitate acquisition and adaptation of technologies as well as enhance networking between R&D institutions and SMEs in a bid to upgrade technologies so as to raise the productivity and competitiveness of the sector.

Implementing the planned support services to SMEs

SIDO Corporate Strategic Plan (2014-2017) requires SIDO to provide capacity strengthening services such as specific business skills, technical and management support, entrepreneurship skills, business diagnosis and mentoring, technology upgrading, credit and financial linkages.

Integrated Industrial Development Strategy (IIDS 2010 - 2025) provides concrete strategies for carrying forward the Sustainable Industries Development Policy objectives under the newly emerging economic environment and contributes to the realization of targets stipulated in Tanzania Development Vision (TDV) 2025. This is through setting a vision of providing growth opportunities for all growth-oriented Micro, Small and Medium scale enterprises and entrepreneurs through provision of

attentive supporting measures responding to all development stages so as to up-grade and scale-up local industries.

Monitoring and evaluating the provision of support services to SMEs

SME Development Policy (2003) requires MITI to coordinate the SME policy implementation, collection, compilation and analysis of various programmes addressing the policy objectives. The Policy further requires MITI to ensure that SMEs related components articulated in the SMEs policy are adequately implemented, harmonised and coordinated.

SIDO Corporate Strategic Plan (2014-2017) required SIDO to monitor the implementation of its activities in order to maintain or improve its performance over time to ensure that targets are achieved as planned.

The Corporate Strategic Plan further requires SIDO to carry out continuous monitoring and evaluation to ensure gradual assessment of implementation progress and realisation of the intended objectives. SIDO should track service delivery effectiveness by observing performance indicators on efficiency and productivity, SMEs business growth and product quality as well as indicators on employment creation capacity.

1.4 Data Validation Process

The Ministry of Industry, Trade and Investment (MITI) and Small Industry Development Technology (SIDO) were given opportunity to go through the draft report and comment on the information and figures presented. The Ministry and SIDO confirmed on the accuracy of the information and figures presented in the report.

The information was crosschecked and discussed with experts in the field of micro, small and medium enterprises development to provide expert opinions and confirm the validation of the information and facts presented.

1.5 Standards used for the Audit

The audit was done in accordance with International Organization of Supreme Audit (INTOSAI) Performance Auditing standards. These standards require that, audit is planned and performed in order to obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusion based on audit objectives. It is believed that according to the audit objectives, the evidence obtained provided reasonable basis for the findings and conclusion.

1.6 Content and Structure of the Report

The remaining part of this report is presented as follow:

Chapter Two presents the description of various actors and processes involved in the provision of support services to SMEs.

Chapter Three presents the findings of the audit related to extent of growth of SMEs sector.

Chapter Four presents findings related to strategic and annual planning, and implementation of support services to SMEs.

Chapter Five presents findings on the areas of Monitoring and Evaluation of the provided support services.

Chapter Six provides overall conclusion and specific conclusions of the performance audit based on findings.

Chapter Seven provides recommendations that are directed to the Ministry and Small Industries Development Organisation (SIDO) in order to improve the provision of support services to the SMEs in the country.

CHAPTER TWO

SYSTEM FOR PROVISION OF SUPPORT SERVICES TO SMEs

2.1 Introduction

This chapter presents the information on the system and processes for the provision of support services to SMEs in Tanzania. It covers legal and administrative framework, key stakeholders involved, their main responsibilities and processes for the provision of support services to SMEs in the country.

2.2 Governing Legislations and Policies in Provision of Support Services

2.2.1 Legislations

The Small Industries Development Act of 1973

The operations of SMEs in Tanzania are guided by this legislation, which provides the priorities for all other derivative strategies. Also, this legislation requires SIDO to provide necessary services for the development of small industries.

The Act stipulates the responsibilities of SIDO which includes facilitating entrepreneurship, offering extension services including business development services and financial services, promoting technology development and transfer, providing technical services, disseminating business information and marketing.

2.2.2 Policies

There are four main policies that govern provision of support services to SMEs. These are:

(a) Small and Medium Enterprises Development Policy of 2003

SME Development Policy was formulated to provide guidance for the provision of support and promotion services to SMEs in Tanzania. The overall objective of this policy is to encourage job creation and income generation. This is through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy.

The policy aims at identifying specific strategies targeted to stimulate SMEs to play a crucial role in transforming the predominantly agricultural economy of Tanzania into an industrialized economy. Additionally, the policy aims at providing the guidance for supporting and strengthening non-governmental institutions that are engaged in supporting SMEs in Tanzania.

(b) *The National Micro Finance Policy (2000)*

The policy provides guidance on the provision of financial services to small and micro enterprises in rural as well as in the urban areas in the sectors that are engaged in all types of legal economic activities. The overall objective of the policy is to establish the basis for an evolution of efficient and effective micro finance system that serves the low-income segment of the society and thereby contributes to economic growth and reduction of poverty.

(c) *The Sustainable Industries Development Policy - SIDP (1996 - 2020)*

The policy places specific emphasis on promotion of small and medium industries through supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs; and improve SMEs access to financial services.

In addition, the policy encourages informal sector businesses to grow and be formalised. Furthermore, the policy identifies measures to enable indigenous entrepreneurs, women, youth and people with disabilities to take part in economic activities.

(d) *The National Trade Policy (2003)*

The policy provides guidance on implementation of strategies for the development of hard and soft infrastructure through encouraging reforms underpinning the emergence of suitable credit culture as the means of stimulating efficient financial intermediation in support of the SMEs segment.

Furthermore, the policy stipulates permissible subsidies that are to be given to SMEs by the government which are intended to increase and diversify production and exports, promote technological development and enhance competitiveness both in the domestic and international markets.

2.3 Key actors in the provision of support services to the SMEs

The main identified key actors responsible for the provision of support to SMEs are the Ministry of Industry, Trade and Investments (MITI) and Small Industries Development Organization (SIDO).

The Ministry of Industry, Trade and Investments

The vision of the Ministry is to have competitive industrial base that supports inclusive and sustainable economic growth. It oversees the implementation of SMEs Development Policy for all stakeholders, which include both public and private organizations.

The mission of the Ministry is to promote a competitive and sustainable industry base with global supply base for trade that takes geographical advantage, and resource endowment, through policies, strategies and plans for inclusive industrial transformation.

For the Ministry through its SMEs Department, one of its objectives is to create conducive environment for graduation and formalization of informal sectors. It has the following functions:

- (i) Develop, monitor, evaluate and review implementation of SME policy, guidelines, legislations and standards;
- (ii) Develop mechanisms for ensuring that SMEs comply on environment issues and thus builds environmentally responsible entrepreneurship;
- (iii) Develop and implement strategies for enhancing graduation and formalization of the informal sector; and
- (iv) Develop strategies for facilitating SME to access financial services.

Small Industries Development Organisation (SIDO)

The establishment of SIDO is under Section 3 of the SIDO Act of 1973. It uses a three-year corporate strategic plan to implement its programs. It has a vision for leading business support organization, unlocking potentials for growth and competitiveness of SMEs. It has a mission to create, promote and sustain innovative entrepreneurial base by providing SMEs with tailor made services in a businesslike manner. SIDO, therefore, implements the SME's Development Policy of 2003. SIDO also plans, coordinates, promotes, and offers services to small industries.

SIDO Main Objectives

The planned goals as indicated in SIDO's Corporate Strategic Plan (2014-2017) and the vision of SIDO are achieved through effective implementation of the following set of objectives:

- a) To facilitate SMEs access to technology, infrastructure and technical services;
- b) To facilitate business skills development services for SMEs;
- c) To facilitate SMEs access to markets and information;
- d) To facilitate SMEs access to finance; and
- e) To enhance operational capacity of the organisation

2.4 Roles and Responsibilities of Other Stakeholders

This section describes the roles and responsibilities of other stakeholders apart from MITI and SIDO who are involved as providers or regulators of the support services provided to SMEs. These include sector Ministries, regulatory bodies, training and financial institutions. The role of each stakeholder is described as follows;

i) Sectorial Ministries

Sectorial Ministries for Small and Medium Enterprises are those which have direct interests to SMEs. These include: the Ministries of Agriculture, Food Security and Cooperatives, Livestock and Fisheries, Energy and Minerals, Natural Resources Tourism, Education, Science, Technology and Vocational Trainings, Finance and Planning, President's Office - Regional Administration and Local Government and the Ministry of Works, Transport and Communication. The roles of these Ministries include harmonisation of their strategies with National Strategies in relation to provision of support to SMEs, implementation of other support programmes that are attached to their ministries or from other support agencies.

ii) Regulatory Bodies

The regulatory bodies are responsible for regulating the activities of SMEs directly or indirectly. The regulatory bodies with significant roles to SMEs include: Business Registration and Licensing Authority (BRELA), Tanzania Revenue Authority (TRA), Tanzania Bureau of Standards (TBS), Tanzania Food and Drugs Authority (TFDA) and Tanzania Trade Development Authority (TanTrade). The roles of regulatory bodies include: ensuring that the registered SMEs operate legally in accordance with their licensed businesses, have commodities that conform to set standards and quality to enable exportation, pay statutory deductions

and taxes, and meet the safety standards when conducting their operations in workplaces.

iii) Training Institutions

These include all universities, colleges and vocational education training institutions which participate in the design and implementation of support programmes and offer business education support services to equip SMEs with business knowledge for running their businesses. These include the likes of UDSM-UDEC, VETA etc.

iv) Financial Institutions

The financial institutions play a major role in the provision of financial support services for the SMEs in order to raise their capital or finance their operations. The financial services are offered to SMEs using their own guarantee or by using the government guarantee through SIDO. The financial institutions offer credit loans to SMEs in specific sectors with softer loan terms as compared to the traditional loans offered to other business entities.

The main services offered by these institutions are loans and business education on better utilisation of the loans issued to them

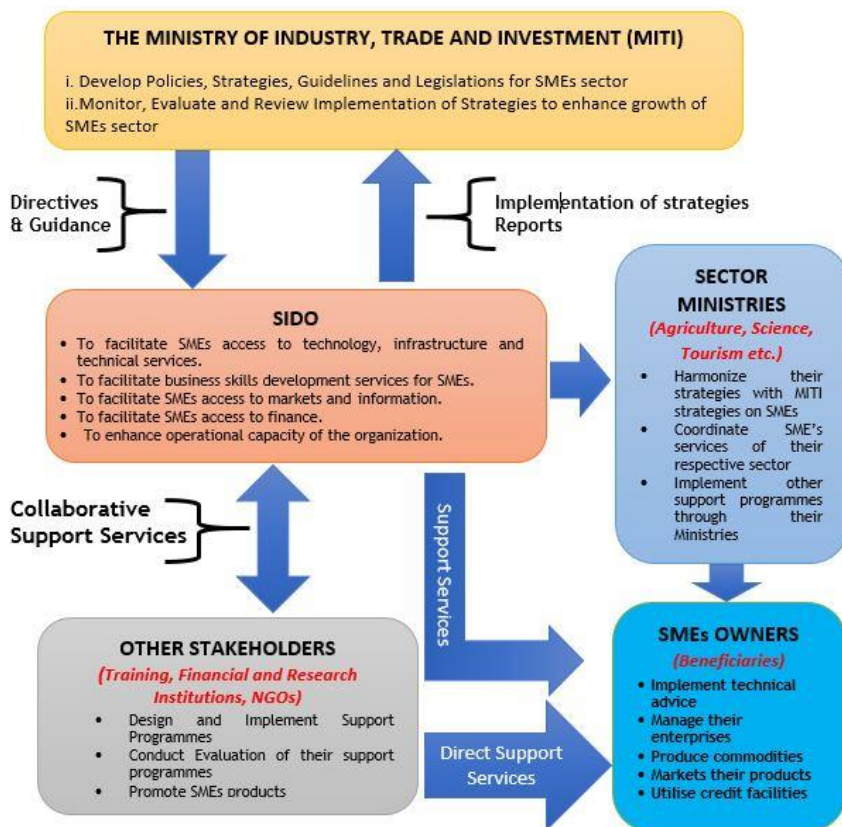
v) Other Institutions that provide support to SMEs

In collaboration with SIDO, they offer support and promotion services in terms of skills development, advocacy on policy issues, technology development, enterprise promotion and legal matters. These organisations also coordinate support programs through various organisations and societies, provide technical support services for adopted and innovated technologies through capacity development interventions, mentoring and coaching. The consultants and institutions with the most significant interactions in support for SMEs are:

- a) Tanzania Chamber of Commerce and Industries Association (TCCIA);
- b) National Economic Empowerment Council (NEEC);
- c) Tanzania Engineering and Manufacturing Design Organisation (TEMDO);
- d) Tanzania Private Sector Foundation (TPSF);
- e) Tanzania Industrial Research and Development Organisation (TIRDO);
- f) VIBINDO Society; and
- g) Tanzania Food Processors Association (TAFOPA).

The relationship and roles of different key players and stakeholders in the provision of support services to SMEs is shown in Figure 2.1.

Figure 2.1: The Relationship and Roles of Different key Players and Stakeholders in the Provision of Support Services for SMEs



2.4.1 Processes for the Provision of Support Services to SMEs

The processes for the provision of support services for SMEs fall in two levels. There are processes at the higher levels whereby the Ministry and SIDO together with other stakeholders take part in preparations of guidelines and plans for implementations of provision of support services. This process has four stages to ensure that the needs of SMEs are carefully addressed at the implementation levels.

The *first stage* is Overall Needs Identification. This is a process that is mainly taken care by MITI. The process establishes the needs of SMEs to be taken care of in order to promote the growth of SMEs. This process may involve SIDO and other stakeholders. However, the main roles are

done by the Ministry. The process is done through conducting different types of surveys and stakeholders' consultations. The final output of this activity is the policy and other higher-level guidelines that govern the provision of support services for SMEs.

The *second stage* is Strategic and Business Planning. At this stage MITI and SIDO are involved in the development of short term and long-term plans that are aimed at addressing the needs identified in the previous stage. At this stage, the Ministry comes-up with a long-term Strategic Plan and SIDO comes-up with a long-term Corporate Strategic Plan. All of these are geared towards addressing needs and emerging issues established by the policies and other guides introduced by the Ministry. Short-term plans include annual business plans at both MITI and SIDO which represent a more specified approach of addressing issues included in Strategic and Annual Business Plans.

The *third process* is the actual Provision of Support Services. This is done through implementation of the agreed plans in the strategic and annual plans in order to achieve the targets set. This process is solely done by SIDO in the side of the government. The Ministry stands to be the overseer of the effectiveness of the execution of the plans established. However, some of the services such as consultations of the SMEs owners are done by MITI and some of the services such as financial support and trainings are done by other stakeholders as well as SIDO depending on the nature of its intensity. The third process has five sub-processes that are undergone in order to ultimately bring the support services to SMEs described as follows:

(i) Mobilisation of funds and Preparation of Implementation Plans

This is the initial stage in the implementation of the provision of support services. At this stage SIDO receives funds from different sources for implementing the provision of support services for SMEs. From the government, SIDO receives development funds to undertake different tasks for enhancing the growth of SMEs. The development funds are distributed to regional offices who are the actual implementers of the services. Development Partners represent another source for funds SIDO receives to offer support services to SMEs. The funds from Development Partners may be received directly or applied through project proposals from respective regions. At this stage, SIDO also develops implementation plans for carrying out the identified activities. These may include training, marketing, exhibition plans etc

(ii) Identification of Eligible Beneficiaries

At this stage, SIDO identify potential beneficiaries for different services who are ready to receive the services from SIDO. At this stage, the

potential beneficiaries may be those visiting SIDO offices and placing their request for different services e.g. loan applications, technology/machines orders, product packaging demands, training applications, Regional SMEs registers requests etc. All SMEs in need of the services are identified and their eligibility for requested services is determined i.e. whether they qualify for SMEs loans, or are requesting proper type of trainings etc.

(iii) Assessment of SMEs Demands

At this stage, SIDO assesses the demands and prepares the right treatment to SMEs requesting different types of services. That is, SIDO decides either of the following:

- a) Whether to offer technical trainings to SMEs;
- b) Whether SMEs qualify for loans amount requested;
- c) Whether SMEs are capable of paying the loans requested;
- d) Whether the technology requested will be beneficial to the SMEs; and
- e) Whether the type of trainings applied falls within the priorities of SIDO etc.

(iv) Disseminate the Required Services

At this stage SIDO offers the required services to SMEs after establishing their eligibility and their capacity to deliver the requested services. SIDO provides actual services to SMEs to meet their demands in the financial services, technologies, marketing services and business trainings services. The products of this stage are the trainings conducted, credit loans offered, marketing opportunities, machines and technical services provided, exhibitions organised etc.

(v) Monitoring and Evaluation of the Services provided

SIDO conducts an evaluation of support services for SMEs. This stage involves conducting monitoring and evaluating implementation of support services to SMEs. Evaluation at SIDO is done with reference to service provision only. The different indicators established in the annual and strategic business plans are monitored to check whether they are being met. The facilitators of support services are evaluated whether they are delivering at the required levels.

The *fourth stage* is at the general levels of the provision of support services for SMEs in Tanzania. This involves monitoring and evaluation and performance management of implementation of support service to SMEs. At this stage, MITI oversees the implementation of the agreed plans and strategies through conducting monitoring and evaluation of the support services at SIDO and ensuring that SIDO is performing at the

agreed levels. This is done through conducting surveys, M&E visits and supervision visits to SIDO whereby technical advice is given whenever there is a risk that policy and strategic objectives may not be met.

According to the Ministry of Industry, Trade and Investments' (MITI) Strategic Plan for the period from 2011/12 to 2015/16 the main indicators employed to measure the extent to which SMEs' development received supports are:

- a) Growth of SMEs from one level to another; growth can be from Micro to small, or small to medium. The growth level is measured on both aspects; number of employees and capital level;
- b) The ratio of formal against informal SMEs in the sector. This is a measure of the extent to which SMEs are able to produce competent products while operating with proper certifications for the production of particular product while registered with BRELA;
- c) Contribution of SMEs to Gross Domestic Product. This is done through countrywide surveys to determine the extent to which their activities contribute to the economy;
- d) The ratio of Micro to Small and Medium Enterprises. This is a subsequent measure of the growth of SMEs which determines the percentage of micro enterprises per each of small or medium enterprises; and
- e) The contribution of SMEs sector to employment. This aspect measures the extent to which SMEs contribute to the employment level of the country. This is also done through countrywide surveys which determine the number of people who have been employed by the current number of SMEs.

MITI also enters into a performance contract with SIDO to ensure that it is delivering at the agreed performance levels. Figure 2.2 shows a summary of the processes for the provision of support services to SMEs in Tanzania.

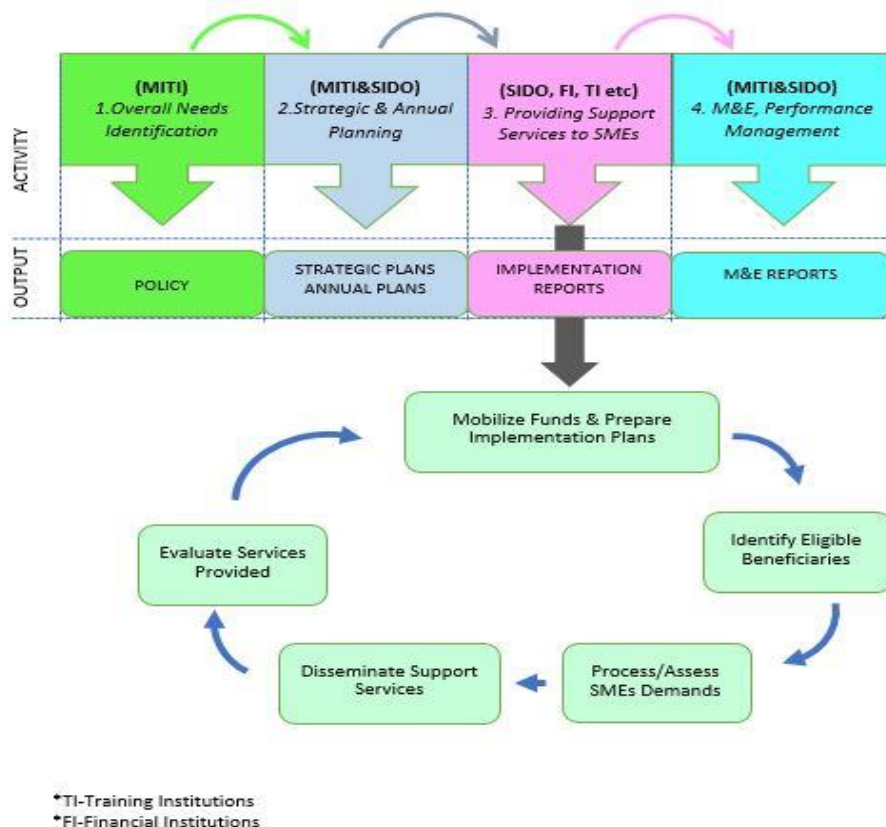


Figure 2.2: Processes for Provision of Support Services to SME's in Tanzania

2.5 Resources for the Provision of Support Services to SMEs

The provision of support services for SMEs is being supported by human and financial resources from the Ministry and SIDO. These resources are deployed to ensure that implementation of plans set in the two institutions is done accordingly and the targets set are achieved. The description of the resources and their allocation is as follows:

2.5.1 Human Resources at Ministry of Industry, Trade and Investments

The services for human resources at the Ministry are mainly coordinated by the Directorate of SMEs which reports directly to the Permanent Secretary. The Directorate has a total of 18 staff. This represents 7.5 percent of the total number of staff at the Ministry. The directorate has

two divisions; Enterprise Promotions and Business Support Services section. The distribution of staff is indicated in Table 2.1 below:

Table 2.1: Distribution of Staff at the Ministry of Industry, Trade and Investments

No. of Staff at MITI	No. of Staff at Directorate of SMEs	No. of staff at Enterprise section	No. of staff at Business Support Services Section
241	18	10	8

Source: Ministry of Industry, Trade and Investments

2.5.2 Human Resources at SIDO

Human resources at SIDO are organised through four major sections/directorates in order to deliver the required support services for SMEs. These directorates report directly to the Director General. The operations are further divided into regional offices which are reporting to the Directorate of Training and Regional Administration. The total number of staff at SIDO was 360 as at March 2017 whereby 73 of them are based at Headquarters and 287 are serving at Regional offices. The distribution of staff in terms of numbers is presented in Table 2.2 below:

Table 2.2: Distribution of staff at SIDO

	Unit/Section	No. of Staff	Percentage of staff out of Total
HEAD OFFICE	Director General's Office	12	3
	Finance & Administration	45	13
	Marketing, Planning & Investment	7	2
	Training & Regional Administration	6	2
	Technology Development & Industrialisation	3	1
REGIONAL OFFICES	Arusha	23	6
	Dar es Salaam	13	4
	Kagera	8	2
	Mbeya	21	6
	Mtwara	9	2
	Singida	11	3
	Other Regions	202	56
	TOTAL	360	100

Source: SIDO-Management Information System (MIS)

2.5.3 Funding for Development of SMEs

Funding for Development of SMEs at the Ministry of Industry, Trade and Investments

Government system funding for development of SMEs is mainly routed through the Ministry which is the overseer of the SMEs sector in the country. Funds in Ministry of Industry, Trade and Investments, are directed through the Directorate of SMEs which is responsible for managing the SMEs sector within the Ministry. The source of funds for the Ministry of Industry, Trade and Investments, and Directorate of SMEs in particular, includes government funding and donations. The following diagram indicates the amount of funds budgeted and actual amount received by DSMEs at the Ministry for the past four years.

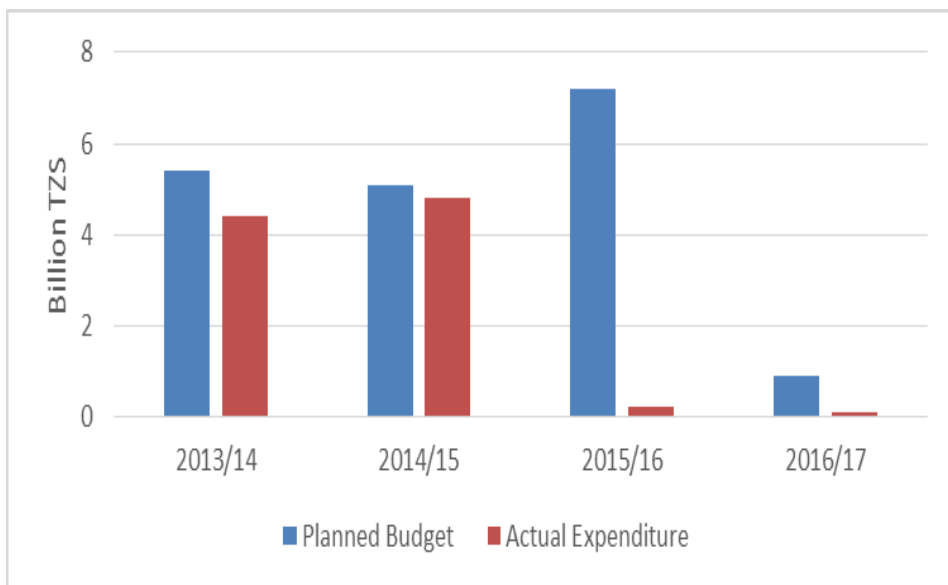


Figure 2.3: Budget for Development of SMEs at MITI

Source: MITI Budgetary Estimates (RANDAMA) 2013/14-2016/17

Figure 2.3 indicates that the Ministry received a total of TZS 9.5 billion as actual funds out of the planned TZS 18.6 billion in the past four years to finance the development of SMEs. This is an average of 2.4 billion per year. The highest funding was obtained in 2014/15 when the Ministry obtained a total of 4.8 billion. The lowest funding was in the financial year 2016/17 when the Ministry received only TZS 100 million to fund its SMEs activities.

Funding at SIDO

SMEs rely mostly on government subvention, income from use of assets, interest on loans and grants from other stakeholders. In order to support SMEs, SIDO plays an important role in networking with different stakeholders and development partners to solicit funds. Table 2.3 indicates sources of income for financing SIDO activities.

Table 2.3: Sources of Income for Financing SIDO Expenditure (Amount in Million Tanzanian Shillings)

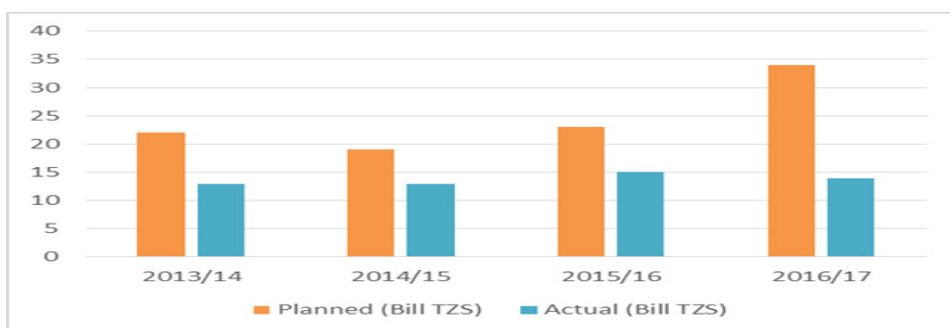
Financial Year	2013/14	2014/15	2015/16	2016/17
Subvention from Central Government	4.4	5.7	10.1	5.1
SIDO's Own Sources	6	7.4	9.5	7.8
Development Partners	3.6	5.4	4.9	2.1
TOTAL	14	18.5	24.5	15

Source: SIDO's Medium Term Expenditure Frameworks for the period from 2013/14 to 2016/17 (2018)

Table 2.3 indicates that for the last four years the income for SIDO has not been stable. Between financial year 2015/16 and 2016/17, SIDO budget was reduced by almost TZS 10 Billion. This was mainly due to the decreased subvention from the central government and development partners by half.

For the financial years 2013/14 to 2016/17 the planned and actual expenditure for SIDO were distributed as shown in Figure 2.4.

Figure 2.4: Budget at SIDO for financial year 2013/14 - 2016/17



Source: SIDO MTEF 2013/14-2016/17 (2018)

The figure shows the extent of planned and actual expenditures of funds at SIDO for different financial years since 2013/14. In the past four years SIDO planned to spend TZS 97 billion for its recurrent and development expenditures to enhance SMEs growth in the country. However, it received TZS 55 billion out of the planned budget. The amount received represents 56 percent of total funds requested with an average of TZS 13.7 billion per annum. The highest funding for SIDO was in the financial year 2015/16 when it received a total of TZS 15 billion equivalent to 66 percent of the total funds requested. The minimum funding was in year 2013/14 when SIDO received a total of TZS 13 billion.

CHAPTER THREE

GROWTH OF SMALL AND MEDIUM ENTERPRISES SECTOR

3.1 Introduction

This chapter presents the performance of the Ministry of Industry, Trade and Investments and Small Industries Development Organization (SIDO) in their role for provision of support services to SMEs to ensure sustainable growth. The findings address the first objective of this audit by showing the extent of SMEs growth as indicated by various indicators as detailed below:

3.2 Extent of Growth of SME's Sector in Tanzania

The Small and Medium Enterprises sector is among key sectors in driving the country's economy. This is because of its contribution extends to different sectors of the economy. Through the review of different researches and publications in development of SMEs in Tanzania as well as interviews with the government officials responsible for support services for SMEs development, the audit noted that, the growth of Small and Medium Enterprises in Tanzania has not reached a level that would enable the country to become a semi-industrialized country by 2025 as required by the Tanzania Development Vision for 2025. The reports have indicated that some SMEs were not growing and others closed businesses for the reasons discussed in this chapter.

This section therefore presents discussions and findings on the trend of growth of Small and Medium Enterprises using four key parameters namely; failure rate (rate of collapse), trend in graduation from one level to another, contribution to employment and contribution to the economy. The details are as presented in the subsequent sections.

3.2.1 SME sector contribution to the Employment is below target

The growth of SMEs was measured in terms of its contribution to employment and the economy in total. Since SMEs' activities are labor intensive and demand higher numbers of employees, the sector was expected to contribute significantly to employment. Interviewed officials from SIDO and the Ministry of Industry, and the review of researches on SMEs have indicated that, the SMEs sector has not contributed significantly to the employment.

Through the review of the five years strategic plan for MITI from 2012/13 to 2015/16, the audit team noted that, although the Ministry had set the

target for the contribution of SMEs sector to employment, it had not managed to measure or to track this information.

The audit used data obtained from the reviewed Integrated Labor Survey (ILS) of 2014 by the National Bureau of Statistics, employment level figures obtained from MITI and the 2016 country update by Economic and Social Research Foundation that were conducted on 2014/15 and 2015/16. These were compared with the Ministry's target. Table 3.1 provides the actual level of contribution to the overall employment level as compared to the planned levels of contribution as per the Ministry of Industry's plans.

Table 3.1: Overall Contribution of SMEs to the Employment Level for the Four Financial Years (2013/14 - 2016/17)

Details	2013/14	2014/15	2015/16	2016/17
Ministry Targeted level of contribution of SMEs to Employment (%)	50	55	60	(-) ^{11*}
Actual level of contribution to employment (%)	23.4	No Data	No Data	No Data
Actual level of contribution as per other sources (reviewed researches) (%)	No Data	20 ¹²	No Data	40 ¹³

Source: Ministry of Industry Strategic Plan of 2012/13- 2015/16, ILFS 2014 by NBS & ESRF Country update 2016 (2018)

From Table 3.1, it can be deduced that the overall contribution to employment by the SMEs sector has been below the target set by the Ministry for the years 2014/15 and 2016/17.

While the Ministry planned to achieve a target of 60 and 65 percent contribution to the labor force for the two years, the information from the reviewed researches indicated that the contribution was below target as it stood at 20 and 40 percent for 2014/15 and 2016/17 financial years respectively.

The contribution is currently estimated at 40 percent which is an increase of 17 percent on the baseline figure of 23.4 percent in year 2013/14.

¹¹ The indicator was changed to measure contribution by both men and women

¹² Based on ILFS 2014 by NBS and MITI

¹³ Based on ESRF Country Update 2016 "Promoting Participation of SMEs in International Trade"

3.2.2 SME Sector Contribution to the Economy is Below Target

The SME sector is expected to be among the leading sectors contributing to the economy; however recent trend in the data has shown that the sector's contribution has not been satisfactory.

According to indicators in the Tanzania Industrial Competitiveness Report conducted by UNIDO in 2012, the contribution of the SME sector in recent years has been unsatisfactory because it is performing below expected levels¹⁴.

The report mentioned that, manufacturing sector accounts for less than 10 percent of the National GDP and the country has remained as one of the least industrialized countries in the world.

The audit team established the trend of performance of SMEs by comparing their contribution to the economy through GDP for the period of four years from 2013/14 to 2016/17 as shown in Table 3.2:

Table 3.2: Contribution of SMEs to Gross Domestic Product

Details	2013/14	2014/15	2015/16	2016/17
Ministry of Industry Set Target for the SMEs contribution to GDP (%)	36	38	40	No Data
Actual Performance as per MITI (%)	27	No Data	No Data	No Data
*Actual performance as per other sources (%)	No Data	No Data	35	No Data

Source: Ministry of Industry Strategic Plan of 2012/13- 2015/16 & ESRF Country update 2016 (2018)

From Table 3.2, it can be deduced that the contribution of SMEs to GDP level has been below the target set by the Ministry. Although, the Ministry planned to achieve a growing trend in the levels of contribution of SMEs to GDP, from 2014/15 to date, it has not established whether the planned levels were attained or not.

Data obtained from other sources such as Economic and Social Research Foundation (ESRF) through its Country Update of 2016, established that the contribution to GDP from the SMEs sector by 2015/16 was 35 percent, which is below the target of 40 percent set by the Ministry.

¹⁴ Tanzania Industrial Competitiveness Report (2012)

Reason for Low Growth of Small and Medium Enterprises in Tanzania

Review of various performance reports from both the Ministry and SIDO, the audit noted that, SMEs lack business management experience, functional skills, technology development, market infrastructure; financial capacity which affect their growth. All of these noted gaps for the SMEs' development are associated with inadequate provision of support services.

Furthermore, discussions with officials at the Ministry have indicated that the slow growth of the SMEs in Tanzania is a result of external (business environment) and internal factors. External factors include legal and regulatory framework, inadequate infrastructure, limited access to external finance and human resources capacity. The internal factors include characteristics of entrepreneurs, managerial capacities, marketing skills and technological capacities.

The subsequent subsections and chapter provide the details of the causes for the inadequate provision of support services to SMEs in the country and to what extent MITI and SIDO have played their part in addressing those reasons.

3.2.3 Higher Rate of Failure (Collapse) than Growth Rate for SMEs

The main vision of the Small and Medium Enterprises Development Policy of 2003 is to have a vibrant and dynamic SMEs sector that ensures effective utilization of available resources to attain accelerated and sustainable growth. To achieve this, the Ministry and SIDO were required to create conducive environment for which SMEs would sustainably grow and make an effective utilization of the resources available in the country.

However, analysis of the recent statistics of growth and failure of SMEs from the Ministry and SIDO has shown that, the sector is not growing in a sustainable way. The analysis has indicated that the rate of collapsing of SMEs is higher than the rate of growth. Because the records obtained from the Ministry were different from those obtained from SIDO, the auditors compared the trend of growth and failure (collapse) for the two sets of data. Figure 3.1 indicates the rates of growth for SMEs as compared to the rates of collapse from 2013/14 to 2016/17.

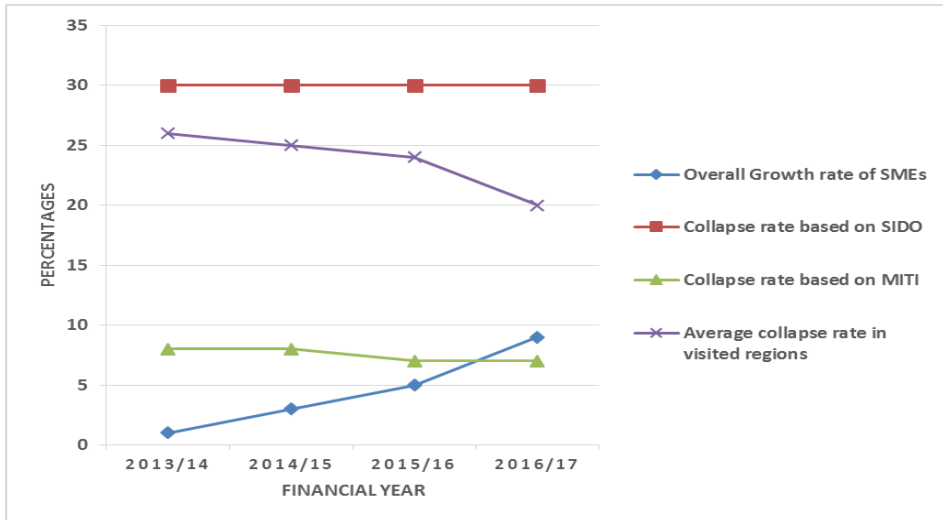


Figure 3.1: The rates of collapse compared to growth rates for SMEs sector in Tanzania
(Analyzed from Data obtained from the Ministry of Industry and SIDO, 2018)

According to Figure 3.1, despite the fact that the growth rate has been increasing, the rate of collapse of SMEs was noted to be higher than the growth rate. Both data obtained from the Ministry and from SIDO show that the rates of collapse is higher than the growth rate.

According to data obtained from the Ministry and SIDO, the average collapse rate for the past four years is between 8 and 30 percent respectively. While the growth rate was noted to be 5.6 percent, the statistics from SIDO, indicated higher rate, which meant that registered SMEs at SIDO had been collapsing at a rate of 30 percent consistently for the years 2013/14- 2016/17.

Further analysis was done from six visited SIDO regional offices, whereby the average rate of collapse was 24 percent which is also above the overall growth rate. The audit team made further analysis to compare average rates of growth and collapse in the visited regions to obtain the overall picture countrywide. Figure 3.2 presents the observation and comparison in the regional offices.

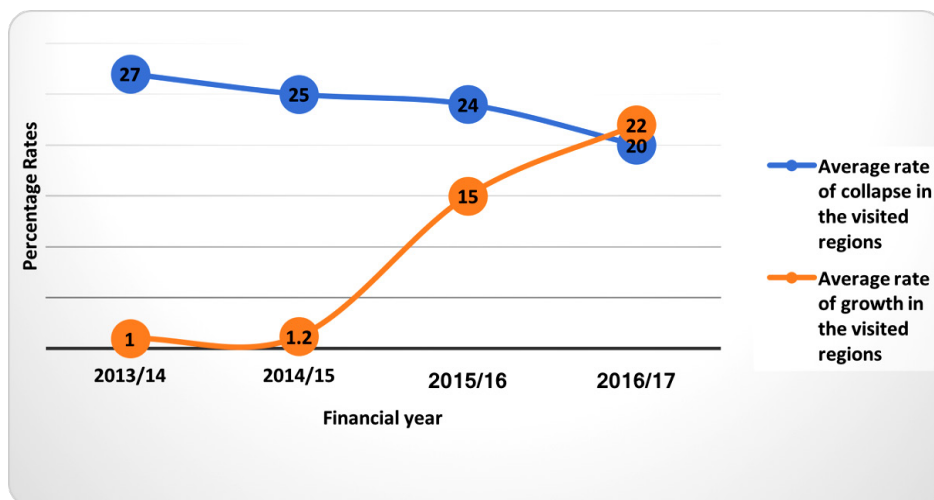


Figure 3.2: The average rates of growth and collapse in SIDO regional offices

Figure 3.2 indicates that the average rate of growth has been below the average rate of failure for SMEs which is 24 percent. This has been the same when the overall sector was assessed. The average rate of collapse declined slightly in regions from 2013/14 to 2015/16, while it remained above the growth rates until 2016/17 when the growth rates surpassed the collapse rates.

Through the review of diagnostic reports from SIDO, MSME Baseline Survey and the interviewed officials from MITI and SIDO, the audit team noted that, despite having increased number of registered SMEs; the sector is having higher collapse rates. The sector is growing at a declining rate because the SMEs sector is significantly characterized by new entrants who are highly unsustainable and dynamic. It was said that, this higher failure rate of new SMEs affects its potential contribution to job creation, economic growth and poverty reduction.

Furthermore, the surveys on Micro, Small and Medium Enterprises conducted by the Ministry of Industry and Trade in 2012 indicated that 83 percent of business owners stated that, the motives for starting their business were to provide support to their families. That implies that most of the businesses were not initially set for investment purpose but rather for subsistence.

3.2.4 Unsatisfactory Graduation Rates of SMEs

Among the key indicators for growth of SMEs is the rate for which they grow from low to higher level of operation (that is from micro to small and medium level). To achieve this, IIDS Part III Mission Statement 8 of

the SME Development Policy (2003), requires the Ministry of Industry to create enabling environment to enable manufacturing enterprises to graduate from one scale of the operational level to the higher level.

SIDO obtained the estimates of the number of SMEs graduating from the records maintained by regional offices. Inputs for the number of SMEs that have graduated were provided by SIDO. However, the computations were done by the audit team based on those estimates to establish the graduation rates.

Analysis of the trend of growth of SMEs from the statistics obtained from the Ministry of Industry and SIDO, have shown that the average rate of graduation was below the target set of 8 percent as an average per annum by the Ministry of Industry in its five years Strategic Plan for the period 2012/13 - 2016/17. Figure 3.3 shows the trend of graduation for the period of four years i.e. from 2013/14 to 2016/17.

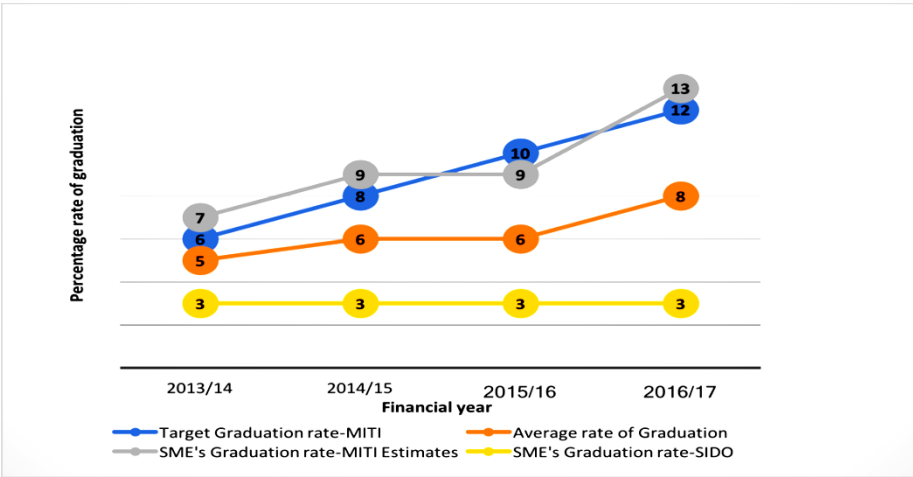


Figure 3.3: Percentage of SME Graduating from one scale of operation into another level for the period of Four years (2013/14- 2016/17)

Source: MITI's Strategic Plan for the period from 2012/13 to 2015/16

Figure 3.3 indicates that the average rate of graduation has been below the target set by the Ministry of Industry, Trade and Investments. In the past four years the average rate of graduation dropped, except for the year 2016/17 where rose slightly.

The audit team, however, noted that the rate of SMEs graduating from one level of operation to another differs where the data obtained from the Ministry were compared to those obtained from SIDO. As indicated in Figure 3.3, with exception of year 2015/16, the trends of graduation of SMEs based on the data obtained from the Ministry were above the set target for SMEs' graduation for the three years. However, based on the

information obtained from SIDO, the graduation rates have remained constantly below the set target for the whole period of four years. Despite the increased in number of SMEs registered from 100,351 in 2013/14 to 233,740 in 2016/17, the graduation rate remained constant at 3 percent for the past four years.

The data variances from the Ministry and those from SIDO were associated with the approach used for calculating the rates. Interviewed officials from the Ministry of Industry, Trade and Investments, mentioned that the given data were based on arithmetic estimations and not actual field data. Surveys on Micro, Small and Medium Enterprises had not been done for the past four years to obtain information. This was contrary to the requirements of strategic plan that required the Ministry to estimate the graduation rates of SMEs based on data collected from the field.

The audit noted that the growth of SMEs was affected by inadequate provision of support services by the Ministry and SIDO. The observed areas which caused the inadequacies were associated with planning, implementation, monitoring and evaluation of SMEs activities. More details are explained in the next two chapters (chapter four & five).

CHAPTER FOUR

PLANNING AND IMPLEMENTATION OF THE SUPPORT SERVICES

4.1 Introduction

In this chapter audit team assessed the effectiveness of the planning and implementation of the planned activities for the provision of support services to Small and Medium Enterprises. It also presents findings on coordination with stakeholders during the provision of the services. Supervision and mentorship done by SIDO and the Ministry of Industry during the provision of support services were also assessed to check if they were geared towards promoting the overall performance of SMEs.

Planning and implementation of the planned support services were noted to have the following weaknesses:

4.2 Inadequate Planning for the Provision of Support Services to SMEs

The audit team analyzed the different planning systems and processes for the provision of support services at the Ministry and SIDO. This was done to assess whether the planning processes were carried-out in a manner that safeguards the needs of Small and Medium Enterprises. The audit team also checked whether the set plans were realistic, comprehensive and achievable.

The following weaknesses were observed:

4.2.1 Inadequate coverage of Policy Objectives by Ministry of Industry Plans

According to Policy Statement No. 6.1.2 of SME Development Policy (2003), the Ministry of Industry and SIDO were required to have strategies and programs that address the needs of SMEs in the country. The Policy requires that the developed strategies should address major constraints facing SMEs. In doing so, the SME Development Policy (2003) pointed out seven objectives that have to be addressed by the government through the Ministry of Industry in order to enhance the growth of SMEs.

The SME Development Policy (2003) has aggregated the SMEs needs into policy objectives that have to be addressed in order to address SMEs needs. Sufficient coverage of the policy objectives meant a sufficient coverage of the SMEs needs. However, the review of Strategic Plan of

the Ministry for 2012/13-2015 has indicated that policy objectives were not sufficiently covered by the plans at the Ministry level.

The audit identified the following as the reasons for the Ministry of Industry not addressing SME Development Policy (2003) Objectives in their strategic objectives:

Policy Objectives were not sufficiently covered in the Strategic Plan of the Ministry of Industry, Trade and Investments

Through its Strategic Plans the Ministry is supposed to create actionable strategies so as to be able to stimulate and enhance the growth of the SMEs sector. The audit team noted that, the SMEs policy objectives were not well covered in the strategic plan of the Ministry of Industry; as a result some of the SMEs needs were not fully covered.

To analyze the extent to which the SME Development Policy (2003) objectives were covered in the Strategic plan, the auditors compared each of the SMEs policy objectives against the strategic targets for the recent and previous Strategic Plans of the Ministry, as presented in Table 4.1.

Table 4.1: The comparison of SMEs Policy objectives against Strategic Targets at the Ministry of Industry

SN	SMEs Policy Objective	Strategic Targets (2011/12-15/16)	Strategic Targets (2016/17-20/2021)	Performance score based on policy evaluation
1	Enabling Legal and Regulatory Environment for SMEs	Covered under strategic objective L	Covered under strategic objective C iv	Covered to a large extent
2	Improved Access to Physical Infrastructure and Work Places	Covered under the strategic objective a, d, b	Covered under strategic objective biaiaiaiaiv	Covered to a small extent
3	Strengthened Entrepreneurial Culture and Markets for Sustainable Business Development	Covered under the strategic objective g, h, j, c	Covered under strategic objective Ci, cii, ciii, cv and cvi	Covered to a small extent
4	Improved SME Access to Finance	Covered under the strategic objective E	Covered under strategic objective Bi,bii	Covered to a small extent

SN	SMEs Policy Objective	Strategic Targets (2011/12-15/16)	Strategic Targets (2016/17-20/2021)	Performance score based on policy evaluation
5	Strengthened stakeholder capacities to achieve effective implementation of SME assistance programmes and interventions	Covered under the strategic objective k, f	Covered under strategic objective biii,biv,bv	Covered to a small extent
6	Enhanced Rural Industrialization	Covered under the strategic objective G	Covered under strategic objective ci,aiii	Covered to a small extent
7	Cross Cutting Issues such as environmental considerations, gender and disadvantaged groups and HIV-AIDs	Not Covered	Covered under strategic objective Not Covered	Covered to a small extent

Source: MITI Strategic Plans 2011/12-15/16 and 2016/17-20/21, SME Development Policy (2003) Evaluation (2018)

The review of the previous strategic plan has indicated that the setting of strategic plans did not consider the possibility of attaining all policy objectives within the specified timeframe. In the Strategic Plan 2011/12-15/16 of the Ministry, twelve (12) targets were set for addressing policy objectives. However, 4 out of 12 targets were only addressing objective # 3. Three targets were addressing objective #2. Two of the targets addressed objective #5 while the remaining objectives were addressed by a single target only.

A further review of SMEs Policy (2003) indicates that it is nearly impossible for a single target to address a single objective because of different indicators embedded to each objective which require a different nature of activity. Objective #7 was not addressed by any of the targets and it was unlikely to be attained using interventions originating from the strategic plan.

The observation indicates that objective #1 was addressed by a single target, which was contrary to the findings of the SMEs Policy Evaluation which indicated that objective #1 was the only one which had been achieved to a large extent. However, objective #3 with the highest number of targets scored low, showing that although it had been

achieved to some extent it scored below average. This indicates that either the targets set were never attained or the results attained for instance in Objective #1 were a results of interventions independent of the Ministry of Industry or SIDO.

The discussions with officials at the Ministry of Industry have indicated that the Ministry is currently in the process of reviewing the SMEs Development Policy of 2003. The newly developed SMEs policy will show the roadmap of how to achieve the desired objectives and ensure growth of SME's sector in the country.

Insufficient Achievement of SMEs Policy Objectives and Indicators

The SMEs policy laid down by the Ministry of Industry developed objectives and indicators that were supposed to be achieved through strategic plans set by the Ministry of Industry and SIDO at different periods.

The review of the SMEs Policy which was made by the Ministry in 2017 pointed out weak attainments of the key policy objectives necessary for guiding efforts in development of the sector. The report indicated that only 1 out of 8 policy objectives was implemented on average while the remaining 7 were implemented below the average. The report further indicates that only 6 out of 43 indicators embedded within the policy objectives were done above the average.

The collective impact of not achieving the policy objectives and indicators is the slow growth of the sector amplified by its low contribution to the employment and GDP.

4.2.2 Mismatch of Roles between SIDO Corporate Strategic Plan & SIDO Act 1973

The enactment of the SIDO Act of 1973 was followed by the establishment of SIDO as an organization mandated to provide support services to 'Small Industries' and 'Small Industry Enterprises'. The law defined different roles that are to be performed by SIDO in order to fulfill its mandate. However, the review of the strategic plan of SIDO for the period from 2014/15 to 2016/17 indicated that the functions of SIDO are defined differently and that the Small Industry component has been modified in the definition of its roles. Table 3.4 shows the mismatch between the roles defined in SIDO Act and those defined in the strategic plan.

Table 4.2: Mismatch in Functions between SIDO Act 1973 and the Strategic Plan 2014/15-2016/17

Functions of SIDO as per SIDO Act of 1973	Functions of SIDO as per Strategic Plan 2014/15-16/17)
<p>To promote the development of small industries in Tanzania;</p> <p>To plan and co-ordinate the activities of small industry enterprises in Tanzania;</p> <p>To carry out market research in goods manufactured by small industries in Tanzania;</p> <p>To provide services necessary for or incidental to proper development of small industries to Parastatal organizations and other persons engaged in small industry enterprises;</p> <p>To advise the Government on all matters relating to the development of small industries in Tanzania;</p> <p>To carry out research in the development of small industries and marketing of products thereof, including the standard and quality of such products</p>	<p>To facilitate SMEs access to technology, infrastructure and technical services;</p> <p>)To facilitate business skills development services for SMEs;</p> <p>To facilitate SMEs access to markets and information;</p> <p>To facilitate SMEs access to finance; and</p> <p>To enhance operational capacity of the organisation</p>

Source: SIDO Act 1973 and SIDO Corporate Strategic Plan 2013/14 - 2016/17 (2018)

The review has indicated that the SIDO Corporate Strategic Plan has changed the mandate from the role of ‘providing’ to ‘facilitating’ Small Industries to ‘SME’ that includes micro, small, medium enterprises from all sectors including commerce and services. The role of conducting research in the development of small industries and marketing of products also seems to have been neglected by SIDO. This is simply because SIDO has not conducted any research on marketing apart from a few market searches conducted for SMEs.

Furthermore, it has been indicated that the concept of ‘Small Industries’ is no longer considered in the planning by SIDO. SIDO has moved from serving ‘Small Industries’ to Micro, Small and Medium Enterprises which is wider than the previous scope as defined by the Act. The wider scope adopted by SIDO limits specialization and may affect the focus to which SIDO operates in. Ultimately, lack of plans may affect the effectiveness of the operation of SIDO short-term and long-term plans.

Discussions with officials at SIDO have indicated that SIDO expanded the scope of their beneficiaries Small Industries only to Micro, Small and Medium Enterprises as a means of sustaining the organization. These measures included the introduction of NEDF funds which generates income to finance its operations.

4.2.3 SMEs' Needs Assessments were not adequately conducted

According to SIDO's strategic plan of 2014/15 - 2016/17, SIDO was required to provide the support services to SMEs in accordance with their needs and demands. For this case SIDO was required to have a system for collection of SMEs needs that will guarantee the consideration of higher proportion of SMEs without neglecting other needs.

Interviews held with SIDO officials and SMEs in Regional Offices as well as the review of availed needs assessment reports for the period from 2013/14 to 2016/17 indicated that the system for conducting needs assessments for SMEs was not effective due to different weaknesses. The following are the weaknesses observed:

Failure to meet the targeted number of Needs Assessments to be conducted

Through the review of SIDO Annual Performance reports for the period from 2013/14 to 2016/17, it was indicated that the number of needs assessment conducted failed to meet the targeted number as required by SIDO Corporate Strategic Plant. In the past four years, SIDO managed to conduct only 1779 needs assessments which are below the set target of 2150 as per SIDO CSP 2014/15-2016/17. This represented a variance of 17 percent from the planned levels of needs assessment. However, the situation was different for needs assessment of the associations which was at an extremely higher level of 249 despite having a plan for only 3 of them.

Ineffective system for Collecting and Analyzing needs of SMEs

Through the interviews held with officials in SIDO regional offices, the audit team noted that, SIDO collected the SMEs needs only when individual SMEs interacted with SIDO in either trainings or physical visits at their regional offices. SIDO officials rarely paid visits to SMEs associations for the purpose of collecting needs of SMEs. SIDO has not been proactive in determining the needs of SMEs.

It was also noted that, the mode/approach used by SIDO for collecting SMEs needs, did not guarantee that a significant number of SMEs' needs would be taken on board. It does not provide for a wide coverage of SMEs needs. For example, the statistics obtained from SIDO

headquarters, indicated that, the average annual number of trained SMEs since 2014 represented only 9 percent of the total SMEs which are under their custodian or 0.4 percent of the estimated total number of SMEs in the country as established by the Ministry of Industry, Trade and Investments. It was further noted that with this ratio the representation of SMEs needs is far below the acceptable margins. Therefore, the limited needs are accommodated without full consideration of the SMEs in the region.

Through interviews held with officials from five SIDO regional offices, it was revealed that they are not able to conduct proactive needs assessment and cover large areas because of the limited resources in terms of human resource and transportation which limit their ability. Some of the regions have districts that are very distant from the regional headquarters and the available resources are not enough to undertake this kind of activity.

4.2.4 Less Prioritization of SMEs needs during allocation of Financial Resources

Review of Medium Term Expenditure Framework for both Ministry of Industry and SIDO for the period from 2013/14 to 2016/17, indicated that, SMEs needs in development expenditure were given minimal priority during the allocation of financial resources. At MITI, Development expenditures for SMEs included but not limited to expenditures on all strategic targets including development of guidelines on incubation program, innovation and creativity, inclusion of SMEs on Special Economic Zones etc., for SMEs, establishment of packaging centers, establishment of industrial clusters, conducting MSME Surveys and Graduation surveys, acquisition of technologies and others as defines in the MTEF by the Ministry of Industry. The development expenditures at SIDO included but not limited to budgets for delivering all of its strategic objectives including facilitating trainings to SMEs, expenditures in transfer of technologies, expenditures on establishment of SMEs infrastructures and provision of loans. This was indicated by the significant difference of the allocated funds which were less than the planned funds.

To analyze the extent to which the activities for the provision of SMEs needs were prioritized, the percentage implementation of budget for the four financial years under review at the Ministry of Industry and SIDO were computed by comparing the planned expenditure against the actual expenditure.

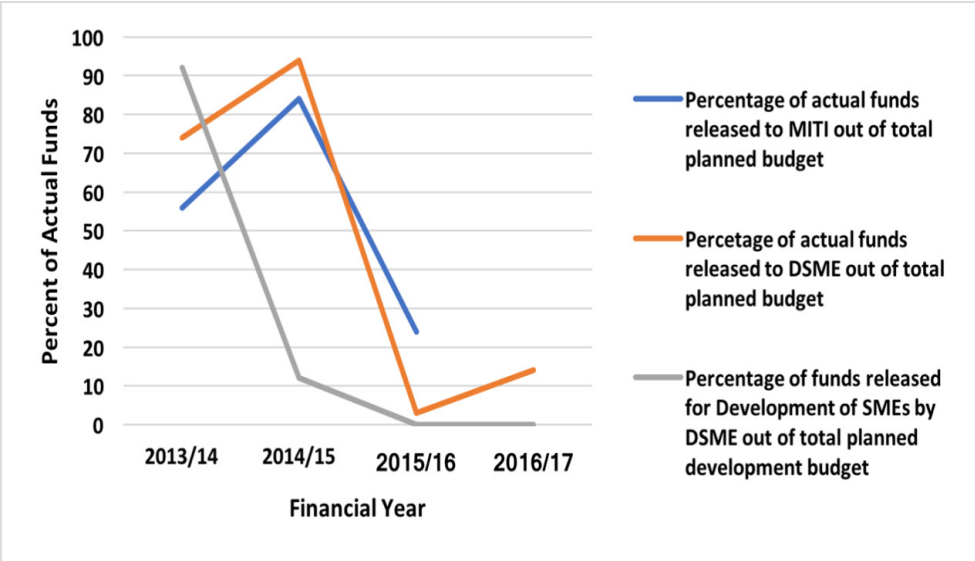
Extent of Prioritization of SMEs needs at the Ministry of Industry, Trade and Investments

In order to fulfill its key function in overseeing the SMEs sector through providing effective directives and guidance to the sector, the Ministry was supposed to provide adequate and sustainable funding especially to the Department of SME which is the main coordinator of SMEs sector at the Ministry.

However, the review of budget, implementation and Medium Term Expenditure Framework of the four financial years noted that the budgetary funding for the development of SMEs sector at the Ministry was given a relatively low priority compared to its overall budget.

The audit team performed the analysis to determine the ratio of funds allocated to planned SMEs activities in relation to actual funds received by the Ministry from the government. These ratios include the ratio of actual funds allocated to the Directorate of Small and Medium Enterprises, actual funds allocated for the development of SMEs out of actual funds allocated to the Directorate of SMEs. Figure 4.1 presents the results for the three ratios as indicators for budgetary performance over the past four financial years.

Figure 4.1: Comparison of Actual Funds Allocated for SMEs Activities to the Actual Amount Allocated to the Ministry of Industry



Source: Auditors' Analysis, 2018

Figure 4.1 shows a decreasing trend of funds allocated to the Ministry of Industry from 2013/14 to 2016/17 whereby the Ministry has been receiving an annual average of 56 percent out of its total approved

budget. Similarly, the trend of the amount allocated to the Directorate of SMEs has been decreasing whereby the Directorate was receiving an average of 48 percent of its annually approved budget.

However, the amount allocated for the development of SMEs decreased during the two years of 2015/16 and 2016/17, as none was allocated to SMEs activities by the Directorate of SMEs. In the past four years, the Ministry spent an average of 16 percent for the development of SMEs out of actual funds allocated to the Directorate of SMEs.

With this trend it really indicates that, the SMEs sector was given low priority when it comes to the allocation of the available financial resources. In an ideal situation, the three lines were supposed to run closely together to show that the funds received were distributed at an equal proportion to all budget codes including development expenditure for SMEs.

However, the situation was different with significant disparity between ratio of actual funds received by the Ministry and actual funds released to the Directorate of SMEs. The ratio allocated for development of SMEs was even worse. The Ministry of Industry was required to provide adequate and sustainable funding to enable the implementation of various activities intended to enhance the development of SMEs at SIDO. The review of budget plans and actual expenditure reports from SIDO has indicated that the amount allocated to SIDO by the Ministry of Industry has been decreasing for the past four years.

The audit team computed a ratio of actual funds allocated to SIDO to the actual amount received by the Ministry, as presented in Figure 4.2.

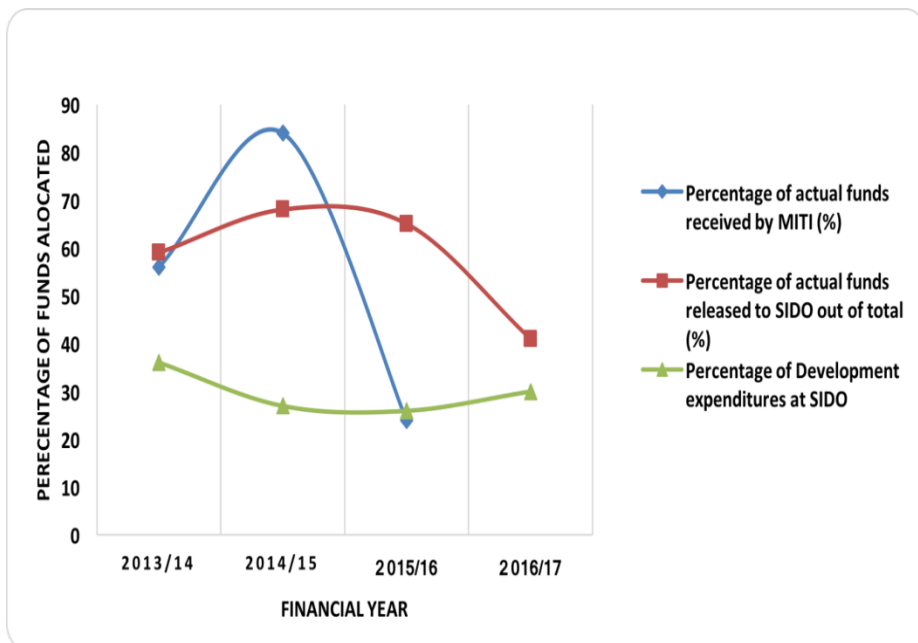


Figure 4.2: Ratio of Financial Resources Allocated for Development Expenditures at SIDO from 2013/14 - 2016/17
Source: Auditors' Analysis (2018)

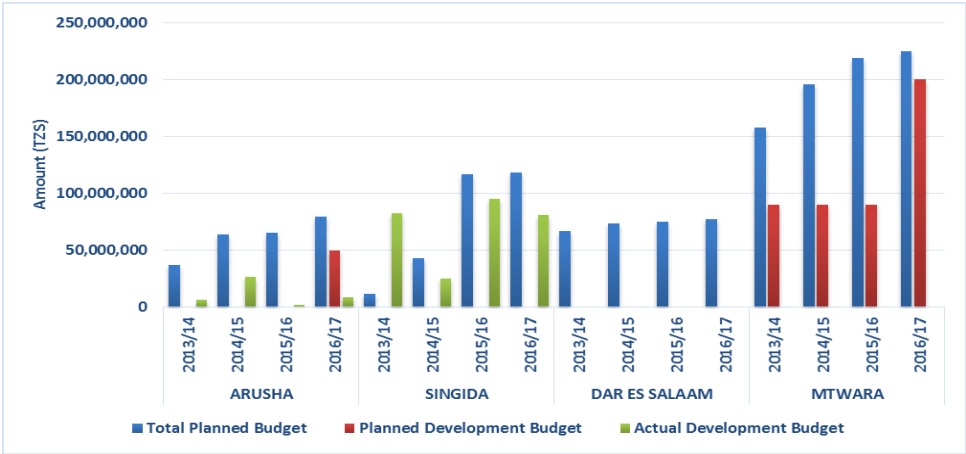
Figure 4.2 indicates that the proportion of total funds allocated for the development of SMEs is low as compared to the total funds released to SIDO. In the past four years, SIDO received a total of TZS 55 billion to finance its budgetary expenditure which is equivalent to TZS 14 billion per annum. However, Ministry of Industry has released 30 percent only for the development of SMEs and the remaining 70 percent was used for recurrent expenditure. This trend indicates that, there is a low level of prioritization of SME Development activities at SIDO.

Extent of Prioritization of SMEs needs at the SIDO Regional Offices

Similar analysis was made for each of the 6 SIDO regional offices visited, whereby the audit team compared the ratio of actual funds received from the government against the actual allocation for SMEs development activities at SIDO HQ and the ones allocated to SIDO Regional Offices. This was done as a means of establishing the extent to which the government is committed to develop the SMEs sector.

Although SIDO HQ plans for the funding of its development services each year to guarantee the achievement of its objectives and targets as per business plans, the audit team found weaknesses associated with the allocation of funds from SIDO HQ and Regional offices. Figure 4.3 presents the actual amount allocated to SIDO Regional Offices versus their plans for the period 2013/14 - 2016/17

Figure 4.3: Comparison of Total Planned Budget, Planned Development Budget and Actual Development Budget for SMEs in the Visited Regions from 2013/14 - 2016/17



Source: Regional Annual Plans and Implementation reports for the period from 2013/14 - 2016/17

From Figure 4.3, 4 out of 6 visited SIDO regional offices did not indicate budgetary figures for development activities from the government. Arusha region included the SMEs development activity only in the financial year 2016/17 for the period of four years starting from 2013/14 to date.

Singida region was able to mobilize funds for development activities from other sources. However, they were not able to provide figures for development budget from the government. Arusha region was also able to mobilize some funds from other sources for development activities despite not having planned for it for the past four years. Other regional offices have not received development funds from the government for the past four years.

In general, the trends indicate that, the disbursement of funds for SMEs development activities has been very low or none at all. The review of SIDO Regional offices performance reports indicated that, in the past four years, the five visited regions received a cumulative sum of only TZS 323 million. This is equivalent to 20 percent of total planned funds for enhancing development of SMEs in their regions. Some regions such as Singida and Arusha took initiative to mobilize funds from the donors.

Interviewed officials from six visited SIDO Regional Offices indicated that, they do not plan for SMEs development activities because they

have been continuously planning without being allocated funds in the previous years. This has made them depend only on funds from development partners to implement most of the development activities. Additionally, the interviews held with officials from SIDO regional offices noted that the business plans are modified at SIDO HQ and the development budget figures are changed to reflect the actual funds that would be released by headquarters.

The insufficient funding for the development of Small and Medium Enterprises (SMEs) in regional offices which represent the implementation part of the SMEs support processes affect the growth of Small and Medium Enterprises (SMEs) and might impair the achievement of SMEs development policy.

4.2.5 Inadequate involvement of key stakeholders during Planning for the Provision of SMEs Support Services

The provision of support services for SMEs has been involving a wide range of stakeholders at different levels from planning, implementation to monitoring and evaluation. In the past four years the audit team noted that the participation of key stakeholders has been significant especially in the facilitation and funding for the trainings. Since 2013/14, 5 SIDO regional offices had collaborated with 35 different key stakeholders in the provision of all categories of support services including training, technology, marketing and financial supports services. Furthermore, about 80 percent of all trainings offered to SMEs from the six visited SIDO regional offices were funded by their key stakeholders (donors).

Due to the fact that the support services are increasingly being influenced by stakeholders' participation, SIDO headquarters and the regional offices being the key implementers should involve them during the planning for provision of these support services. The audit team noted however that the preparation of business plans at both levels of SIDO headquarters and regional offices did not involve their key stakeholders. Involvement of stakeholders is mostly observed during the implementation of the support services. Planning stage was a better platform for negotiating with key stakeholders in meeting the interests of both SIDO and stakeholders instead of post-negotiating in Memorandum of Understandings which were always attached with stakeholders' interests.

4.3 Insufficient Provision of the needed SMEs Support Services

The audit team analysed the sufficiency of the support service offered to SMEs based on the plans for both the Ministry of Industry and SIDO. This is evidenced by:

a) Implementation of provision of services was not done as per plan

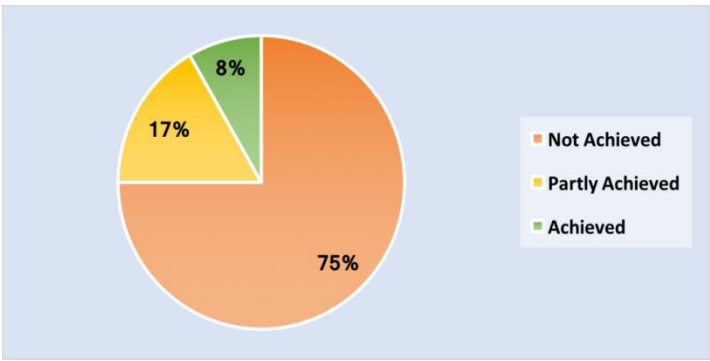
Through the review of annual performance reports from MITI and SIDO headquarters, the audit noted that the provision of support services for SMEs was not implemented at an adequate level as planned. This was due to the following reasons:

Low achievement of targets for enhancing development of SMEs by MITI

In order to address its overall objective of enhancing development of the SMEs sector, the Ministry through its Strategic Plan for the period from 2011/12 to 2015/16 laid down 12 targets that were supposed to be achieved by the Ministry as a means of enhancing the development of SMEs. Those targets included: 3 targets on developing different guidelines, 4 targets on developing various strategies for provision of support to SMEs, 2 targets on developing frameworks for coordination and mentoring of SMEs, 1 target to prepare a model of facilitating SMEs access to finance and 2 targets for developing programmes to enhance SMEs developments.

However, the interviews held with officials from MITI indicated that targets were not achieved according to the Strategic Plan that ended June 2016. The evaluation results of the status of achieving key targets by MITI are as presented in figure 4.4.

Figure 4.4 SMEs Development Targets Achievement at MITI by June 2016



Source: MITI Strategic Plan (2011/12 to 2015/16) performance assessment

Figure 4.4 indicates large percentage of targets for enhancing development of SMEs set by the Ministry was not achieved by June 2016. Nine (9) out of 12 targets had not been achieved by the end of the plan while only 2 of the 12 targets had been partly achieved. Only 1 out of 12 targets had been achieved at a satisfactory level. Further analysis had indicated that the Ministry planned to finalize 4 out of 12 targets by March 2018. This is more than 20 months past the end of the strategic plan. Furthermore, it was noted that 3 targets on developing various strategies for provision of support to SMEs, 2 targets on developing frameworks for coordination and mentoring of SMEs and 2 targets for developing programmes to enhance SMEs developments were highly affected due to Ministry of Industry not having enough funds to finance the implementation of all targets. Some of the targets are currently still on progress.

Furthermore, there is a risk of not completing the remaining targets due to the Ministry using a new Strategic Plan 2016/17-2020/21 which has a new set of targets and priorities. The Ministry has indicated that, lack of funds is among the reasons for not achieving some of the targets indicated in their strategic plan.

The non-achievement of the targets implies lower achievement of the SMEs policy 2003 due to the fact that the targets set are based on the policy objectives which are supposed to be addressed by the Ministry from its Strategic Plans. The discussions with officials at the Ministry of Industry have indicated that the amount of funds released by the government to the said activities is not sufficient to accomplish the tasks and hence chances of achieving the desired targets or objectives are minimal.

b) Some of the Support Services were not sufficiently covered by SIDO

In order to evaluate its progress towards achieving the strategic goals and the provision of support services for SMEs, SIDO was supposed to have developed a performance measurement system that would enable them to have an overall picture on the extent to which they have covered the four support services to SMEs. The review of the performance reports and the strategic plan has indicated that it is difficult for SIDO to ascertain the extent to which they have covered the areas of support services rendered to SMEs i.e. financial, technology, marketing and trainings. The performance indicators for each of the four support services are not aggregated in any form to come up with a single parameter that would provide information on whether they have covered each of the support service to the desired level.

However, after the consultations with SIDO officials at its headquarters, the audit team was able to categorise and evaluate their total performance with reference to the four support services provided to SMEs.

Table 4.3 presents the performance levels of SIDO in provision of support services with reference to the four support services in the two subsectors Agro-processing and Light Engineering.

Table 4.3: Extent of Coverage for Support Services for Agro-processing and Light Engineering SMEs

Type of Support Services Required	Extent of Provision (In terms of Percentage (%age))	
	Agro processing	Light Engineering
Financial Support Services	20	20
Technology Support Services	40	60
Training Services	70	30
Marketing Services	40	40

Source: SIDO Progress Reports (2018)

c) Support Services provided were not in line with the needs of the SMEs

Among the support services offered by SIDO include the provision of trainings to the SMEs. SIDO was required to provide a number of trainings based on the needs of the SMEs in a particular area or regions. Another motive for provision of training was the need to share with the SMEs the newest technology or knowledge about a specific skill set.

Through the review of training reports and annual performance reports at SIDO, the audit team noted the following:

i. Low Percentage of SMEs have been trained by SIDO

Numbers of SMEs benefiting from the training support services from SIDO are few compared to the total number of the SMEs recognized by MITI countrywide and those registered by SIDO. The audit team analyzed the coverage of trainings by looking at countrywide level that represented the sector as a whole and those SMEs registered at SIDO who have received training and the results are presented in Table 4.3 and Table 4.4:

Table 4.4: Percentage of SMEs Countrywide as Estimated by Ministry of Industry That were Trained by SIDO

Financial Year	Estimated No of SMEs countrywide	No of SMEs trained by SIDO	Percentage of SMEs trained by SIDO
2013/14	3,230,000	8,558	0.3
2014/15	3,320,000	16,490	0.5
2015/16	3,500,000	19,058	0.5
2016/17	3,800,000	16,782	0.4

Source: MITI MSME Estimates and SIDO Management Information Systems (2018)

From Table 4.4, it can be deduced that the outreach of trainings conducted by SIDO when compared countrywide is very low. In the past four years SIDO has managed to train a total of 60,888 SMEs which is an average of 15,222 per annum. This represented only 0.4 percent of the estimated total number of SMEs in the country as per statistics provided by the Ministry of Industry, Trade and Investments. The coverage was therefore not significant as compared to the number of SMEs in need of the trainings. The audit team made a further analysis by comparing the coverage of trainings by looking at the number of SMEs registered by SIDO. Table 4.5 shows the results after comparing total participants against number of SMEs trained at SIDO.

Table 4.5: Percentage of the Registered SMEs trained by SIDO

Financial Year	Total No. of participants (SMEs) for all trainings conducted per year	Total Number of Registered SMEs	% of SMEs trained by SIDO ¹⁵
2013/14	8,558	100,351	9
2014/15	16,490	144,814	11
2015/16	19,058	189,277	10
2016/17	16,782	233,740	7

Source: SIDO Annual Performance reports& MIS Training Reports (2018)

Table 4.5 shows that a small proportion of SMEs have been trained which means that there is still a large number of SMEs which are operating with little knowledge and proper set of the required skills. The analysis of the trainings conducted indicates that SIDO has managed to train an average of only 9 percent of all SMEs registered in their databases. This, on the other hand, has contributed to the production of low quality products

¹⁵ Percentage is based on assumption that 1 SME received each of 1 training

which are unable to compete in the market and slow growth of the industrial sector in the country.

The audit team made further analysis to check the extent of outreach for SMEs in agro-processing and light engineering trainings among the priority sub-sectors for the government. Table 4.6 presents the percentage of SMEs trained in agro-processing and light engineering.

Table 4.6: Percentage of SMEs Trained in Agro-processing and Light Engineering

Financial Year	SMEs in Agro Processing who were trained by SIDO	Percent out of total trained	Percent out of total registered	SMEs in Light Engineering who were trained by SIDO	Percent out of total trained	Percent out of total registered
2013/14	910	10	1	168	2	0.2
2014/15	2470	15	2	291	2	0.2
2015/16	2893	15	1.5	206	1	0.1
2016/17	2799	17	1.2	284	2	0.1

Source: SIDO Annual Performance reports& MIS Training Reports (2018)

Table 4.6 indicates that the trainings outreach was still limited in the two subsectors focused in this audit. The total number of SMEs trained in Agro-processing represented an average of 14 percent per annum of the total SMEs participants, while they represented only 1.4 percent of the total SMEs registered by SIDO. On the other side, the total number of SMEs trained in light engineering represented an average of 2 percent of all SMEs trained by SIDO, while they represented only 0.2 percent of the total SMEs registered by SIDO.

On the other hand, the review of the performance reports at SIDO for the period 2013/14 to 2016/17 noted that the limited outreach of training programmes and Business Development Services in general was a result of ineffective programs for Training of Trainers and Capacity Building for Business Development Service (BDS) providers. The number of trainings for trainers has decreased from 26 per annum in 2013/14 to zero in 2016/17.

For the case of Business Development Services service providers, SIDO has managed to identify and profile an average of 90 Business Development Services providers per annum in the past four years. In the same period, SIDO managed to train an average of 45 Business Development Services providers per annum.

The review of performance reports of SIDO for the period 2013/14 to 2016/17 noted that there was no mechanism to track and evaluate the performance and effectiveness of Business Development Services providers profiled or trained in provision of support services for SMEs and whether they were assisting SIDO in providing similar services to SMEs.

The interviews conducted by SIDO officials indicated that the main reason stated for few trainings and lower outreach leading to ineffective trainings is insufficient human resources required to organise and conduct the trainings.

ii. Unequal Distribution of Types of Training Provided by SIDO (Light engineering Vs. Agro-processing trainings)

According to SIDO Corporate Strategic Plan, SIDO was supposed to provide trainings to SMEs in a manner that would ensure that different trainings are provided to SMEs without concentrating on only one category or providing a few types of trainings. This would ensure that SMEs are exposed to a diverse knowledge to enable them to overcome different challenges over the course of their business.

The audit team assessed the distribution of training provided to Agro processing and Light Engineering’s SMEs and the results are presented in Figure 4.5

Figure 4.5: Trainings Conducted to Agro-process and Light Engineering for the Period From 2013/14 to 2016/17



Source: Auditor’s Analysis, 2018

Figure 4.5 indicates that trainings offered to Agro Processing and Light Engineering SMEs by SIDO focused more on Agro-processing rather on Light Engineering trainings, inspite of recognizing the importance of technology in industrial sector development, technological trainings and technical skills.

The trainings on Agro processing have been above average number of trainings conducted by SIDO for the past four years; total of 341 trainings with an average of 85 courses per year. However, the trainings in Light Engineering were at the lower rates as compared to agro processing. There was an average of only 16 trainings in Light Engineering per year in all of the SIDO regional offices.

The reasons for achieving low rates, according to interviewed officials from SIDO was the accessibility of funds from development partners who are more centered on funding for trainings in agro processing than other types of trainings. Trainings in light engineering and technology development were not adequately funded by both the government and development partners. Interviewed officials from six SIDO regional offices visited pointed out that light engineering trainings involves practical works, which requires substantial resources like machines for trainings and demonstration, metals and other metallic materials which are not easy to gather and organize the trainings.

iii. Business Development services provided were Inclined into few types of SMEs sub sector

SIDO is supposed to provide support to all the Business Development Services in all aspects of SMEs' operations in order to balance the service provision and growth levels of SMEs¹⁶. Some lines of enterprises such as handcraft, tourism, fisherman etc were not provided with support, although there are small enterprises that need SIDO's support.

For example, in Arusha region where tourism and handcraft activities are highly conducted but no provision of support service was rendered to SMEs engaged in tourism and hand craft activities in Arusha. Table 4.7 elaborates the frequency of trainings provided to the SMEs.

Table 4.7: Provision of Trainings Based on the Type of Trainings

Type of Training	Number of Trainings Conducted			
	2013/14	2014/15	2015/16	2016/17
Business Management Skills	22	79	53	38
Entrepreneurship skills	58	59	92	97
Food processing	21	48	55	85
Credit Management	49	134	76	67
Marketing Management	7	28	23	28

¹⁶ Technological, Marketing and financial training

Leadership skills	16	9	0	0
Soap making skills	20	49	47	41
Other Trainings	181	185	289	303
TOTAL	374	591	635	659

Source: Training reports from Management Information System at SIDO (2018)

iv) Low impact of trainings on the performance of SMEs

The audit team analysed the effect of the trainings conducted and noted that business management and entrepreneurship trainings were not effectively offered to the SMEs. The trainings in business, entrepreneurship and credit management when combined together represented 36 percent of all trainings conducted at SIDO and 43 percent of all participating SMEs who attended different trainings at SIDO.

The business, credit management and entrepreneurship trainings which are the main trainings that offer guidance to the SMEs in operating their activities did not seem to have an impact on the performance of SMEs in managing their business properly. This was evidenced by comparison of the trainings offered and the collapsing rate of the SIDO-registered SMEs in the period 2013/14 to 2016/17 as shown in Figure 4.7.

Figure 4.7: Rate of Collapsing of the SMEs Vs The Business, Credit Management and Entrepreneurship Skills Training Provided to The SMEs in Tanzania



Source: Auditors' Analysis, 2018

Figure 4.7 shows that SMEs' failure/collapse rate has remained the same with a slight margin of increase despite of fluctuating number of trainings for business, entrepreneurship and management skills during 2013/14 to 2014/15. It also shows that collapse rate has increased despite of having almost a similar number of business trainings in 2015/16 to 2016/17. This is an indication that the business training services are not bringing the positive outcome to the SMEs as expected. Trainings are essential in improving the growth and effectiveness of the SMEs activities in terms of technological, marketing or even financial aspects.

Insufficient support for SMEs to comply with regulatory requirements

The baseline survey conducted by the Ministry revealed that the regulations which exist within the operations of SMEs are not favourable for the operations of the Small and Medium Enterprises. Registrations of the business require a lot of procedures for licensing before they start operations. For example, food and drugs business requires long procedures in verification and inspection by Food and Drugs Authorities before commencing operations.

Through interviews held with SMEs and reviews of training reports, it was noted that the support for SMEs in complying with regulatory requirements is not adequate. SIDO do not provide technical assistance to SMEs in assisting them to fulfill regulatory requirements. SIDO has been coordinating their applications for seeking approvals from Tanzania Food and Drugs Authority (TFDA) and Tanzania Bureau of Statistics (TBS). However, there is no further assistance provided by SIDO to SMEs in case where SMEs failed to get the required approvals from regulatory bodies. SMEs claimed that they have been forced to take their own initiatives to seek approvals from TFDA and TBS.

SIDO has so far managed to conduct trainings for a total of 3488 SMEs on compliance to food, drugs and general standards issued by TFDA and TBS in the past four years at a rate of 872 SMEs per annum. However, there is no follow-up or additional assistance given to them while processing their requests apart from the reference letters issued during applications. According to SMEs interviewed, the long procedures for registration has discouraged SMEs to seek for formal registration of business and continue to operate informally without formal registrations and formal approvals from TFDA and TBS. Among the 36 SMEs visited for Agro-processing and Light Engineering from all of the six visited regions, SMEs in agro-processing were required to be more compliant with standards than their counterparts. However, out of the 18 SMEs engaged

in agro-processing from six visited regions, 12 SMEs had been approved by TFDA, and only 2 out of the 18 had been approved by TBS.

4.4 Fragmented Coordination in Provision of Support Services to SMEs

SMEs Development Policy of 2003 calls for strengthening of the institutional framework for supporting SMEs. One of the strategies proposed by the policy was to monitor, coordinate and evaluate the implementation of policy. Furthermore, section 5(i) of SIDO Act, requires SIDO to assist and co-ordinate the activities of other institutions engaged in the provision of training facilities for persons engaged in or employed or to be employed in small industries. However, the interviews held with officials from both the Ministry of Industry and SIDO and the reviews of strategic plans and implementation reports has noted that there is a very limited coordination with other stakeholders in the provision of trainings to SMEs.

Even when support services are provided by other stakeholders; there is little involvement of SIDO during their implementation. There are very few conventions of SMEs forums to discuss matters concerning SMEs at regional levels. Other stakeholders like Local Government Authorities, Faith Based Organizations and Community Based Organizations have been offering similar or closely related trainings in the same localities where SIDO is operating. However, in most of the regions, the other service providers have been seen as competitors rather than partners in the provision of support services. There is a limited involvement of SIDO by LGA's in offering support services that are similar to SIDO.

4.5 Inadequate Supervision in Provision of Support Services to SMEs

SIDO was required to supervise the implementation of the provision of support services through the Management Information System (MIS) and regular physical visits to regional offices as stated in SIDO CSP 4.6.4.2. Through the interviews held with officials from SIDO, the audit team noted that, both the Ministry of Industry and SIDO did not adequately supervise these activities. This was indicated by:

a) Insufficient Credit/Loans Management by SIDO

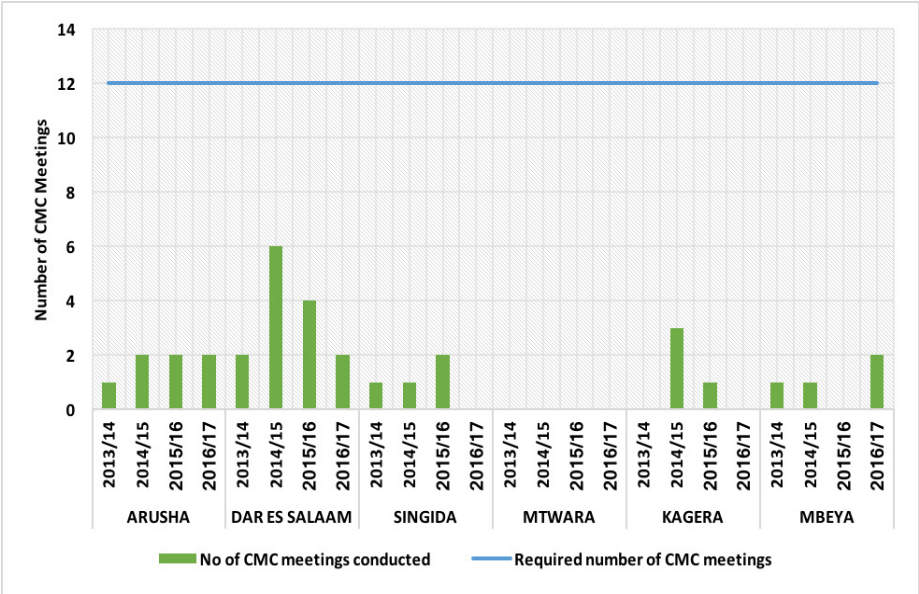
The provision of financial services by SIDO are supposed to be well monitored throughout its processes from assessment of applicants, issuance of loans, follow up of the repayment to the final stage of closure and recapitalization when applicable.

However, the audit team noted that there was inadequate supervision of the whole process of credit services because of the following identified weaknesses:

Insufficient number of Credit Management Committee (CMC) Meetings:

The review of credit administration files indicated that there are fewer number of Credit Management Committee meetings as compared to the required number of meetings. According to the Individual Credit Lending Manual, the Regional Offices have to conduct Credit Management Committees meetings at least once in every month. The total number of Credit Management Committees meetings is therefore supposed to be 12 per annum in a normal credit management environment. However, the audit team has noted that the number of meetings conducted from the visited six (6) regions was less than the required as shown in the Figure 4.4.

Figure 4.7: The Comparison of The Required Versus Actual Number of Credit Management Committee Meetings Convened



Source: Credit Management Committees Minutes reports 2013/14-2016/17 (2018)

Figure 4.7 indicates that all regions did not meet the requirements of the lending manual in terms of meeting the target on the number of Credit Management Committees meetings. Dar es Salaam region had the highest number of meetings with a total of 14 meetings in the past four years. Mtwara region had not conducted any Credit Management Committees meeting in the past four years. The reason stated according to the officials is the insufficient amount of loans to be disbursed per circle that do not meet an economical amount of loans to enable

convening of Credit Management Committees meeting. In all disbursement circles in the past four years Mtwara has issued less than 30 million which is considered to be the optimal amount to necessitate Credit Management Committees meeting. The meetings were important to ensure that there is a strong follow-up of credit performances and that loans are fairly and carefully evaluated.

Credit Management Committee and LAC meetings focused on disbursement rather than follow up or discussions about delinquency rates: Credit Management Committee and LAC are supposed to discuss the performance of different loan products; in order to see if the group loans and individual loans are performing according to their standards. However, the review of LAC and CMC meetings minutes and discussions with credit officers in SIDO regional offices indicated that the discussions were focused on loan approvals only. Discussions on solution for loan defaulters or non-performing loans did not take place, contrary to the requirements of lending manual.

Use of Outdated Individual Lending Manual: SIDO is currently using an outdated manual for its financial services particularly on the lending for individuals. The current manual being used was approved in 1999 and it has been used ever since despite having a lot of changes. The outdated manual is different from the current practice in lending services as indicated in Table 4.8:

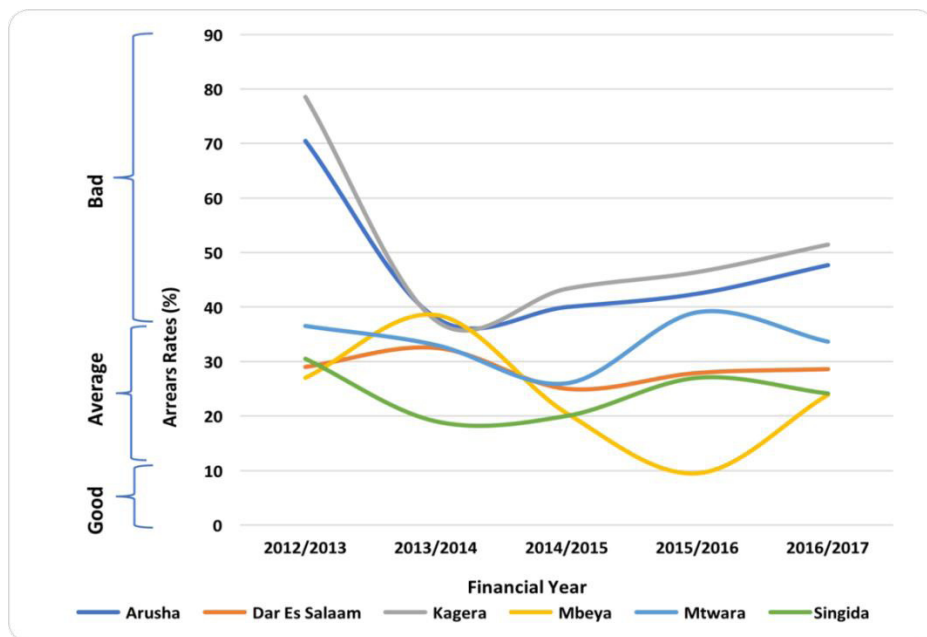
Table 4.8: Differences between the Guiding Manual for Individual Lending and the Current Practices in Lending

	LENDING MANUAL INSTRUCTIONS	CURRENT ACTUAL PRACTICE
1	Each Region should have its own interest rate	A single interest rate applies for all regions
2	The loans will be offered to micro and small enterprises only	Loans are offered to micro, small and medium enterprises
3	Allows for Hire purchase loans	Hire purchase loans have been discontinued
4	Interest payments calculated on flat annual rate	Interest rates calculated on annual diminishing rate
5	Double interest rates as penalty for default loans	Penalty interest rates for default loans is 5% of the defaulted amount for both RRF and NEDF

Source: Individual Lending Manual, LAC and CMC Minutes Reports (2018)

The overall consequence of the insufficient management of loans has been the weak performance of the loans in general, particularly in the regions visited by the auditors. The audit team made an analysis to check the trend in existence of non-performing loans from the visited regions and the results are as presented in Figure 4.8.

Figure 4.8: Rate of Loans Arrears as a Percentage of Total Loan Amount Issued From the Visited Regions¹⁷ for Both Regional Revolving Funds (RRF) and National Entrepreneurship Development Fund (NEDF)¹⁸.



Source: Arrears rates files (NEDF&RRF) (Loan Performa)

Figure 4.8 indicates that there were significant amount of loans which were in arrears with their payments due but not yet made. Based on the performance criteria of SIDO, regions have been obtaining average to poor performance scores in terms of managing their loans arrears.

Among the regions visited, Kagera region had recorded a poor performance score in the collection of arrears in almost all of the years since 2012. In the past five years 2012-2017 the amount of loans in arrears at Kagera region was equivalent to 51 percent of all the loans that have been issued. The region has continued to perform poorly in credit management despite being among the regions with lowest loan portfolio size. Singida and Mbeya regions were the best performers in maintaining good performance in credit management. For instance, Mbeya region recorded a good performance in 2015/16 with an arrear rate of 9 percent while maintaining average performance in all of the remaining years. Loans arrears mark the beginning of non-performing loans and eventually write offs or loan loss provisions.

¹⁷The figure was calculated by taking amount of loan in arrear divide by total loan issued times 100

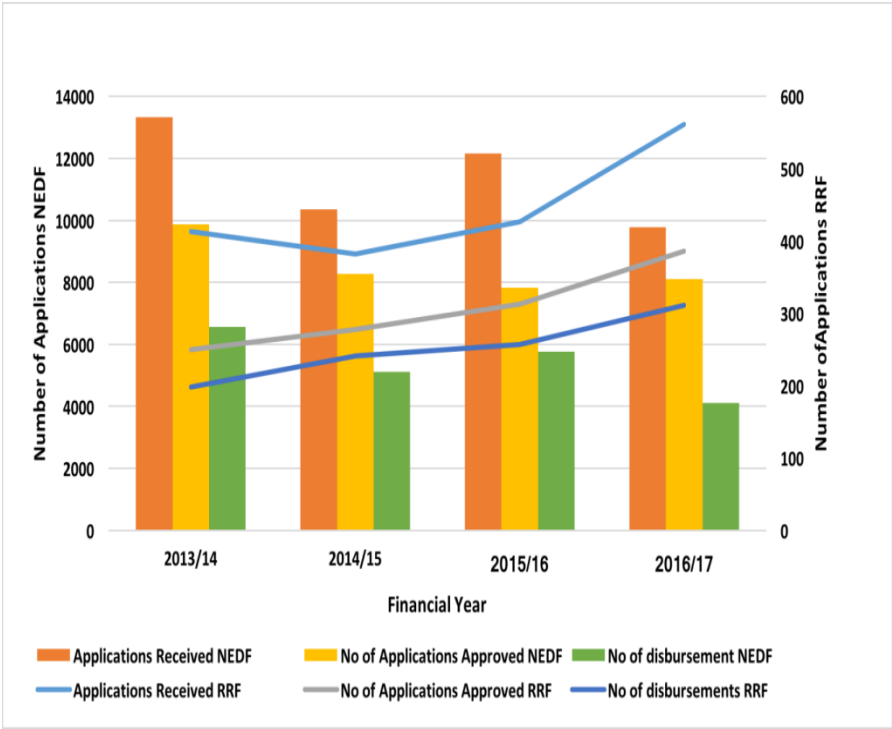
¹⁸

Further discussions with officials at SIDO noted another reason for poor performing loans being the loan provision policy at SIDO which do not discriminate the experienced and start-ups SMEs. Most of the loans by SIDO are being offered to start-ups who do not have enough experience in business and therefore have higher risk of performing poorly in managing their loans.

Inadequate disbursement of loans for SMEs

According to its CSP 4.5.1 SIDO is supposed to provide credit services to SMEs in accordance with their needs and demands in order to enhance their financial capacity. The audit team has noted that the credit services at SIDO have not been sufficiently provided as required by the plan. Figure 4.9 shows the comparison between the loans applications received against those approved and those disbursed.

Figure 4.9: Comparison of Loans Applications, Approvals and Disbursement for NEDF and RRF



Source: Auditors’ Analysis of loan applications based on data from Loan Performer and MIS Reports (2018)

Figure 4.9 indicates that the disbursement of the loans has not been sufficient to meet the demand of applications and approvals for loans request. For the period from 2013/14 to 2016/17 the loans applications

and approvals were higher than the disbursements. However, SIDO has not managed to sufficiently disburse the loans it has approved. The highest number of NEDF loan applications was noted in 2013/14 when there were 13,330 loan applications which were also accompanied by the highest number of loan approval at 9,872 as well as loan disbursements at 6564. The highest number of applications for RRF was noted in 2016/17 when there were 561 applications which were also accompanied by the highest amount of approved RRF loans. Figure 4.9 also indicates that the trends of loan applications for NEDF are declining every year while the applications for RRF are increasing each year.

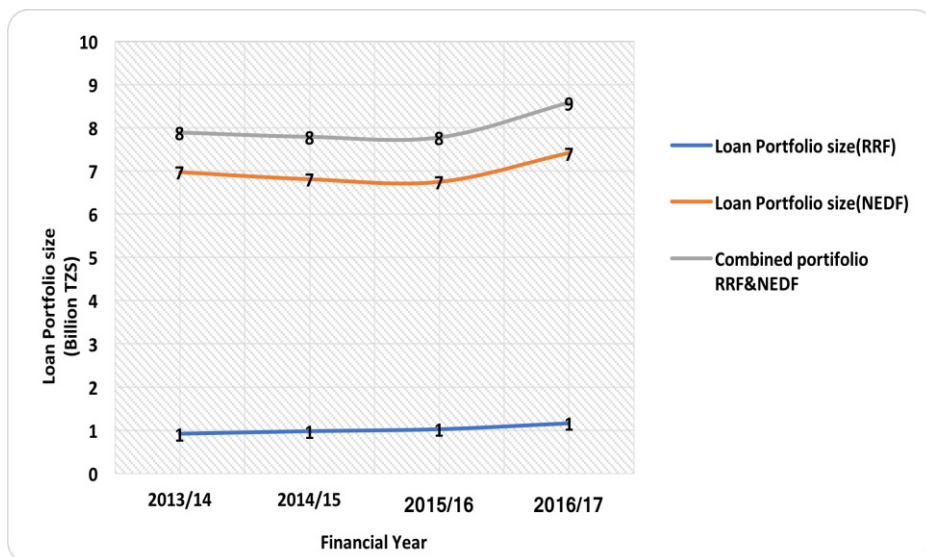
Overall the trend shows that since 2013/14 SIDO has received and approved a total of 35,315 applications but it has disbursed a total of only 22,563 loans which is equivalent to 63 percent of the total approved loans. That indicates that 37 percent of the loan applications were not provided with funding despite having their loans qualified.

Through the interviews held with Credit Officers, it was noted that the decline in loan disbursement particularly for NEDF is due to the highest rate of non-performing loans which reduces the amount of portfolio size and therefore reducing the number of SMEs who can be issued with loans. The decline is also caused by increasing amount of loan size per person which is increasing and therefore reducing the size of loans for others.

Slow growth of grand loan portfolio size at SIDO

In order to sufficiently provide the needed financial services, the Corporate Strategic Plan requires SIDO to sufficiently manage its portfolio size so as to ensure that it is growing, stable and sustainable. However, the trend shows that the rate of growth has not been sufficient. Figure 4.10 shows the trend of growth for both loan portfolios RRF and NEDF.

Figure 4.10: The Trend in the Growth of Loan Portfolio Size for RRF and NEDF



Source: Auditors' Analysis based on data from SIDO Loan Performer (2018)

Figure 4.10 indicates that there has been a slight growth of the loan portfolio size for both loans RRF and NEDF. The combined loan portfolio size has been declining for three years since 2013/14 to 2015/16 from TZS 7.9 to 7.7 billion being caused by a decline in NEDF portfolio which is larger in size compared to RRF. The loan portfolio size for NEDF has been declining for three years from 2013/14 to 2015/16 reaching the minimum level in the financial years 2015/16 when it stood at TZS 6.7 billion. However, both loans rose sharply during the financial year 2016/17.

All in all, the combined portfolio size has grown by approximately TZS 700 million from TZS 7.9 billion in the financial year 2013/14 to TZS 8.6 billion in the financial year 2016/17. This was equivalent to an average increase of 2 percent per annum. This amount was not sufficient to cover the increasing number of applications and resulted to denial or delayed disbursement of 36 percent of the loans application which were approved but not disbursed.

The increasing loan loss provisions

Furthermore, the audit team made an analysis of the provisions for loans which are non-performing for the previous years as an indicator of the extent to which the loans are insufficiently managed. The provisions for loss indicate the extent to which the loan repayments are in arrear and

not paid on time (exceed the maturity time). Table 4.9 shows the trend for overall loans loss provisions for the past four years from 2013-2017.

Table 4.9: Provisions for Loss at SIDO for the Period From 2013/14 to 2016/17

Financial Year	Loss provisions (Billion TZS)	Percentage Increase (%)
2012/13	0.2	-
2013/14	0.9	446
2014/15	1.5	74
2015/16	1.9	28
2016/17	2	4

Source: Loan Performa SIDO (2018)

Table 4.9 indicates that the amount of loans that were set aside as provisions for loss have been increasing significantly. The trend indicates that the provisions have increased from TZS 159 million in 2012/13 to approximately TZS 2 billion in the financial year 2016/17. This is equivalent to an increase of 129 percent for the past four years. The provisions for loss have contributed to a decreased loan portfolio capacity to serve all approved loans due to the fact that the repayments in arrear are actually the funds that are used for crediting other loans applicants.

Discussions with officials at SIDO have indicated that the loan loss provisions have increased drastically because of changes in the way SIDO provisioned for loans. Previously, loans were provisioned at maturity when SIDO had applied every means to recover the loans in arrears. However, the office of CAG later on recommended SIDO to change the way the loans loss provisions were done by provisioning for loss soon after the loans have gone into default based on the requirements of Banking and Financial Institutions Regulations of 2014. This has caused the loans provisions to increase drastically in the past few years but the trend in increase has slowed in recent years as noted in Table 4.9.

b) Insufficient Management of Technology Incubation Programme

The objective of the incubation program is to improve the chance of technology based startups, growth and enhance their chance of survival thus contributing to wealth creation and employment generation¹⁹. The incubation program lasts for six months to three years. Through the review of incubation files and interviews held with technical officers from SIDO regional offices, the audit team noted that, the overall

¹⁹ SIDO Technology and Business Incubator Program Operational manual January, 2016

management of the program was insufficient due to the following reasons;

Incompetent recruitment mechanism: The current recruitment process/practice for ideas in most of the regions do not provide for a competitive process for selection of ideas. The current model invites for recruitments from graduates especially Technical Universities and other individuals who want to develop their ideas. However, there is no effective campaign to raise awareness for the incubation programs and invite more competitive ideas to go through selection.

For instance, since financial year 2013/14 SIDO has received a total of 85 applications countrywide which is equivalent to 21 ideas per annum and an average of 1 application for each region per year. In the same years a total of 43 ideas were approved which is equivalent to 10 ideas per annum and an average of 2 regions incubating just one idea. In the same period a total of only 9 ideas graduated countrywide, which is equivalent to 2 ideas per annum or an average of 13 regions graduating only 1 idea from incubation program.

This is due to potential candidates not knowing much about the program. There is a significant number of people who are not aware of the incubation program offered by SIDO. Low awareness has led to submission of few ideas which limits the extent to which the selection committee comes up with a competitive, innovative and ideal technologies/ideas.

Unsustainability of the program: According to interviews conducted with recently hosted incubates and the technical officers, most of incubates are individuals who are not able to finance working tools needed for taking off their projects. While developing their ideas, incubates may demand different tools and machines that are expensive and not affordable to them. Through interviews held with 16 incubates and SIDO officials concerned; the audit team has observed that there are no means of mobilizing financial or material resources to cover expenses for supporting incubates who are not capable of financing some of their tools along their product development stages.

Overstaying incubates: It was observed that, there are ideas which take longer than three years in the incubation program. All of the sixteen incubates from the five SIDO regional offices visited had overstayed the program duration which is a maximum of three years. Among the reasons for overstaying mentioned by the sampled incubates is lack of enough capital, working areas, unreliable markets etc. Table 4.10 indicates the average tenancy time for incubates in the six regions visited

Table 4.10: The Average Tenancy Time of the Incubates for the 6 SIDO Regional Offices Visited by the End of Financial Year 2016/17

Regions	Maximum time of tenancy (years)	Average Actual Time of Tenancy (years)
Mtwara	3	none
Kagera	3	2
Singida	3	4
Dar es Salaam	3	6
Arusha	3	7
Mbeya	3	7

The analysis has indicated that most of incubates had overstayed for a period exceeding required time. The average time of tenancy in five of the six regions visited was above the maximum allowable time for the programme. Arusha and Mbeya regions had the highest time of tenancy for incubates scoring an average of 7 years. The least average time of tenancy was at Kagera region with incubates having stayed for an average of 2 years. Mtwara region had zero average because the region has not yet started to implement the program.

The consequence of overstaying incubates has been the limitation of new recruitments because of lack of space for incubates. Regional offices cannot accommodate any new ideas because of the limited spaces.

Lack of exit strategies for graduated incubates: According to Incubation Manual, SIDO regional offices are supposed to prepare exit strategies which would outline among other things, the strategy for survival of graduating SMEs out of SIDO premises. However, the audit team found out that the incubation files from all of the four incubation centers visited did not contain exit strategies for their graduating SMEs and failed incubates. Lacking exit strategies is among the reason for having most of the graduated SMEs being reluctant to vacate the incubation program premises due to fear that they would completely fail if they vacate the buildings. Consequently, the buildings are being occupied for longer period than the required time leaving no room for new incubates and new ideas to be developed.

c) Inadequate Management of Technology Development Centers (TDCs)

There are seven Technology Development Centers in Tanzania. Their main functions includes: develop, manufacturing machines, manufacturing of spare parts repairing and maintenance. But the functions of these centers were noted to be ineffective due to the following reasons:

Lack of operational manual: In order to effectively develop technologies that meet the demands of SMEs in the most effective way, Technology Development Centers were supposed to have in place manuals and other forms of guidance that would ensure that they develop and deliver competitive and most efficient technologies in the current market. However, from the review of working files and Technology Development Center’s operational documents such as working schedules and TDC circulars from headquarters, it was found out that there was no guidance or manuals in the operations of Technology Development Centers.

Consequently, absence of manuals has led to insufficient administration of their works particularly on produced machines. There is no proper guidance or manuals to guarantee the production of machines of the desired quality rather than depending on the discretion of the TDC manager. This poses a high risk of producing defective machines that may perform below the required standard and cast a bad image to TDC products and SIDO as well.

Limited capacity to carry out innovative works: With the current demand of modern technologies and the competition from imported machines, TDCs were supposed to have a strong foundation for innovation and development of modern machines. However, from the review of the working files and the operational systems from Technology Development Centers it was observed that the current structure and mode of operation does not provide for a conducive environment for carrying out innovative works in technologies.

The available human resources in Technology Development Centres were operated with few technically competent human resources. They were also overwhelmed with the management and supervisory roles with limited time for carrying out innovative works. Table 4.11 presents the status for available staff at the two TDCs visited which also reflects the situation in other remaining Technology Development Centres.

Table 4.11: The Distribution of Available Human Resource Capacity in the Visited Technology Development Centers

Technology Development Centers	Available staff	Role
Arusha	1 Mechanical Engineer	Workshop Manager
	1 FTC	Technician
	11 Artisans	Artisanship
Mbeya	1 Mechanical Engineer	Workshop Manager
	1 Diploma Mechanical Eng.	Foreman
	1 FTC	Technician
	8 Artisans	Artisanship

Source: TDC Annual Performance reports (2018)

Table 4.11 show that, the available working staff, their qualifications and roles performed do not provide for strong capacity to carry out innovative works. The more skilled and highly qualified staffs are overwhelmed by management roles which impair their capability to carry out innovative works and product development.

The analysis of Technology Development Centers' business plans; indicates that 41 percent of the time of highly skilled and professionally qualified mechanical engineers is spent in the management and administration activities leaving only 10 percent of time allocated for prototype and product development. Overall, the time allocated for prototype and product development which is the core task of a "development center" is only 15 percent of the total time for professional staff at TDCs. TDCs spent most of their times (57 percent) on production of machines.

Furthermore, the analysis of the business plans indicates that there is no independence on the use of funds to finance product development which is again the core role of "development center" as Technology Development Centers.

Absence of the innovative environment within TDCs' workshops leads to production of common machines which are also produced by other SMEs outside SIDO premises and operating in a similar manner as compared to other machines produced outside Technology Development Centers.

Furthermore, lack of diversified skills has also led to production of machines that are less automated with little digitalization. In order to align itself with the modern technologies in technology development, TDCs were supposed to produce machines that are highly modern and utilizing current digital technologies and automated systems. This would enable TDCs to compete with the current influx of imported technologies which are highly digitalized and automated although not highly durable²⁰.

The observations from the current machines produced by TDCs indicate that there were high proportions of manual machines produced with less automation. Currently, TDCs are struggling to produce machines that can undertake the whole process of production from receiving raw materials, separation, processing, packaging to labeling.

The current capacity is limited to production of separate processing units that demands mechanical shifting from processing unit to another. The limitation in the automation of machines and digitalization of

²⁰Based on the opinions of 36 SMEs physically visited from 6 regions

commands has been contributed by lack of skills in electrical and electronics fields.

Use of old and outdated machines: In order for Technology Development Centers to fulfill their central role in development of technologies; they were supposed to operate using modern machines. This would guarantee the production of modern technologies that are in line with the current technology.

The audit team noted that, currently, Technology Development Centers are operating using old and outdated machines to undertake the production of machines for SMEs. Review of performance reports of the Technology Development Centers has indicated that the current working machines were installed in late 1970's and therefore have been operating for more than 40 years without major improvements on technology. Photo 4.1 shows one of the operating machines installed in one of the Technology Development Centers.



Photo 4.1: Old and Outdated Machine which has been installed at TDC Arusha Region (2018)

Consequently, the use of old machines has led to higher operational costs due to frequent maintenance and breakdowns. This has led to production of costly machines. Furthermore, the profit margins for most of the machines produced are low because of the high production costs which are contributed by significant high maintenance costs. Table 4.12 presents the Production cost of the machine and the Income generated for the visited Technology Development Centers.

Table 4.12: Production Cost of the Machine and the Income Generated for the Visited Technology Development Centers

Name of the TDC	Financial Year	Total Income for the year (Million TZS)	Total cost of sales (Million TZS)	Costs of Maintaining machines (Million TZS)
Arusha	2013/14	189.8	122.6	2.9
	2014/15	211.5	136.9	3.2
	2015/16	172.4	118.0	3.3
	2016/17	173.6	103.4	4.6
Mbeya	2013/14	315.6	265.7	_*21
	2014/15	264.2	234.0	-
	2015/16	441.0	391.1	-
	2016/17	270.0	234.6	2.8

Source: TDC Annual implementation reports 2013/14-2016/17 (2018)

The analysis of the costs indicates that there is a higher cost of sales for the produced machines. On the other side the maintenance costs have contributed significantly to the higher costs of the production for the machines. At Technology Development Centers the costs of sales are significantly high and have led to lower profit margins. Despite having lower profit margins, the interviews held with officials from SMEs who purchased machines from TDCs have indicated that the price of the machines are still higher than the average price of similar machines in the market.

d) Insufficient Sourcing and Transfer of Technologies to SMEs

Through its Strategic Plan for the period 2014/15 to 2016/17, SIDO planned to develop strategies that would enhance ease of access to technology information and conducting transfer and dissemination of relevant technology. This was planned to go hand in hand with the provision of upgraded technologies to existing SMEs as noted in the same Strategic Plan.

However, the review of implementation reports and site visits conducted to SMEs operating activities using different types of technologies has indicated that the level of dissemination of modern and upgraded technologies is not sufficient to address the specific objectives. In the past four years from 2013/14 to 2016/17 the number of technologies identified and acquired has been below the average. The average number of technologies acquired and identified in the past four years was 200 per annum. However, SIDO has managed to identify and acquire 186,178 and 197 technologies during 2015, 2016 and 2017 respectively.

²¹Information was not available

Furthermore, the analysis of the performance reports has indicated that the number of technologies transferred were also below average for two consecutive years 2014/15 and 2015/16 where SIDO managed to transfer 106 and 114 technologies respectively which was below its annual average of 136 technologies. Consequently, the insufficient transfers and dissemination of modern technologies has forced SMEs to continue using the outdated technologies that may not improve their output and productivity as demanded by the strategic plan. The continuous use of the outdated technologies was evidenced by Picture 4.2 as captured during the field visits in Tandahimba District in Mtwara Region.



Picture 4.2: Iron Smelting Site owned by one of the SME visited in Tandahimba District Mtwara Region (Photo was taken on 18th January, 2018)

The picture shows the smelting site for one of the SMEs visited in Mtwara Region. The SMEs has continued outdated methods of smelting iron using charcoal and shaping the iron using the human power. This method of smelting iron consumes a lot of human energy and it is not environmentally friendly because of consuming a significant amount of charcoal made from burning trees. This is contrary to the directives of the SIDO's Corporate Strategic Plan which emphasizes SIDO to transfer energy efficient technologies to SMEs. The output is also not sufficient enough because the blacksmiths use a lot of time to produce a single product.

e) Absence of proper industrial infrastructure for SMEs

The SME Development Policy (2003) requires the Ministry and SIDO to collaborate with private sector, local government and development partners to improve infrastructure and provide utilities in the areas where SMEs are operating. The Strategic Plan of SIDO emphasizes these tasks by planning to collaborate with private sector in developing infrastructure required for enterprise development.

However, the review of performance reports from SIDO and interviews held with officials at SIDO indicated that currently there is no active partnership between SIDO or MITI with private sector in developing modern industrial infrastructures suitable for entrepreneurship development as directed by the policy. SMEs under SIDO custodianship have continued to operate in unsuitable environment without access to all services required for their growth. All SIDO's premises from the six regions visited have been accommodating different types of users without having a formal master plan. SMEs in food processing, light engineering, leather and other categories are operating within the same premises.

In an effort to address the observed challenges in infrastructure, SIDO has recently started to implement the industrial cluster development strategy. All of the six regions are adopting at different levels the industrial cluster development strategy. Prior to this, SIDO had developed a strategy to guide the development of clusters which was a good step towards the success of the strategy.

However, the audit team has noted that there is no sufficient collaboration with all key stakeholders for a modern industrial site suitable for SMEs. Most of the developments up to this stage have been involving LGAs only which are owners of the land from where sites are to be built. There is no involvement of Tanzania Bureau of Standards (TBS), Tanzania Food and Drugs Authority (TFDA), Tanzania Revenue Authority (TRA), TanTrade, Utilities agencies, Advocacy associations and other key stakeholders in the acquisition and development of the industrial clusters.

f) Insufficient Marketing Support to the SMEs

There are no sufficient marketing strategies that provide a proper avenue for the SMEs with their products. Marketing services were mainly offered to the SMEs conducted through exhibitions, which are limited to the SMEs which can afford to participate in the exhibitions. But even for those who can participate in the marketing of the products it is only limited to those who would attend the exhibitions. Apart from that there

is no other means for a potential customer to have direct information about the SMEs and their products.

Interviewed officials from six regional offices visited have mentioned the following as a cause of insufficient provision of marketing support services provided to SMEs.

Insufficient e-marketing base for the SMEs: In the modern world, the use of electronic marketing has been increasing at a great pace. Many businesses including the large-scale businesses are adopting electronic marketing as their alternative means of establishing markets for their commodities.

It was observed that SIDO do not engage SMEs in the electronic marketing. Most of the marketing support services rendered by SIDO assist SMEs to use traditional marketing techniques of open events promotions such as exhibitions. There is insufficient use of electronic marketing through internet that can reach a wide range of potential customers with a minimum cost. The Ministry through SIDO has not adopted enough measures to promote the use of e-marketing among the SMEs.

Reasons for inadequate Implementation of the Provision of Support Services to SMEs

The following were identified as the reasons for inadequate implementation of provision for support services:

Inadequate staff at SIDO Regional Offices: Through the review of regional implementation reports and interviews held with officials in SIDO regional offices, the audit team noted that staffs are overwhelmed by a number of SMEs in need of support services.

SIDO regional offices are understaffed when compared to the demands for support emanating from the SMEs in their areas. Table 4.13 provide the extent of shortage of staff in the visited SIDO Regional Offices.

Table 4.13: Summary of the Extent of Shortage of Staff in the Visited Regional Offices

SIDO Regional office	Required Cadre of Officers	Available officers	Missing Officers	No of Registered SMEs in the region	Ratio of Officers to No of SMEs serviced
Arusha	Business Development Officer,	Technical Officer and Credit	Business Development Officer and	1576	1:788

SIDO Regional office	Required Cadre of Officers	Available officers	Missing Officers	No of Registered SMEs in the region	Ratio of Officers to No of SMEs serviced
		Officer	Marketing Officer.		
Dar es Salaam	Technical Officer	Business development Officer, Technical Officer, Credit Officer 1 and Credit Officer 2	Marketing Officer	8289	1:2072
Kagera	Marketing Officer and Credit Officer	-Business Development Officer, Technical Officer and Credit Officer	Marketing Officer-	2828	1:943
Mbeya		Business development Officer and Technical Officer	Credit Officer, Marketing Officer	2600	1:1300
Mtwara		Technical Officer and Credit Officer	Business development Officer and Marketing Officer	1960	1:980
Singida		Business development Officer, Technical Officer and Credit Officer	Marketing Officer	2081	1:694

Source: Regional Implementation reports, 2017 (2018)

As indicated in Table 4.13, all of the six visited SIDO regional offices are missing at least one professional official for servicing SMEs in their respective regions. On average one professional officer from the six SIDO regional offices visited was servicing 1130 SMEs, with Dar es Salaam region having the highest rate of SMEs per officer. All of the regions did not have marketing officers.

There is a risk that marketing expertise would not be effectively delivered in the regional offices because the work-load assigned to Business Development Officer in delivering indicators in trainings and business development services may affect their capacity in delivering marketing support services which are key elements for the success of SMEs. The needs and demands of the SMEs are not only on training and loan provisions, they also includes provision of consultation services, monitoring through visits as well as conducting follow-ups for the loans provided to the SMEs etc.

In regions where some staff are missing, the remaining professional staff are forced to undertake the duties of the missing staff. For example, in Mbeya region where a regional accountant has been performing roles of credit officer, in Arusha and Mtwara regions the technical officers were performing the roles of Business Development Officers including providing marketing services.

The limited number of staff is further complicated by a geographical spread of the SMEs serviced in the regions visited. In some regions, the distance from one district to another is very long; these limits the effective support services provided to SMEs. Consequently, the regional offices are overwhelmed by a large number of SMEs to serve throughout the region.

CHAPTER FIVE

MONITORING OF THE PROVISION OF SUPPORT SERVICES

5.1 Introduction

The provision of support services to SMEs is supposed to be supervised by different levels within the Ministry and SIDO itself. This was to ensure that there is proper delivery of support services which would ensure that the intended objectives and goals as stipulated in the SMEs Policy and Keys strategies are met. This chapter therefore presents the observed weaknesses regarding the monitoring and evaluation system for the provision of support services rendered to SMEs:

5.2 Absence/Inadequate Plan for Monitoring and Evaluation

Interviews held with officials from the Ministry of Industry and SIDO and review of M&E Manual at the Ministry of Industry, Strategic Plans and Annual Business Plans for both at Ministry of Industry and SIDO has revealed that, SIDO did not plan adequately for monitoring the activities for provision of support services to SMEs. For instance, through its Corporate Strategic Plan, SIDO planned to produce a total of 360 monitoring reports by June, 2017.

However, there was no specific monitoring report issued up to the time of this audit. Furthermore, SIDO's Corporate Plan did not indicate who would be responsible for conducting the monitoring or production of monitoring reports. The corporate strategic plan which is a guiding document in planning did not indicate how the activities of SMEs or its regional offices would be monitored or the methodologies to use during the monitoring.

Through interviews with officials at SIDO, it was noted that monitoring was assigned to the Internal Audit function at SIDO head quarter. However, the reports from the Internal Audit sections reported only issues of financial compliances and other observations but did not capture SMEs related information arising from field monitoring visits.

5.3 Inadequate Use of Developed Key Performance Indicators

The Ministry of Industry and SIDO were required to develop Key Performance Indicators (KPIs) and use them for monitoring the activities for the provision of support services to SMEs. They were supposed to establish a strong mechanism for making a follow-up on the achievement

of performance indicators and establish whether they were met according to set standards and that overall objectives which are based on the laid down indicators will be achieved. However, the review of the reports for which performance indicators at both Ministry and SIDO are being executed indicated weaknesses on the monitoring and eventually the accountability on the performance. The following are the weaknesses:

Inadequate use of the Developed Performance Indicators by the Ministry of Industry

Review of Ministry's Strategic Plan, Monitoring and Evaluation Manual and Plan, the audit team assessed the effectiveness of the developed key performance indicators if they are geared towards improving provision of services to Small and Medium Enterprises.

Through the review of monitoring reports from the Ministry of Industry, the audit team noted that, the developed indicators were not used for tracking the performance of the SIDO in the provision of support services to SMEs.

Despite having a well-structured M&E Manual and its subsequent M&E Plan with indicators for the provision of support services to SMEs, the Ministry has not conducted actual monitoring to establish the extent of the enhancement and development of SMEs.

Insufficient Administration of the Key Performance Indicators at SIDO

In order to be able to effectively measure the performance of the targeted variables, the indicators have to be effectively administered to the responsible units and their inputs tracked so as to collect valid and relevant data. The review of regional performance reports and annual business plans for the period 2013/14 to 2016/17 indicated that KPIs were not sufficiently administered and the ability of the same indicators to measure performance were different from one region to another or from one responsible officer to another.

There are no means of verification of input data for the performance indicators in the regions. The current practice allows a responsible officer to fill in the data for their indicators and be reviewed by regional managers who are both responsible for the same indicators before submitting the results to the headquarters. This practice check in case incorrect data is fed into the system by error or deliberately.

The audit team made a comparison of data for the number of trainings reported in regional offices against the actual data in MIS as reported at HQ during the financial year 2014/15. Table 5.1 presents the different

training statistics reported by SIDO regional Offices and the Ministry of Industry.

Table 5.1: Discrepancies in Figures for Total Number of Trainings Conducted Between Regional Implementation Reports versus MIS Reports during financial year 2014/15

Region	Arusha	Dar es Salaam	Kagera	Mbeya	Mtwara	Singida
<i>Regional Implementation Reports</i>	41	28	20	8	33	43
MIS Reports	23	40	30	25	26	25

Source: MIS Training Reports and Regional Implementation reports (2018)

Table 5.1 indicates that there were significant differences in figures reported between those in the Management Information System (MIS) reports and those reported in their regional business implementation reports. A review of the MIS training reports and Business Plans specifically for the financial year 2014/15 from all of the six visited regions indicated that the figures noted in the business plans were all different from those reported in the MIS reports. This was an indication of lack of sufficient review of data entered in the MIS reports.

Furthermore, it was indicated that there was no sufficient quality review of the information filled in the business plans to report on the indicators. The reviews of the business plans from the six visited SIDO regional offices indicated errors in the calculation of percentages, accuracy of the figures, and inconsistency of the reported planned figures against figures in the business plans and correctness of the data entered in the fields. For instance, in some of the Business Plans the performance levels of indicators were all calculated at the level of 100 percent regardless of whether the figures exceeded the targets or were below the targets.

Some of the indicators particularly in technology support services are more effectively delivered in practical and theoretical means. For instance, indicators on technologies innovated, transfer of technologies, technology identification and acquisition demands the presence of actively operating workshops demands the presence of active workshops through which technologies might be assessed, modified, evaluated and tested before being transferred or disseminated.

Table 5.2: Status on the Availability of Workshops in the 6 Visited regions

Region	Arusha	Dar es Salaam	Kagera	Mbeya	Mtwara	Singida
Status of Workshop	Utilizing TDC Workshop	Workshop rented	No Workshop	Utilizing TDC Workshop	No workshop	No Workshop (Rented)

Source: Auditors' Observation of the workshops made during field visits to SIDO regional Office (2018)

Table 5.2 indicates that four (4) out of the six (6) visited regions did not have their own workshops for undertaking technical works in light engineering or other technologies. This impaired the attainment of the indicators in technology performance because the indicators in technology support services are mostly dependent upon the availability of well-equipped premises for handling and managing technologies sourced or transferred.

SIDO regional offices hosting Technological Development Centers (TDCs) were at a more comparative advantage to deliver indicators in technologies than those regions without TDCs. However, the indicators in technology support services for technical officers were accounted equally in all of the regions and the technical officers have to deliver in the respective indicators. What was actually done by technical officers was the technology sourcing and not technology transfer.

Unrealistic Time frame for Implementation of Indicators

Some of the indicators accounted for by some officers are logistically unrealistic to be achieved. For instance, within a regional office, one Business Development Officer has a total of about 23 main indicators that have to be accounted for as derived from the Annual Business Plans. The audit team made a selection of 10 indicators from one of the Regional Business Development Officer Quarterly implementation report indicating some of the deliverables that would normally take a higher logistics arrangement and time to deliver within a single quarter. Table 5.3 presents the Implementation of Indicators versus the estimated days required to deliver.

Table 5.3: Estimated Number of Days required for each Indicators for the Business Development Officer

SN	Indicator name	Implementation level (Number) in a single quarter	Estimated number of days required (Minimum) ²²
1	Regional Training Needs Assessment to SMEs	10	20
2	Courses conducted on entrepreneurship, business management, technical, organisation and other specialized skills to SMEs	10	30
3	Provide capacity building services to Industrial cooperatives, Associations and Self-Help organizations	7	7
4	Adaptation of enterprises on business management advisory services	50	5
5	Carry out Area Development Survey	1	7
6	Provide mentoring and coaching services	37	3
7	Establish Small Scale Industries	7	49
8	Train SMEs on TFDA and TBS Standards	7	7
9	Prepare Training Proposals	1	7
10	Follow up of funding proposal	1	7
Total Number of days			142

Source: Regional Business Plans for the final year 2014/15 (2018)

Table 5.3 indicates that the estimated time for delivery of the indicators, Regional Business Development Officer requires a minimum of 142 working days to be able to deliver just 10 of the 23 indicators in a single quarter. This seems to be unrealistic due to the fact that the working days available in a single quarter is about 60 days only. Despite of having some of the indicators that are done concurrently such as number 1, 2 and 8 in Table 5.3, the time available to deliver all of the indicators is practically unrealistic. The time constraints for a Regional Business Development Officer to deliver within a quarter might impair the quality or effectiveness of the support services provided to SMEs.

²²Estimates are based on the views of a consulted BDO

Indicators do not comprehensively measure performance at both MITI and SIDO

The measurement of performance is a key element in determining whether the entity is achieving its targets or goals at a given timeframe. Effective Performance measurement is achieved through developing ‘SMART’ indicators that will be able to measure the performance at all levels starting from input levels, implementation, output and impact level. In order to be able to measure the performance of the support services to SMEs, SIDO and the Ministry of Industry have developed indicators appearing in Ministry of Industry’s Strategic Plan and SIDO’s Corporate Strategic Plan that are being used to measure the performance of SIDO in delivering support services to SMEs.

The review of both strategic plans of the Ministry of Industry and SIDO has indicated that the performance indicators are not comprehensive and that they are not able to measure the performance at different levels of service delivery. The three indicators at MITI in the previous Strategic Plan and the two indicators in the current strategic plan measures performance at an impact levels while having no indicators at output levels and therefore do not place direct accountability to MITI in terms of performance.

On the other hand, all performance indicators administered at SIDO measures performance at an output level while having no indicator that measures performance at an impact level. Table 5.4 shows the extent of coverage of indicators at different levels of performance and the availability of M&E framework that can track the performance of the entity in meeting the set indicators.

Table 5.4: The extent of coverage of different indicators at different levels of performance at MITI and SIDO

Entity	Indicators at Output Level	Indicators at Impact Level	M&E Framework	Implementation level
MITI	Not Available	Available	Available	Not sufficient
SIDO	Available	Not Available	Fragmented	Not sufficient

Source: Auditors Analysis (2018)

Table 5.4 indicates that MITI has indicators at impact levels but do not have indicators at an output levels while SIDO has indicators at an output levels but do not have indicators at an impact level. The

indicators at the Ministry are not able to measure to what extent the Ministry has been able to deliver planned support services to SMEs in its strategic plan.

The indicators at SIDO do not measure to what extent the provided support services have made an impact to the SMEs supported. This is a more specific measure that could evaluate the performance of SIDO at an impact level. The review of Strategic Plans at both the Ministry of Industry and SIDO has indicated that there is a well-defined M&E Framework at the Ministry of Industry while on the other hand; there is a fragmented M&E framework at SIDO. The review of performance reports at both MITI and SIDO has indicated that the monitoring and evaluation is not sufficiently implemented at both institutions.

5.4 Failure to Track Achievement of Set Goals

According to the SME Development Policy, the Ministry of Industry being the focal institution responsible for the coordination of the policy implementation, is required to collect, compile and analyze information on the implementation of the various programs (SME Development Policy).

The policy requires the Ministry of Industry to track the achievement of goals, which was to be measured through assessing the SMEs growth. To achieve this, the Ministry was required to conduct SMEs Graduation Survey and Integrated SMEs Survey yearly as directed by its Strategic Plan for the period from 2011/12 to 2015/16.

The surveys were expected to provide information to the Ministry's key indicators for growth of SMEs on different perspectives including employment, business formalisation and its contribution to the economy as measured by contribution to Growth Domestic Product. Through the SME graduation survey, the Ministry was also expected to assess the performance of SMEs in order to indicate whether SMEs were graduating at their indicated level and whether the contribution of SMEs to the economy was at the desired level.

Through the interviews held with officials at the Ministry of Industry and the review of performance reports of Directorate of SMEs at the Ministry, it was noted that the Ministry has not tracked the growth of SMEs. This is because it has not conducted SMEs' growth and Integrated surveys since 2012/13. Thus, the Ministry lack information on whether it has achieved its goal for promoting SMEs growth through the provision of support services.

Failure to track the performance in achieving its goals was associated by lack of effective plans for conducting the required surveys to track their goals. Despite of being integrated in the strategic plans, the Ministry did not allocate adequate development funds to finance the implementation of the activities. The Ministry did not however, indicate an alternative means of mobilising funds.

5.5 Insufficient Monitoring of SIDO Activities by MITI

The Ministry of Industry is supposed to monitor the activities of SIDO in order to guarantee the achievement of its targets and indicators for the development of SMEs as stipulated in their strategic plan. However, it was found-out that the Ministry conducted few field visits and follow-ups of the activities of SIDO compared to the number of field visits planned. Table 5.5 presents the extent to which the Ministry has conducted visits to SIDO from 2013/14- 2016/17

Table 5.5: Percentage of Planned Monitoring Visits conducted by the Ministry of Industry

Financial Year	Required Number of Monitoring Visits	Actual Monitoring visits conducted	%age of Monitoring Visits conducted
2013/14	4	2	50
2014/15	4	2	50
2015/16	4	2	50
2016/17	4	2	50

Source: M&E Manual and M&E MUVI reports at MITI (2018)

Table 5.5 indicates that the Ministry conducted only 50 percent of the required M&E visits to monitor the implementation of the provision of support services to SIDO. However, interviews held with officials at the Ministry and a further review of the performance reports indicated that the 2 M&E visits reported annually were done to monitor the implementation of Muunganisho wa Ujasiriamali Vijijini (MUVI) programme and not to provide other SIDO support services.

Monitoring done by the Ministry was not adequately addressing the SMEs challenges

According to the M&E Manual, the Ministry was required to use M& E checklists which outlines key matters that should be taken into consideration when conducting monitoring during planning stage; preparation, during mission and follow-up stages. From the Ministry of Industry mission checklists items #18, #20, #21, #22 and #23 that

demanded a record of findings, conclusions, way forward and actions agreed or taken were also required.

The audit team assessed the completeness of key components of field visits as required by the M&E Manual; and noted that most of the items required were neither available at the Ministry of Industry nor at SIDO. These are:

- a) Accurate record of findings/meetings (eg. Notes);
- b) Preliminary Conclusions and Recommendations;
- c) Agreement on way forward and tentative action plan;
- d) Minutes of key decisions taken/agreements reached; and
- e) Final mission (field) report.

Absence of these required information such as agreements on action plans, findings and recommendations meant that weaknesses observed at regional levels or SIDO HQ were not guaranteed to be resolved.

5.6 Inadequate Monitoring of SMEs Activities by SIDO

SIDO was required to establish mechanism for tracking progress and make evaluations of its activities for the provision of support services to SMEs. Through its M&E Unit, SIDO was required to coordinate the planning, performance tracking and evaluation of its operations. However, the audit team noted that monitoring conducted by SIDO had the following shortcomings:

Ineffective Systems for Reporting SMEs issues at SIDO

The audit team noted that, the system for producing the monitoring reports at SIDO was not effective. This is because; the system does not provide room for verifying information reported in the performance reports and MIS systems.

SIDO uses Management Information System (MIS) that allows the reporting of only quantitative information of the business plans indicators at higher levels above operational level. The qualitative and very detailed information are not reported to supervisory and top management levels.

The qualitative information reported by the operational staffs are usually limited to their regions and no indications of challenges for their operations can be seen at their supervisory or top management level.

This system of reporting restricts supervisors or top management from knowing the existing challenges pertaining to the provision of support to SMEs. Proper mechanisms must be developed for overcoming these

challenges faced in the field or any indications of non-performance from the operational levels in the regional offices. The supervisory and top management levels are not able to detect problems unless they are at critical stage or demand the interventions of the higher-level authority.

Insufficient follow up after provision of support services by SIDO

In order to ensure that the services provided are effective, SIDO was supposed to provide mentorship services and follow-ups on the performance of the SMEs after providing their support services. Through discussions held with SMEs who were visited by the audit team it was noted that very few follow-ups have been made by SIDO after the provision of support services to SMEs. Figure 5.1 shows the extent of visits made by SIDO to SMEs who received support services from SIDO.

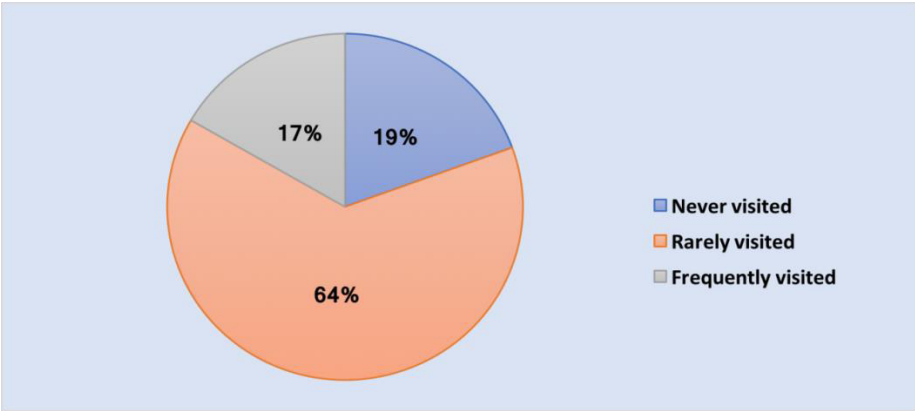


Figure 5.1: Frequency of visits by SIDO to SMEs

The responses from SMEs indicated that most of the SMEs were rarely or never visited by SIDO officials. The response from thirty-six(36) SMEs who were visited by the audit team from six (6) regions indicated that 7 SMEs (19 percent) have never been visited; while 23 SMEs (64 percent) have been visited once or very rarely by SIDO officials. Six (6) out of 36 interviewed SMEs (17 percent) have been frequently visited by SIDO.

This indicated that the interaction between SIDO and SMEs ended up soon after the provision of services particularly trainings. There was no means to establish to what extent SMEs have been able to implement what they have been trained or supported. This was only possible for financial services where follow-ups of the loans continued even after disbursement.

Through the review of SIDO’s Corporate Plan, it was also noted, that absence of M&E framework at SIDO was the main cause for inadequate monitoring of activities for the provision of services to SMEs by SIDO.

Currently, SIDO has a fragmented M&E system for tracking the performance of several support programs that are being implemented by the government and other non-governmental organisations under its watch. In its Corporate Plan for the period 2014/15 to 2016/17, SIDO admitted that lack of M&E systems is among the major challenges facing the SMEs sector.

Similarly, there are no systems to monitor the effectiveness of the programme offered. The interviews with officials at SIDO have indicated that SIDO is unable to offer after service follow-ups to track whether SMEs are utilizing the knowledge gained because of few sources of funds to cover operational costs of follow-up. Among the observed consequences of having a fragmented M&E frame work include:

Lack of reliable data on performance of SMEs: Currently, SIDO do not have a reliable database where information with regard to SMEs performance can be obtained. There is only one baseline survey conducted in collaboration with MITI in 2012, which established baseline data on Micro, Small and Medium Enterprises.

Also, there is a fragmented system for collecting information on the performance of SMEs. SIDO and MITI are not able to establish to what extent the SMEs are performing based on the support services rendered to them due to lack of strong databases for SMEs. For instance, 2 out of 6 visited SIDO regional offices were completely not able to provide estimates of graduating SMEs in their regions. All of the regional offices were not able to indicate specifically the contribution of SMEs to the economy and employment in their regions.

Ineffective visits to see the progress and performances of the SMEs: All twenty (20) sampled SMEs stated that SIDO do not visit them for the purpose of checking the performance and improvements of the activities conducted. It was furthermore stated that the visits were conducted only when there are debt follow ups.

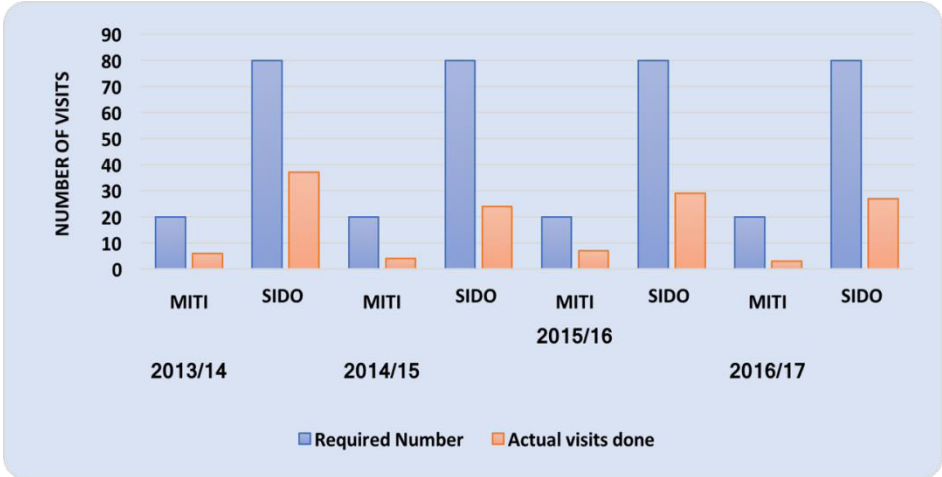
Insufficient Supervision for the Implementation of Support Services

As per SIDO's Corporate Strategic Plan (2014/2015 - 2016/2017), it is required to conduct continuous monitoring and evaluation to ensure gradual assessment of the implementation progress and realization of the intended objectives. The Ministry through SIDO, do not have proper system to track and evaluate the performance of SMEs in the country. This means that SMEs are not properly tracked in a centralised manner.

There is insufficient supervision of services at both SIDO and the Ministry of Industry level. SIDO activities need to be monitored so as to ensure that the services are effectively provided. SIDO is mandated to conduct supervisions, monitoring and evaluation of SIDO regional offices.

The Ministry has also the power and obligation of monitoring and overseeing the SIDO offices. Status of the monitoring and supervisory visits are indicated in the Figure 5.2

Figure 5.2: The number of supervisory and monitoring visits in regional offices by MITI and SIDO



Source: MITI's M&E Manual, SIDO's Corporate Strategic Plan, Regional Offices Registers & Visits reports (2018)

Figure 5.2 indicates that the supervisory and monitoring visits done in the regional offices to oversee the implementation of the support services to SMEs have not been done sufficiently. Both the Ministry of Industry and SIDO were not able to meet the required number of visits as stipulated by the M&E Manual and SIDO's Corporate Strategic Plan. Based on the information collected from the five regions, SIDO has carried-out only 36 percent of the supervision visits they were supposed to have conducted in the five regions for the past four years. On the other hand, the Ministry of Industry has carried-out only 25 percent of the supervision visits they were supposed to have conducted on the five (5) visited regions in the past four (4) years.

The supervision visits were supposed to provide technical advice and correct any key shortcomings during the implementation of different support services offered to SMEs by the respective regional office.

However, the supervision visits made were not issuing technical advice and corrective actions to address challenges found in the field. Most of the conducted supervisory visits were actually audit visits which did not qualify to be considered as supervisory visits. Lack of effective supervision has led to inability to trace progress of the SMEs hence slow development of the SMEs in the regions.

5.7 Ineffective M&E conducted by Ministry and SIDO

It was observed that SIDO do not conduct effective monitoring through its supervisory role for the SMEs in their regions. Out of 30 SMEs visited during the audit only 3 confirmed that they are being effectively supervised by SIDO on the projects they are conducting. They said that the focus of the supervision and field visits concentrated more on financial services and loans issued rather than other aspects of support services such a technology, training, and marketing.

SMEs were not getting effective business consultancy in case of challenges encountered during their operations. When, SMEs needed technical assistance they were required to visit SIDO regional offices. According to the officials from the six (6) SIDO regional offices visited, the visits were mostly focusing on financial services because they represented high-risk category for performance of the regions in terms of loan portfolio management.

Non-Adherence to Evaluation Plan

The Ministry of Industry is supposed to conduct different evaluations in order to obtain evidence as to whether the interventions and outputs achieved have led to achievement of outcomes as stipulated in the Ministry's Strategic Plan for the period from 2011/12 to 15/16. The audit team reviewed the performance reports of the Ministry to assess whether evaluations were conducted in accordance to the planned evaluations (interventions implemented) as stated in the strategic plan. Table 5.6 indicates extent of adherence to the Evaluation for a period of four (4) years.

Table 5.6: Extent of adherence to the Evaluation Plans

Financial Year	Planned Evaluations (Strategic Plan)	Actual Evaluation	Planned Evaluation	Actual Evaluation	Conducted Evaluations
2013/14	SMEs Graduation Survey Integrated SMEs Survey	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review
2014/15	SMEs Graduation Survey Integrated SMEs Survey	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review

Financial Year	Planned Evaluations (Strategic Plan)	Actual Planned Evaluation	Actual Conducted Evaluations
2015/16	SMEs Graduation Survey Integrated SMEs Survey	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review	MUVI Programme Review Financial Services NEDF Review SMEs Policy Review
2016/17	Impact on SMEs Industries Established in SEZ to socio-economic empowerment	SMEs Policy Review	Implementation Review of SME Development Policy (2003)

Source: MITI Strategic Plan 2013/14-2016/17 and MUVI M&E Reports and SMEs Policy Review (2018)

It was found that the Ministry did not actually conduct the evaluations on the SMEs as indicated in the Strategic Plan. The Ministry was however doing reviews of the policy and programmes. This was contrary to the directives of the strategic plan which required evaluations on the interventions implemented by the Ministry and SIDO.

The Ministry was supposed to have conducted 3 SMEs Graduation Surveys and Integration Surveys since 2013/14 but none of them was conducted. Furthermore, the recent evaluation on Impact of SMEs Industries Establishment in Special Economic Zone (SEZ) to socio-economic empowerment was not conducted during the financial year 2016/17.

Consequently, these scenarios were the cause for Ministry's inability to determine the extent to which their objectives on enhancing the development of SMEs were achieved.

5.8 Communication of the M&E Results to SMEs

The current practice for conducting Monitoring & Evaluation at the Ministry and SIDO does not provide for a means of communicating the results of M&E to the respective SMEs. The challenges observed during the conducted visits are not communicated to SMEs to provide advice or means of overcoming the observed shortcomings. Through discussions with SMEs and their association it was noted that there is no communication of the results of monitoring visits directly to SMEs or to the representative of their associations. There is no communication framework that links SIDO and the Ministry directly with SMEs on matters different from the provided support services.

SIDO has currently developed a Marketing and Communication Strategy but the guideline is more concentrated on communication for marketing services and not matters for discussions with SMEs. The Ministry of Industry has been conducting consultative meetings but the discussions have been limited to collection of information for strategic plans and other consultative needs. The results are not shared by SMEs association who stands for the advocacy of SMEs matters in different platforms.

CHAPTER SIX

CONCLUSION

6.1 Introduction

This chapter provides conclusions of the findings presented in chapter three. The basis for drawing the conclusion is the overall and specific objectives of the audit as presented in chapter one of this report.

6.2 General Conclusion

The growth of Small and Medium Enterprises sector in Tanzania is not satisfactory to enable its significant contribution to the country's economy to the level that would enable the country to become semi-industrialized by 2025.

The SMEs sector is characterized by higher rate of failure /collapsing than the rate of growth. For the past four years the average of failure and growth rates was 30 and 5.6 percent respectively. As a result, the sector is significantly characterized by new entrants who are highly unsustainable and dynamic.

For the past four years, a significant low proportion of SMEs (averaging 3 percent) has been graduating from low to higher level scale of operation (from micro into small and medium level). Furthermore, for the financial years 2014/15 and 2015/16 the contribution of the sector to employment stood at 20 and 40 percent which is far below the target of 60 percent set by the Ministry of Industry.

Inadequate business management skills and experience, functional skills, technology development, market infrastructure and financial capacity are the factors affecting the growth of SMEs.

The current activities for the provision of support services performed by the Ministry and SIDO have not brought out the intended results and do not guarantee sustainable growth of SMEs.

The activities for the provision of support services for SMEs are not effectively planned, executed, coordinated and evaluated by the Ministry and SIDO so as to promote the growth of SMEs in the country. The plans intended to support the SMEs sector at different levels are not well executed on the ground to guarantee the achievement of the intended objectives for growth of SMEs. On the other hand, the government is not in the position to tell whether the sector is growing or

not because of lacking key information to provide the status of performance of the sector at any time.

6.3 Specific Conclusions

The following are specific conclusion:

6.3.1 Ineffective plans for Provision of Support Services to SMEs

Despite the emphasis of SME Development Policy (2003), requiring the Ministry of Industry and SIDO to put in place strategies and programs that address SMEs needs in the country that corresponds with major constraints facing SMEs, the Ministry did not address all of the policy objectives adequately in the planning for the provision of support services to SMEs. The strategies were required to capture all policy objectives which represent SMEs' needs at a higher level. Insufficient coverage of the policy objectives meant insufficient coverage of the SMEs' needs.

SIDO and the Ministry did not conduct thorough SMEs' needs analysis; and did not coordinate with key stakeholders such as sector ministries and non-government organisations during the development of the plans. As a result, SMEs' needs were not sufficiently covered in their plans.

Absence of effective system for collecting and analyzing SMEs needs that guarantee the consideration of large proportion of SMEs without overlooking other needs, and inadequate coordination with key stakeholders contributes to inadequate planning for SMEs. SIDO usually collects SMEs' needs during the training. However, the training can only reach 9 percent of the registered SMEs, which is the average number of SMEs trained annually. When considering the whole sector, SIDO trainings reach only 0.4 percent of the total SMEs in the country.

SMEs' needs are not highly prioritized by the Ministry of Industry, SIDO Headquarters and SIDO Regional Offices. The current budgetary performance places a very low priority for development activities of SMEs. Although the Ministry has been receiving an average of 56 percent of its annual approved budget since 2013/14 to 2016/17, significantly little amount of that annually approved budget is allocated to the Directorate of SMEs. For the two financial years of 2015/16 and 2016/17, the Ministry did not allocate development funds to Directorate of SMEs.

The prioritization of SMEs development activities at SIDO Regional offices is worse as 4 out of 6 sampled regions did not completely plan for SMEs activities despite being close to the SMEs. Instead, the implementation of the SMEs related activities depends much on the

funds from development partners which are not sustainable funding mechanisms. As a result, SMEs are not provided with the needed support services or are supported by services skewed to funds provider's terms.

The implication is that the government may not achieve its strategies in developing SMEs and the overall strategic goal for industrialisation may be impaired because of the significance of the SME sector in boosting the industrial sector in the economy.

6.3.2 Support Services have not Sufficiently Contributed to the Growth of SMEs

The support services given to SMEs have not yet contributed significantly to the SMEs growth. SMEs are faced with challenges that impair their growth despite receiving support services from SIDO. This is amplified by inadequate provision of support services characterized with limited outreach for the different support services in technology, marketing, financing and business trainings.

The services provided to SMEs are not sufficient to meet the needs of SMEs, which is indicated by insufficient marketing support provided to the SMEs. Marketing service offered to SMEs are mainly made through exhibitions conducted, which is limited to the SMEs that can afford to participate in the exhibitions.

Although SIDO has managed to conduct several trainings to SMEs, only 9 percent of the SMEs are trained. However, trainings offered are not effective. With the highest rate of collapse, it can be concluded that the business, entrepreneurship and credit management trainings have not achieved the expected impact.

Technological development at SIDO lags behind current demand of Technology by SMEs

The current level of technological support does not meet current demand in technology for sustainable development of SMEs' sector. Currently, the level of technologies available in the market is far more advanced than the technologies by SIDO. This has made SMEs seek for alternative technologies to efficiently undertake production.

Limited capacity of the Technology Development Centers (TDCs) associated with the absence of operational manual, use of old and outdated machines hinders their capacity to carry out innovative works. This poses a high risk of producing defective machines that may perform below the required standard and cast a bad image to TDCs' products and SIDO as well.

It was noted that the Ministry of Industry and SIDO failure to adequately coordinate stakeholders working with SMEs and inadequate supervision of provision of support services are the main causes.

6.3.3 Weak Monitoring and Evaluation of SMEs Sector in the Country

The current mechanism for monitoring the SMEs' sector is not working properly to guarantee the continuous improvement on the existing challenges. The implementation of M&E at the Ministry is not sufficient and the government is not able to establish progress made in implementation of its SMEs' Development Policy.

Despite having a well-structured M&E Manual and its subsequent M&E Plan with indicators for provision of services to SMEs, the Ministry have not conducted sufficient monitoring activities to establish the extent to which SMEs sector development was enhanced.

The Ministry of Industry did not conduct SMEs Graduation and Integrated SMEs Surveys after every 5 years since 2012/13 as required. Thus, the Ministry of Industry lacks sufficient information regarding the growth of the SMEs' sector in the country.

Similarly, the M&E implementation at SIDO level is not well planned and established to guarantee the detection of weaknesses and take corrective actions. Additionally, SIDO rarely make follow-ups to assess the performance and effectiveness of the SMEs after providing them with the support services. As a result, SIDO is not well informed on the progress through the support services offered to SMEs.

CHAPTER SEVEN

RECOMMENDATIONS

7.1 Introduction

The audit findings and conclusions pointed-out weaknesses in the management of support services provided to Small and Medium Enterprises in order to promote their growth in the country. Areas for further improvement have been identified in planning, execution, monitoring and evaluation of activities for provision of support services to Small and Medium Enterprises.

The National Audit Office believes that in order to promote growth of Small and Medium Enterprises sector in Tanzania in order to enable its significant contribution to the economy, the recommendations in this report need to be fully implemented. The recommendations will also ensure the presence of the 3Es of Economy, Efficiency and Effectiveness in the use of public resources. The recommendations are specifically addressed to the Ministry and Small Industries Development Organization (SIDO) in order to promote growth of SMEs in the country.

7.2 Specific Recommendations

7.2.1 Improving planning for SMEs Support Services Activities

The Ministry of Industry, Trade and Investments should:

- 1) Develop mechanism for coordination of stakeholders dealing with SMEs sector. The mechanism should assist in identifying SMEs' needs cutting across all sectors for incorporation in their strategies for the provision of SMEs support services; and
- 2) Establish a sustainable model for funding SMEs development activities and mobilizing funds for SMEs development.

The Small Industries Development Organization should:

- 1) Develop a proper mechanism for collecting and analysing SMEs' needs assessments that guarantees that all needs of SMEs at different sectors, stakeholders and from different localities are considered; and
- 2) Ensure activities for provision of support services to SMEs are included in their strategic and operational plans. The plans

should be communicated to all regional offices and ensure that they are prioritized.

7.2.2 Improving Implementation of SMEs Support Services Activities

The Ministry of Industry, Trade and Investments should:

- 1) Strengthen its capacity in oversee SMEs sector in the country by effectively tracking the growth of sector through surveys and other means of evaluation and taking corrective actions whenever a risk of not meeting policy objectives is identified;

The Small Industries Development Organization should:

- 1) Strengthen its industrial cluster model by increasing the number of key stakeholders participating in the programme including regulatory bodies and designing a sustainable funding model to support the development of clusters which will include all key services for SMEs in one locality;
- 2) Strengthen the capacity of Technology Development Centers (TDCs) by equipping them with modern machines, and staffing them with diversified manpower skills to carry out innovative works and produce quality products that match and compete with modern technologies;
- 3) Strengthen the incubation programmes in SIDO regional offices to enable them to effectively recruit competent ideas and sustainably develop them to be able to produce modern technologies or products that will add value to the SMEs; and
- 4) Develop and strengthen the capacity of business development service providers and business associations' capacity to competently and effectively deliver support services to SMEs on behalf of SIDO.

7.2.3 Improving Monitoring & Evaluation of SMEs Activities

The Small Industries Development Organization should:

- 1) Strengthen their monitoring mechanism to enable performance measurement of their activities;
- 2) Conduct efficient monitoring and evaluation of activities for providing support services to SMEs and ensure reports are shared with all key stakeholders;

- 3) Develop a more explicit monitoring and evaluation mechanisms with clear and well stated and non-overlapping key performance indicators linked to the growth of SMEs;
- 4) Review the administration of its performance indicators by setting realistic and attainable indicators and strengthening follow-ups and verification in regional offices; and
- 5) Establish a strong mechanism for making follow-ups of the achievement of performance indicators and establish whether they meet desired standards and overall objectives.

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APPENDICES

Appendix 1: Responses from the Audited Entities

This part covers the responses from the two audited entities namely, the Ministry of Industry, Trade and Investments and Small Industries Development Organization (SIDO). The responses are divided to general comments and specific comments as detailed in appendices 1(a) and 1(b) below:

Appendix 1(a): Responses from the Ministry of Industry, Trade and Investments

A: Overall responses

Ministry is in Agreement with the recommendations. However, we request the Government to provide more budgetary support in order to enhance growth of the sector as it is the cornerstone of the economy. The sector employs a huge number of Tanzanians and through this sector; the industrialisation agenda to make Tanzania a middle-income country will be achieved.

B: Specific Responses

No.	Recommendation	MITI Comment (s)	Action(s) to be taken	Time line
Improving Planning for provision of support services to SMEs				
1	Develop a mechanism for coordination of stakeholders dealing with SMEs during development. The mechanism should assist in identifying SMEs' needs cutting across all sectors and to be incorporated in their strategies for the provision of SMEs support services	<i>Agreed with the recommendation</i>	<i>The Ministry will start developing the coordination. Recently the Ministry is conducting a study on "Coordination Framework" in collaboration with FSDT to develop a coordination mechanism with all stakeholders in the SMEs sector.</i>	<i>One Year</i>
2	Establish a sustainable model for funding the	<i>Agreed with the recommendation</i>	<i>The Ministry will start</i>	<i>One Year</i>

	SMEs development activities and the mobilized funds for SMEs development.		<i>establishing model for funding the SMEs activities. Currently the Ministry is collaborating with FSDT in the study and development of the financial framework that will be part of the efforts towards establishing sustainable model for funding SMEs sector.</i>	
Improving implementation of activities for provision of support services to SMEs				
3	Strengthen its capacity to oversee SMEs sector in the country by effectively tracking the sector growth through surveys and other means of evaluation and taking corrective actions whenever there a risk of not meeting policy objectives is identified	<i>Agreed with the recommendation</i>	<i>The Ministry is on the process of strengthening a system of Monitoring and Evaluation of the SMEs sector. The Ministry has requested more funds for the financial year 2018/19 to finance M&E activities of the SMEs sector.</i>	<i>Ongoing</i>

Appendix 1(b): Responses from Small Industries Development Organization (SIDO)

A: Overall responses

Good organisational performance is tracked right from the way the plans are made, the mechanism in place to establish implementation progress, the indicators from progress developed and if the results of monitoring and evaluation are shared to key stakeholders. Issues raised by the auditors dwells on the weaknesses established on same key issues, which implied that if no corrective measures are instituted it would be difficult to establish the realistic and true status of progress to be made out of implementation of SIDO plans.

Having realised so, reviews to existing mechanisms and or development of new ones will be made to make the SIDO system solid and eliminate the possibility of encountering the observed anomalies in future audits

B: Specific Responses

No .	Recommendation	SIDO Comment (s)	Action(s) to be taken	Time line
Improving Planning for provision of support services to SMEs				
1	Develop a proper mechanism for collecting and analysing SMEs' needs assessments that guarantees consideration of all needs of SMEs at different sectors, stakeholders and from different localities	Development of a proper mechanism for collecting and analyzing SMEs needs is a function of MITI.	SIDO will consult the ministry on the availability of a mechanism for collecting and analysing SMEs needs assessments, SIDO will develop tools and instruments to be used in collecting and analysing SMEs needs.	From July 2018
2	Ensure activities for provision of support services to SMEs are included in their strategic and operational plans. The plans should be communicated to all	The recommendation noted for implementation	All planning centers will be instructed to revisit their plans to ensure elements of provision of support	May 2018

	regional offices and ensure that they are prioritized		services to SMEs are included.	
Improving implementation of activities for provision of support services to SMEs				
3	Strengthen its industrial cluster model by increasing the number of key stakeholders participating in the programme including regulatory bodies and designing a sustainable funding model to support the development of clusters which will include all key services for SMEs in one locality	<i>The auditors recommendation is noted</i>	<i>The Triple Helix Model that involve private sector (Include MFIs), the knowledge institutions such (as academic and R&D) and the public sector (supporting public institutions, regulation bodies etc) has been adopted from March 2018 and evaluation of the model will be done after one year.</i>	<i>March 2019</i>
4	Strengthen the Capacity of Technology Development Centers (TDCs) by equipping them with modern machines, and staffing them with diversified skills to enable staff carry out innovative works and produce quality products to match and compete with the current demand of modern technologies	<i>Noted the auditors recommendation</i>	<i>The situation analysis to understand the status and need of TDCs in terms of Technology, human resource, market and financial requirements will be undertaken in the financial year 2018/ 19.</i>	<i>December 2018</i>
5	Strengthen the incubation programmes in SIDO regional	<i>Noted for implementation.</i>	<i>The incubator program will be strengthened and funds for</i>	<i>Starting from June 2018</i>

	offices to enable them to effectively recruit competent ideas and sustainably develop them so that they are able to produce modern technologies or products that will add value to the SMEs		<i>spreading the services to other 5 regions will be considered in the 2018/19 budget. The knowledge institutions will be involved in supporting commercialisation of research/results. Innovation is key driver.</i>	
6	Develop and strengthen the capacity of Business Development Service providers and Business Associations capacity to competently and effectively deliver support services to SMEs on behalf of SIDO	<i>Noted for implementation</i>	<i>SIDO will do the mapping to establish the status of BDS providers Develop capacity development models especially curriculum .Prepare proposals for funding .Execute capacity development models</i>	July 2018 - March 2019 March 2019 December 2018 July 2019
Improving monitoring and evaluation of activities for provision of support services to SMEs				
7	Strengthen their monitoring mechanism to enable performance measurement of their activities	<i>Noted for implementation</i>	<i>M&E systems will be strengthened so as to ascertain provision of support services to SMEs is appropriately covered.</i>	June 2018
8	Conduct efficient monitoring and evaluation of the activities for the provision support services to SMEs and ensure report are shared with all	<i>Noted for implementation</i>	<i>Results of the monitoring and evaluation works will be shared with all key stakeholders so as to keep them informed on the</i>	March 2019

	key stakeholders		<i>implementation status.</i>	
9	Develop a more explicit monitoring and evaluation mechanisms with clear and well stated and non-overlapping key performance indicators linked to the growth of SMEs	<i>Noted for implementation</i>	<i>M&E mechanisms will be reviewed to reflect SMART indicators according to Auditors recommendation.</i>	<i>December 2018</i>
10	Review the administration on its performance indicators by setting realistic and more attainable indicators and strengthening its follow-ups and verification in regional offices	<i>Noted for implementation</i>	<i>All future plans will have to have SMART performance indicators, follow ups and verification mechanism.</i>	<i>December 2018</i>
11	Establish a strong mechanism for making follow-ups on the achievement of performance indicators and establish whether they are meeting desired standards and overall objectives	<i>Noted for implementation</i>	<i>The follow up mechanism will be reviewed and tested to establish its effectiveness and ability to track realisation of intended outcomes.</i>	<i>December 2018</i> <i>Verification June 2019</i>

Appendix 2: Audit Questions and Sub-Questions

This part provides the list of four main audit questions and their respective sub-questions detailed:

Audit Question 1	To what extent does the SMEs sector provided with support service from MITI and SIDO grow?
<i>Sub-question 1.1</i>	<i>Do supported SMEs graduate from one level of business capacity to another within planned or forecasted time?</i>
<i>Sub-question 1.2</i>	<i>Do supported SMEs manage to sustain (compete in the market and maintain/increase production level) their businesses for a considerable period of time?</i>
Audit Question 2	Do MITI and SIDO set their plans in a manner that responds to the needs of SMEs?
<i>Sub-question 2.1</i>	<i>Do MITI and SIDO have strategies in place that address needs and challenges of SMEs?</i>
<i>Sub-question 2.2</i>	<i>Do SIDO and MITI periodically conduct and document needs assessment of SMEs?</i>
<i>Sub-question 2.3</i>	<i>Do SIDO and MITI plans prioritize identified needs necessary for growth and development of SMEs in their implementation plans?</i>
<i>Sub-question 2.4</i>	<i>Does the development of MITI and SIDO's plans for the provision of support services to SMEs take into account inputs of other relevant stakeholders to avoid duplication of efforts?</i>
Audit Question 3	Does SIDO effectively implement the planned support services to SMEs?
<i>Sub-question 3.1</i>	<i>Does SIDO effectively and timely render the needed support services to SMEs?</i>
<i>Sub-question 3.2</i>	<i>Does SIDO effectively coordinate with other stakeholders in the provision of support services to SMEs and make necessary adjustments when needed?</i>
<i>Sub-question 3.3</i>	<i>Do SIDO and MITI supervise the provision of support services to SMEs?</i>
<i>Sub-question 3.4</i>	<i>Do SIDO and MITI effectively provide mentorship to SMEs during the provision of the needed support services²³ to promote the overall performance of SMEs²⁴?</i>
Audit Question 4	Do MITI and SIDO monitor and evaluate the provision of support services to SMEs to ensure that its targets are achieved?
<i>Sub-question 4.1</i>	<i>Do MITI and SIDO plan for monitoring and evaluation of their support services provided to SMEs?</i>

²³ The services for this case and in subsequent pages specifically refers to financial, training, technology and marketing support services

Sub-question 4.2	<i>Do MITI and SIDO effectively develop and use key performance indicators for monitoring and evaluating their performance on support services rendered to SMEs?</i>
Sub-question 4.3	<i>Do MITI and SIDO effectively develop and use key performance indicators for evaluating goal achievements on support services rendered to SMEs?</i>
Sub-question 4.4	<i>Do MITI and SIDO effectively conduct periodical reviews on the performance of SMEs and identify challenges encountered by them??</i>
Sub-question 4.5	<i>Do MITI and SIDO address the identified challenges encountered by SMEs after providing support services timely and adequately?</i>
Sub-question 4.6	<i>Do MITI and SIDO effectively communicate the results of monitoring and evaluation to SMEs?</i>

Appendix 3: List of Officials Interviewed

This part provides the detailed list of officials interviewed during the data collection and analysis

PERSON INTERVIEWED	REASON FOR INTERVIEWING THE PERSON(S)
<i>Ministry of Industry, Trade and Investments (MITI)</i>	
Head of Department: SMEs	Describe the plans of the Ministry in overseeing the SMEs sector
Head of Section: Business Support and Development	Describe the practice of their offices in delivering the support services for SMEs
Relevant Officials in SME's Department and Section at MITI	Clarify different matters arising from the documents reviewed at MITI and data tools provided Provide reasons for deviations and discrepancies in performing their roles Obtain recommendations for improving the provision of support services to SMEs
<i>SIDO Headquarters</i>	
Director: Planning, Marketing and Investment	Describe the practice of their offices in delivering technology, training, marketing and financial support services to SMEs
Director: Training and Regional Administration	Clarify different matters arising from the documents reviewed at HQ, Regional Offices and data tools provided
Director: Technology Development and Industrialization	Provide reasons for deviations and discrepancies in performing their roles
Director: Finance and Accounts	Clarify matters arising from the site visits conducted
Managers: Training, Marketing, Technology and Credit Services	Obtain recommendations for improving the provision of support services to SMEs
Relevant Officials in Training, Marketing, Technology and Credit Services	
<i>SIDO Regional Offices</i>	
Regional Managers (Arusha, Dar es Salaam, Singida, Kagera, Mbeya and Mtwara)	Describe the practice of their regional offices and TDCs in implementing the provision of support services to SMEs in technology, training, marketing and finance.
TDC Managers and Foremen's	Clarify different matters arising from the documents reviewed at their regional offices and data tools provided
Regional Business Development Officers	Clarify matters arising from the site visits conducted in their regions
Regional Credit Officers	
Regional Technical	Provide reasons for deviations and discrepancies in

Officers	performing their roles Obtain recommendations for improving the provision of support services to SMEs
Incubates	
Hosted Incubates in SIDO Dar es Salaam, Arusha, Mbeya, Singida and Kagera.	Provide implementation status of their projects Obtain challenges and obstacles faced in carrying out their projects Obtain recommendations for improving the incubation program
SME Owners	
Select SME's owners in Agro processing and Light Engineering Chairpersons of Agro-processing groups	Establish the extent of support services received from SIDO Obtain reasons for performing and non-performing SMEs based on services issued by SIDO Evaluate the support services received from SIDO Obtain recommendations for improving the support services from SIDO and MITI
SME's Associations	
VIBINDO Chairperson	To obtain a practical knowledge of the challenges facing SMEs and establish the relationship between different variables so as to develop cause effect relationship of the findings obtained Obtain the extent to which stakeholders are involved in the management of support services for SMEs. Obtain recommendations for improving the provision of support services to SMEs

Appendix 4: Documents and Files Reviewed

This part provides the detailed list of documents and files reviewed during the data collection and analysis

NAME OF DOCUMENT(S) REVIEWED	REASONS FOR REVIEWING
Policies and Acts	
Small Industries Development Act no 28 of 1973. SMEs Policy (2003) Credit Lending Policy The Sustainable Industries Development Policy - SIDP (1996 - 2020) National Microfinance Policy 2000	<p>To evaluate the extent to which SIDO and MITI delivers its mandate and functions in relation to the management of support services for SME's in Tanzania</p> <p>To present the system for management of support services for SMEs in Tanzania</p> <p>To source and establish criteria for the processes and procedure used during provision of support services to SMEs in financial, technology, marketing and trainings</p> <p>To evaluate the compliance of SIDO in delivering the support services based on established principles</p>
Performance Reports	
MITI-RANDAMA Budget Estimates 2013/14-2016/17 SIDO Annual Performance Reports 2013-2017 SIDO Regional Performance Reports 2013-17 RRF Performance report NEDF Performance Report TDC Annual Performance Reports	<p>Establish the extent to which MITI, SIDO, Regional Offices implement the support services.</p> <p>Evaluate the extent of implementation of support services to SMEs by MITI, SIDO and Regional Offices based on their plans</p> <p>To obtain evidence of implementation of support services for SME in regional offices</p> <p>Evaluate the extent to which RRF and NEDF are meeting their targets</p>
Planning Documents	
SIDO Annual Business Plans 2013/14-2016/17 SIDO Corporate Strategic Plans (2014-2017) MITI Strategic Plan 2011/12-2016/17 MITI Strategic Plan 2015/16-	<p>To evaluate the preparedness of the government in supporting the growth of SMEs in Tanzania</p> <p>To use as a reference for evaluating the performance of SIDO in delivering planned support services to SMEs</p>

201 SIDO Regional Annual Business Plans SIDO Cluster Development Strategy TDC Annual Business Plans 2013-2017 Integrated Industrial Development Strategy IIDS 2025	Establish the extent to which support services for SMEs are planned by MITI, SIDO and Regional Offices Establish the extent to which SMEs needs are considered during planning at MITI, SIDO and Regional offices
Manuals and Guidelines	
MITI M&E Manual Individual Credit Lending Manual Group Lending Manual Incubation Programme Manual MIS Manual	To source and establish criteria for the processes and procedure used during provision of support services to SMEs in financial, technology, marketing and trainings To Use as a benchmark and indicators for evaluating the effectiveness of SIDO in delivering support services to SMEs To evaluate the compliance of SIDO in delivering the support services based on established principles
Files	
Site Visits files for TO, BDOs and CO's Incubation Programme Files Training Files CMC Files LAC Files TDC Working Files TNA Files	To obtain evidence of implementation of support services for SME in regional offices To obtain evidence of plans for delivering support services to SMEs To obtain evidence of monitoring and evaluation for delivered support services to SMEs
Other Reports	
Quarterly Training Reports (2013-17) DTDI Technology Performance Reports Area Development Surveys MUVI Programme Reports Needs Assessment Reports (Training & Technology) SMEs Business Diagnostic Reports Zonal Exhibitions reports Delinquency Reports	Obtain the levels of performance in delivering support services to SMEs To obtain stakeholders views and opinions on problems facing SMEs to enable auditors develop cause effects analysis Establish the extent to which MITI, SIDO, Regional Offices implement the support services. To obtain best practise, benchmarks and relative indicators for evaluating the effectiveness of SIDO and MITI in delivering

Loan Arrears Reports World Bank Economic Update Tanzania UNIDO Reports	support services to SMEs To obtain an in-depth analysis of the problems facing SMEs and establish the relationship between different variables so as to develop cause effect relationship of the findings obtained Evaluate the extent of implementation of support services to SMEs by MITI, SIDO and Regional Offices based on their plans
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