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Let's persist with policies that work

The 2018 Manufacturing Survey results show positive signs of growth of the sector, notwithstanding the fact that the results were being availed when the dynamics had significantly changed. There are two scenarios at play in this survey. Firstly, the survey is normally carried out and launched during the month of October of each year. However, the 2018 survey was carried out later than usual, hence the delay in the launch. Regardless of the timing of the launch, the period covered by the survey remains the same (i.e September 2017 to August 2018). Secondly, we get the benefit of insights into the last quarter of 2018, when there were drastic changes in policy, and the survey endeavored to show the results of this quarter in relation to the policy changes.

The Survey remains a significant tool to provide information and required policy direction for the manufacturing sector, hence CZI continues to ensure that it is carried out without fail. Most of the policy measures that CZI recommends to Government are informed by this survey, while a number of local and international organizations recognize this survey as an important performance measurement tool of the manufacturing sector in particular and the economy in general.

Industry performance is a direct response to policy signals by the policy makers. This clearly shows how industry performance responds to changes in policies. The survey shows a clear distinction in performance between the period up to August 2018 and from September to November 2018. Lessons should therefore be drawn as to which policies should be pursued to drive industry growth.

An important point to note is the increase in investment in the local manufacturing sector in the period under review. There was an increase in companies expanding their factories and their production lines. New companies also came in to set up completely new factories. Output volume therefore increased. As a result, apart from increase in employment creation, we have also seen increased competition among local manufacturers, which is good for innovation and for the consumer. This highlights the positive impact of import substitution measures through SI 122. This was unfortunately scrapped in October 2018, and the drop in performance in the last quarter is partly attributable to this.

Also the acute foreign currency shortages which worsened in the last quarter as well as the introduction of new policies and regulations against foreign currency trading exacerbated the economic situation. This resulted in some companies scaling down, or closing some of their production lines. The majority of industry relies on imported raw materials and failure to access foreign currency severely affect their operations.

In order to address the foreign currency problems, CZI highlighted to Government on many occasions that 'Separate but equal' monetary policy intervention where the US dollar and RTGS/Bond note are deemed 1:1 had clearly brought in unintended negative consequences. CZI went further to suggest mechanism to create credible market discovery of the foreign exchange rate and its availability. CZI also continues to call upon Government towards utmost fiscal discipline.

EXECUTIVE SUMMARY

The 2018 Manufacturing Sector Survey has generally demonstrated the positive effects of Import Substitution and Export promotion policies that the Government instituted to support local industry. Owing to these policies capacity utilisation increased to 48.2%, which is a 3.1 percentage point increase from 45.1% that was recorded in 2017. The improvement in capacity utilisation was recorded in the Foodstuffs, Drinks, Tobacco and Beverages, Wood and Furniture and Other Manufactured goods sub groups.

Output increased by 12.1% during the period under review. In 2018, output increased in tandem with improvement in capacity utilisation. However, though this survey does not cover the economic dynamics after September 2018, data was collected on current and expected capacity utilisation in 2019. Current capacity utilisation was recorded in November when the survey was carried out. Due to the macroeconomic challenges that were experienced in the last quarter of 2018, current capacity utilisation had already declined to 42% compared to 48% in August 2018. This means that Government needs to address the macroeconomic imbalances that are currently prevailing in the economy to ease the doing business environment.

Companies projected capacity utilisation to further decline to 34% in 2019. A very low statistic of 34% for capacity utilisation implies that some companies will not be operating and this means higher unemployment levels in the economy. This results in a vicious cycle as it causes a reduction in aggregate demand which is not good for the companies and the economy in general. Foreign currency shortages need to be addressed as this was the major challenge that the companies highlighted in 2018.

Most companies who responded to the survey indicated that they benefited from the Import Substitution and Export Promotion strategies that were put in place particularly the SI 64 of 2016 and SI122 of 2017.

Admittedly, the policies on import substitution that the government put in place are not a panacea to the challenges that the manufacturing sector is experiencing. The doing business environment needs to be addressed in order to improve the competitiveness of the productive sector. The shortage of foreign currency in the economy which is correlated to shortage of raw materials is weighing down on company operations. Local firms need to access foreign currency to import raw materials and intermediate inputs. The main capacity constraints that were recorded in the 2018 survey include:

- i. High cost and shortage of raw materials,
- ii. Foreign currency shortages,
- iii. Antiquated machinery and breakdowns,
- iv. High cost of doing business, and
- v. Drawbacks from the current macroeconomic environment.

The non-tariff barriers that the government put in place helped divert competition from imports to the domestic frontier as 46.6% of the respondents indicated facing competition from local firms.

In 2018, only 52% of raw materials were sourced locally. This was a further decline compared to the 2017 as 64% of raw materials were sourced locally. Local companies' main source of imported raw materials is South Africa as 49.8% of respondents mentioned that they procure raw materials from the country's southern neighbour. China's importance as a source of imported raw materials increased to 15%, representing a 4.4 percentage point increase in market share. This is an indication that local companies' raw material imports from China increased as firms imported direct from the original source markets.

In 2018, Zambia had the lion's share of export market for locally manufactured products with 26% of the companies exporting to the country compared to 28% in 2017. Zambia is an attractive export destination for local products because products are invoiced in United States dollars. It is also easier for local manufacturers to compete in Zambia because it is landlocked. In 2018, Malawi was the second major export destination with 19% of market share. South Africa came third in terms of export destination at 14% in 2018. Mozambique and Botswana each had 11% of the market share in 2018.

Companies that did not export in 2018 were negatively affected by low productivity levels, and due to high costs of production local products could not compete on the international market. Generally, companies indicated that other countries are managing to export cheaper and hence the local product becomes uncompetitive in export markets due to high input costs.

In order to improve the foreign currency situation, companies suggested that the authorities need to support export producing companies by providing export incentives. Companies in this category emphasized the need to encourage value addition and beneficiation in order to boost the value of exports thereby enhancing foreign currency inflows in addition to liberalising the foreign exchange market. Companies also suggested that there should be less foreign exchange market regulations in the economy in order to minimize foreign exchange transactions on the parallel market.

The manufacturing sector survey revealed that there is need for transparency in foreign currency allocation by the Reserve Bank of Zimbabwe.

Most of the companies highlighted that business has declined relative to the period before September 2018, and foresee business as likely to further decline going forward. Most respondents implored government to institute policies that improve the doing business environment in order to reduce per unit cost of manufacturing.

Respondents also indicated that the dire foreign currency situation in the economy has negatively affected their operations and they pin pointed that the currency issue needs to be addressed as an ultimate solution. The unavailability of foreign currency is affecting business negatively since it curtails the ability of manufacturers to import essential raw materials and intermediate inputs. The situation is aggravated by very high prices for sourcing local raw materials.

Corruption is another factor that was mentioned as weighing down on business as it increases costs of production and companies called for zero tolerance to corruption by both public and private sectors.

INTRODUCTION

The Annual CZI State of the Manufacturing Sector Survey

The Confederation of Zimbabwe Industries (CZI) State of the Manufacturing Sector Survey is widely recognized as Zimbabwe's leading analysis of the factors affecting business operations and growth, with a particular focus on the manufacturing sector. The survey not only covers the performance of the manufacturing sector, but also analyses how competitive the sector is and what factors need to be addressed to enhance competitiveness. The competitiveness of industry is influenced by the operating business environment.

The survey aims to provide information to a wide range of stakeholders as enunciated below:

- Empirical, objective evidence towards influencing policy that provides businesses with a lobbying position and reference point when meeting policy makers, so that challenges are discussed and solutions recommended based on empirical evidence.
- Government and international cooperating partners with information on obstacles to economic growth and to provide an outline on general business direction allowing stakeholders to anticipate problems and ultimately, to craft well rounded solutions.
- Academia with information on analyzing the current business environment and emerging trends for further research.

The survey is conducted on an annual basis and provides insight into the state of the economy from the business perspective. The survey has gained significance over the years that policy makers, international financial institutions and the United Nations system, among others, rely on its findings. The relevant survey documentation is available annually on the CZI website www.czi.co.zw and it gives a more accurate exposé of the current and prospective health of the country's economic and business environment.

A strong, competitive and diversified manufacturing sector is vital for the country. A competitive industry can lower costs and prices, create new products and improve quality, thus contributing to economic growth, poverty alleviation and job creation.

Sections Covered in this Survey

1. Company Information
2. Company Operations and Strategy
3. Technology and Innovation
4. Human Capital
5. Foreign Trade, Investment and Financial Environment
6. Gender Dynamics
7. Overall Perception of the Economy

1. Who Conducts the Survey?

The CZI conducts the survey. The survey is undertaken in strict confidence. Confidentiality of survey respondents and the sensitive information they provide is necessary to ensure the greatest degree of survey participation, integrity and confidence in the quality of the data.

Resampling and data collection was done through the University of Zimbabwe Economics Department. Data entry, analysis and report generation were done internally through the CZI Economics Department.

2. Who is surveyed?

A total of 290 questionnaires were sent to respondents in the manufacturing sector. Companies are drawn from the four CZI regional Chambers namely Mashonaland, Manicaland, Matabeleland and Midlands. These include both CZI members and non-members. Directors and Chief Executive Officers in participating firms complete the questionnaires.

3. Methodology Justification

The target population are manufacturing establishments of enterprises active at any time during the period covered by the survey. The sampling units were drawn from these establishments. The sampling design is stratified probability sampling based on the national establishment distribution of the Enterprise Survey of the World Bank for Zimbabwe 2011. Resampling was done in cases where companies have closed, where new companies have formed and where response rate was too low for some subsectors. The resampling process was done in a way that, as much as possible, preserves the representativeness of each subsector within the sample although the response rate remained very low in some sectors.

The stratification variables are:-

- Main manufacturing sector at 2-digit level of ISIC Rev. 4
- Size (3 strata): i) Small (5-19 employees); ii) Medium (20-99 employees); and iii) Large (equal or more than 100 employees);
- Region (4 strata): i) Matabeleland; ii) Mashonaland; iii) Manicaland; and iv) Midlands.

The data was collected between November 2018 and December 2018 through self-enumeration, telephone and in-person interviews with either a paper or electronic questionnaire. The majority of companies surveyed were large companies followed by medium sized companies and small companies were the least. For the purpose of this survey, the number of employees was used as a measure of size although 30% of the companies categorised as small were deemed large but on the verge of collapse thus employing a few individuals just to tend to the machinery with very little or no production.

Capacity Utilisation

Over the years the Confederation of Zimbabwe Industries has conducted the State of the Manufacturing Sector Survey, one of the key statistic calculated is the capacity utilisation. There has been debate on how this figure is actually calculated and what it actually means. The following gives a definition of capacity utilisation and how to calculate the value.

A firm's **productive capacity** is the total level of output or production that it could produce in a given time period. **Capacity utilisation** is the percentage of the firm's total possible

production capacity that is **actually** being used. Thus, it refers to the relationship between **actual output** that 'is' actually produced with the **installed equipment**, and the potential output which 'could' be produced with it, if capacity was fully used.

Capacity utilisation is calculated as follows:

$$\text{Capacity Utilisation (\%)} = \frac{\text{Actual output per month (or per annum)}}{\text{Maximum possible output per month (or per annum)}} \times 100$$

Capacity utilisation is important for determining the elasticity of supply. If firms are near 100% of capacity utilisation then supply will be very inelastic, at least in the short term. In the long term firms can increase productive capacity and increase the amount of capital. Implicitly, the capacity utilization rate is also an indicator of how efficiently the factors of production are being used.

This statistic has been questioned by experts on its ability to deduce the performance of the manufacturing sector. While it remains a key statistic for measuring performance of the industrial sector, it should be noted that capacity utilization should be interpreted together with other statistics such as manufacturing value added, manufacturing output and new investments within the manufacturing sector.

BACKGROUND AND ECONOMIC OVERVIEW

The 2018 State of the Manufacturing Sector Survey was carried out during a unique period. Normally the surveys are carried out in the months of August through to September. The 2018 State of the Manufacturing Sector Survey was carried out in November up to mid-December due to the Harmonized Elections that were held on 31 July 2018. Though the manufacturing sector was faced with a lot of turbulence in the last quarter of 2018, this survey covers the period between September 2017 to August 2018. Thus the effects of the Fiscal and Monetary policy pronouncement in October 2018 were not captured in this survey.

Some gains realized from SI64

S.I 64 came into force on 17 June 2016 as one of the government measures aimed at managing the volumes of imports into the country.

It covers the following products: coffee creamers, camphor creams, white petroleum jelly, body creams, plastic pipes and fittings, wheelbarrows, flat rolled products of iron on non-alloy steel, metal clad insulated panels, baked beans, potato crisps, cereals, bottled water, mayonnaise, peanut butter, jams, maheu, canned fruits and vegetables, pizza bas, flavored milk, dairy juice blend, ice creams, cheese, second hand tyres, baler and binder twine, fertilizers, flash doors, wardrobes and dining room suites, office furniture, tissue wading, shoe polish, synthetic hair products and woven fabrics of cotton.

Besides the famous S.I 64, several other instruments have been gazetted, removing products from the Open General Import License. These are S.I. 18 of 2016 (Pharmaceutical products), S.I 19 of 2016 (batteries, floor polish, twine, candles etc.), S.I 20 of 2016 (second hand clothing

and shoes), S.I 126 of 2014 (plastic packaging, hoses, conveyor belts etc.). Recently, government gazetted SI 122 of 2017 which is a consolidation of all products that require import and export licences from the Ministry of Industry and Commerce.

This consolidation is in line with the current concept of ease of doing business to ensure that importers and exporters are adequately informed with one piece of legislation.

Impact or Benefits of S.I 64 of 2016

When the statutory instrument came into force it was met with some resistance from sections of the economy. The major reason was that there was no notice given hence importers were caught by surprise. Below are some of the benefits of SI 64 of 2016:

- i. Increase in Capacity Utilization
- ii. Re-tooling
- iii. Increase in Foreign Direct investments
- iv. Increase in employment
- v. Increase in tax revenues
- vi. Reduction in trade deficit
- vii. Strengthening Value Chains

Despite the gains recorded above, companies cited the following as impediments to operating at full capacity since inception of the Import substitution and export promotion initiatives. Below are some of the challenges:

- i. Cost / Shortage of raw materials
- ii. Foreign currency shortage
- iii. Liquidity Crisis
- iv. Competition from Imports
- v. Capital Constraints
- vi. High cost of doing business
- vii. Access to finance
- viii. Corruption
- ix. Policy inconsistency

Economic Overview

Zimbabwe's macro economy is marred by the existence of twin deficits of fiscal and current account. These two deficits have become a major source of macroeconomic instabilities to

include high inflation, debt overhang, arrears accumulation with international financiers and foreign currency shortages. This has subsequently resulted in deterioration in business confidence. The waning business confidence is emanating from shortages of foreign currency, low local demand, illiquid conditions, shortage of raw materials and policy inconsistencies that only help to create a difficult doing business environment. An absence of a foreign exchange market in Zimbabwe has exacerbated the situation making the planning horizon very difficult for business.

The existence of a fiscal deficit has caused an upsurge in inflation pressures due to the financing mode on the deficit. Thus the fiscal imbalances have always been associated with money supply growth due to excessive government borrowing to finance its deficit. This phenomenon is of concern to business because it drives inflation and at the same time crowding out the private sector.

Industrial capacity utilization reached its peak at 57.2% in 2011, since the multi-currency regime and dropped to a low level of 34.3% in 2015. Some recovery has been witnessed since import restrictions were imposed in 2016 through some Statutory Instruments e.g. SI 64. However, the economy is still quite a long way off the mark in terms of the desired levels of industrialization. The industrialization drive is mainly affected by confidence and uncertainty issues.

The key priority issues that need to be worked on at macro level include:

1. The currency and exchange rate issues.
2. The significant foreign currency shortage negatively affecting import of critical raw materials.
3. Monetary Imbalance-Between money in the RTGS account and underlying Nostro
4. A pervasive lack of confidence in the economy that is hurting both domestic and foreign investment.
5. Sustainable financing of the Fiscal imbalance.
6. Improving the doing business environment.
7. Export Promotion.

Competitiveness Issues

According to the Global Competitive Index, which is compiled by the World Economic Forum Zimbabwe was ranked number 128 out of 140 countries beating Malawi, Lesotho, Mozambique, DRC, and Angola in the SADC regional trading bloc. While Zimbabwe's ranking in the Global Competitiveness Index was 124th out of 135 countries in 2017, the 2018/19 report which was published on 16 October showed that Zimbabwe's ranking worsened by 4 places to 128/140 in 2018.

This scenario does not paint a good picture at all, considering that Zimbabwe aspires to be a middle income economy by 2030. A low Global Competitive index ranking shows that the set of institutions, policies and factors that determine the level of productivity are poorly ranked, thus Zimbabwe has a lot of work to do in order to improve its doing business environment.

Figure 1: Zimbabwe's Performance by Pillar (Average Score = 0 to 100)

	Enabling Environment				Human Capital		Markets				Innovation Ecosystem	
	Institutions	Infrastructure	ICT Adoption	Macroeconomic Stability	Health	Skill	Product Market	Labour Market	Financial System	Market System	Business Dynamism	Innovation Capacity
Sub Saharan Africa Score	47.5	46.3	29.6	66.9	48	43.4	50.4	53.8	50.4	38.8	51.1	28.4
Zimbabwe Score	43	43	33	65	38	48	38	50	50	37	41	26
Zimbabwe Rank	124	122	110	120	134	109	139	122	108	114	132	128

Source WEF

Analysis of Institutions

Figure 2: Best Performers under Institutions Pillar

	Factor	Rank out of 140
1	Organised Crime	33
2	Terrorism Incidence	69
3	Strength of Auditing and Reporting Standards	56

Source WEF

Figure 3 : Worst Performers under Institutions Pillar

	Factor	Rank out of 140
1	Quality of land administration	102
2	Freedom of Press	102
3	Efficiency of legal framework in challenging regulations	108
4	Judicial independence	109
5	Budget transparency	110
6	Intellectual property protection	113
7	Reliability of police services	116
8	Incidence of corruption	131
9	Future orientation of government	132
10	Burden of government regulation	134

Source WEF

Infrastructure Pillar

The best ranked factors under the Infrastructure Pillar in 2018 included Road Connectivity and Rail Road Density at 31 and 61 respectively. The worst performers under infrastructure are indicated in the table below

Figure 4: Worst Infrastructure Performers

	Factor	Rank Out of 140
1	Reliability of water supply	129
2	Efficiency of train services	124
3	Electrification rate	124
4	Airport connectivity	122
5	Quality of roads	122
6	Exposure to unsafe drinking water	120
7	Efficiency of air transport	115

Source WEF

ICT Adoption Pillar

Though Zimbabwe performed better than its Sub Saharan African counterparts under this statistic, globally she ranked poorly in ICT adoption at 110 out of 140. The Macroeconomic Stability Pillar also painted a gloomy picture at 120. This pillar measures inflation and debt dynamics.

Markets Pillar

According to the 2018 GCI report, product markets in Zimbabwe are affected by distortive effects of taxes and subsidies on competition and inefficient clearing processes which had very poor ranks.

Factors which negatively influenced scoring in the labour market are indicated below:

- i. Ease of hiring foreign labour – 140
- ii. Active labour policies – 138
- iii. Flexibility of wage determination – 136
- iv. Hiring and firing practices – 134
- v. Pay and productivity – 123
- vi. Redundancy costs – 108

The soundness of banks, venture capital availability, SME financing, and domestic credit to private sector weighed down the performance of financial markets. The Business Dynamism pillar's ranking was negatively affected by cost of starting a business and time to start a business.

Real Sector Developments

The economy is projected to grow by 4.0% in 2018. The growth in GDP is mainly driven by Agriculture (12.4%), Mining (13%) Construction (7.7%) Distribution, Hotels and Restaurants

(5.6%) and Transportation and Communication (3.1%). This reflects the elevated focus on agriculture recovery and value addition including agro processing.

In 2019, the economy is projected to grow by 3.1%. In 2020 and 2021, GDP is projected at 7.5% and 7.7% respectively.

Manufacturing

The Manufacturing Sector is projected to grow by 1.4% in 2018 with a good agricultural season positively affecting foodstuffs; tobacco, and beverages as well as ginning. However, the sector is negatively affected by shortage of foreign currency to import raw materials and intermediate inputs as well as equipment.

Agriculture

Growth in the agriculture sector in 2018 was boosted by tobacco which recorded a cumulative total sale of 252 million kilograms, reflecting a 34.53% increase from the 187 million kilograms sold in 2017. In 2018 the value of tobacco sold was US\$735.92 million, up from US\$555.45 million realized in 2017. The golden leaf was sold at an average price of US\$2.92/kg, slightly lower than the average going price of US\$2.97/kg in 2017. The assumptions for agriculture are that there will be strong tobacco performance despite threats of drought and irrigation support to maize and wheat as well as inputs support for maize, soya beans and cotton.

Mining

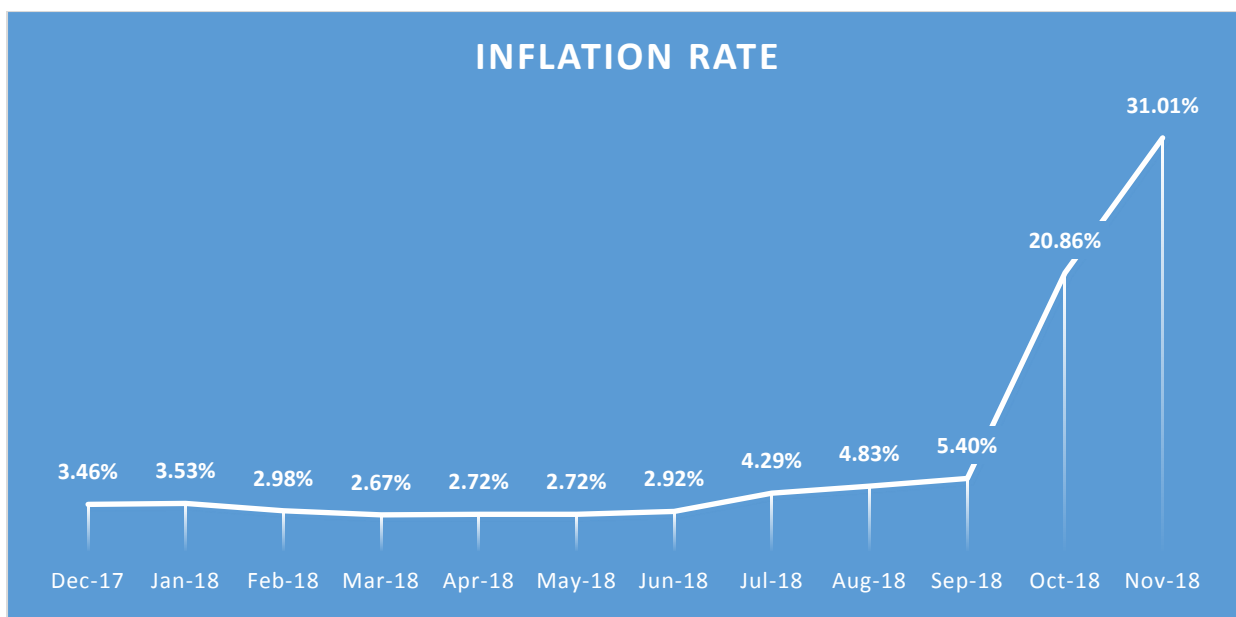
The Mining sector is estimated to grow by 13% in 2018, benefitting from increased production of gold, chrome, coal and platinum and PGMs. Assumptions for Mining include modest recovery in mineral prices such as gold and platinum as well as strong performance for diamonds and coal.

Prices and Inflation

The annual inflation rate jumped from 20.86% in October 2018 to 31.01% in November 2018. Inflation has been on a steady increase since May 2018 from 2.72%. The jump in November 2018 was mainly driven by food inflation, though non-food components also increased. This largely reflects the surging food inflation pressures, underpinned by the escalating parallel market premium for foreign exchange. The continued shortages of foreign exchange in the economy has continued to exert pressure on the foreign exchange market, leading to parallel market activities, which have pass through effects on prices. Stability of prices is therefore dependent on the premium for foreign currency.

The figure below shows inflation developments from December 2017 to November 2018.

Figure 5: Inflation



Source ZimStat

End period inflation for 2018 is projected at 25% with an average end period rate of 5% from 2019 to 2021.

Monetary Developments

In August 2018, broad money was US\$9 796.47 million, up from US\$7 075.54 million in August 2017. The annual growth in broad money was 38.46% in August 2018, down from 47.50% in July 2018. Month-on-month, broad money increased by 1.18%, from US\$9 681.83 million in July 2018 to US\$9 796.47 in August 2018.

Credit to the private sector recorded an annual growth of 3.94% to US\$3 724.97 million in August 2018 while credit to Government grew by 86.27% to US\$ 9 245.23 million in August 2018, clearly showing that government is crowding out the private sector.

Balance of Payments Developments.

The country's external sector position showed some measure of improvement due to policies that were instituted to boost exports and limiting non-essential imports. Following the implementation of these policies the current account deficit to GDP ratio declined from a peak of 20.4 percent in 2011 to about 1.8 percent in 2017. The export incentive scheme has continued to produce desired results of increasing exports across all the sectors of the economy.

The current account deficit is estimated to have slightly improved from US\$591 million in 2016, to US\$316.1 million in 2017. However, the deficit is expected to widen in 2018 as the country absorbs more imports, particularly fuels, raw materials and equipment to improve local industry competitiveness.

Figure 6: Balance of Payment Developments (US\$ million)

	2015	2016	2017*	2018**
A. Current Account	-1557.3	-591.3	-316.1	-636.1
Balance on goods	-2402.6	-1500.0	-1306.9	-1612.8
Exports	3577.5	3662.9	4286.3	4685.6
Imports	5980.1	5162.9	5593.2	6298.4
Balance on services	-1137.1	-867.1	-677.8	-538.4
Receipts	386.7	396.7	418.9	505.7
Payments	1523.8	1263.8	1096.7	1044.1
Balance on Primary Income	-158.8	-178.3	-160.6	-136.4
Balance on Secondary Income	2141.1	1954.1	1829.3	1651.4
Secondary income: Receipts	2164.7	1979.7	1858.4	1681.5
o/w Workers Remittances	1253.2	1102.8	1013.4	1004.7
NPISHs	790.4	750.3	713.1	538.2
Secondary income: Payments	23.6	25.6	29.1	30.0
B. Capital Account	398.4	242.3	278.3	208.8
Net Lending(+)/Net Borrowing(-)(Balance from CA & KA)	-1158.9	-349.0	-37.7	-427.3
Net Lending(+)/Net Borrowing(-)(Balance from FA)	-1643.4	-526.6	-332.3	-852.6
Direct Investment (Net)	-399.2	-343.0	-246.0	-470.3
Portfolio Investment (Net)	-122.8	80.1	100.9	-54.0
Other Investment: Loans (Net)	-1075.5	-259.9	-174.8	-320.2
D. Net Errors and Omissions	-484.5	-177.6	-294.6	-425.4

Source: RBZ, Ministry of Finance & Zimstat

* estimate; **projection

The 2019 Budget Highlights

- i. Government working to retrench the fiscal and current account deficits.
- ii. Multicurrency system to be maintained with US\$ as anchor the preserve value.
- iii. The exchange rate for Real Time Gross Settlement RTGS) to NOSTRO FCA maintained at 1:1.
- iv. Annual Inflation projected to close the year at 25%
- v. Public debt projected at 18.076 by December 2018.
- vi. A fiscal deficit of US\$1.6 billion or 5% of GDP is projected for 2019.
- vii. No further acquisition of Non-Performing Loans by ZAMCO.
- viii. Treasury Bills auction system introduced.
- ix. All RBZ quasi fiscal activities discontinued.
- x. Government to reduce RBZ overdraft facility to 5% of previous year's revenue from 20% that is permissible at law.
- xi. The re-engagement efforts are also raising investors' interest with more than US\$15 billion worth of projects being negotiated.
- xii. Establishment of Venture Funds for SMEs and the Manufacturing sector.

- xiii. Foreign currency surrender requirements thresholds for large scale gold miners to 45%, from the 70% which will see the miners retaining 55% of forex earned.

Revenue Enhancing Measures

1. Increase excise duty on cigarettes from US\$20 to US\$25 per 1000 sticks.
2. Customs duty on motor vehicles and other selected goods to be paid in foreign currency.
3. Companies that collect VAT or any other taxes to remit taxes in the currency of transaction.
4. Increase Excise Duty by 7 cents per litre on diesel & paraffin and 6.5 cents on petrol to reduce the arbitrage opportunities.
5. The privatization of state enterprises to raise US\$350 million.

Expenditure Measures

1. A 5% cut on salaries for all senior positions from Principal Directors to Presidium.
2. Rationalisation of Foreign Service Missions.
3. A total of 2 917 Youth Officers who still remain on the payroll, are being retired and the posts removed from the establishment, by end of December 2018.
4. Retiring Government officials above the age of 65.
5. State owned enterprise privatization and liquidation.

Measures to Boost Manufacturing Sector Output

In the 2019 Budget, the government has put in place measures to increase manufacturing sector output, realising that the sector is a major source of job creation and foreign currency generation. The following propositions were made through the Transitional Stabilisation Program to address the challenges faced by the sector in order to raise capacity utilisation:

- i. Negotiating for affordable medium and long term lines of credit,
- ii. Promoting and strengthening value chains and linkages,
- iii. Export promotion,
- iv. Removing distortions and promoting competitiveness,
- v. Establishing Venture Fund for industry retooling,
- vi. Supporting infrastructure development including reviving ZISCO Steel, Cold Storage Commission, and

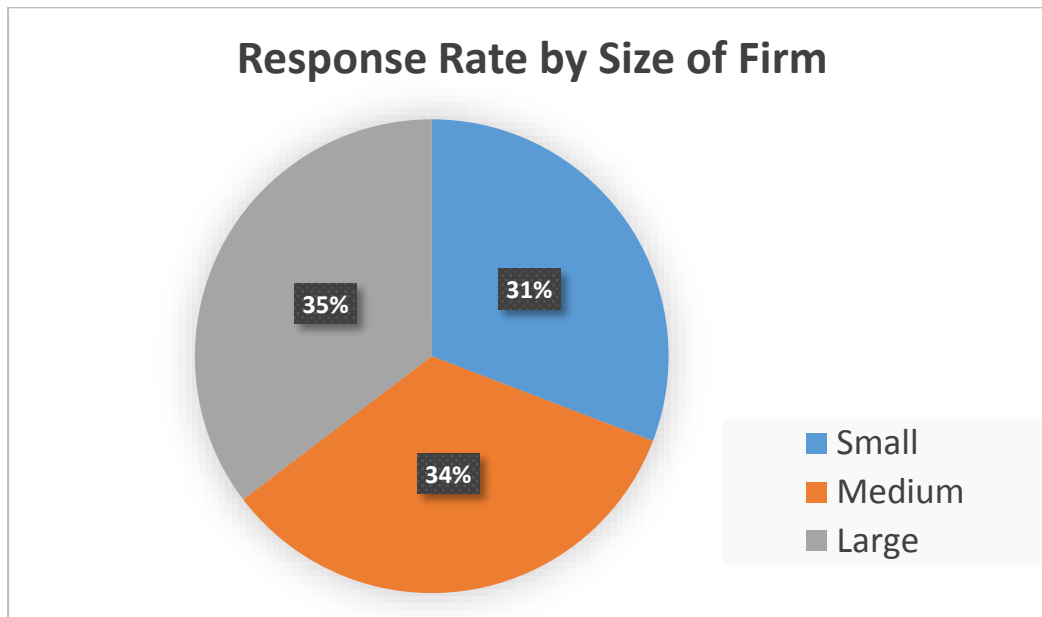
- vii. Establishing venture funds for SME development.

SURVEY RESULTS

The 2018 Manufacturing Survey response rate was 47%.

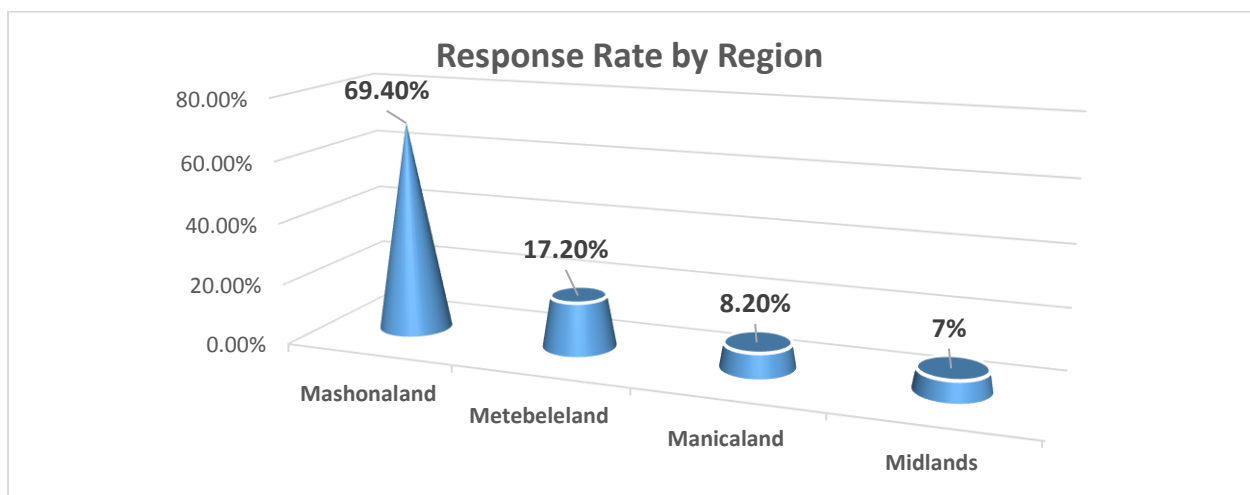
Response Rate

Figure 7: Response Rate by Size of Company



The survey results show that large corporates had a slight lead in response rate at 35% ahead of medium and small companies at 34% and 31% respectively.

Figure 8 : Response Rate by Region



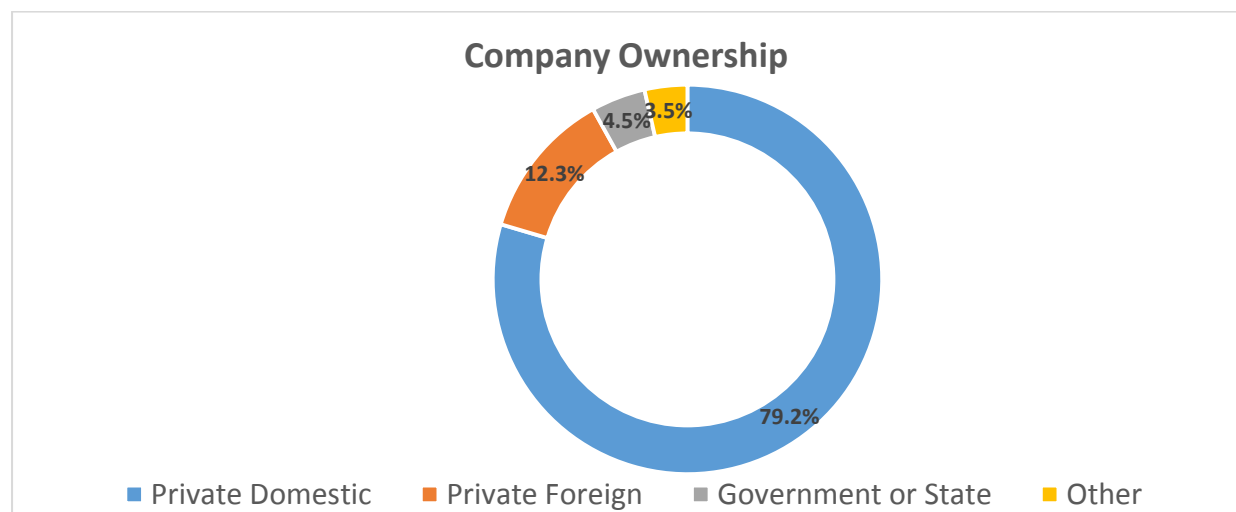
The 2018 survey response rate was highest in Mashonaland at 69.4% followed by Matebeleland at 17.2%. The least response rate was in Midlands at 7%. The pattern of the statistics may be explained by the population of firms in each respective region.

Composition of Respondents

Company Ownership

Seventy nine percent of the firms that were surveyed are private owned domestic companies. The proportion of foreign owned firms at 12.3% shows that there is room for more foreign direct investment into the country.

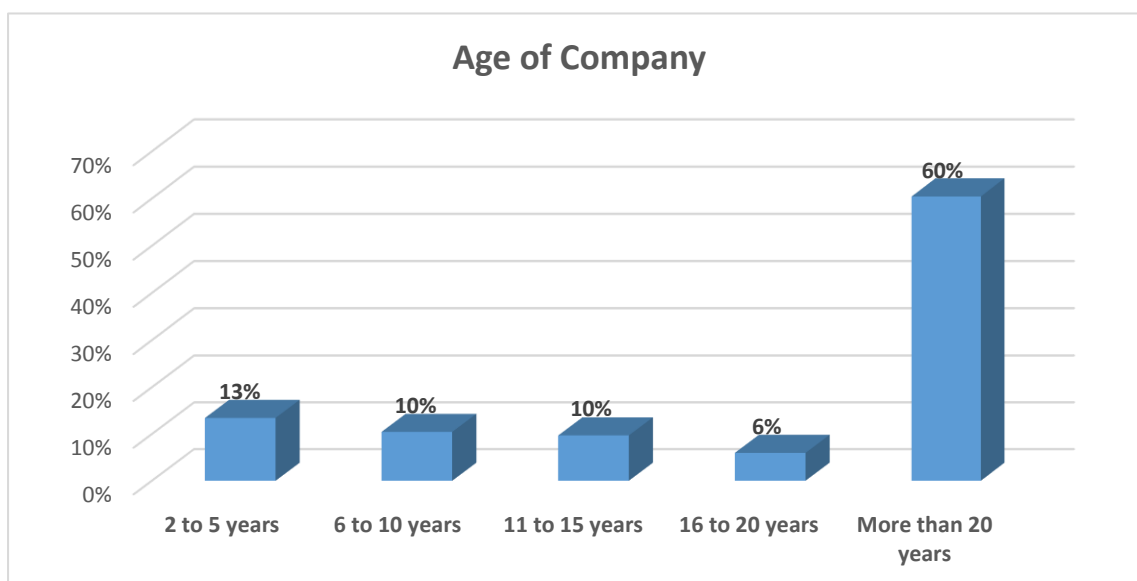
Figure 9: Company Ownership



Respondents by Company Age

The majority of respondents at 60% were represented by companies that are more than 20 years of age.

Figure 10: Age of Company



Capacity Utilisation

Capacity utilization measures the proportion of potential output versus actual output and it is usually measured as a percentage. Capacity utilisation is a very important statistic because it gives insight into the overall slack that is in the economy or a firm at a given period.

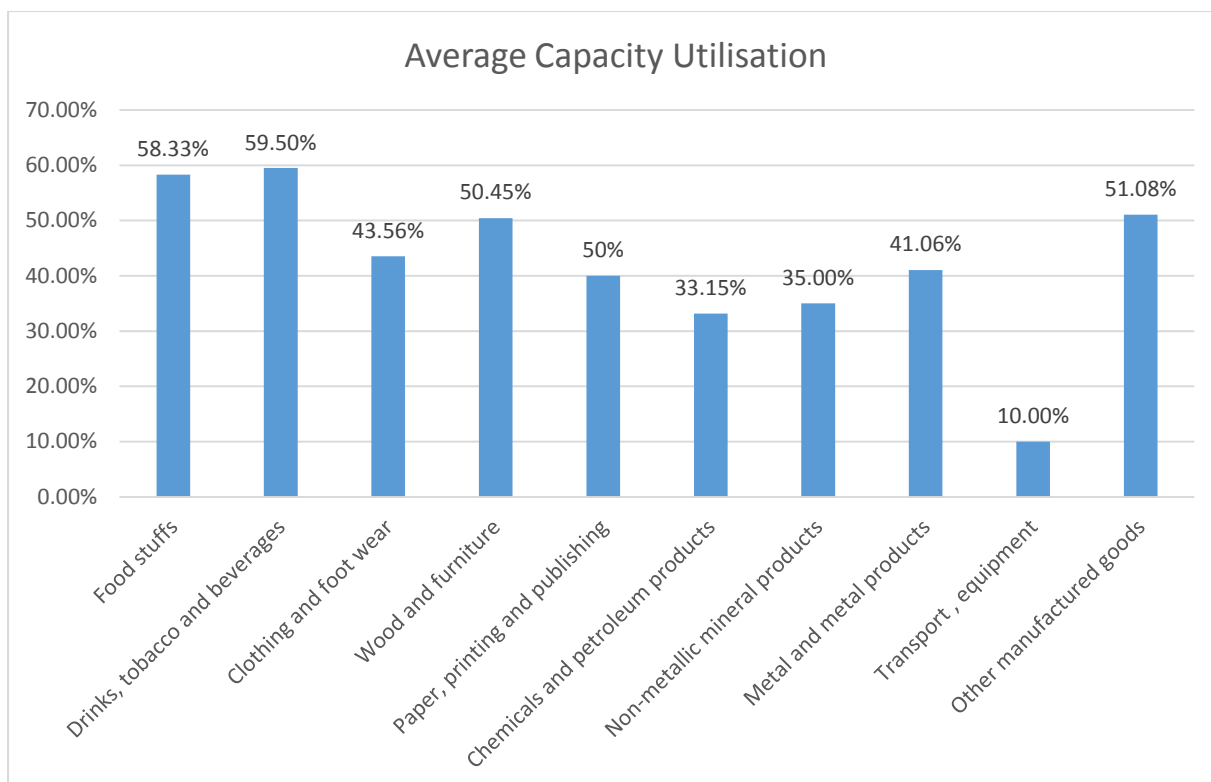
Capacity utilisation is used as a measure of productive efficiency. Higher capacity utilisation levels make the business more competitive by reducing unit costs.

Figure 11: Capacity Utilisation

Period	Weighted Capacity Utilisation
2015	34.3
2016	47.4%
2017	45.1%
2018	48.2%

The data shows that weighted capacity utilization rose by 3.1 percentage points from 45.1% in 2017 to 48.2% in 2018. Capacity utilisation has increased on account of import substitution and export promotion policies that were implemented starting from 2016. The improvement in capacity utilisation was recorded in the Foodstuffs, Drinks, Tobacco and Beverages, Wood and Furniture and the Other manufactured goods sub sectors.

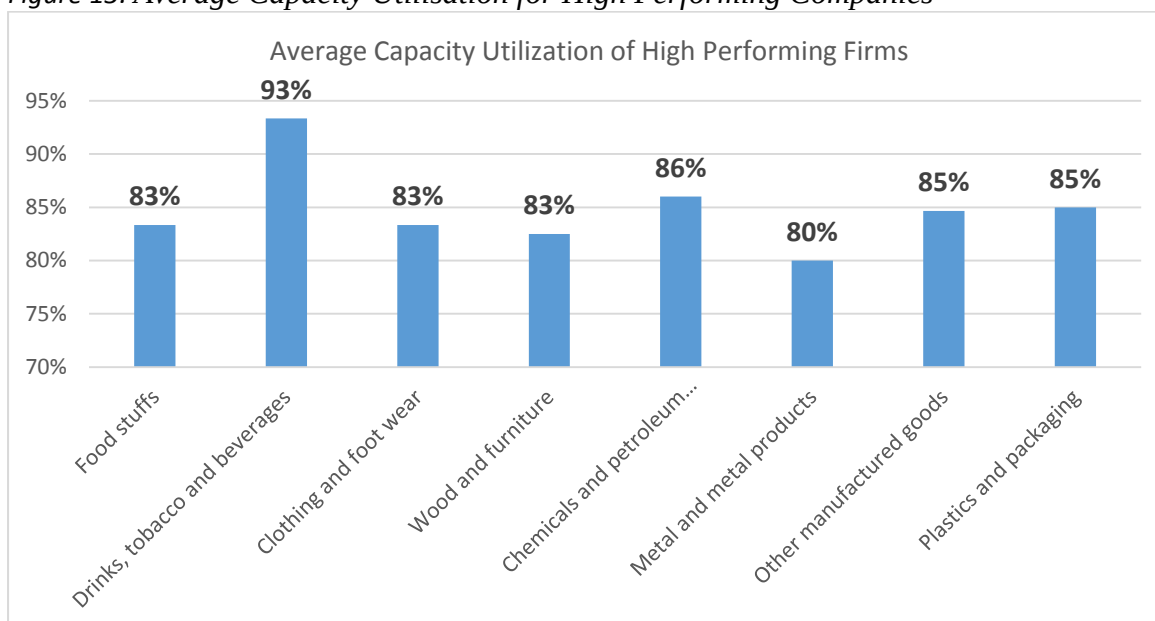
Figure 12: Average Capacity Utilisation



Average Capacity Utilisation for High Performing Companies

Data was collated for companies that had high capacity utilisation levels and in 2018, some companies were operating at capacity utilisation levels of above 80% as illustrated by the figure below.

Figure 13: Average Capacity Utilisation for High Performing Companies

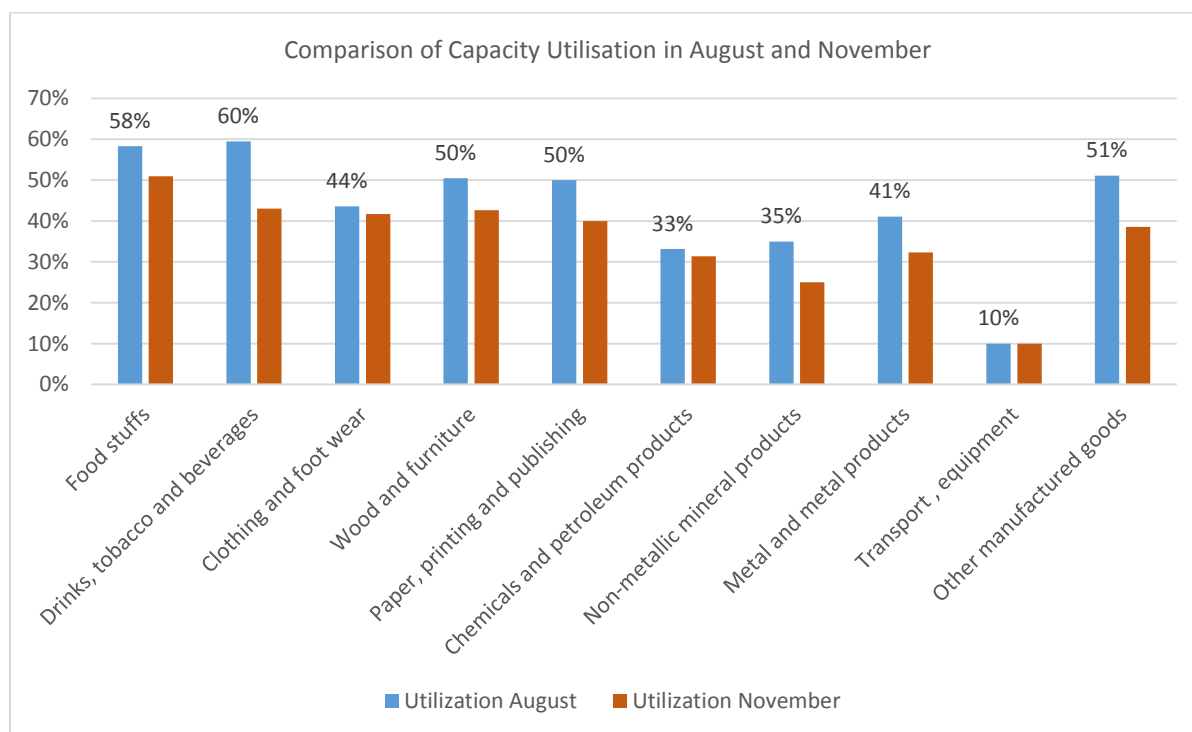


Comparison of Capacity Utilisation in August and November 2018

Companies were asked about current capacity utilisation in the month of November. All the respondents indicated that current capacity utilisation had declined compared to capacity utilisation in August as illustrated by the figure below. Compared to August 2018 capacity utilisation in November 2018 declined by 6.2 percentage points to 42%.

The decline in capacity utilisation was mainly a result of lack of access to foreign currency to procure raw materials and the suspension of import substitution policies. Lack of clarity on currency policy has had negative impact on capacity utilisation.

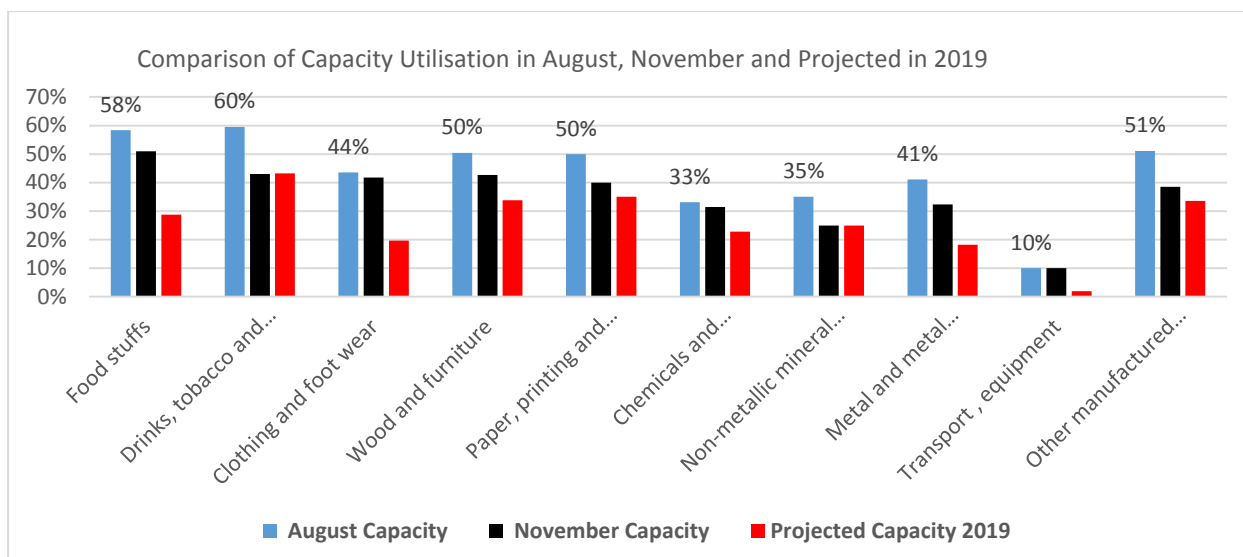
Figure 14: Comparison of Capacity Utilisation in August and November 2018



Projected Capacity Utilisation in 2019

Respondents in almost all the manufacturing sub sectors however project capacity utilisation to decline in 2019. Projected capacity utilisation in 2019 is expected to decline to 34.3% representing a 7.7 percentage point decline compared to November 2018 capacity utilisation levels.

Figure 15: Comparison of Capacity Utilisation in August, November and Projected Trend in 2019



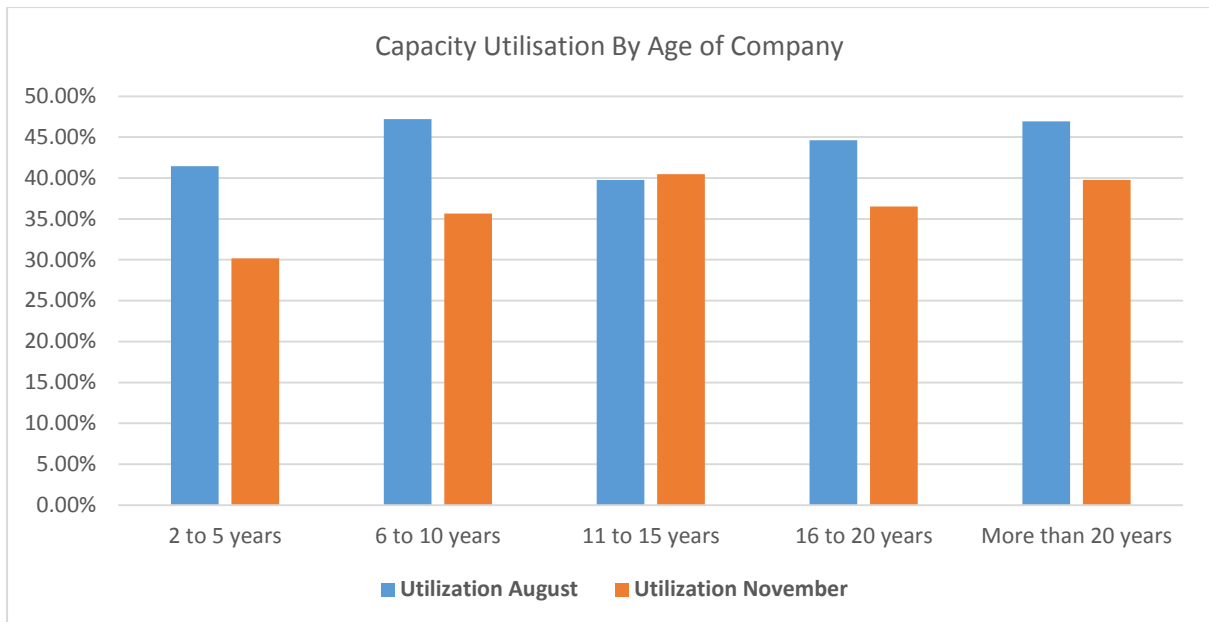
It is a big challenge that firms are projecting to reduce capacity utilisation yet average production costs tend to fall as output rises. Higher capacity utilisation levels reduce unit costs, making the business more competitive. The fact that firms are actually projecting to reduce capacity utilisation reflects a difficult doing business environment because companies exist for profit motive.

At the projected 34% capacity utilisation in 2019, the implication is that some companies would have closed shop with attendant effects of unemployment and reduced aggregate demand in the economy. Ultimately, if the trend is not reversed, the economy will be trapped in a vicious cycle. If the policy direction does not change drastically, the manufacturing sector will operate at below optimum levels.

Capacity Utilisation by Age of Company

It is often perceived that older companies are likely to perform better than newer companies given that they would have mastered their activities. The results show that companies older than 6 years have a higher capacity utilization compared to companies which have been in existence for less than 5 years.

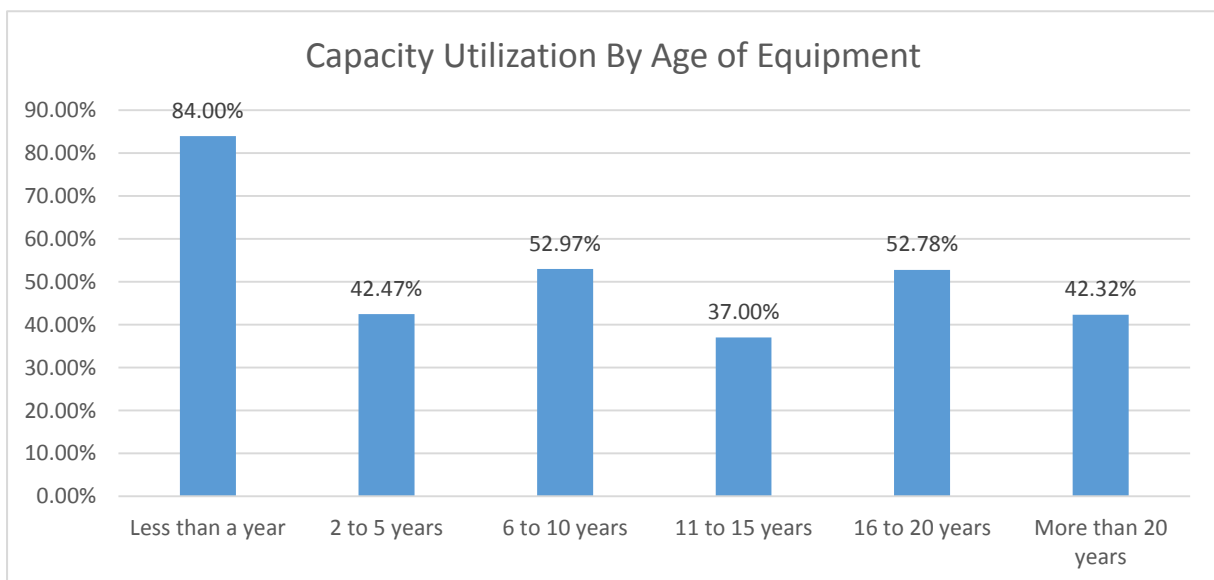
Figure 16: Capacity Utilisation by Age of Company



Capacity by Age of Equipment

The age of equipment affects both the average and quality of capacity. The results show that companies using newer machinery are operating at higher capacity than companies using older machinery. Companies utilizing equipment that is less than a year have a very high average capacity utilisation rate of 84%. Companies using machinery which is 16 to 20 years are operating at an average capacity of 53%. Those companies with aged equipment at more than 20 years of age have average capacity utilisation rates of 42%.

Figure 17: Capacity by Age of Equipment

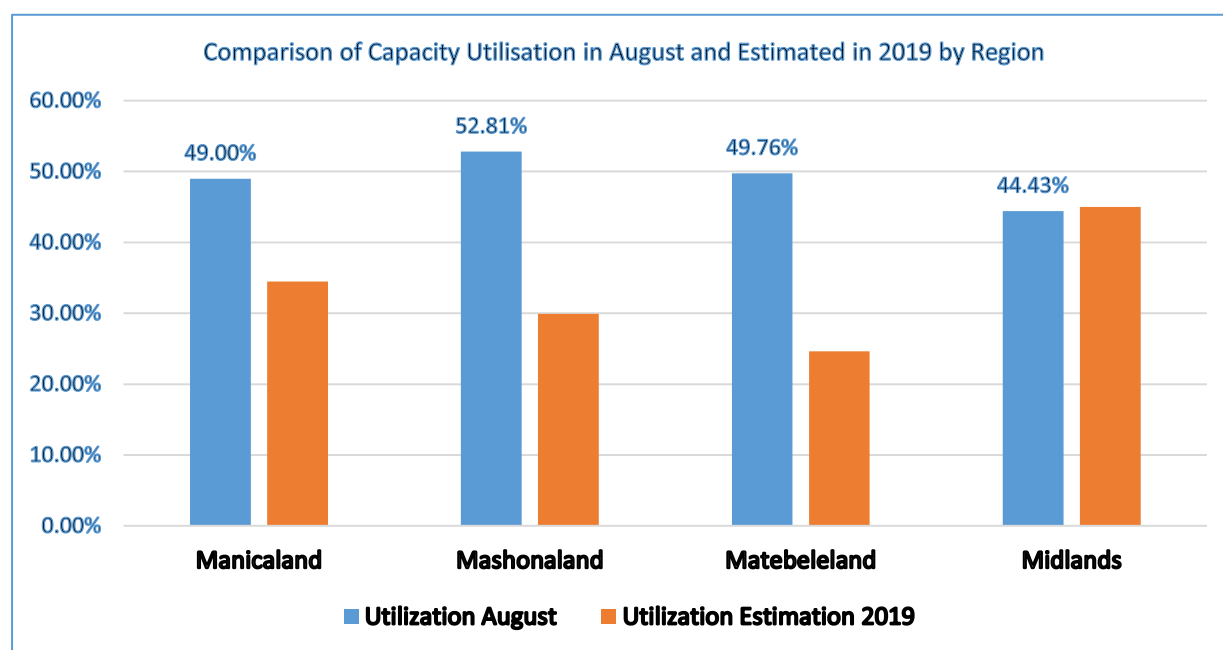


A higher average capacity utilisation rate for equipment that is 6 to 10 years and 16 to 20 years may be reflecting effects of servicing machinery after depreciation.

Capacity Utilisation by Region

Capacity utilisation was higher for companies that are domiciled in Mashonaland with an average rate of 52.81%. The lowest capacity utilisation rate was recorded in Midlands at 44.43% while Manicaland had an average rate of 49%.

Figure 18: Comparison of Capacity Utilisation in August and Estimated in 2019 by Region



The figure above shows that companies in Manicaland, Mashonaland and Matebeleland expect to reduce capacity utilisation in 2019. However, companies in the Midlands region expect capacity utilisation to remain the same in 2019 given the *ceteris paribus* assumption.

Average Capacity Utilisation by Sector

The Non-metallic mineral products, Transport & equipment, Chemical and petroleum products subsectors contributed to the decline in capacity utilization. The Clothing and footwear sub sector also realised a decline in capacity utilisation mainly due to competition from cheap imports and second hand clothing.

Figure 19: Trends in Capacity by Sector

	Average Capacity Utilization		
Subsector	2016	2017	2018
Drinks, Tobacco and Beverages	52.4	51.2	59.5
Foodstuffs	56.1	56.3	58.0
Other Manufacturing	43	45.8	51.5
Plastics and Packaging	52.9	53.0	50.8
Wood and Furniture	57.8	45.2	50.5
Paper, Printing and Publishing	52.9	52.2	50.0

Clothing and Footwear	46	50	43.6
Metal and Metal Products	37.5	37.1	41.1
Non-Metallic Mineral Products	57.5	33.2	35.0
Chemical and Petroleum Products	43.6	36.1	33.2
Transport, Equipment	45	39.3	10.0

The Drinks, Tobacco and Beverages sub sector increased capacity utilisation by 8.3 percentage points from 51.2% in 2017 to 59.5% in 2018. The Foodstuffs sub sector also increased capacity utilisation by 1.7 percentage points to reflect the positive cumulative impact of import substitution policies that the government instituted since 2016.

The Wood and Furniture, Non-Metallic and Mineral Products, Metal and Metal Products also increased their capacity utilisation rates during the period under review.

OUTPUT

Overall output for the sector grew by 12.1%. In 2018, output increased in tandem with improvement in capacity utilisation which recorded a 3.1 percent increase from 45.1% in 2017 to 48.2% in 2018.

Figure 20: Output Growth for Selected Sectors

Sector	Output Growth 2016	Output Growth 2017	Output Growth 2018
Food stuffs	16.25%	20.08%	14.50%
Drinks, tobacco and beverages	4.88%	11.00%	18.75%
Clothing and foot wear	16.94%	21.61%	16.44%
Wood and furniture	1.45%	22.82%	11.73%
Chemicals and petroleum products	11.20%	3.55%	10.50%
Non-metallic mineral products	0.00%	8.33%	49.33%
Metal and metal products	1.68%	10.44%	3.21%
Plastics and packaging	3.46%	11.62%	8.15%
Other manufactured goods	-2.64%	20.73%	8.36%

CAPACITY CONSTRAINTS

Previous surveys from 2013 to 2016, highlighted that low domestic demand due to dumping of imported goods was the major capacity constraint for the majority of companies. This was mainly a result of competition from cheap imports since the US dollar made local industries uncompetitive compared to industries in neighbouring countries that produced in weaker and non-convertible currency environments. It made economic sense for companies in South Africa and Zambia to produce cheaply in their countries and sell in Zimbabwe.

In 2017, the trend changed with cost and shortage of raw materials on top of the list. Previously, this constraint was lowly ranked. Foreign currency availability became a major constraint in 2016. Before the 2016 foreign currency availability did not influence capacity utilisation levels for the sector.

In 2017, major capacity constraints included:

- i. High cost / shortage of raw materials (19.59%)
- ii. Low domestic demand (17.18%)
- iii. Foreign currency shortages (13.75%)
- iv. Competition from imports (8.59%)
- v. Antiquated machinery and breakdowns (8.59%)

Capacity Constraints in 2018

Dominating the list of capacity constraints in 2018 were the following:

- i. High cost/shortage of raw materials. The shortage of raw materials was mainly influenced by shortage of foreign currency for the imported component.
- ii. Foreign currency shortages.
- iii. Antiquated machinery and breakdowns - Antiquated machinery and frequent breakdown was exacerbated by shortage of foreign currency to import spare parts.
- iv. High cost of doing business - The emergence of US dollar denominated prices has increased the cost of doing business.
- v. Drawbacks of current economic environment - Policy inconsistencies were mentioned as a serious drawback on the operating environment.

Figure 21: A Comparison of Capacity Constraints in 2017 and 2018

Capacity Constraints	2017	2018	Percentage Difference
High cost/Shortage of raw materials	19.6%	24.6%	5.0%
Foreign currency shortages	13.75%	23.5%	9.7%
Low local Demand	17.18%	13.9%	-3.3%
Antiquated Machinery and breakdowns	8.59%	8.2%	-0.4%
High cost of doing business	6.53%	7.1%	0.6%
Drawbacks from current economic environment	4.47%	6.8%	2.3%
Liquidity challenges	6.19%	3.9%	-2.3%
Lack of access to finance	4.47%	3.2%	-1.3%
Working Capital Constraints	6.87%	2.8%	-4.0%
Power and water shortages	1.03%	2.1%	1.1%
Competition	1.37%	1.8%	0.4%

Compared to 2017, foreign currency shortages, high cost/ shortage of raw materials and drawbacks from the current macroeconomic environment worsened by 9.7%, 5% and 2.3% respectively in 2018.

COMPANY OPERATIONS AND STRATEGY

Company scope describes the required processes and resources required to produce a product. The proper mapping of company scope is important since it allows managers to estimate costs and the time requires to complete the production cycle. Scope outlines the available resources and constraints to productivity. Companies may experience uncontrollable shocks that may extend their production cycle and these shocks are known as scope creep. Managers consider the possibility of scope creep and incorporate strategies to mitigate it. This section therefore deals with scope creep that firms experienced in 2018, their pricing strategies and how they set prices of their products.

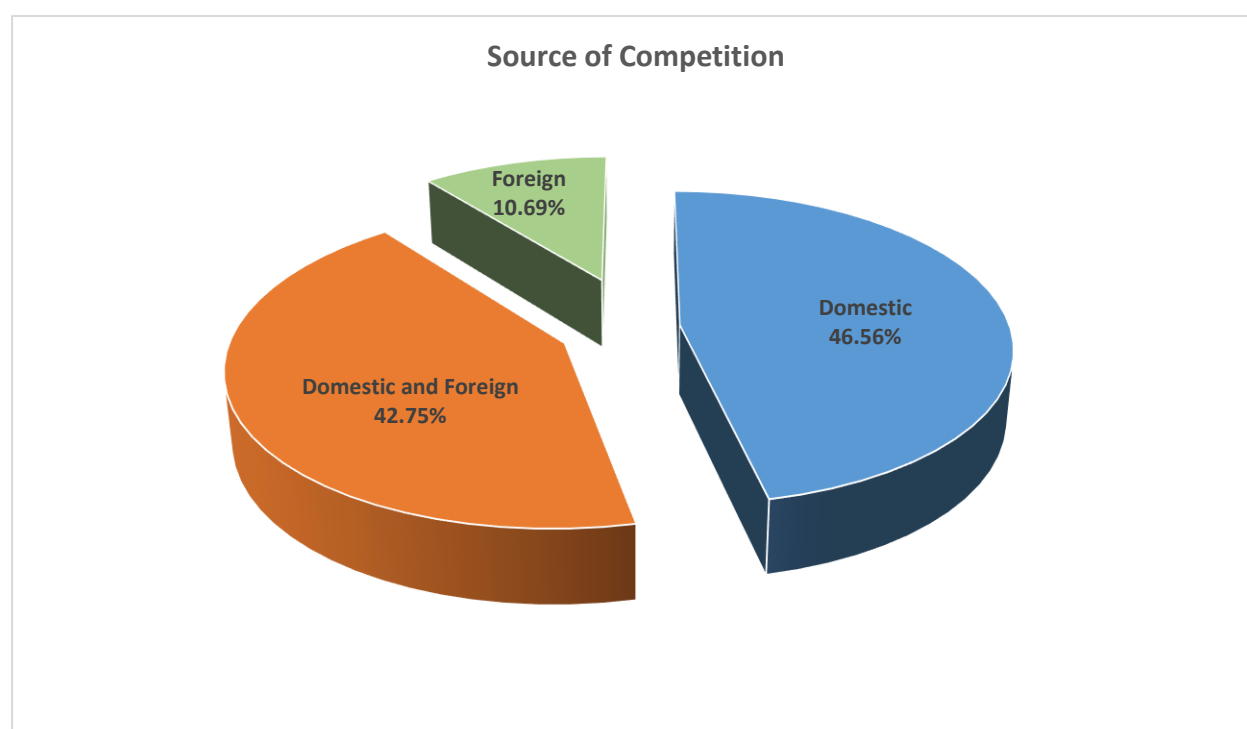
Source of Competition

Data from the survey revealed that competition for markets is shifting to the domestic front. The survey results show that in 2018, 46.56% of respondents faced competition from domestic enterprises compared to 26.8% in 2017. Survey results showed that 10.69% of firms faced competition from foreign firms in 2018 compared to 11.4% in 2017. In 2018, a lower percentage of companies at 42.75% faced competition from both foreign and domestic firms compared to 60% in 2017.

The import substitution instruments that the government put in place in form of SI64 of 2016 and SI122 of 2017 helped divert competition from imports to the domestic frontier. Owing to the import substitution policies that the government put in place there were new investments in the following product lines:

- i. Cooking oil,
- ii. Packaging,
- iii. Detergents, and
- iv. Cement

Figure 22: Source of Competition



Foreign competition mainly emanates from within the SADC and COMESA regional trade blocs particularly from Zambia and South Africa. Continental barriers are broken as competition is also coming from Asia and Latin America.

Price Determination Behaviour

During the month of September 2017, the economy has had multiple price increases resulting in panic buying and shortages. The multiple price increases saw some retailers increasing prices of commodities more than three times in a month while there are different prices for different modes of payment.

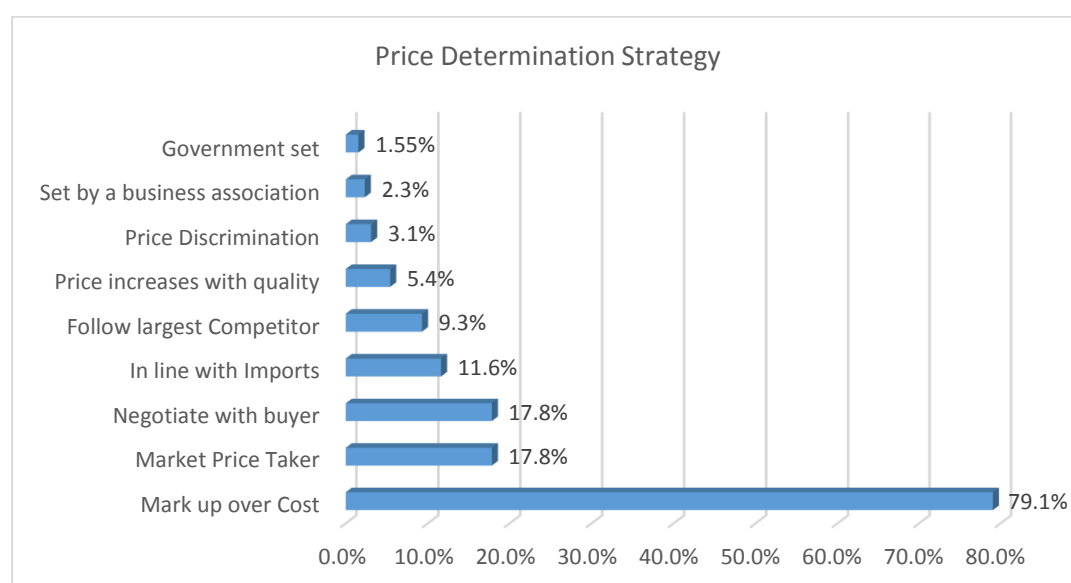
Notably the last quarter of 2018 also experienced the same phenomenon of price increases, which were triggered by movements in the parallel market exchange rate.

As indicated earlier, the survey did not capture the price fluctuations experienced beyond August 2018. This section covers questions on price determination by the manufacturing

sector. The results remain largely unchanged compared to last year's results. Most companies indicated that they put a markup over costs when determining prices for their commodities. At 17.83% was the percentage of price takers and those that negotiate with the buyer in setting prices. Firms that track prices of imports in determining their own prices constituted 11.6% of the respondents.

Only 1.6% of the respondents have their prices set by the government while 2.3% have their prices set by a Business Association. These responses were pointed out by companies in the foodstuffs sub sector.

Figure 23: Manufacturing Sector Price Determination Strategies

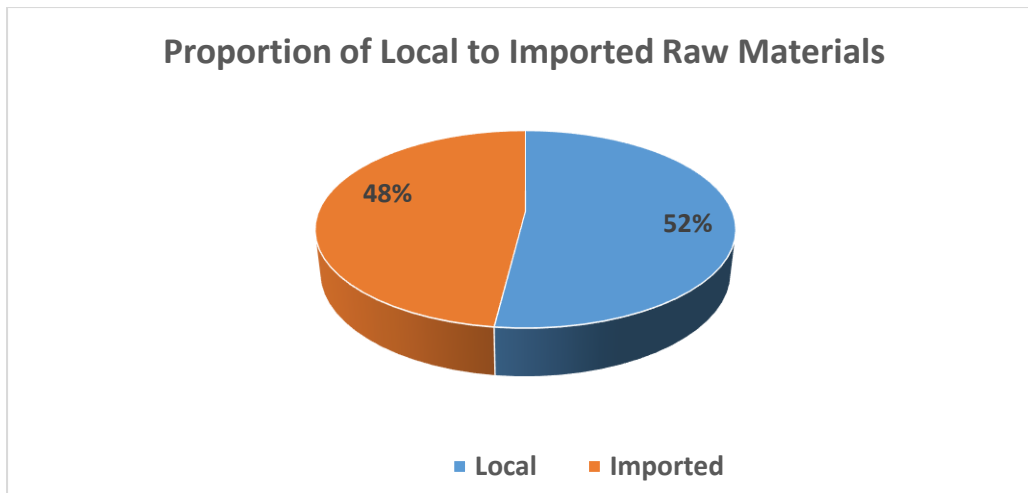


Source of Raw Material

The 2016 manufacturing sector survey showed that 84% of raw materials were sourced locally while in 2017, 64% of the raw materials were sourced locally. In 2018, raw materials sourced locally declined to 52%. The decline in the raw materials sourced locally points to the pressure on foreign currency requirements and the need to produce raw materials locally where the economy has a competitive advantage to do so.

However, as domestic demand increased, companies had to import some raw materials in order to increase production.

Figure 24: Proportion on Local to Imported Raw Materials

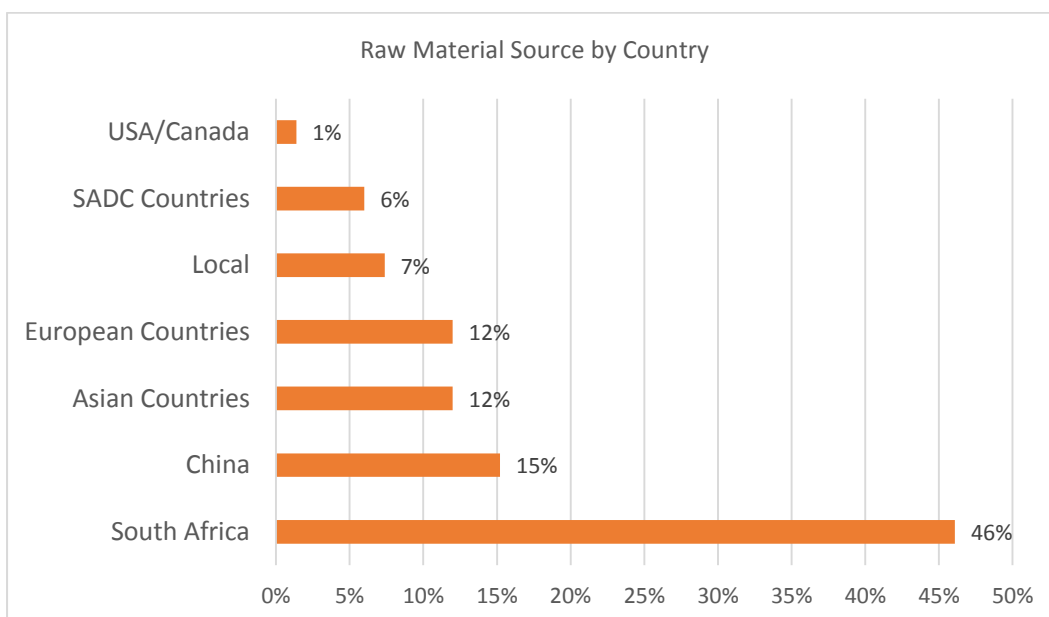


Imported Raw Material Sources

Leading the pack of imported raw materials sources in 2018 was South Africa with 46% of firm's indicating they imported raw materials from the country's southern neighbour. South Africa lost its dominance as a source of raw materials to local firms as the statistic declined from 53% in 2017.

While South Africa dominance weakened by 7 percentage points in 2018 as a source of raw materials, China increased its significance by 4.4 percentage points during the same period. This clearly illustrate China's importance as a raw material source market for local industries. The increase in China's importance as a source of raw materials also implies that companies are procuring from original sources.

Figure 25: Raw Material Source by Country

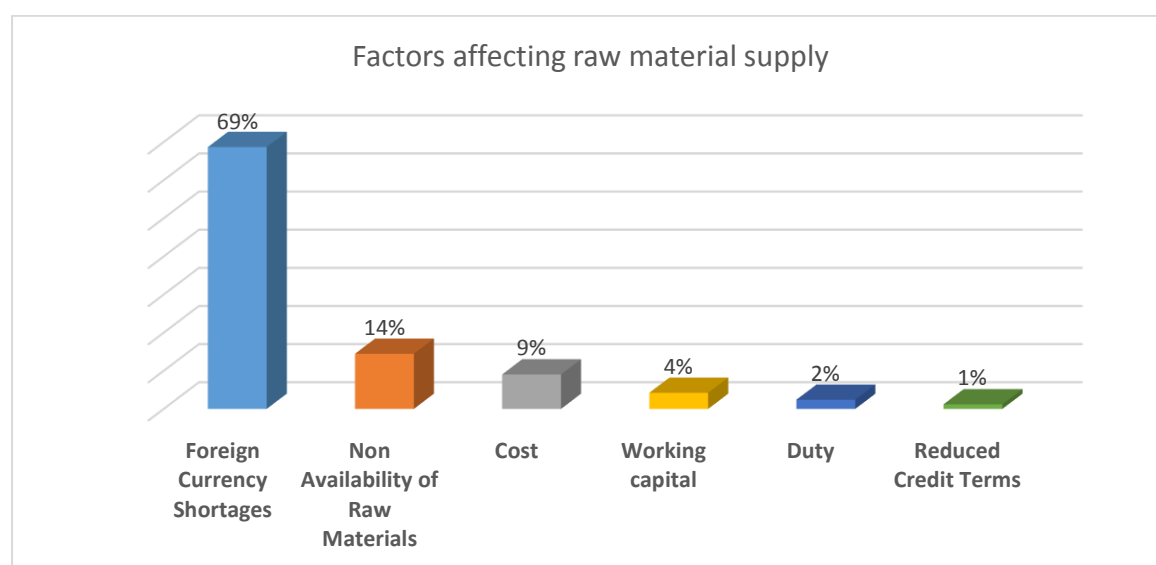


Factors Affecting Supply of Raw Materials

In 2017, close to seventy four percent of the respondents indicated that import licences affect the supply of their raw materials. However, in 2018, about 69% of the respondents indicated that foreign currency shortages affected the supply of raw materials. Fourteen percent of the respondents complained of non-availability of the raw materials as negatively affecting supply.

Small percentages of 9 and 4 indicated costs and working capital shortages as negatively affecting the supply of raw materials, respectively. Other factors that respondents highlighted as affecting the supply of raw materials include, import duties and lack of lines of credit.

Figure 26: Factors Affecting Supply of Raw Materials



INNOVATION AND TECHNOLOGY

Technology has far reaching implications on business operations. Regardless of the size of an enterprise, technology has both noticeable and intangible advantages that will assist business make profit and produce products to the specification of consumers. Technological infrastructure affects the culture, efficiency and relationships of a business. Technology also has the advantage of fostering the following in a firm:

- i. Communication with customers and within the organisation
- ii. Efficiency of operations
- iii. Helps improve the research capacity of business.

Employees also expect their employers to provide them with the latest technology in order to efficiently carry out their roles.

Technology knows no boundaries, thus making the coordination of activities in different locations easier and enhancing the chance of business success. Other than increasing capacity of a company technology saves time and money.

Innovation can be defined as a process that involves connecting many activities to uncover new ideas and ways of doing things. Business leaders need to think outside the box in order to create incremental enrichments to production processes.

Owing to increased globalization, companies need to adopt and adapt to new technology. Due to innovation in new technologies physical frontiers have been broken, distances made shorter, and as a result, competition is increasing and customer expectations have become more demanding. Adopting new technology and innovation create bigger opportunities for business because firms are able to meet the expectations of their markets. Innovation and technology are critical for efficiency, business success and economic growth.

The local economy has been experiencing high levels of capital dearth due to low levels of long term fixed investment and working capital. Obsolete equipment that the industry is relying on for production has been identified as one of the major cause for low capacity utilisation and lack of research and development to keep up with the faster changing consumer needs and preferences.

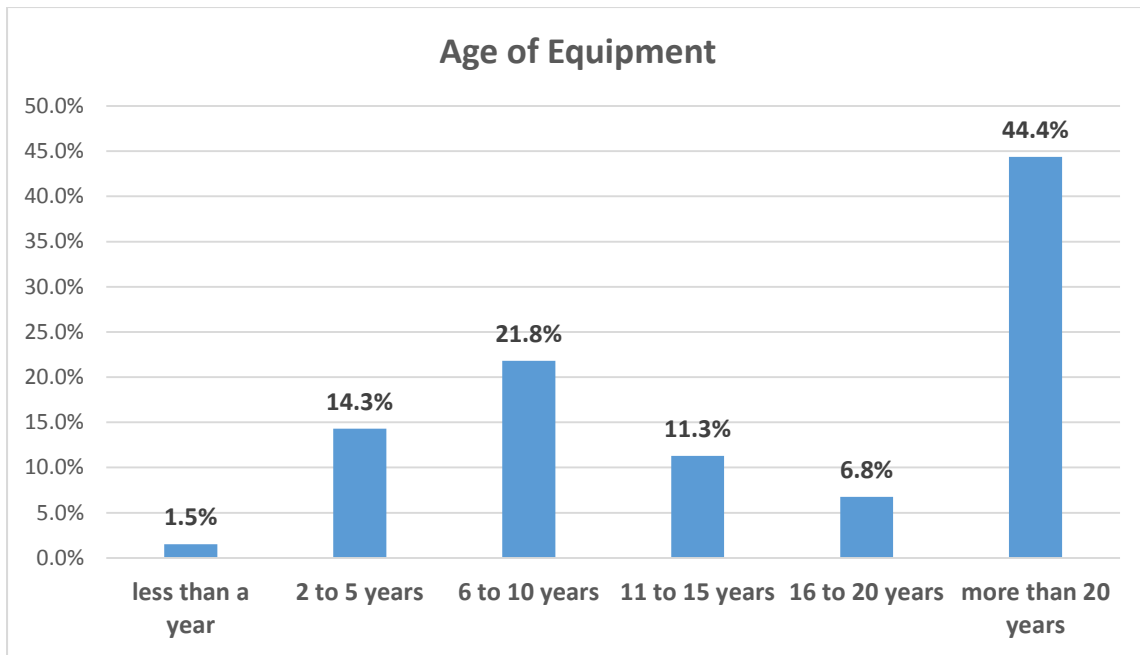
CZI has been encouraging its membership to retool in order to meet the product specifications for local and export markets. Companies are also encouraged to adopt lean practices in order to gain some level of competitiveness on the global market. With the support of the Zimbabwe International Trade Fair (ZITF) CZI started a programme to link local manufacturers to original equipment manufacturers (OEMs).

This section sought to establish the age of the equipment, the progress companies are making to retool as well as the source of their equipment in order to inform future Original Equipment Manufacturers programmes.

A majority of the companies that were surveyed have obsolete equipment. Forty-four percent of the respondents use machinery and equipment that is older than twenty years. Forty percent of the respondents have machinery that ranges from ten years to 20 years.

A smaller percentage of about 16% have equipment that is new, from less than a year to five years of age. This shows that local companies are finding it difficult to retool due to foreign currency shortages and lack of access to finance.

Figure 27: Age of Equipment

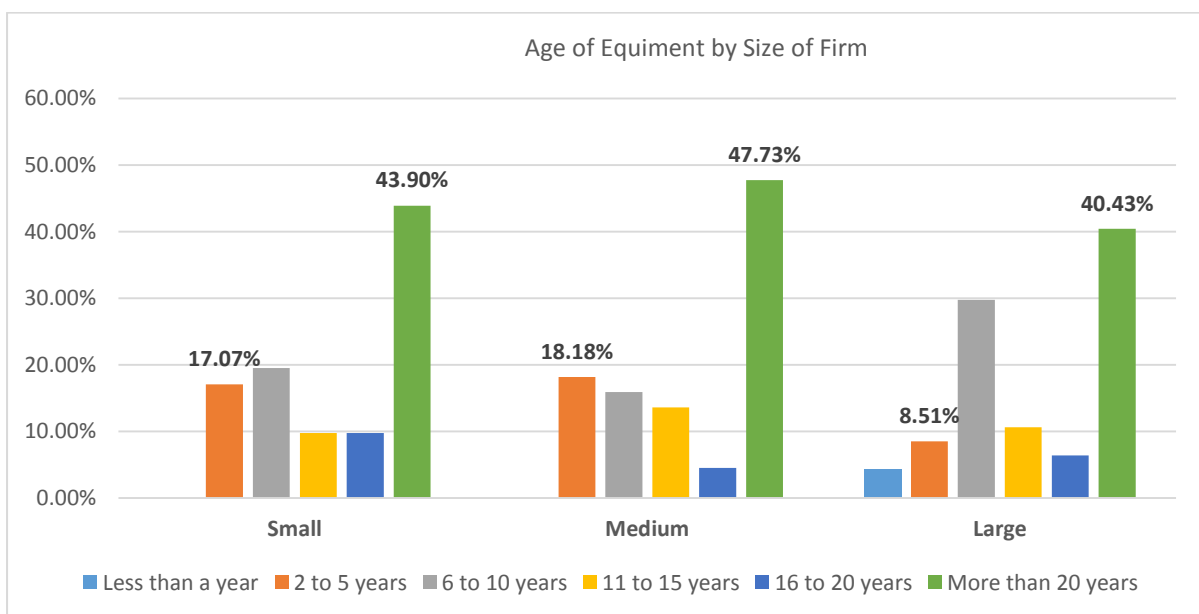


Age of Equipment by Size of Company

This section sought to establish the size of firms against age of equipment. The percentage of companies with equipment that is older than 20 years is high regardless of company size with percentages ranging above forty percent. In 2018, very few companies had equipment that is 5 years and less with percentages of below 20% across the range of small to large companies. Only 4.3% of large companies had equipment that is less than a year old.

One of the key capacity constraints raised in earlier surveys is antiquated equipment and machinery breakdown and this is due to aged equipment.

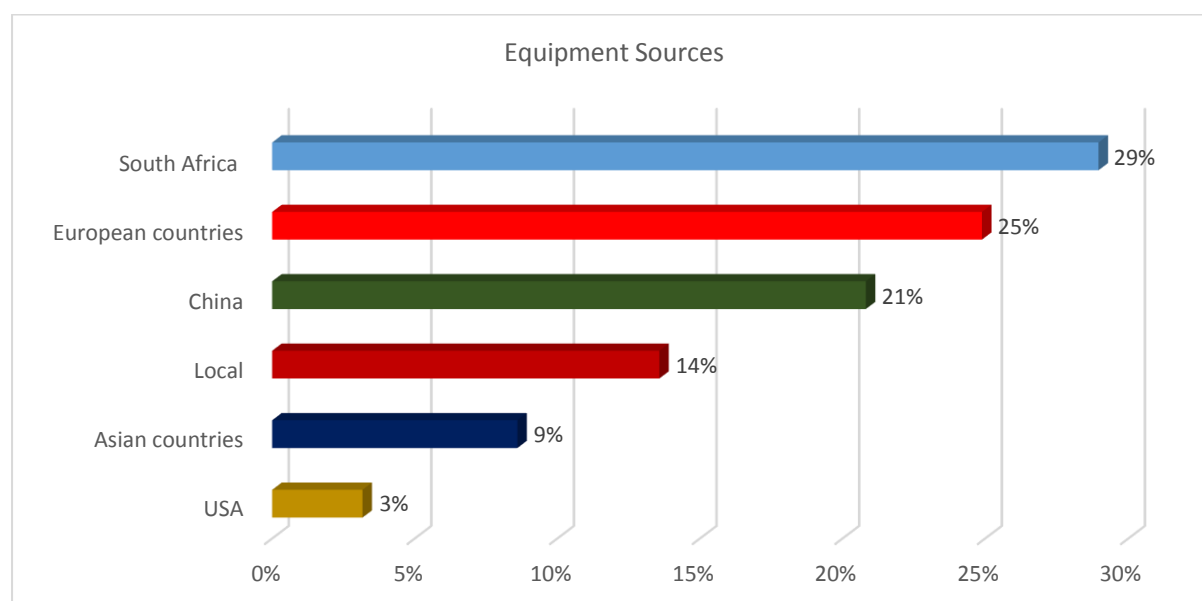
Figure 28: Age of Equipment by Size



Source of Equipment

Local companies mainly source equipment from South Africa with 29% of local producers sourcing equipment from the country's southern neighbour. Twenty five percent of local companies procure equipment from the EU, followed by China with a percentage of 21%. Only 14% of companies source their equipment locally.

Figure 29: Source of Equipment



Companies that Invested in 2017

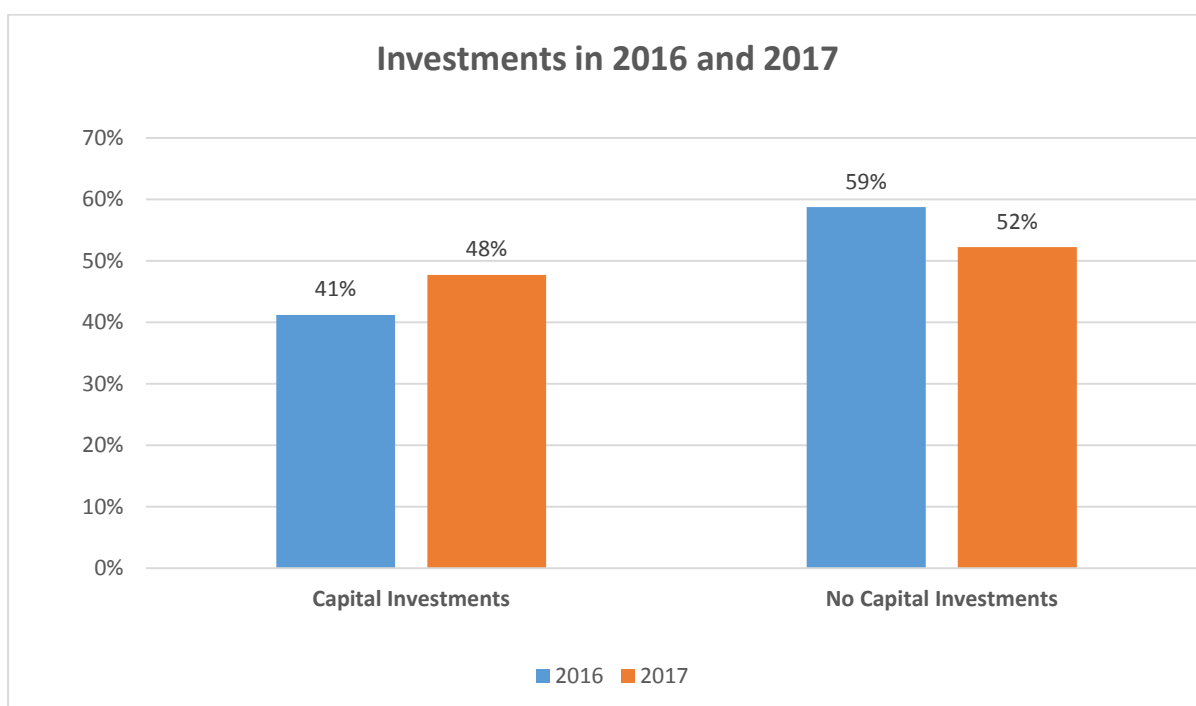
A high number of companies that carried out some investments were recorded in the other manufacturing group (81.82%), Plastics and Packaging (76.92), Foodstuffs and Drinks, Tobacco and Beverages sub sector both at 62.50%, and the Wood and Furniture (50%).

Figure 30: Companies that Invested in 2017

Sector	Output Growth 2017	Output Growth 2018	Capacity Utilisation 2018	% of companies that invested in 2016	% of companies that invested in 2017
Food stuffs	20.08%	14.50%	58.33%	50.00%	62.50%
Drinks, tobacco and beverages	11.00%	18.75%	59.50%	62.50%	62.50%
Clothing and foot wear	21.61%	16.44%	43.56%	27.78%	27.78%
Wood and furniture	22.82%	11.73%	50.45%	50.00%	50.00%

Chemicals and petroleum products	3.55%	10.50%	33.15%	30.00%	25.00%
Non-metallic mineral products	8.33%	49.33%	35.00%	33.33%	33.33%
Metal and metal products	10.44%	3.21%	41.06%	30.30%	33.33%
Plastics and packaging	11.62%	8.15%	50.77%	69.23%	76.92%
Other manufactured goods	20.73%	8.36%	51.45%	54.55%	81.82%

Figure 31: New Capital Investments in 2016 and 2017

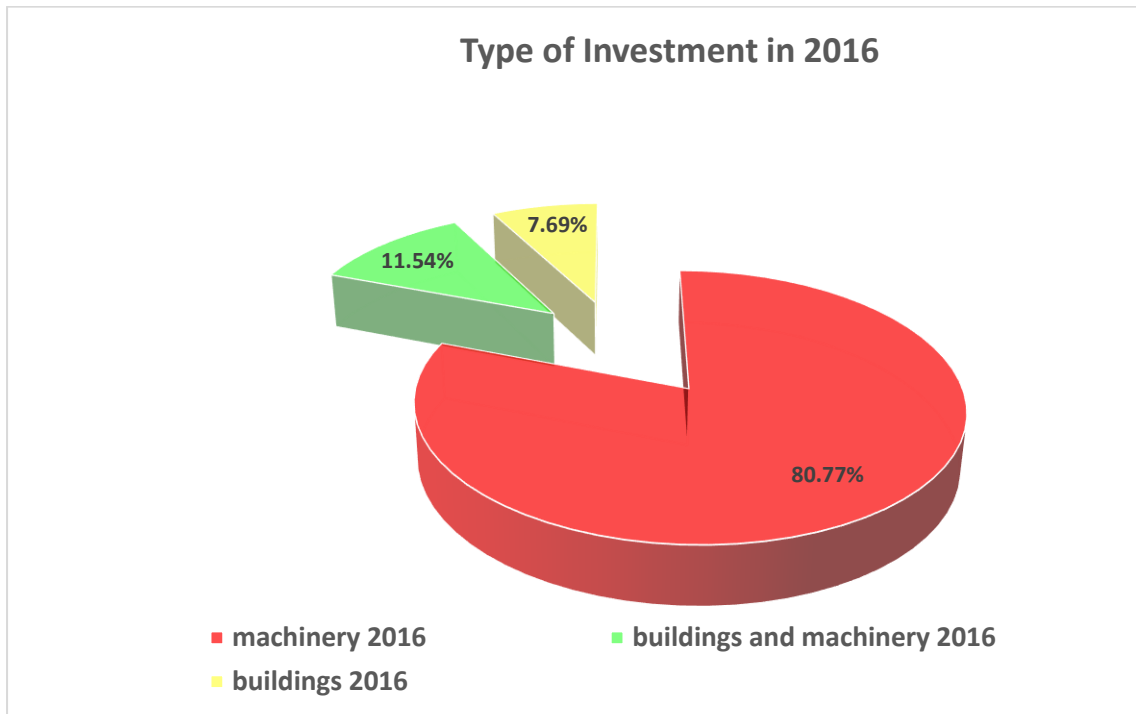


Companies that carried out new investments increased from 41% in 2016 to 48% in 2017. It is however a cause of concern that a larger proportion of companies did not carry out any new investments in 2016 and 2017. This signifies difficult underlying macroeconomic conditions in the operating environment.

Type of Investment in 2016

The majority of the companies at 80.8% invested in new machinery in 2016. A smaller percentage of the companies invested in buildings. The same trend was observed in 2017, where a larger proportion of the companies invested in new equipment.

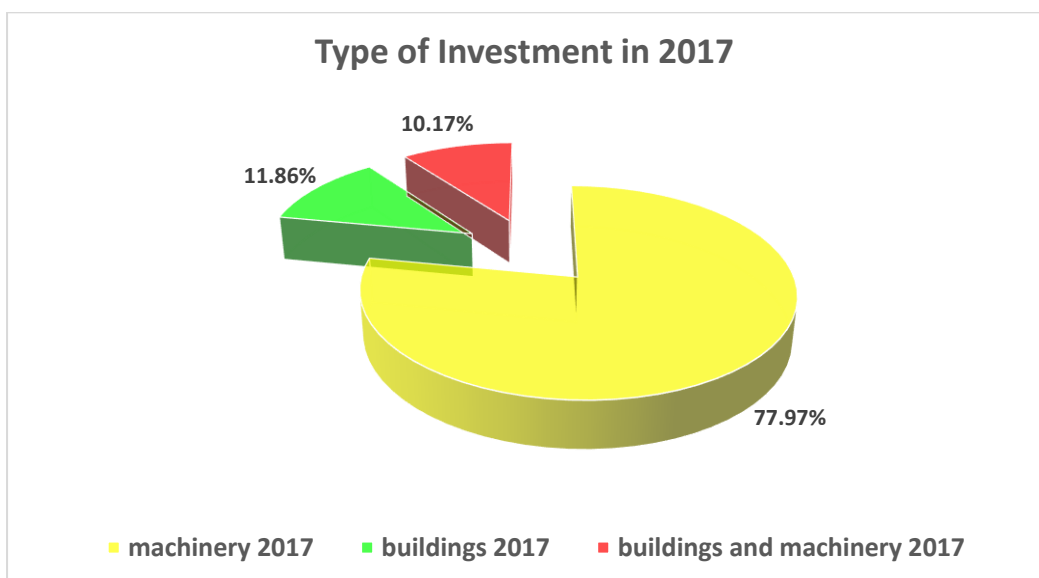
Figure 32: Type of Investment in 2016



Type of Investment in 2017

Though a larger proportion of respondents invested in new equipment, the proportion of firms at 77.97% for the same statistic declined by two percentage points in 2017 compared to 2016.

Figure 33: Type of Investment in 2017

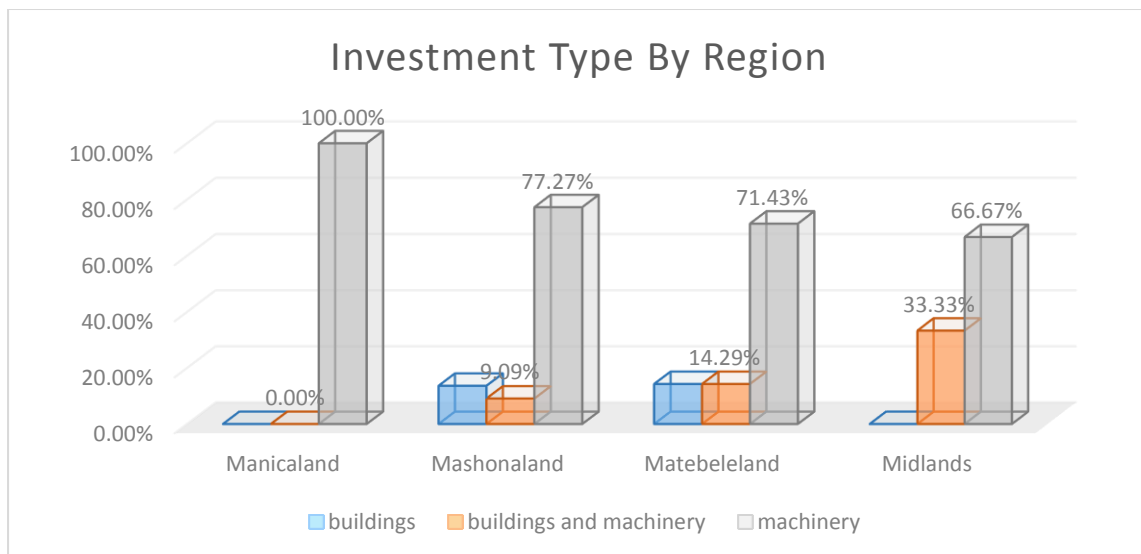


Type of Investment by Region

Throughout all the regions, investments were biased toward machinery. Manicaland had the highest statistic for investment in machinery with 100% of the respondents indicating that they only invested in machinery. Mashonaland and Matebeleland had a mixed bag though the majority of the companies invested in machinery with percentages of over 70%.

Two thirds of the respondents in Midlands pointed out that they invested in machinery while the other third invested in buildings and machinery.

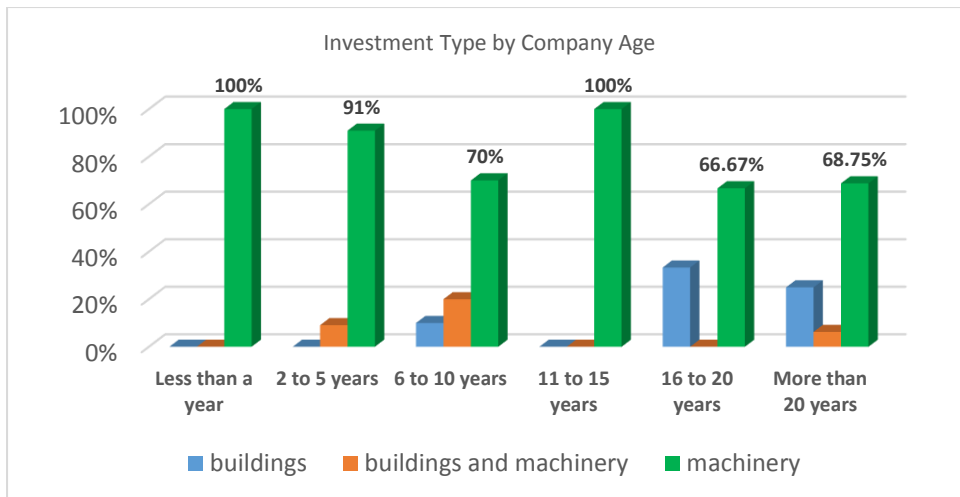
Figure 34: Investment Type by Region



Investment Type by Company Age

A larger proportion of companies despite their size invested in machinery. Companies that are less than a year and those that are 11 to 15 years only invested in machinery. Companies that are over 16 years of age invested in machinery as well as buildings and only a third of the companies invested in buildings.

Figure 35: Investment Type by Company Age



Reasons for Carrying Out Capital Investment

Companies that carried out investment in 2017 did it mainly for capacity enhancement as indicated by 48% of respondents. A total of 38% of the respondents highlighted that they carried out investment in order to replace obsolete equipment as well as enhance efficiency by adopting new technology.

Only 4% of companies invested to improve the quality of their products and 11% invested to diversify their operations.

Figure 36: Reasons for Carrying out Capital Investment

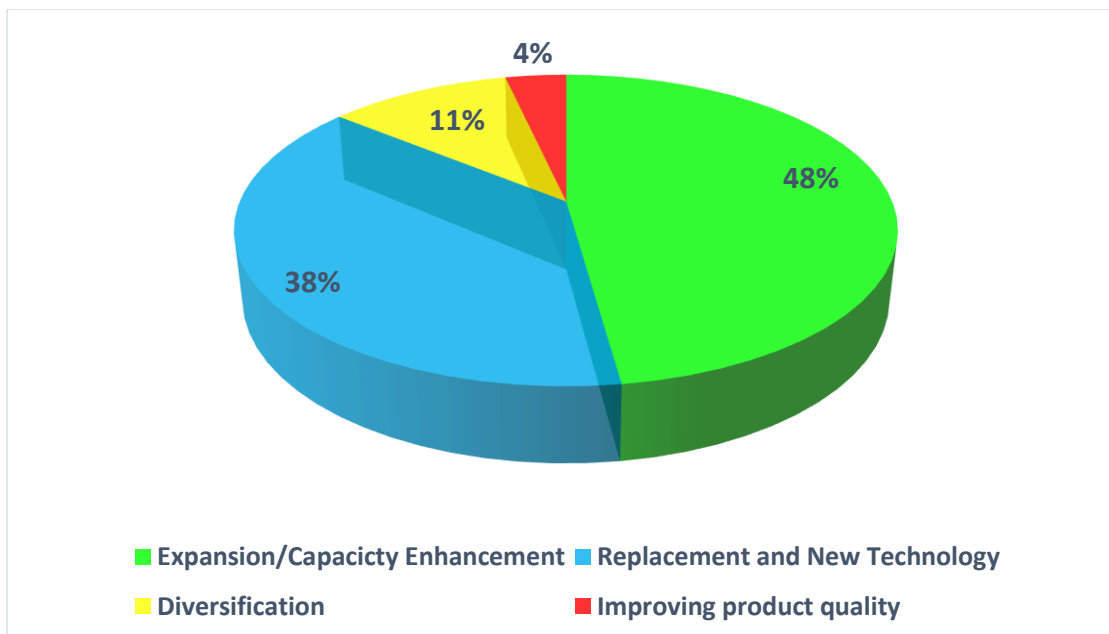
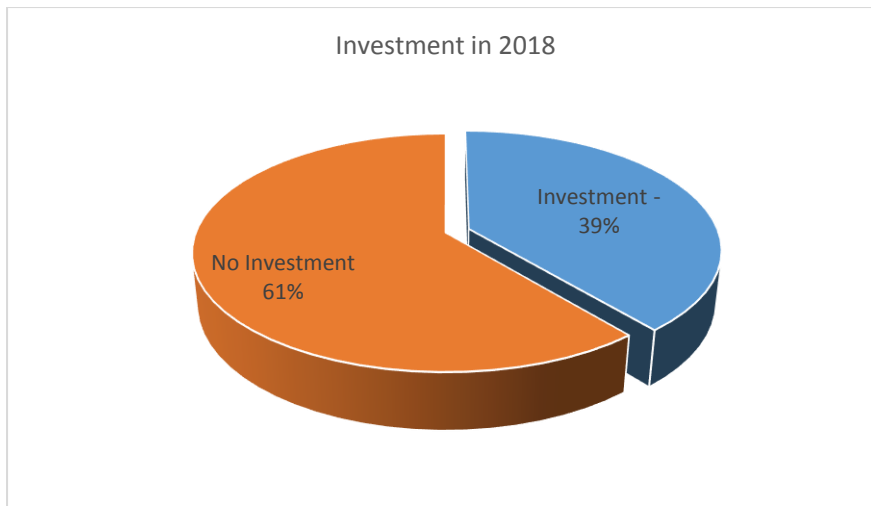


Figure 37: Capital Investment in 2018

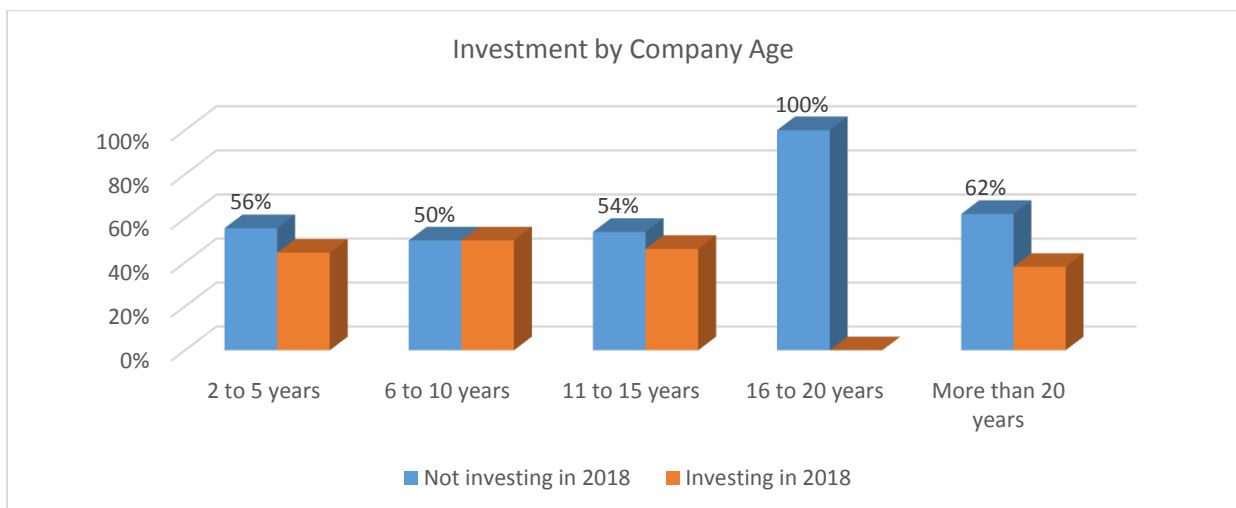


In 2018, most companies did not carry out capital investment with 61% indicating that they did not invest in 2018.

Capital Investment by Company Age

Most companies across the age divide indicated that they did not invest in 2018 with over 50% of all companies highlighting that they did not invest in machinery in 2018. All companies in the 16 to 20 years of age category did not invest in machinery in 2018.

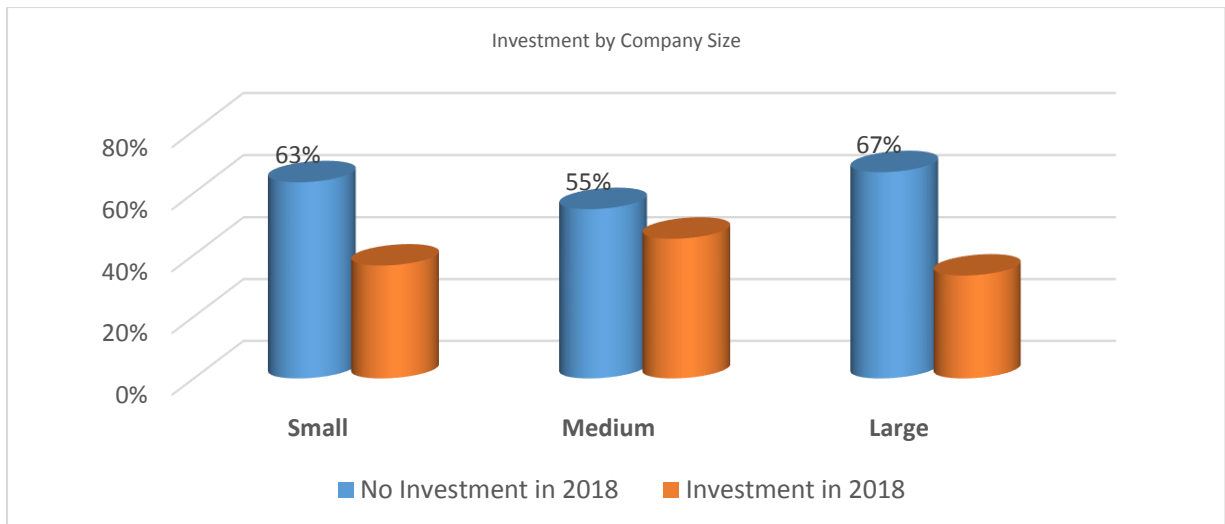
Figure 38: Investment by Company Age.



Investment by Company Size

Over 60% of companies in the small and large categories indicated that they did not carry out any capital investments in 2018.

Figure 39: Investment by Company Size

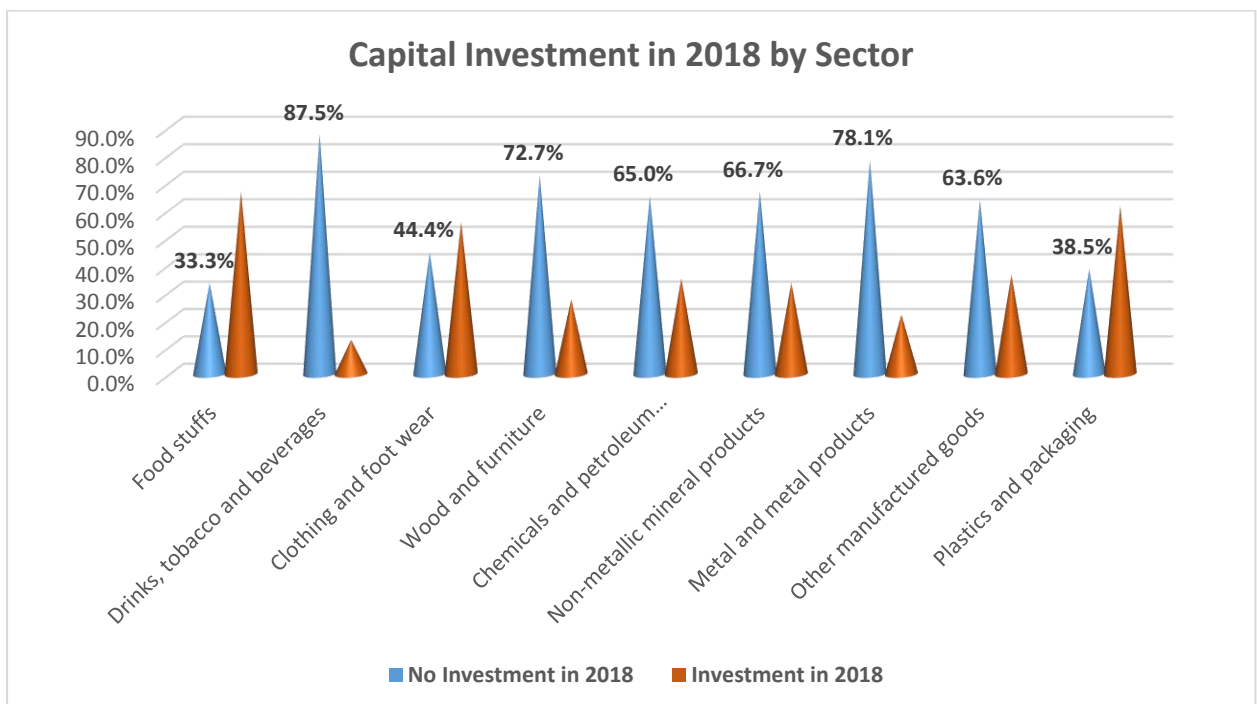


Capital Investment by Sector

Most sub sectors indicated that they did not carry out any capital investments in 2018. A larger proportion of companies in the Drinks, Tobacco and Beverages, Wood and furniture, Chemicals and Petroleum products, Non-metallic mineral products, Metal and Metal Products and Other Manufactured Goods indicated that they did not invest in 2018.

A reverse scenario was observed in the Foodstuffs, Clothing and Footwear and Plastics and Packaging sub sectors with larger proportion of respondents indicating that they did carry out investments in 2018.

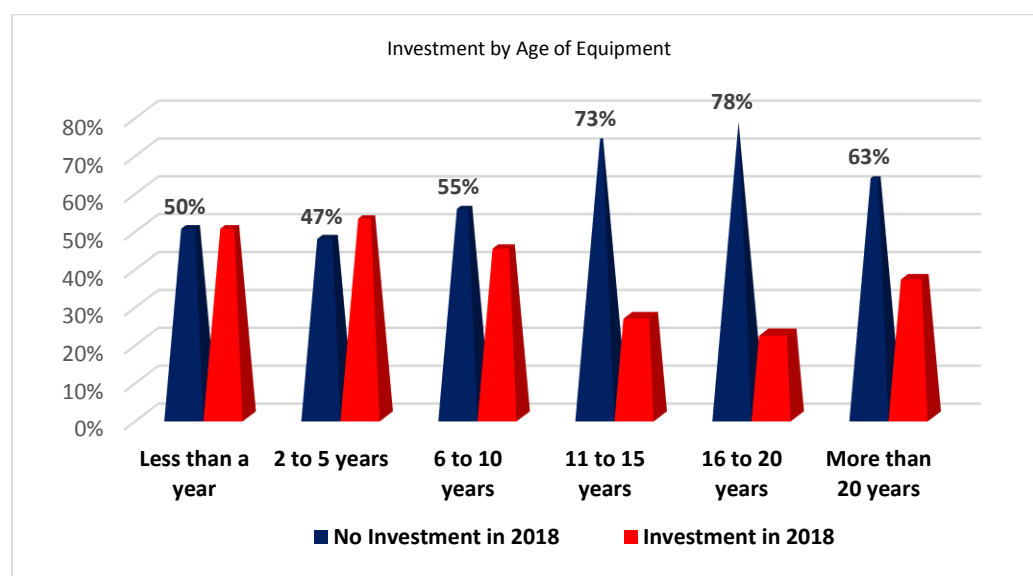
Figure 40: Capital Investment by Sector



Capital Investment by Equipment Age

Higher percentages of companies that did not invest in 2018 were enumerated in those firms with equipment that is 11 years of age compared to those with more than 20 years of existence. This is an unusual scenario considering the fact that due to depreciation equipment needs to be replaced. However, this situation may be obtaining because of shortage of foreign currency and lack of credit lines.

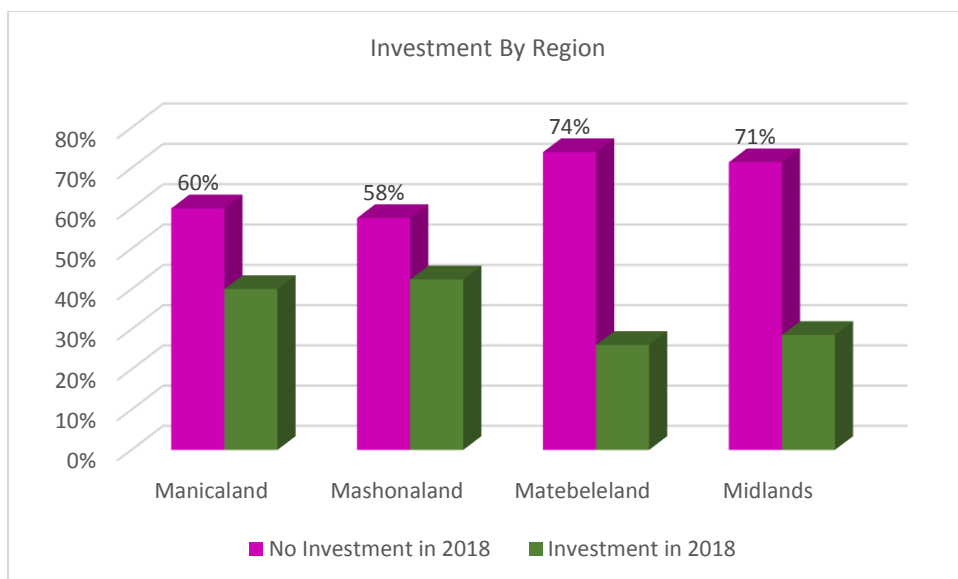
Figure 41: Capital Investment by Equipment Age



Investment by Region

There was a higher proportion of companies that did not invest in 2018 in all the four regions with Matabeleland and Midlands companies having higher percentages of 74% and 71%, respectively.

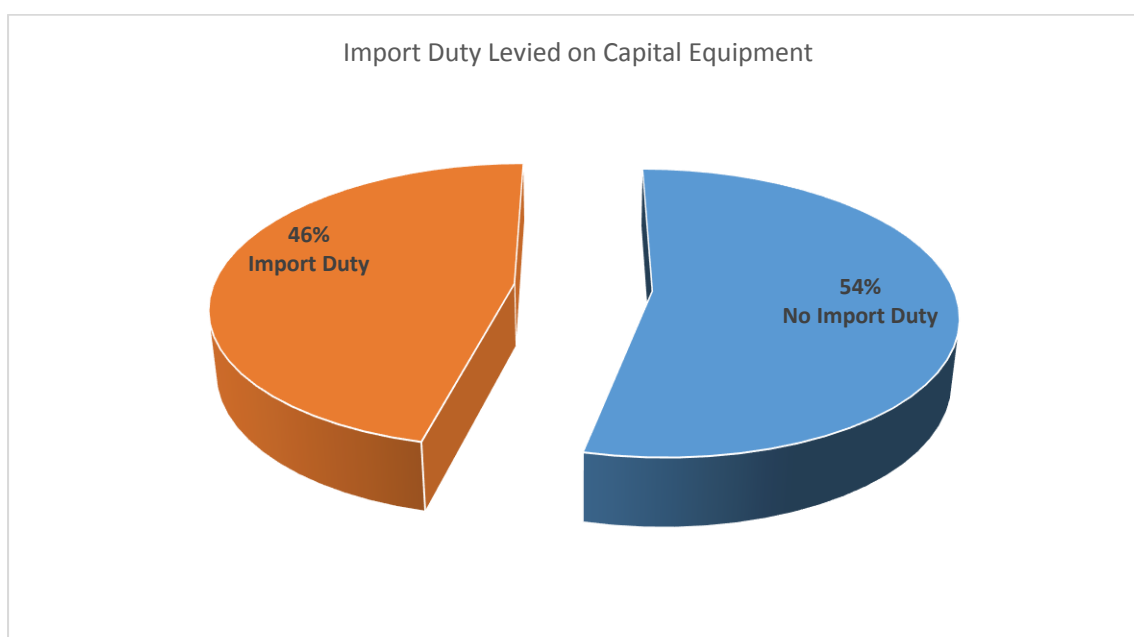
Figure 42: Investment by Region



Import Duties on Capital Equipment

A higher percentage of respondents at 54% indicated that they were not levied import duties on capital equipment imports.

Figure 43: Import Duty Levied on Capital Equipment

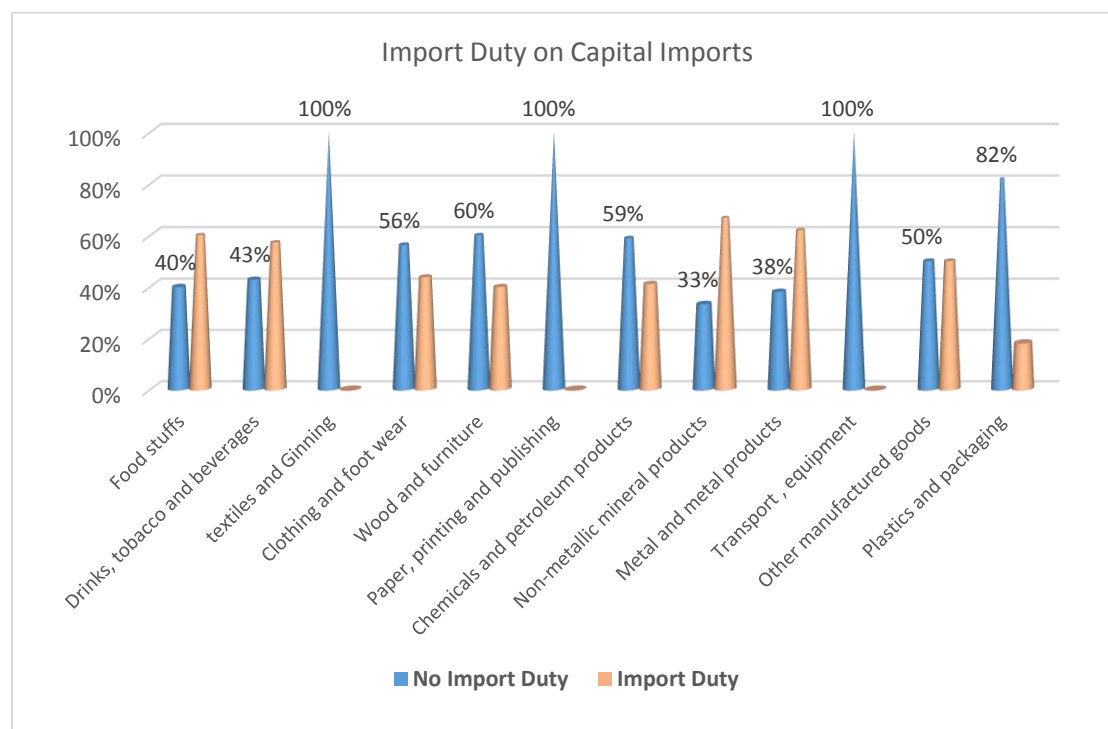


Import Duty by Sector

Companies in the Textiles and Clothing, Paper, Printing and Publishing and Transport equipment pointed out that they did not pay duty for capital imports. Eighty two percent of companies in the Plastics and Packaging sub-sector indicated that they were not levied duties on capital imports.

However, companies that were levied duties on capital imports were found in the Foodstuffs (60%), Drinks, Tobacco and Beverages (57%), Non-Metallic Products (67%) and Metal and Metal Products (62%).

Figure 44: Import Duty on Capital Imports



The average percentage of duty levied was 10.3%.

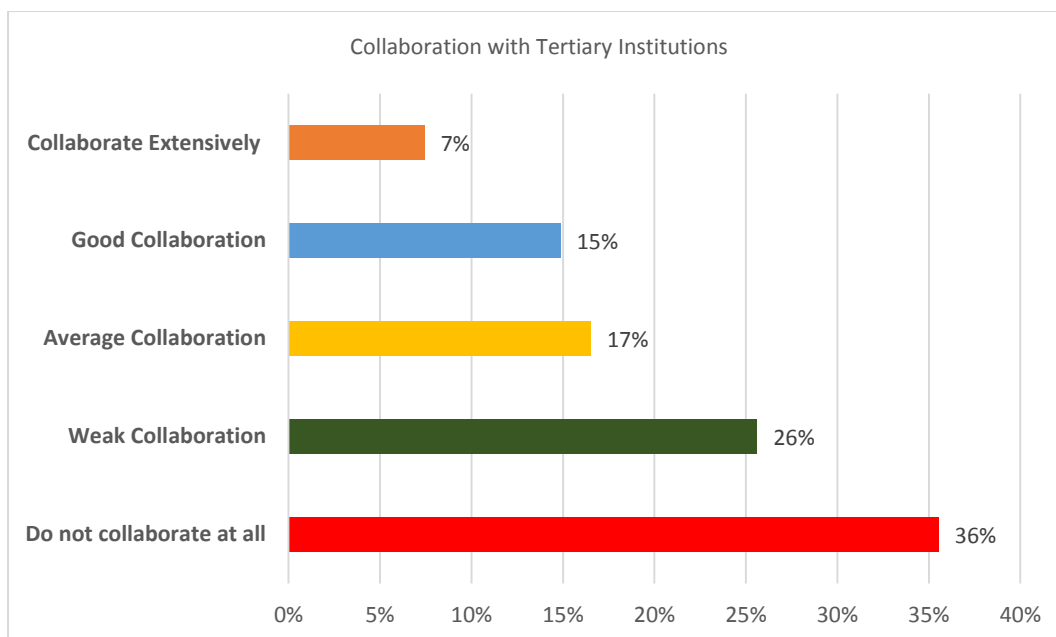
Collaboration with Tertiary Institutions

CZI realizes the importance of research and innovation in the development of local industry, and has undertaken to strengthen its partnerships with research and tertiary institutions to collectively come up with innovations and research that stimulate economic growth. CZI continues to encourage industry to invest in first class technology and processes in order to keep up with international standards. In order to optimize on efficiency, CZI will work with academic institutions to come up with technological transfer frameworks for industry and tertiary institutions.

In view of the foregoing, respondents were asked whether they collaborate with local universities and the chart below depicts their responses.

Collaboration with Tertiary Institutions

Figure 45: Collaboration with Tertiary Institutions



In 2018, only 7% of the respondents highlighted that they collaborate with Universities and Poly-technical Colleges on research and development. At 7%, there was a 5 percentage point improvement in the number of companies that collaborated extensively in 2018, compared to 2017.

In 2018, firms that did not collaborate at all had the highest proportion at 36%, while 26% of respondents had weak collaboration with tertiary institutions. Of the companies that were surveyed, 17% rated their collaboration with tertiary institutions on research and development as average.

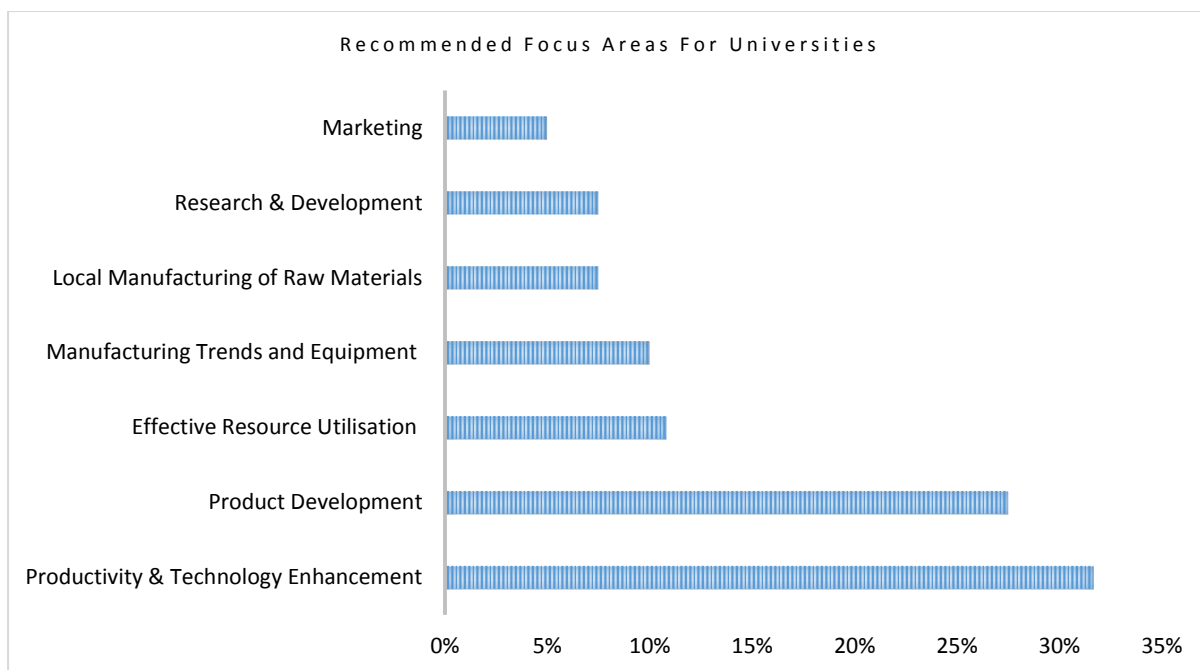
Areas of Research for Tertiary Institutions

The largest proportion of companies highlighted that Universities should focus their research on product improvements/modifications by sector looking at areas such as value addition, boosting production and product fortification and new product development among others.

Other areas of research that local companies want tertiary institutions to focus on include:

- i. Productivity enhancement,
- ii. Product development,
- iii. Manufacturing trends and equipment,
- iv. Local Manufacture of raw materials,
- v. Effective resource utilisation, and
- vi. Research and Development.

Figure 46: Areas of Research by Local Universities



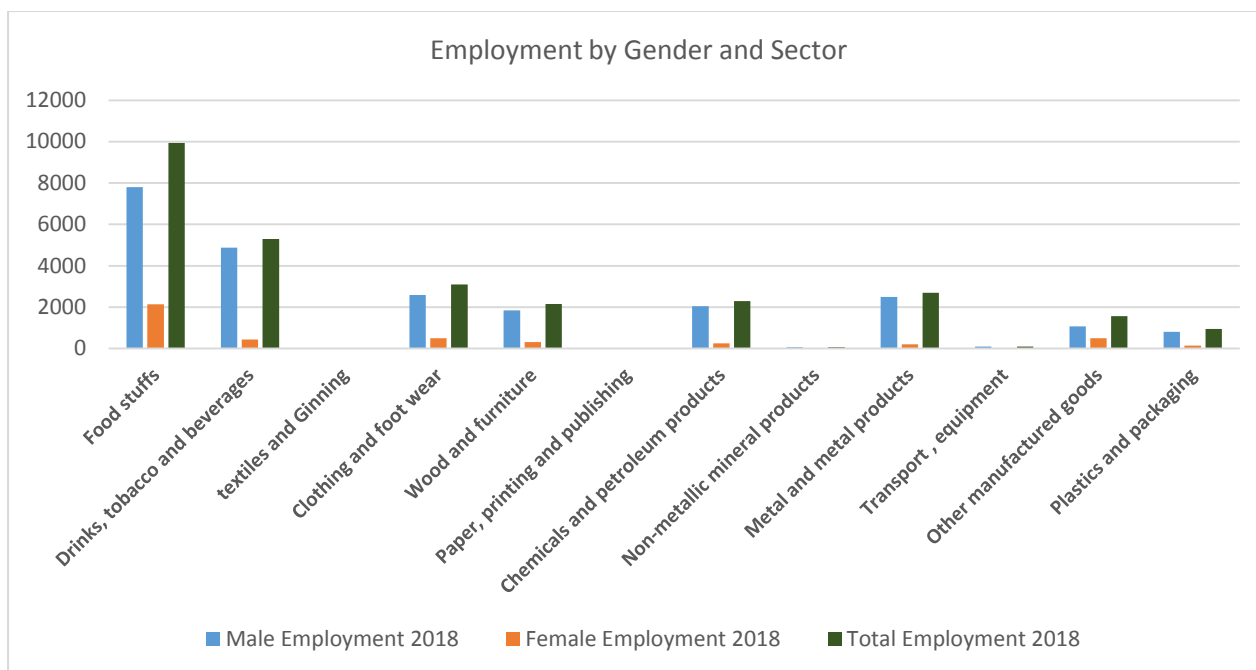
HUMAN CAPITAL

Human capital defines the stock of knowledge and skills held by a person. The stock of knowledge and skills held by a person is important because it can be used by an organisation to advance its goals. The prosperity of a country depends on the skills, attitude and efficiency of the country's labour force. Many countries have been able to develop due to the quality of its human capital and a good example is China.

Employment

In 2018, total numbers employed by the companies that were surveyed increased by 32% compared to 2017. Male employment increased by 31.8% while female employment increased by 33.3% during the same period. Numbers employed could have increased as companies took advantage of various statutory instruments that were put in place by government to support local production.

Figure 47: Employment by Gender and Sector.



The largest contributors to manufacturing sector employment in 2018 were

- i. Foodstuffs,
- ii. Drinks, Tobacco and Beverages,
- iii. Clothing and Footwear,
- iv. Metal and Metal products,
- v. Wood and Furniture, and
- vi. Chemicals and Petroleum Products.

Proportion of Permanent Employees against non-Permanent Employees

In 2018, the proportion of contract employment increased to 60% compared to 52% in 2017. The trend shows that manufacturing companies are increasingly employing on a contract basis.

Figure 48: Proportion of Permanent Employees against Contract Employees

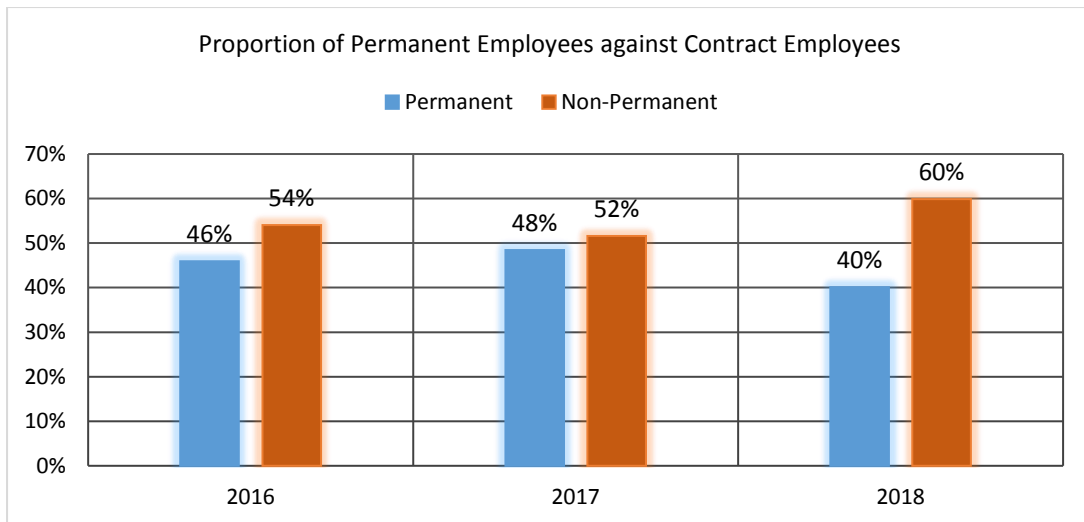
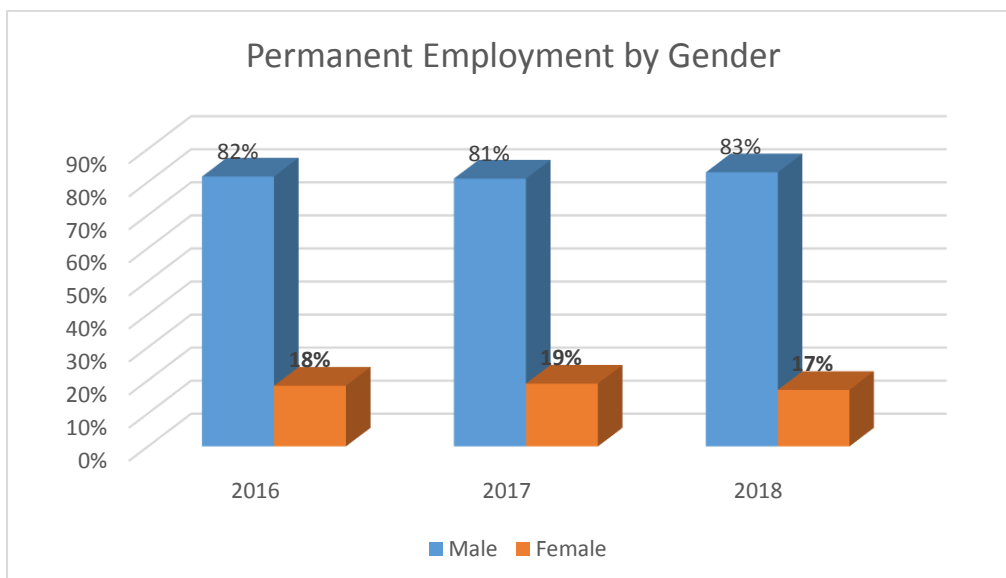


Figure 49: Employment Proportion by Gender

Employment Percentages	2016	2017	2018
Male	86.29%	84.33%	84.18%
Female	13.71%	15.67%	15.82%

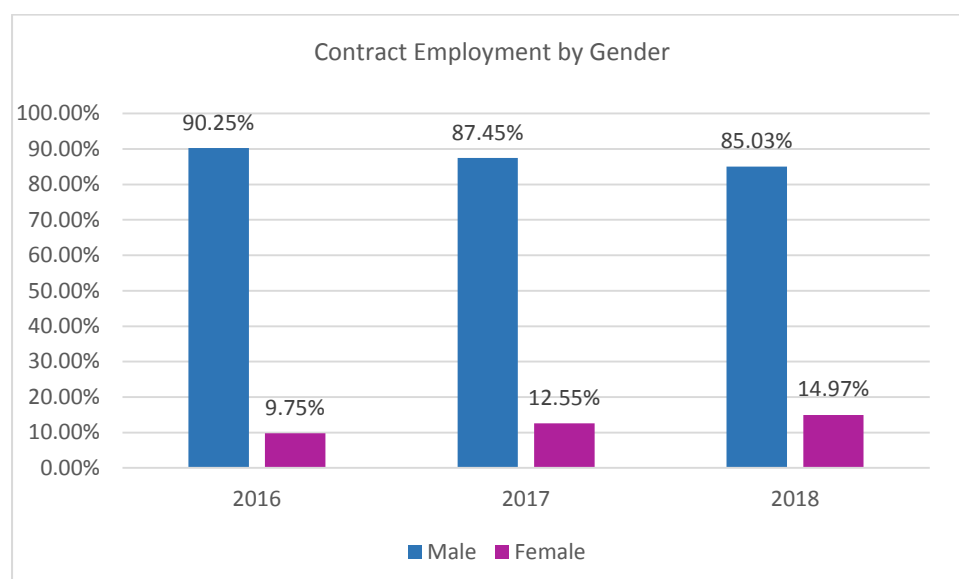
Total employment by gender was dominated by males with proportions ranging above 80%.

Figure 50: Permanent Employment by Gender



The same pattern was observed for permanent and contract employment with males dominating the scene.

Figure 51: Contract Employment by Gender



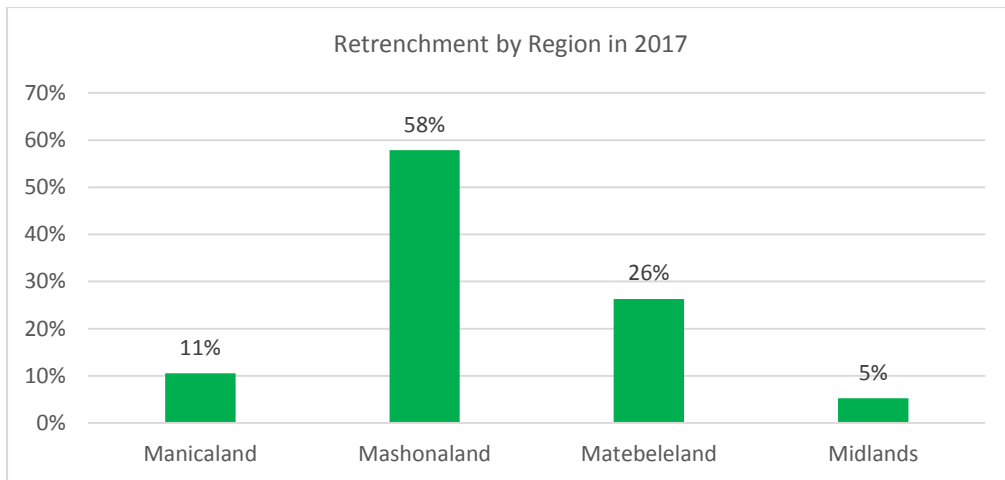
Retrenchment of Permanent Employees

In 2016, of the companies that retrenched 19% mentioned that they retrenched males while 12% indicated that they retrenched permanent female employees. In 2017, the number of firms that retrenched male employees declined by 5 percentage points to 14%, while firms that retrenched female employees declined to 11%.

Retrenchment by Region

In 2017, Mashonaland had the highest number of companies that retrenched at 58%, followed by Matebeleland (26%), Manicaland (11%) and Midlands (5%).

Figure 52: Retrenchment by Region

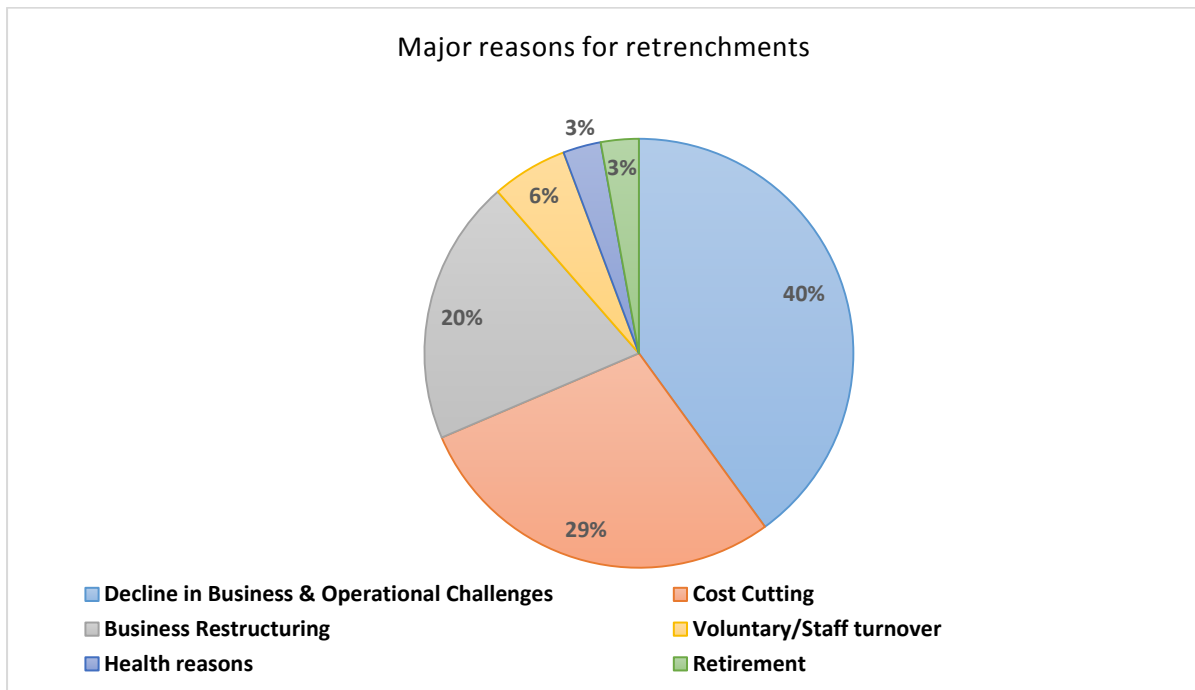


Reasons for Retrenchment

Companies that retrenched were asked about their reasons for retrenchment. In 2017, thirty seven percent of the companies that retrenched indicated that they retrenched because of decline in business and operational challenges. Twenty nine percent of the companies retrenched in order to cut costs.

Companies which retrenched because they were restructuring their businesses amounted to 20%. Six percent of the companies that reduced their labour component pin pointed that employees were retrenched on a voluntary basis. Health reasons, viability issues and retirement were mentioned as reasons for retrenchment by companies that reduced numbers employed.

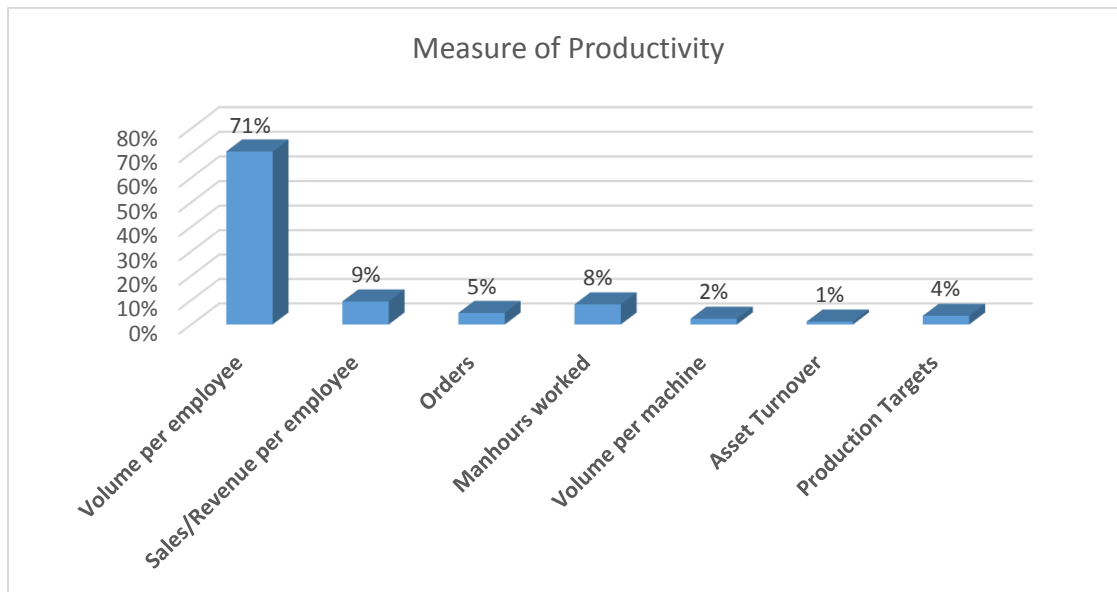
Figure 53: Reasons for Retrenchment



Measure of Productivity

The bulk of companies at 71% use volume of production per employee as a measure of productivity. Nine percent of the companies that were surveyed use sales / revenue per employee as a measure of productivity, while 8% use man hours worked. The remainder of the companies use orders (5%), production targets (4%) volume of production per machine (2%) and asset turnover (1%).

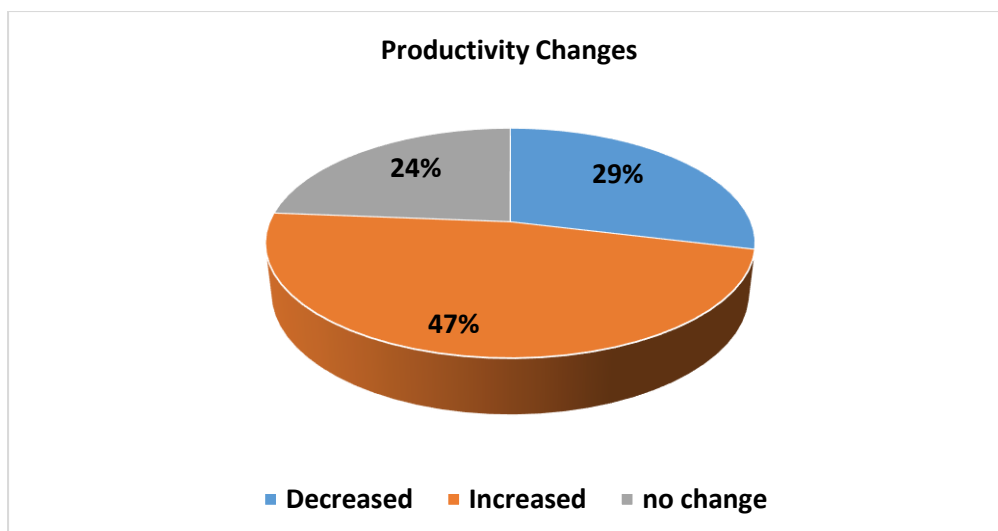
Figure 54: Measure of Productivity



Productivity Changes

Forty seven percent of the companies indicated that productivity increased over the last year. Companies that registered a decrease in productivity amounted to 29%. Twenty four percent of the respondents mentioned that there was no change in productivity.

Figure 55: Productivity Changes



FOREIGN TRADE, INVESTMENT AND FINANCIAL ENVIRONMENT

Foreign Trade

Zimbabwe is currently experiencing an unsustainable trade imbalance which is contributing to the prevailing foreign currency shortages. There is need to aggressively develop and implement export promotion strategies in order to address the current account deficit.

The government needs to improve the doing business environment for exporters in order to generate foreign currency. The productive sector is mainly affected by shortage of foreign currency to import raw materials and other intermediate inputs. The local manufacturing sector needs to retool because one of the major capacity constraints is antiquated equipment and machinery breakdown. In order to capacitate their factories, industry needs to access foreign currency for imported equipment and components.

Trade data generated by Zimstat indicate that export products are concentrated around mineral products which include gold, nickel, ferro-chromium and industrial diamonds. Unprocessed tobacco is also a major export from the primary industry, while value-added products contribute less than 15% of total exports. Thus export revenue streams into the economy are affected by price volatility of unprocessed commodities and competition on international markets. Improving the doing business environment will improve foreign currency inflows into the country.

Though a mixture of strategies have been implemented to boost exports over the recent past, the success of the initiatives have been affected by policy reversals.

The figure below shows the depth of the challenge with only 38% of the respondents indicating that they export their products.

Figure 56: Proportion of Companies that Export

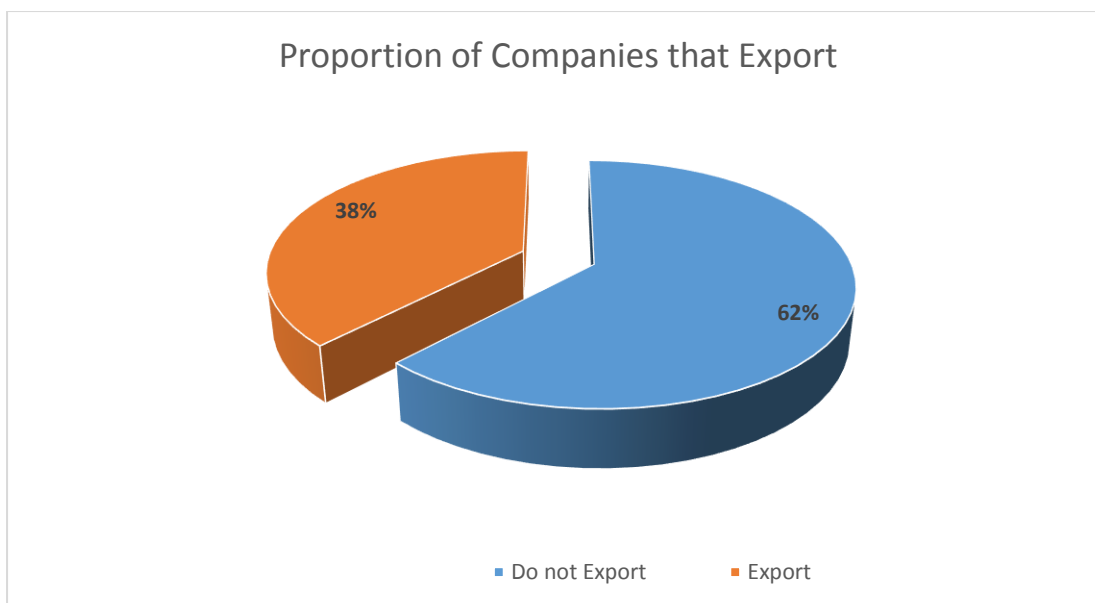


Figure 57: Turnover Growth in USD Value

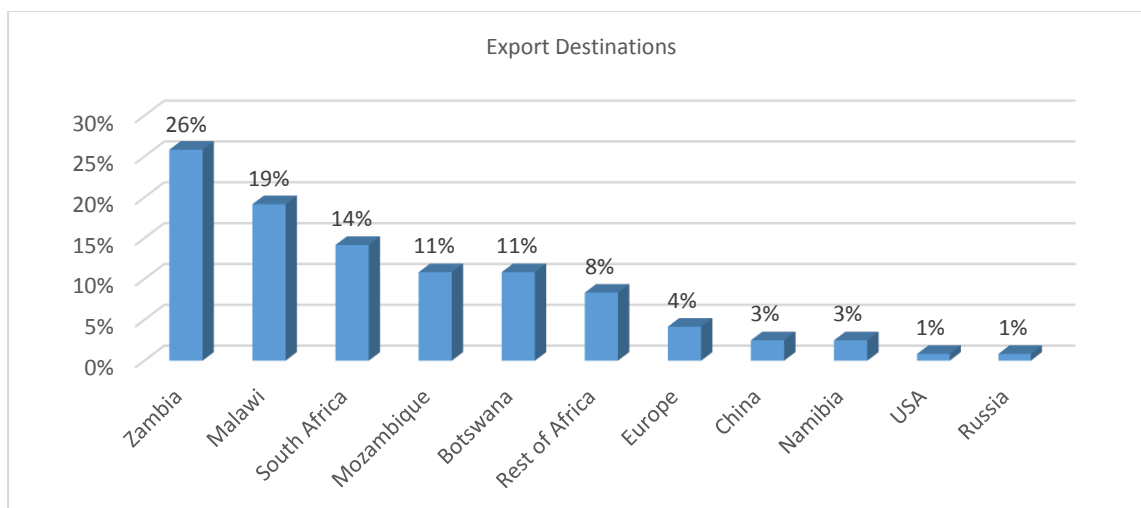
	2016	2017	2018
Local	8.44%	21.57%	20.49%
Export	2.24%	3.51%	10.60%

Turnover growth for export market grew by an average of 10.60% from 2017 to 2018 while turnover growth for the local market grew by 20.5% during the same period.

Export Destinations

In 2018, Zambia had the lion's share of export market for locally manufactured products with 26% of the companies exporting to the country compared to 28% in 2017. Zambia is an attractive export destination for local products because products are invoiced in United States dollars. It is also easier to compete in Zambia because it is landlocked and geographically it very close to Zimbabwe. Zambia is relatively developed therefore it is easier to export to the country. In 2018, Malawi was the second major export destination with 19% of market share. South Africa came third in terms of export destination at 14% in 2018. Mozambique and Botswana each had 11% of the market share in 2018.

Figure 58: Export Destinations in 2018



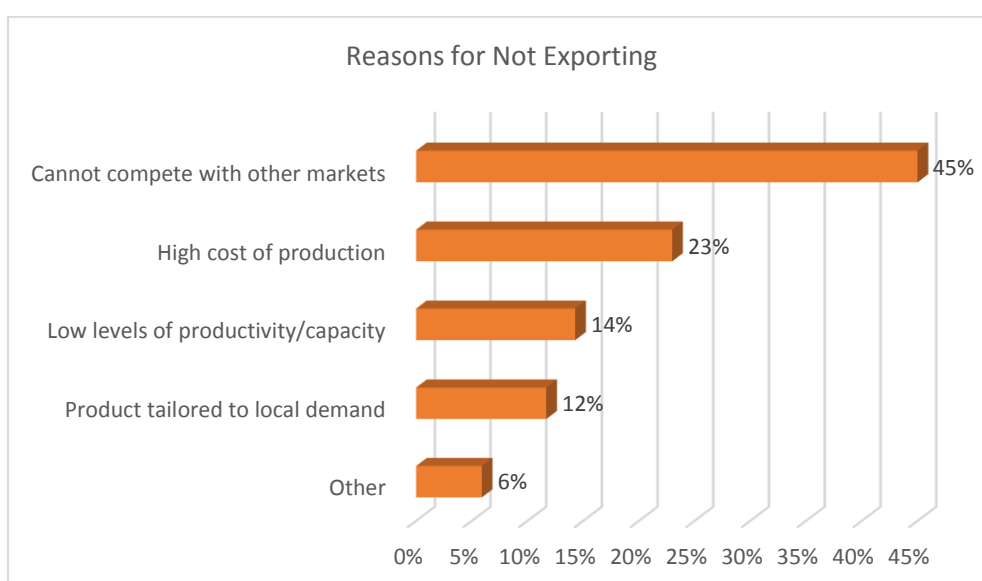
Reasons for not exporting

In 2017, competitiveness/high cost of exporting was regarded as the main reason why companies were not exporting and addressing this would help boost exports. Other reasons cited in the survey included cumbersome export procedures, low capacity and capital constraints.

The 2018 Manufacturing Sector Survey indicated that exports were negatively affected by the following factors:

- i. Local products cannot compete on the international market,
- ii. Low productivity levels which increases costs of production,
- iii. Some products are tailor made for the local market,
- iv. High cost of production

Figure 59: Reasons for not Exporting

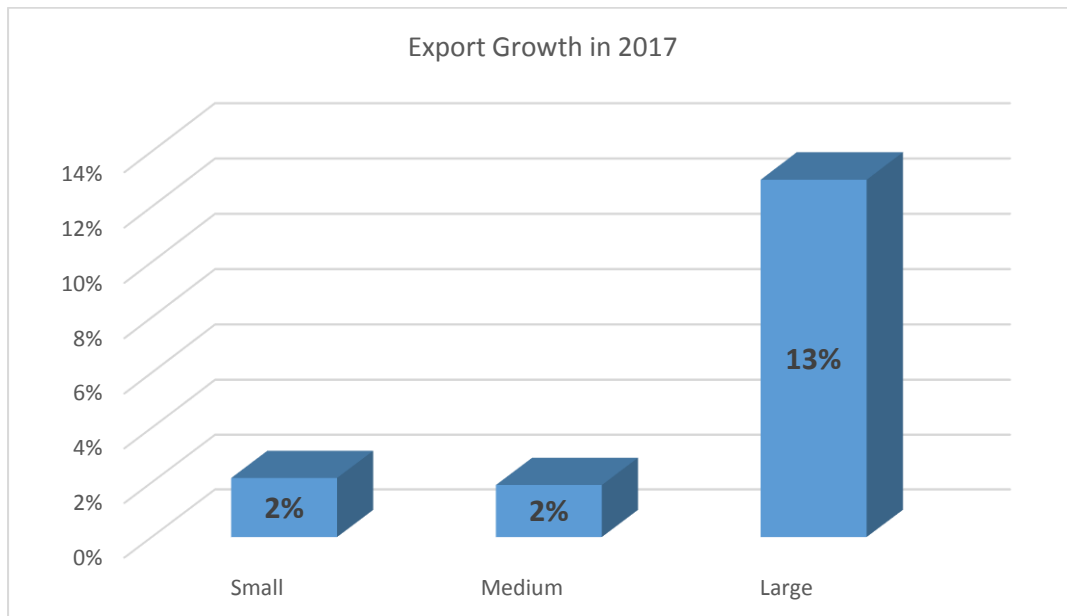


Generally, companies indicated that other countries are managing to export cheaper and hence the local product becomes uncompetitive in export markets due to high input costs.

Estimated Exports Growth in 2018

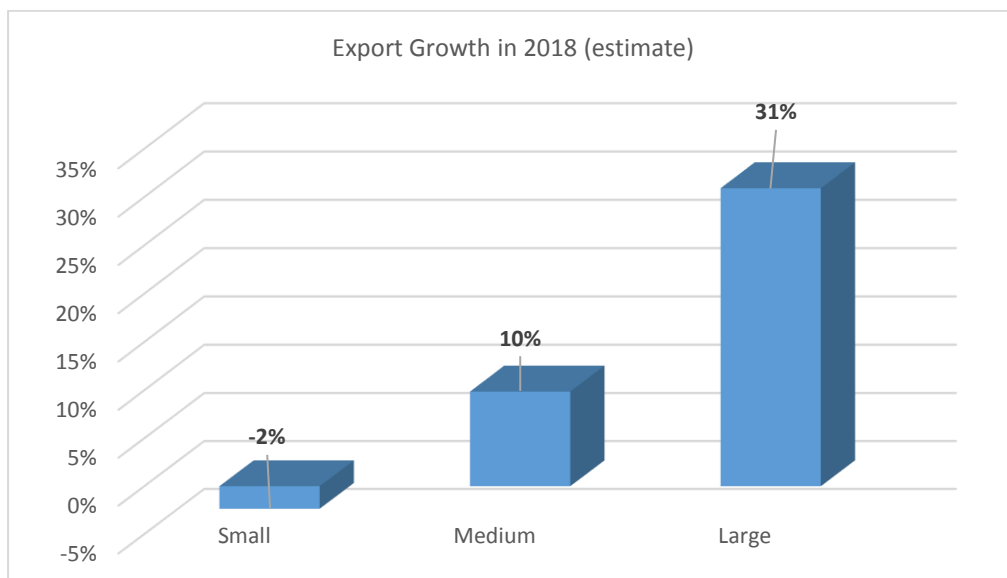
The value of exports in 2018 was estimated to increase by 15%. In 2017, the value of exports increased by 7%.

Figure 60: Export Growth in 2017 by Size of Company



Small and medium sized firms highlighted that export revenue grew by 2%. Export revenue for large firms grew by 13%.

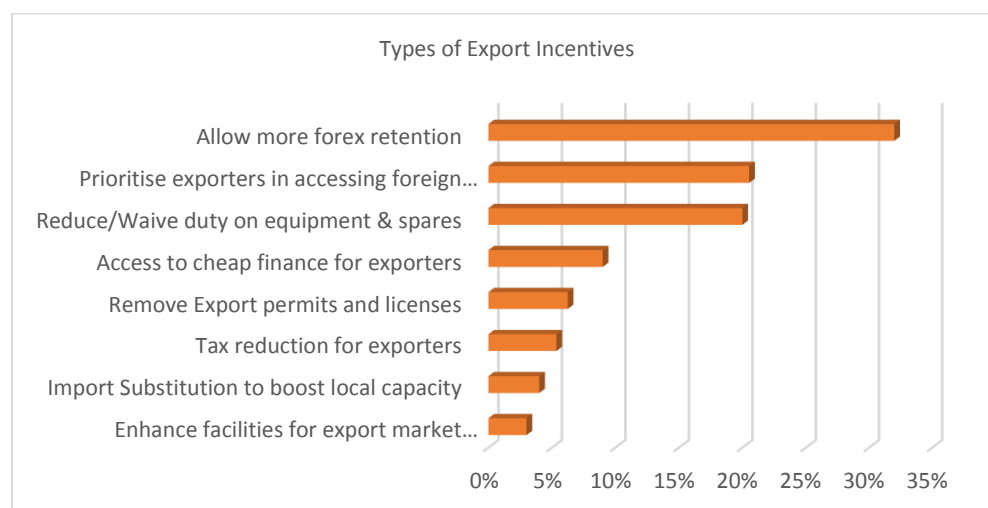
Figure 61: Expected Export Growth in 2018



In 2018, small firms indicated that they expect export revenue to decline by 2%. However, in 2018 medium and larger firms indicated that they expect exports to grow by 10% and 31% respectively.

Incentives for Stimulating exports

Figure 62 : Types of Incentives for Stimulating Exports



Respondents were asked on what the government can do to stimulate exports. The majority of respondents highlighted that the authorities can stimulate exports if the following suggestions were implemented

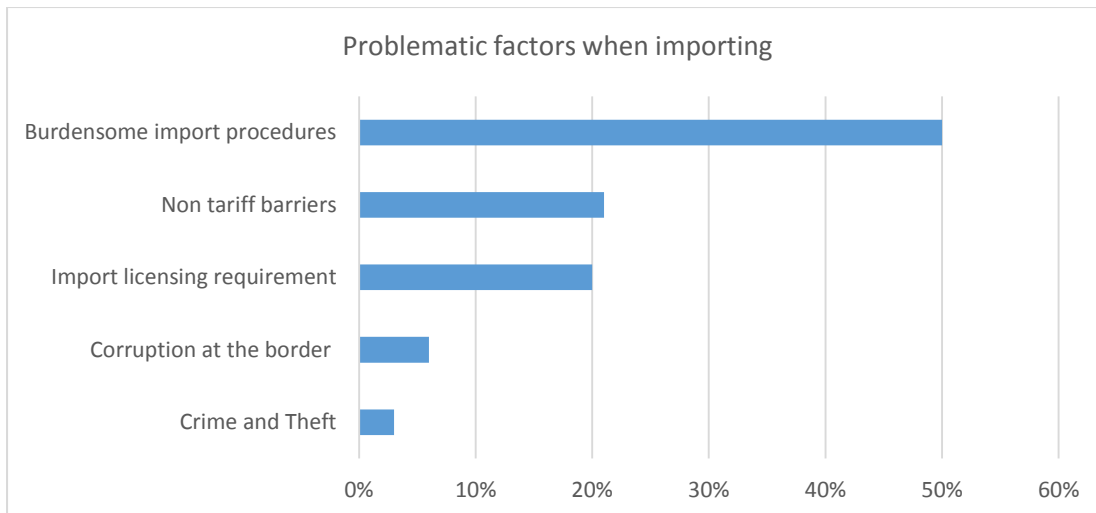
- i. Allow more forex retention,
- ii. Prioritising exporters in accessing foreign currency,
- iii. Reduce/waive duty on equipment, spares, and raw materials, and
- iv. Access to cheap finance for exporters.

Problematic Factors when Importing

Companies indicated that the following factors affect them when importing:

- i. Burdensome import procedures
- ii. Non-tariff barriers
- iii. Import Licensing requirement
- iv. Corruption at the Border.

Figure 63: Problematic Factors when Importing



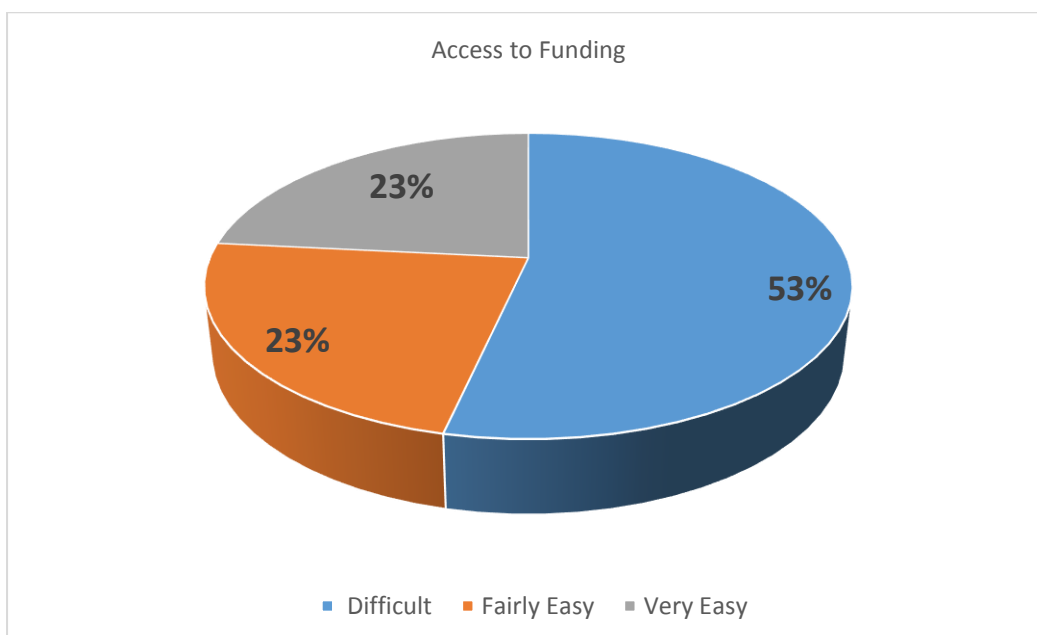
Financial Environment

A strong financial sector is important to facilitate economic growth through financial intermediation. The manufacturing sector depends on the financial sector for lines of credit for capital expenditure. In this section the survey sought companies' views on the variety of financial products and services to business and how accessible loans are to the manufacturing sector.

Access to Funding

Fifty three percent of respondents complained that they find it difficult to access funding at local banking institutions. Those that find it fairly easy to access funding at local financial institutions amounted to 23%, while the same measure was observed for those firms that find it very easy to access funding at local banking institutions.

Figure 64: Access to Funding



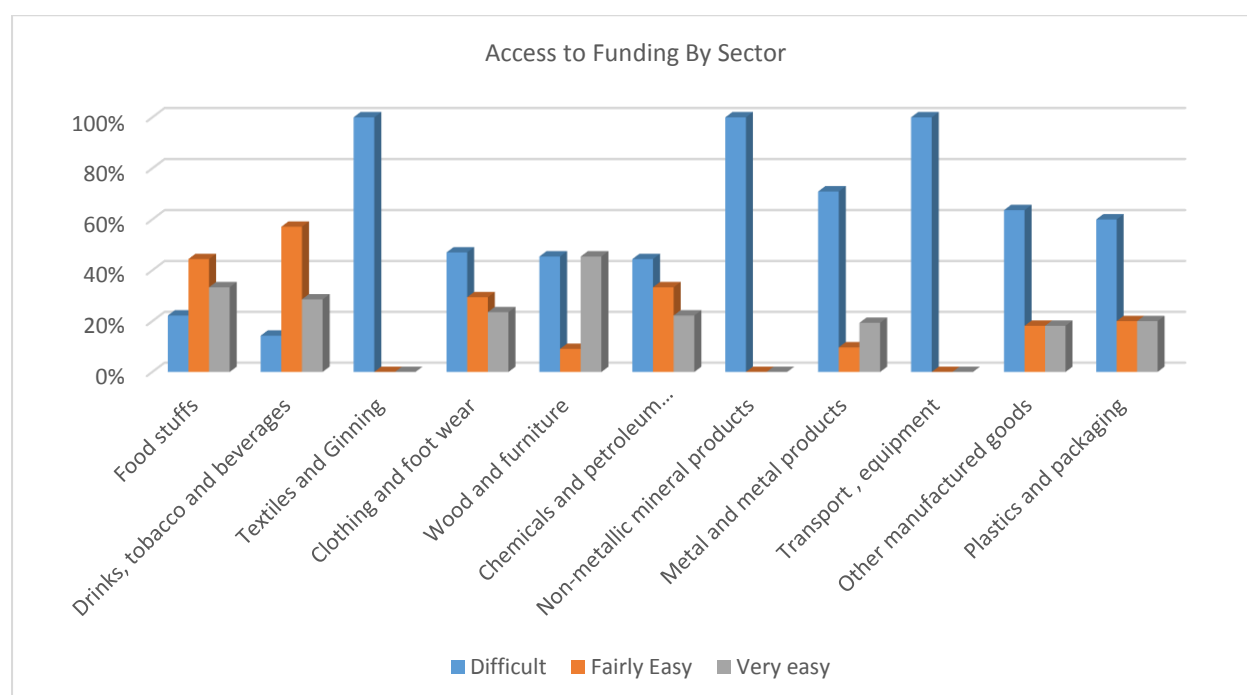
Access to Funding/Loans by Sector

Data from the respondents indicate that it is generally difficult for the manufacturing sector to access loans at local banking institutions. The following sectors found it difficult to access funding at local financial institutions in 2018:

- i. Textiles and ginning,
- ii. Non-metallic mineral products,
- iii. Metal and metal products,
- iv. Transport equipment,
- v. Plastics and packaging, and
- vi. Other manufactured goods.

The sectors that find it fairly easier to access loans at local financial institutions include the Foodstuffs and Drinks, Tobacco Beverages sub sectors as depicted by the figure below.

Figure 65: Access to Funding by Sector



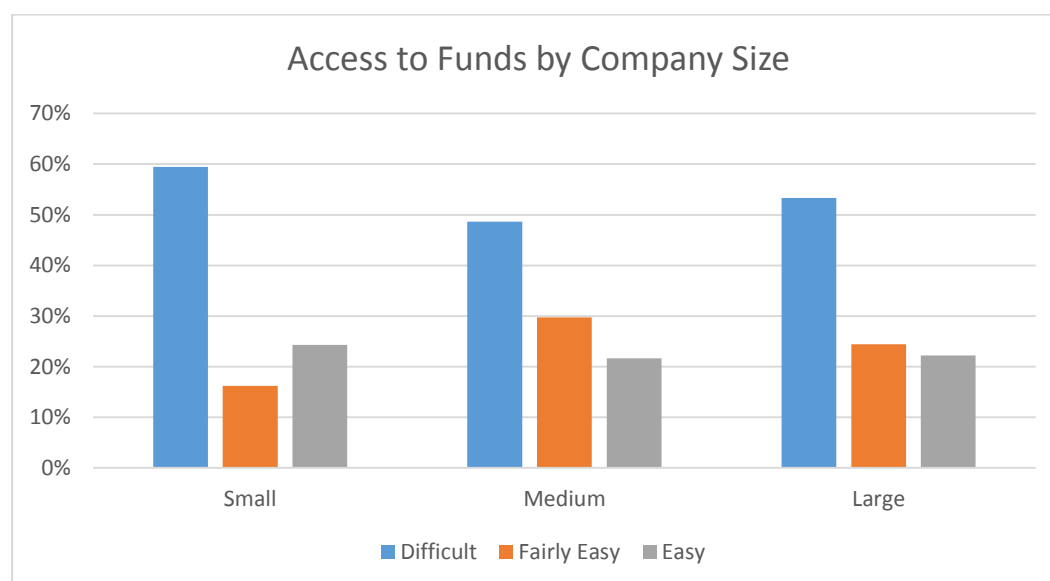
Access to Funds by Size of Company

Generally all firms regardless of size find it difficult to access funding at local financial institutions as illustrated by the figure below. Nevertheless, the number of firms that find it difficult to access funding at local banking institutions is concentrated in small firms.

This is probably because smaller firms are viewed as risky by financial institutions as they may not be credit worthy. Financial institutions view smaller firms as having higher chances of

defaulting on loan repayments. Consequently, banks demand more collateral and charge higher interest to account for the higher risk making it difficult for small firms to access funding.

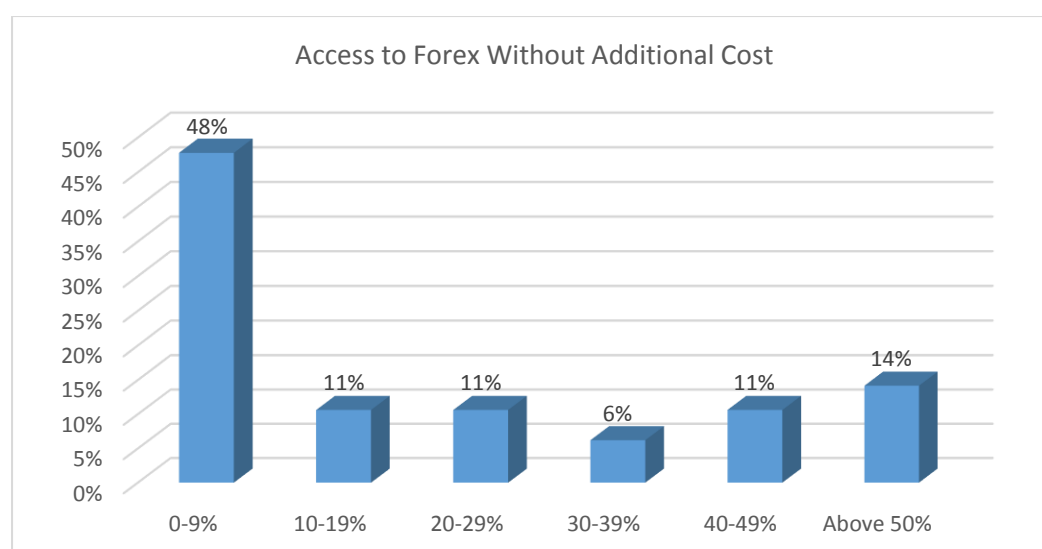
Figure 66: Access to Funds by Company Size



Foreign Currency Requirements Met without Additional Costs

Forty eight percent of companies highlighted that they find it difficult to access their foreign currency requirement without any other additional costs, signifying the dire foreign currency situation in the economy. Only 14% of the respondents are able to access 50% of their foreign currency requirement without any additional cost.

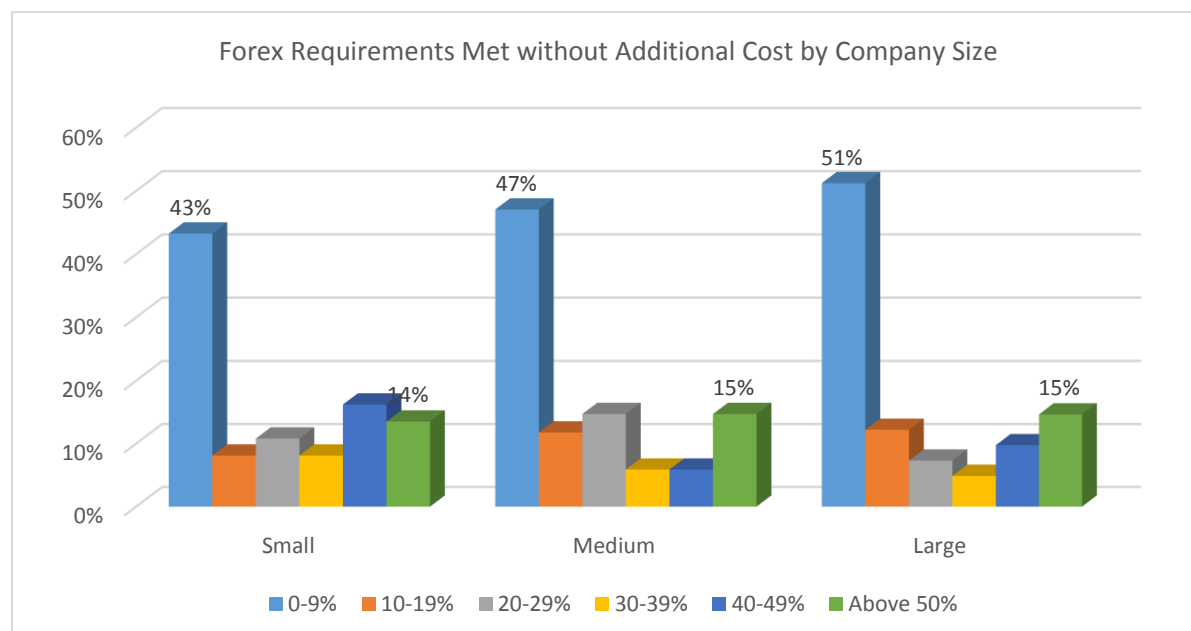
Figure 67: Foreign Currency Requirements Met without Additional Costs



Access to Foreign Currency Requirements without Additional Costs by Size of Company

In terms of foreign currency access by size of company, 15% of the large companies access more than 50% of their foreign currency requirements without additional costs. The same proportion was observed for medium sized firms.

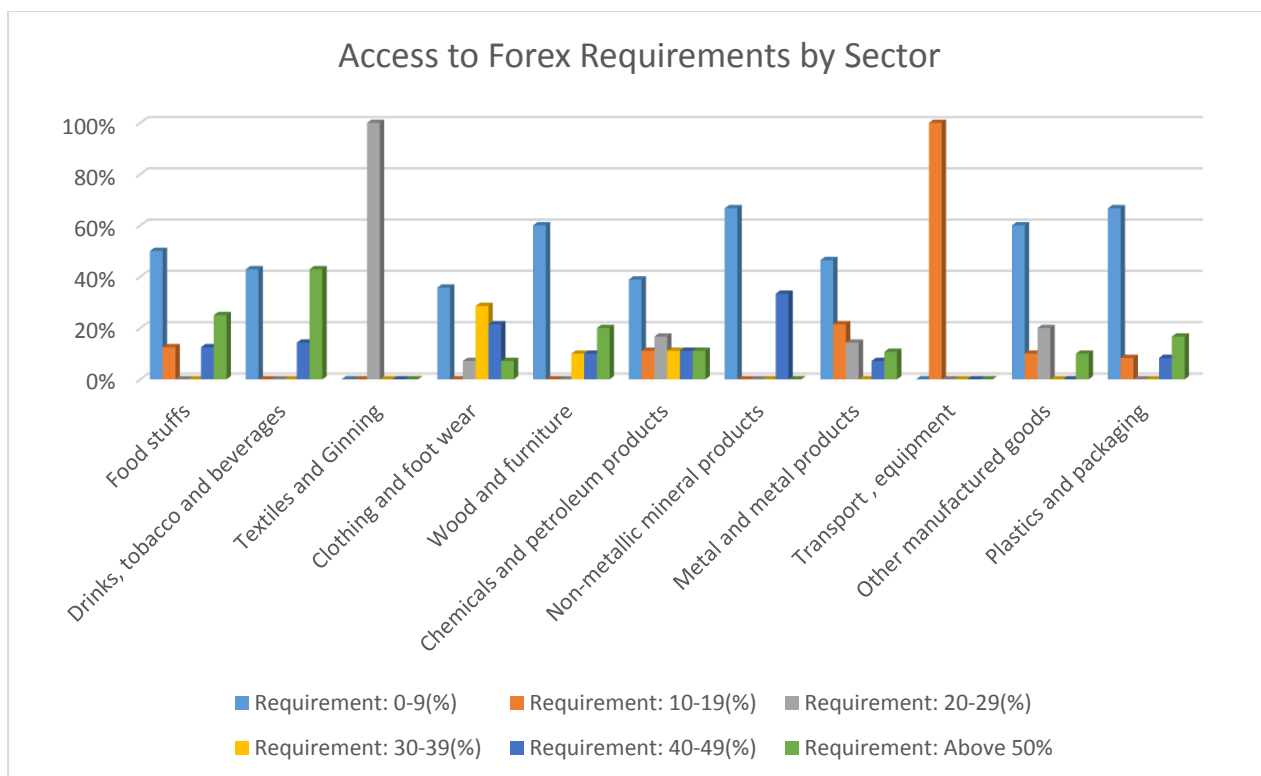
Figure 68: Foreign Currency Access by Size of Company



Foreign Currency Access by Sector

Companies in the Foodstuffs and Drinks, Tobacco and Beverages sub sectors were able to access 50% of their foreign currency requirements without incurring additional costs. The highest proportion of companies was recorded in the Drinks, Tobacco and Beverages at 43%, followed by the Foodstuffs sector at 25%.

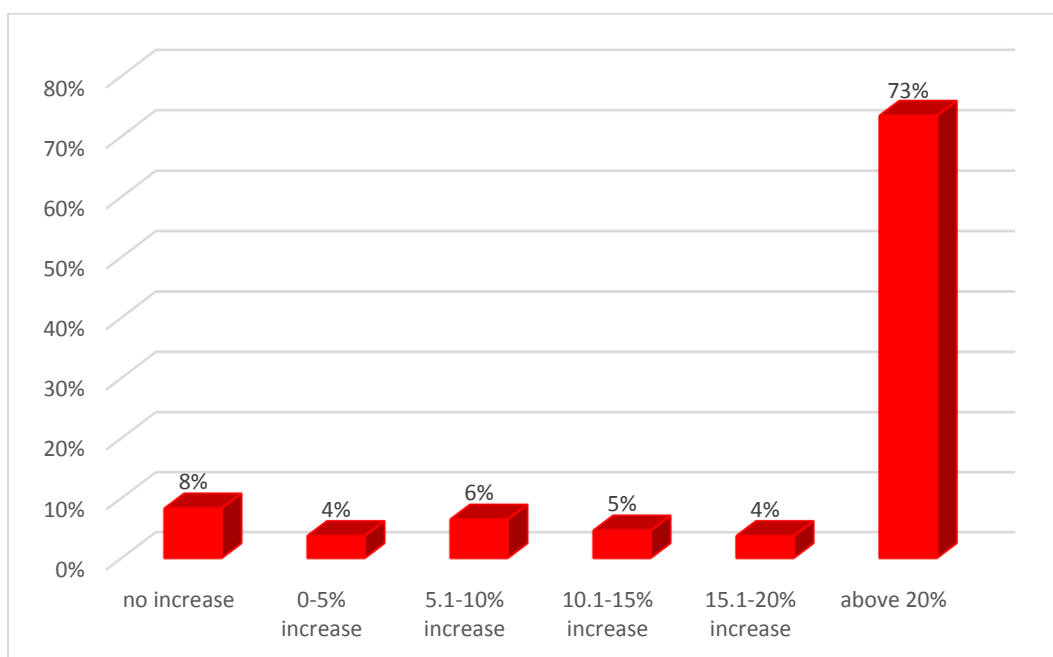
Figure 69: Foreign Currency Access by Sector



Costs Premium of Accessing Foreign Currency

Companies were asked to what extent their costs had increased as a result of the additional costs of accessing foreign currency. The results show that 73% of the respondents incurred costs increases of above 20%.

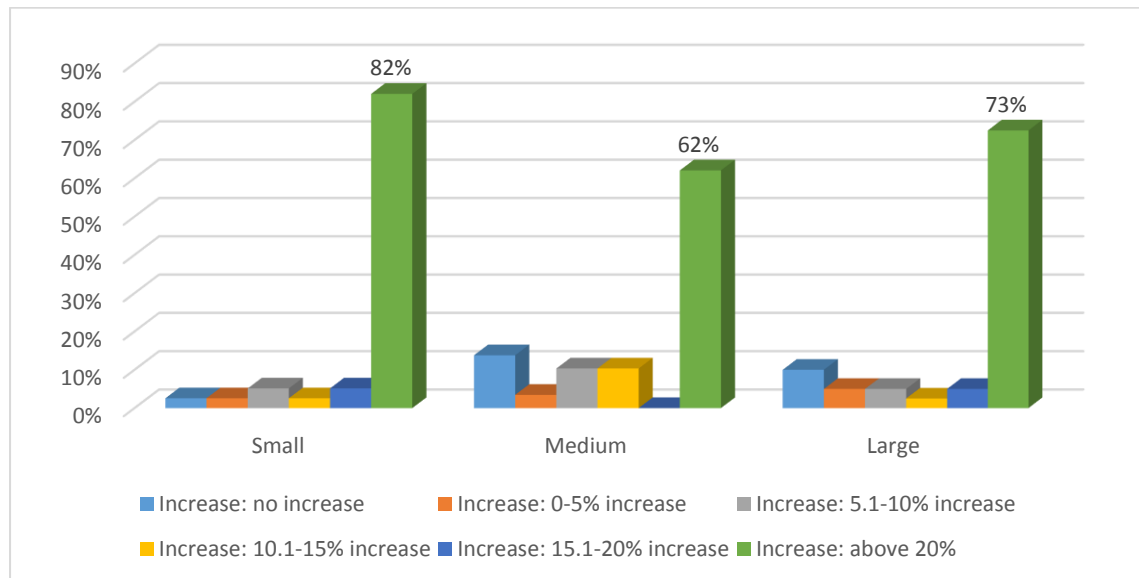
Figure 70: Cost Premium of Accessing to Forex



Cost Premium of Accessing Foreign Currency by Company Size

All companies sizes incur increases in cost resulting from lack of access to foreign currency and smaller companies recorded the highest percentage with 82%.

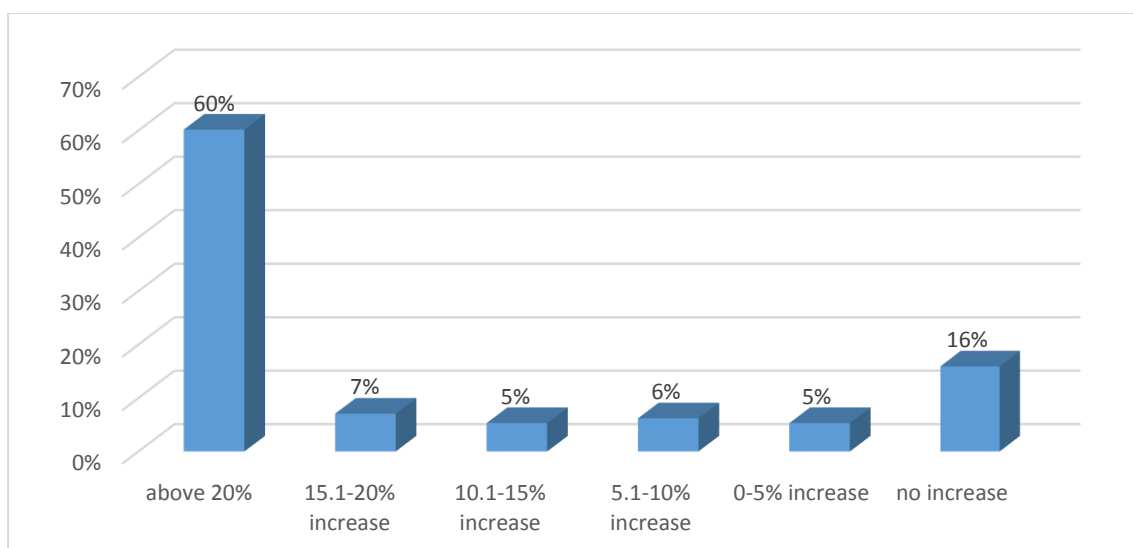
Figure 71: Cost Premium of Accessing Foreign Currency by Company Size



Increase in Selling Price Due to Cost of Accessing Foreign Currency

When companies' costs increase, they are likely to pass the additional cost to the consumer. Respondents were asked to what extent their selling prices had increased due to the additional cost of accessing forex. Sixty percent of the respondents indicated that they increased their selling prices by more than 20% as a result of cost of accessing foreign currency. The results indicated that 16% of the respondents have not increased their prices as a result of cost of accessing foreign currency.

Figure 72: Increase in Selling Price Due to Cost of Accessing Foreign Currency



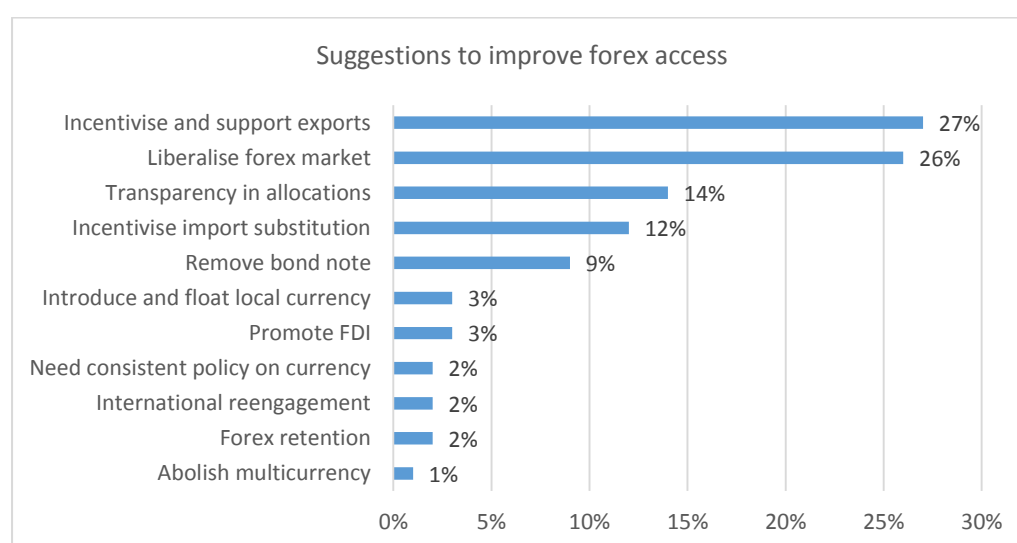
Suggestions to Improve Foreign Currency Situation

Twenty seven percent of the respondents suggested that the authorities need to support export producing companies by providing export incentives. Companies in this category emphasized the need to encourage value addition and beneficiation in order to boost the value of exports thereby enhancing foreign currency inflows.

Another 26% of companies who responded to this question want the forex market to be liberalized. They suggested that there should be less foreign exchange market regulations in the economy in order to minimize foreign exchange transactions on the parallel market.

Fourteen percent of the respondents highlighted the need for transparency in foreign currency allocation by the Reserve Bank of Zimbabwe.

Figure 73: Improving the Foreign Currency Situation



Nine percent of the respondents want the bond note to be removed. Other suggestions that were proffered by the respondents include:

- i. Introduce and float local currency,
- ii. Consistent currency policy,
- iii. International reengagement,
- iv. Promote foreign direct investment, and
- v. Exporters to retain their forex earnings.

OVERAL PERCEPTION

Factors Affecting the Manufacturing Sector

Most of the companies highlighted that business has declined relative to the period after September 2018, and foresee business as likely to further decrease going forward. Most respondents implored government to institute policies that improve the doing business environment in order to reduce per unit cost of manufacturing.

Respondents also indicated that the dire foreign currency situation in the economy has negatively affected their operations and they pin pointed that the currency issue needs to be addressed. The unavailability of foreign currency is affecting business negatively since it curtails the ability of manufacturers to import essential raw materials and intermediate inputs. The situation is aggravated by very high prices for sourcing local raw materials.

Corruption is another factor that was mentioned as weighing down business as it increases costs of production.

Other factors that business pinpointed as affecting their operations include:

- i. Competition from imports
- ii. Increasing production costs
- iii. Price controls
- iv. Liquidity challenges
- v. 2% Electronic transaction tax

Companies were asked to rank the factors that affected business in 2017 to 2018 survey period. The results show that the following factors negatively impacted on the manufacturing sector:

Figure 74: Summary of Factors Negatively Affecting Business

Factor	Percent of Companies Affected
Forex Access	95%
Cash Shortages	92%
Policy instability	89%
Exchange Rate	86%
2% Tax	86%

Corruption	83%
Ageing equipment	78%
Interest Rates	75%
Access to financing	71%
Competition from imports	66%
Power cuts	56%
Electricity charges	52%

Highly ranked as negatively impacting on business was

- i. Access to foreign currency,
- ii. Cash shortages,
- iii. Policy instability,
- iv. Exchange rate,
- v. 2% electronic transaction tax, and
- vi. Corruption.

Factors Positively Impacting on the Manufacturing Sector in 2018

Only two factors positively impacted on the manufacturing sector in 2018. These include

- i. Import substitution policies
- ii. Domestic demand.

The table below shows how companies ranked the factors that influenced business in 2018.

Figure 75: Rank of Factors Affecting Business in 2018

	Very Negative	Negative	No Effect	Positive	Very Positive
Forex Access	80.83%	14.17%	2.50%	0.00%	2.50%
Exchange Rate	64.66%	21.55%	7.76%	3.45%	2.59%
Cash Shortages	60.66%	31.15%	4.92%	0.00%	3.28%
2% Tax	59.17%	26.67%	10.00%	1.67%	2.50%

Policy instability	53.85%	35.04%	6.84%	4.27%	0.00%
Corruption	51.72%	31.03%	12.93%	2.59%	1.72%
Access to financing	43.33%	27.50%	17.50%	5.83%	5.83%
Ageing equipment	36.44%	41.53%	19.49%	0.85%	1.69%
Competition from imports	35.34%	31.03%	26.72%	2.59%	4.31%
Interest Rates	31.58%	42.98%	21.05%	2.63%	1.75%
Power cuts	26.67%	29.17%	31.67%	10.00%	2.50%
Electricity charges	21.01%	31.09%	36.97%	8.40%	2.52%
EMA Requirements	18.58%	23.01%	46.90%	8.85%	2.65%
CBCA	12.62%	28.16%	49.51%	3.88%	5.83%
Domestic Demand	12.28%	20.18%	14.91%	38.60%	14.04%
Minimum wages and Restrictive Labour Regulations	12.28%	28.95%	45.61%	7.02%	6.14%
SI 64 of 2016/SI 122 of 2017	9.17%	3.67%	33.94%	26.61%	26.61%

Key Findings from the Survey

- i. Capacity utilization rose by 3.1 percentage points from 45.1% in 2017 to 48.2% in 2018.
- ii. Overall output for the sector grew by 12.1% in 2018.
- iii. South Africa was the major source raw materials and equipment.
- iv. In 2018, total numbers employed by the companies that were surveyed increased by 32% compared to 2017. Male employment increased by 31.8% while female employment increased by 33.3%.
- v. Exports are estimated to increase by 15% in 2018.
- vi. Zambia was the major export destination for local products in 2018, followed by Malawi and South Africa.
- vii. Companies are increasingly sourcing raw materials from the international market as opposed to the local market.
- viii. Shortage of foreign currency to import raw materials and antiquated machinery were major capacity constraints to the manufacturing sector in 2018.
- ix. Local products are not competitive on the international market and this has affected export revenue from the manufacturing sector.
- x. There is need for policies that encourage and support value addition and beneficiation to boost export revenue.
- xi. Companies called for transparency in the allocation of foreign currency by the Reserve Bank of Zimbabwe.

- xii. If there is no drastic change in the policy direction foreign currency shortages will persist and the 1:1 exchange rate is affecting availability of foreign currency.
- xiii. Corruption is increasing the cost of production to business.
- xiv. Import Substitution policies have shifted competition for markets to the domestic front.

Recommendations

- i. There is need for Government to institute a foreign exchange trading platform so that foreign currency is traded at a fair value. This will ensure that there is,
 - a) Product availability
 - b) Price stability and
 - c) Business viability
- ii. Develop a holistic program to eliminate price distortions and develop appropriate safety nets for affected stakeholders.
- iii. Promotion local content policy.
- iv. ZimTrade and private sector to work together to develop an export promotion strategy to increase availability of foreign currency in the economy.
- v. The manufacturing sector is encouraged to invest in sustainable methods of production.
- vi. Local businesses need to embrace long term planning as they make investment decisions.
- vii. In order to make savings on foreign currency, there is need to incentivize import substitution.
- viii. The local industry needs to reorient their businesses towards sourcing raw materials locally to reduce pressure on foreign currency.
- ix. Since local companies are finding it difficult to compete on the international market, the manufacturing sector is encouraged to work with local retailers to penetrate export markets in the region. For instance the food sub sector can partner local supermarkets to market local products in the region.
- x. There is need for local industry organisations (CZI and ZNCC) to dialogue with similar BMOs in Zambia and South Africa with a view to promote trade with the countries.

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List of Acronyms

AU	Africa University
BOP	Balance Of Payments
BUSE	Bindura University of Science Education
CA	Current Account
CBCA	Consignment Based Conformity Assessment
COMESA	Common Market for Eastern and Southern Africa
CSC	Cold Storage Company
CZI	Confederation of Zimbabwe Industries
EMA	Environmental Management Authority
EU	European Union
FDI	Foreign Direct Investment
GCI	Global Competitive Index
GDP	Gross Domestic Product
ICT	Information and Communication Technology
KA	Capital Account
LSU	Lupane State University
MSU	Midlands State University

FCA	Foreign Currency Account
NPISH	Non- Profit Institutions Serving Households
OEMS	Original Equipment Manufacturers
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
SADC	Southern African Development Community
S.I	Statutory Instrument
SME	Small to Medium Enterprise
UK	United Kingdom
USA	United States of America
USD	United States Dollar
UZ	University Of Zimbabwe
VAT	Value Added Tax
WEF	World Economic Forum
ZAMCO	Zimbabwe Asset Management Company
ZIMSTAT	Zimbabwe Statistics Agency
ZISCO	Zimbabwe Steel Company
ZITF	Zimbabwe International Trade Fair