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The Annual CZI State of the Manufacturing Sector Survey

The Confederation of Zimbabwe Industries (CZI) State of the Manufacturing Sector Survey is widely recognised as Zimbabwe's leading analysis of the factors affecting business operations and growth, with a particular focus on the manufacturing sector. The scope of 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 business environment within which it operates.

The survey aims to provide:

- Empirical, objective evidence towards influencing policy that provide businesses with a lobbying position and reference point when meeting policy makers
- Government and international cooperating partners with information on obstacles to economic growth as well as possible solutions.
- Academia with information on analysing the current business environment

The survey provides insight into the economy from the business perspective. It gives a more accurate portrayal 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 stability and job creation.

Sections Covered in This Survey

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

Survey Methodology

The CZI manufacturing sector survey has been conducted on an annual basis and provides insight into the state of the economy from the business perspective. The survey is so significant that policy makers, international financial institutions and the United Nations system, among others, rely on its findings. The relevant survey documentation would be publicly available on the CZI website.

1. Who Conducts the Survey?

The CZI conducts the survey. The survey is undertaken in strict confidence. Confidentiality of the 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.

2. Who is Surveyed?

More than 250 questionnaires are sent to respondents in the manufacturing sector. Companies are drawn from the four CZI 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.

The 2014 Survey

EXECUTIVE SUMMARY

Industries in Zimbabwe are under serious threat. Deindustrialisation has reached catastrophic levels, with dire consequences to the state of the economy. Arresting deindustrialisation will not be an easy task. Both private and public sectors must take action to address the spectre of economic stagnation or decline.

The results of the 2014 CZI State of the Manufacturing Sector Survey show a decline in the sector compared to last year. The slow down being experienced in the economy at large has not spared the manufacturing sector. In 2014, average capacity utilisation continued to decline, shedding 3.3 percentage points to 36.3%. Quite telling is the prolonged effects of power cuts and costs, liquidity challenges, low domestic demand and many others on the performance of the manufacturing industry.

This year's survey has introduced a weighted capacity utilisation, which will be the measure of capacity in industry going forward. The weighting is based on a subsector's contribution to Gross Domestic Product (GDP). In order to avoid confusing readers, this year's results on capacity utilisation are being published in terms of both the average and the weighted. Last year's data on capacity utilisation has also been weighted. It is important to note that on a weighted basis capacity utilisation is actually slightly higher than last year.

Table 1: Capacity Utilisation

	Average Capacity Utilisation	Weighted Capacity Utilisation
2013	39.6%.	36.1%
2014	36.3%	36.5%

Of the respondents, 37% said they were operating at levels above 49%, while the remainder said they were operating at levels below 49%. The factors limiting capacity in the sector remained unchanged. Similar factors have been recorded over the past three years.

In an effort to provide useful, timely and up to date information to stakeholders and policymakers, CZI has introduced a new measure on the state of the manufacturing sector, the Purchasing Managers Index. This statistic will be produced monthly by CZI. Discussions are at advanced stages to collaborate with the Zimbabwe National Statistics Agency (ZIMSTAT).

The Purchasing Managers Index is a diffusion index which measures five factors in business: new orders, inventory levels, production, supplier deliveries and employment conditions. Each of these five factors are adjusted and weighed according to the time of the year and other factors. A PMI above 50% means the manufacturing sector is growing and expanding. A PMI under 50% means the manufacturing sector is contracting.

The manufacturing sector recorded a PMI of 43.5% during the period under review, which is a further indication of a decline.

In terms of competition from imported products, South Africa continues to top the list of competing imported products into Zimbabwe. The survey results showed that 40% of the competition within the manufacturing sector has been coming from South Africa. Zambia is also emerging as a competitor to the local manufacturing sector. In previous years, Zambia's contribution to foreign competition was negligible; hence it was placed under 'other'. Zambia also remains the top export destination for Zimbabwean manufactured products.

From the survey, 81% of the respondents indicated that the country is likely to continue in a dis-inflation mode due to:

1. Lack of capital inflow
2. The liquidity crunch
3. No change in economic policy
4. Low domestic demand.

ECONOMIC OVERVIEW

At the beginning of 2014, the economy was projected to record a strong growth of about 6.1%, premised on the implementation of the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET) programme. Positive projections were also anchored on strong recovery in the agricultural sector and improved performance in the mining and construction industries. However due to the persistence of the negative factors mentioned above, the GDP growth rate has been revised down to about 3.1%.

As the Reserve Bank of Zimbabwe (RBZ) governor rightly points out, it is clear that the panacea to the challenges that the economy is facing is to stimulate production for economic recovery. This can only be achieved through pursuing consistent, transparent and predictable economic policies. These need to be supported by a bold shift by Government towards reducing the cost of doing business. The private sector must widen its sphere of influence by tapping into regional markets. This will bolster industry's capacity to produce goods and services, thereby stimulating economic growth through exports and employment creation, better tax revenues, and improved liquidity.

The current challenges facing the economy are so intertwined that sometimes it is not easy to separate the causes from effects. It is, however, important to make sure that the challenges are properly contextualised and diagnosed in order to come up with appropriate and relevant solutions to underpin economic recovery. The interwoven economic challenges include the following:

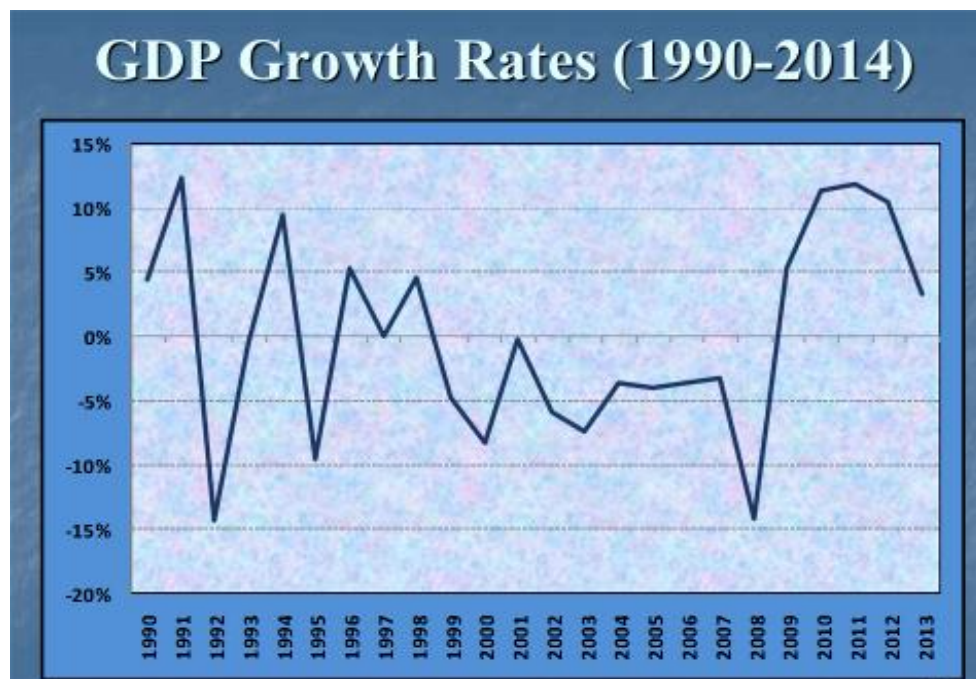
- Tight liquidity conditions;
- Company closures;
- Rising formal unemployment;
- Low production levels;
- Non-performing loans;
- A disproportionate trade balance.

An analysis of these challenges shows that the economy has failed to sustain the strong growth trajectory stimulated by the liberalisation of the foreign exchange system in 2009 after failing to attract critical offshore financial inflows (both foreign direct investment (FDI) and long-term lines of credit). These would be critical for replacing the short-term expensive loans that have been granted by local financial institutions since the commencement of the multiple currency system.

GDP and Inflation

The Zimbabwean economy continues to face challenges which reflect some structural rigidities, inadequate domestic and foreign investments and lack of long-term funding. Economic activity decelerated from 10.6% in 2012 to an estimated 4.5% in 2013, in real terms. As indicated above Government has revised GDP growth for 2014 to 3.1%.

Figure 1: GDP Growth Rates (%)



Source: Reserve Bank of Zimbabwe (RBZ)

Inflation, however, has remained low and was in the negative territory from February to June 2014. The rate of inflation reached deflationary levels mainly due to low aggregate demand coupled with a price correction process since Zimbabwean prices have been generally higher than those obtaining in neighbouring countries. In July 2014, inflation increased to 0.3% from the June level of -0.08%. It is anticipated that inflation will remain below the 1% level for the rest of 2014.

The World Economic Forum Global Competitiveness Report 2014/15, showed that Zimbabwe dropped on the rankings from 123 last year to 124 this year. The report covered 144 countries. The summary of the problematic factors of doing business in Zimbabwe is provided below:

Table 2: Problematic Factors of Doing Business in Zimbabwe

Factor	% of Response 2013	Factor	% of Response 2014
Access of Financing	25.4	Access of Financing	24.6
Policy Instability	21.4	Policy Instability	19.7
Inadequate Supply of infrastructure	14.3	Inadequate Supply of infrastructure	15.0
Corruption	10.7	Inefficient Govt bureaucracy	11.9
Restrictive labour Regulations	8.9	Corruption	11.4
Inefficient Govt Bureaucracy	7.9	Restrictive Labour Regulations	10.8

Source: WEF Global Competitiveness Report 2014/5

The solutions to the challenges that the economy is facing are to put in place credible, consistent and predictable investment policies to stimulate growth. This must be complemented by dealing with the high

debts or non-performing loans saddling the economy, mobilisation of financial resources and inculcating self- discipline, transparency and accountability across the board.

SURVEY RESULTS

The next section of this report will cover results from the survey. It is imperative to state that all results given below are based on the information and views given by respondents and are taken as a proxy of what is happening in industry. Figures stated in this report are based on figures provided by respondents and are only used as a guideline of what is happening within the manufacturing sector.

Company Information

This section sought to ascertain basic information on company operations. This information includes products being manufactured, number of years in existence and ownership structures. Responses received were classified and grouped according to the International Standard for Industrial Classification (ISIC Rev 3). This reduced the subsectors from the initial 15 used in previous surveys to 11 namely:

- Chemical and Petroleum Products
- Clothing and Footwear
- Drinks, Tobacco and Beverages
- Foodstuffs
- Metals and Metal Products
- Non Metallic Mineral Products
- Paper, Printing and Publishing
- Textiles and Ginning
- Transport, Equipment
- Wood and Furniture
- Other Manufactured Goods

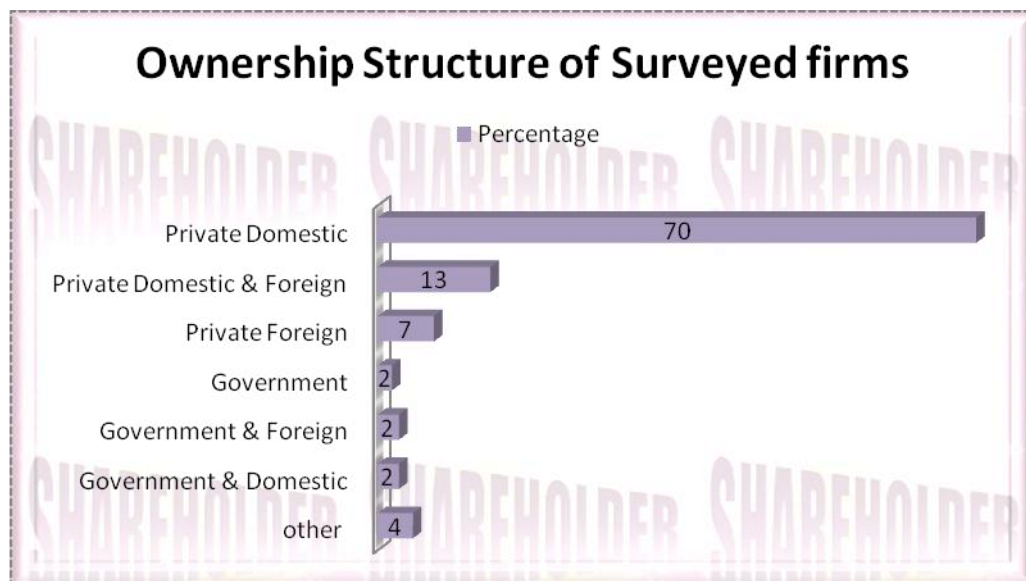
The Textiles subsector was combined with Clothing and Footwear due to closure of companies in that subgroup and in line with the adopted classification by ZIMSTAT.

Company Structure

In terms of ownership structure, the aim was to determine participation of domestic private entities, government, foreign entities and other players in the economy. Seventy percent of the respondents indicated that their firms were wholly owned by private domestic investors, 7% indicated that they were wholly foreign owned while 2% were wholly owned by Government. Those with both domestic and foreign ownership are 13% while 2% indicated government and foreign shareholding.

The distribution below provides insights into the levels of equity in the economy.

Figure 2: Ownership Structure



Within the organisational structures of companies surveyed, 8% of the companies indicated being led by females whilst the remainder are headed by males.

Company Operations And Strategy

The scope of a firm can often be linked to the level of productivity. In this survey, the first step was to understand the structure and nature of firms, from the composition of the firm, to the make-up of competitors, right down to how set their prices. No link to productivity was estimated as we would need to have obtained data over a period of time to make meaningful statistical inference.

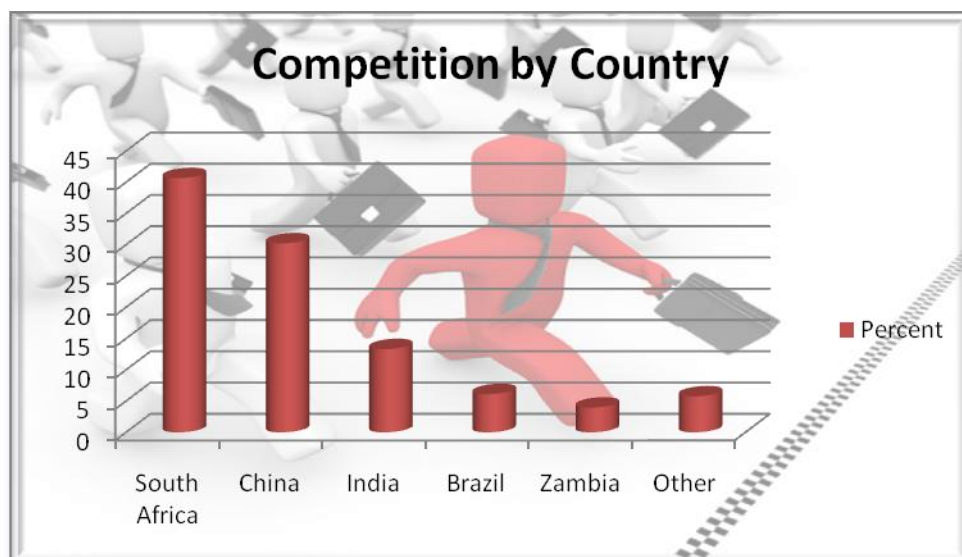
The results point to the fact that most of the firms in the manufacturing sector concentrate on their main activity, as evidenced by only 3% of the respondents being conglomerates. The majority of firms only specialise in their lines of business. Of the respondents, 31% are vertically integrated thereby producing their own inputs and having own distribution channels. Only 19% of the respondents are or have subsidiaries.

Source of Competition

The analysis indicates that 62% of the respondents face competition from both domestic firms and foreign firms while 16% face foreign competition only. Twenty two compete with local firms only. The results point to an increase in foreign competition from 58% last year.

Whilst most players in the manufacturing sector face competition from many countries, it should be noted that South African firms remain the largest competitors to Zimbabwean producers. Forty one percent of the competition experienced by the local industry is emanating from South Africa while China contributes 30%. The results also show that Zambia is increasingly becoming a competitor to the local industry. In previous years, the frequency and percentage of companies who recorded competition from Zambia was negligible compared to this year's survey. The results are illustrated below:

Figure 3: Competition by Country



Pricing Mechanism

Seventy percent of the respondents said they used one pricing mechanism, while 15% used two pricing mechanisms. The survey also shows that 16% of the respondents use at least three mechanisms in pricing their goods. While the proportion of companies who use the mark up over cost pricing strategy remains high at 71%, it may be worth noting that imports have played a significant role in the pricing of local products with 18% of the respondents basing their prices on import prices. Twenty one percent of the respondents indicated that they are market price takers while 10% said they price differently in different markets. Negotiation with buyers is becoming a popular pricing mechanism in Zimbabwe with 18% of the respondents indicating that they use this strategy. Six percent of the respondents indicated that they used quality to decide prices.

Turnover Composition

In terms of turnover composition, 65% of respondents highlighted that they produced for both the local and export markets. Thirty four percent indicated that they solely produce for the domestic market while less than 1% of the respondents solely produced for the local market.

Traditional Statistics Blended With New Statistics:

Our statistics on capacity utilisation have been received with mixed reactions from different stakeholders. It is an important tool in determining the performance of the manufacturing sector and hence its accuracy is of great concern. This prompted CZI to revisit the relevance of the statistics and come up with new tools and techniques to improve the statistics as well as introduce new figures that will capture the performance of the manufacturing sector going forward.

Capacity Utilisation

The survey sought to determine levels of capacity utilisation. 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 if capacity was fully used. Traditionally, the CZI has produced the *average capacity utilisation*. This statistic has its strengths and weaknesses. With the progressions within the economy, we found it useful to report the weighted capacity utilisation based on the contribution of each manufacturing sub sector to GDP. The weight of each manufacturing subsector was obtained from ZIMSTAT. The subsectors were also reclassified based on the International Standard Industrial Classification (ISIC Rev 3). In order to provide a comparative base, last year's data on capacity utilisation was also weighted. The results are tabulated below:

Table 3: Capacity Utilisation

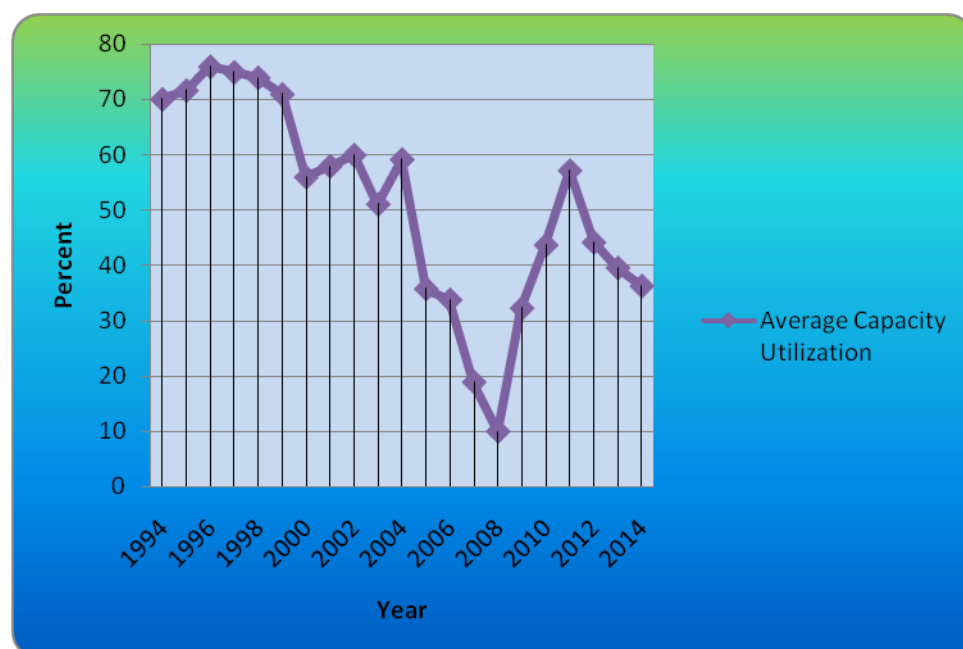
	Average Capacity Utilisation	Weighted Capacity Utilisation
2013	39.6%.	36.1
2014	36.3%	36.5

The average capacity utilisation of 36.3% would imply a decline of 3.3 percentage points from last year's average of 39.6%. Readers should note that in the subsequent surveys, focus will be on the weighted capacity.

Of the respondents, 37% said they were operating at levels above 49% while the remainder said they were operating at levels below 49%.

The trends in capacity over the past 20 years are provided below:

Figure 4: Trends in Capacity



Major Capacity Constraints

The factors affecting industry and limiting capacity in the manufacturing sector remain unchanged with similar factors being recorded over the last three years. It is, however, important to note that, as evidenced in the two tables below, a decrease in local demand seems to be no longer the major capacity constraint. In 2012 and 2013, respondents regarded lack of working capital as the most problematic (32.3% and 40.2% in 2012 and 2013 respectively). Low local demand was the second major constraint in 2012 and 2013 but seemed to be increasing in percentage terms with 13.3% of the respondents citing this in 2012 and 17.6% in 2013. This year, the figure went up to 28.8% overtaking the other issues like competition from imports, ageing equipment and the high cost of doing business, among other things. Reasons behind this also revolve around the current liquidity challenges. This has reduced consumers' buying power.

Table 4: Major Capacity Constraints – 2014

2014 Major Capacity Constraints	Percentage
Low local Demand	28.8
Working Capital Constraints	26.5
Competition from Imports	14.2
Antiquated Machinery and machine breakdowns	7.3
Drawbacks from current economic environment	7.0
High cost of doing business	6.2
Shortage of raw materials	6.2
Power and water shortages	3.8

Table 5: Major Capacity Constraints – 2012 & 2013

Capacity Constraint-2013	Percentage	Capacity Constraint-2012	Percentage
Working capital constraints	40.2	Working capital constraints	32.3
Low local demand	17.6	Low local demand	13.3
Competition from Imports	12.5	Antiquated machinery and machine breakdowns	11.4
Antiquated machinery & machine breakdowns	9.8	Power and water shortages	9.9
Power and water shortages	8.8	Competition from Imports	9.5
Shortage of raw materials	5.9	Drawbacks from the current economic environment	8.4
High cost of doing business	5.2	High cost of doing business	8.0
		Shortage of raw materials	5.3
		Other	1.9

The Purchasing Managers Index

In an effort to provide useful, timely and up to date information to stakeholders and policymakers, CZI has introduced a new measure on the state of the manufacturing sector, the Purchasing Managers Index (PMI). This statistic will be produced monthly by the Confederation in collaboration with ZIMSTAT. The sustainability of the index will depend on timely responses from industry. When economists are concerned that the economy may be about to change direction, one of the indicators to which they give special scrutiny is the PMI. Individual components of the PMI can also be useful in various markets. Investors also use PMI surveys as leading indicators of economic health, given their insight into sales, employment and inventory.

The PMI is a diffusion index which measures five factors in business: new orders, inventory levels, production, supplier deliveries, and employment conditions. Each of these five factors is adjusted and weighted according to the time of year and other factors. A PMI over 50% means that manufacturing is growing and expanding. A PMI under 50% means that manufacturing is declining. Further economic deductions can be made as the PMI is continuously produced. In this survey, companies were asked whether conditions of the five variables were the same, better or worse compared to the previous quarter.

Table 6: Purchasing Managers

Index results

Current Production	50.0
Rate of New Orders	43.4
Supplier Deliveries	37.3
Inventories	35.9
Employment Levels	44.1
PMI	43.5

From the results, current production has not changed compared to the previous quarter's production. All the other indicators show a decline with inventories declining more than any other variable requested for. The PMI is 43.5%, an indication that the economy is deteriorating¹.

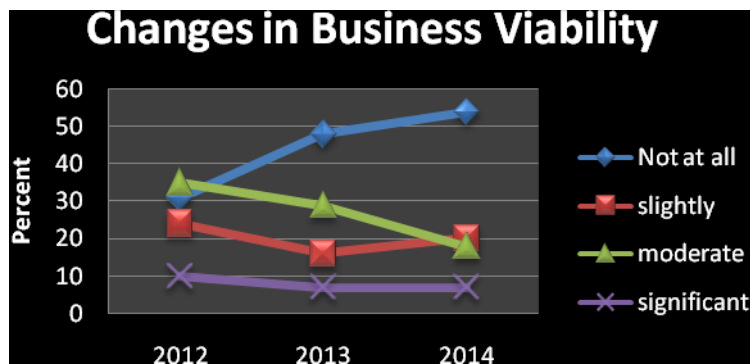
Business Viability

Fifty four percent of the respondents indicated that business has not been viable in the past year compared to 48% in 2013 and 31% in 2012. Seven percent reported an improvement in business viability in the past year. The graph below summarises the findings on business viability and provides a comparison from the 2012 and 2013 results.

¹ **Purchasing Managers Index = (A * 1) + (B * 0.5) + (C * 0)**

- A = Percentage number of responses indicated things were better than last month
- B = Percentage number of responses indicated things were the same as last month
- C = Percentage number of responses indicated things were worse than last month

Figure 5: Changes in Business Viability



Innovation and Technology

In the global economy technologies are rapidly developing and improving business productivity. This section of the survey sought to ascertain the levels of technology development and innovation within local firms in the manufacturing sector. Technology development cannot be ignored when speaking of factors responsible for economic growth. And one key aspect in technology development is that of Research and Development.

Capital Investment and FDI

In terms of capital investment, 58% of the respondents did not carry out any new investment. Of those who carried out capital investment, 96% invested in machinery and equipment while the remainder invested in land and buildings. Forty five percent said the major reason for investment was to replace worn out machinery and equipment, while 30% indicated that they wanted to expand their businesses. Foreign Direct Investment (FDI) continues to be depressed as the percentage of manufacturing firms who carried new capital investment through FDI remained unchanged at 5%. According to the Reserve Bank of Zimbabwe, average FDI for Zimbabwe for 2002 to 2012 was US\$88 million compared to US\$800 million for Zambia, US\$586 million for Mozambique and US\$486 million for Botswana. This shows that Zimbabwe is receiving subdued FDI levels compared to its peers in SADC. Some of these economies rank lower than Zimbabwe in terms of competitiveness. Given the liquidity challenges that the economy is facing, there is need for increased efforts to attract FDI in order for the manufacturing sector to realise its potential. CZI has, in previous submissions to policy authorities restated its support for economic empowerment initiatives. CZI however expressed reservations with the level of uncertainty and lack of clarity. CZI recommends a review of the mode of implementation and encouragement of additional foreign investment. CZI also calls for the speeding up of the debt resolution.

Eighty seven percent of the respondents indicated that the environment is deterrent to foreign direct investment. This figure is also supported by the percentage who testified to have made capital investment using foreign direct investment (5%). There is need for a clear policy to attract FDI as the economy is facing liquidity challenges.

In light of the tight liquidity challenges, 63% of the respondents do not expect to increase the level of capital investment in the coming year.

Collaboration with tertiary institutions ensures that tertiary institutions produce the right products (human capital) for the market. This is also the same for the curricula offered in these institutions. The results in terms of suitability of tertiary curriculum for local industry as well as the level of collaboration with local tertiary institutions remained unchanged. A total of 76% reported that the tertiary curricula is moderately to highly suitable for their companies. In terms of collaboration 45% of the respondents indicated that they collaborated with local tertiary institutions at varying degrees.

In order to share technology and improve innovation and productivity there is need for companies to consider collaboration in the development of technology. Twenty one percent of respondents indicated that they did not collaborate at all with other firms on innovation. Nineteen percent slightly collaborate while 30% indicated that they moderately collaborated. Twenty two percent of the respondents indicated that they highly collaborated while 8% reported that they extensively collaborated with other firms on innovation. The result is depicted below.

Figure 6: Collaboration for Innovation



In terms of research and development being undertaken by research firms in the country, 33% indicated that it was very poor, 35% noted that it was poor while 25% indicated that it was slightly effective. Only seven percent of the respondents viewed the research and development by research firms as effective. This is an indication that there is need to improve the capacity of research institutions. Where there is work being done; there is need for publicity and collaboration with local firms.

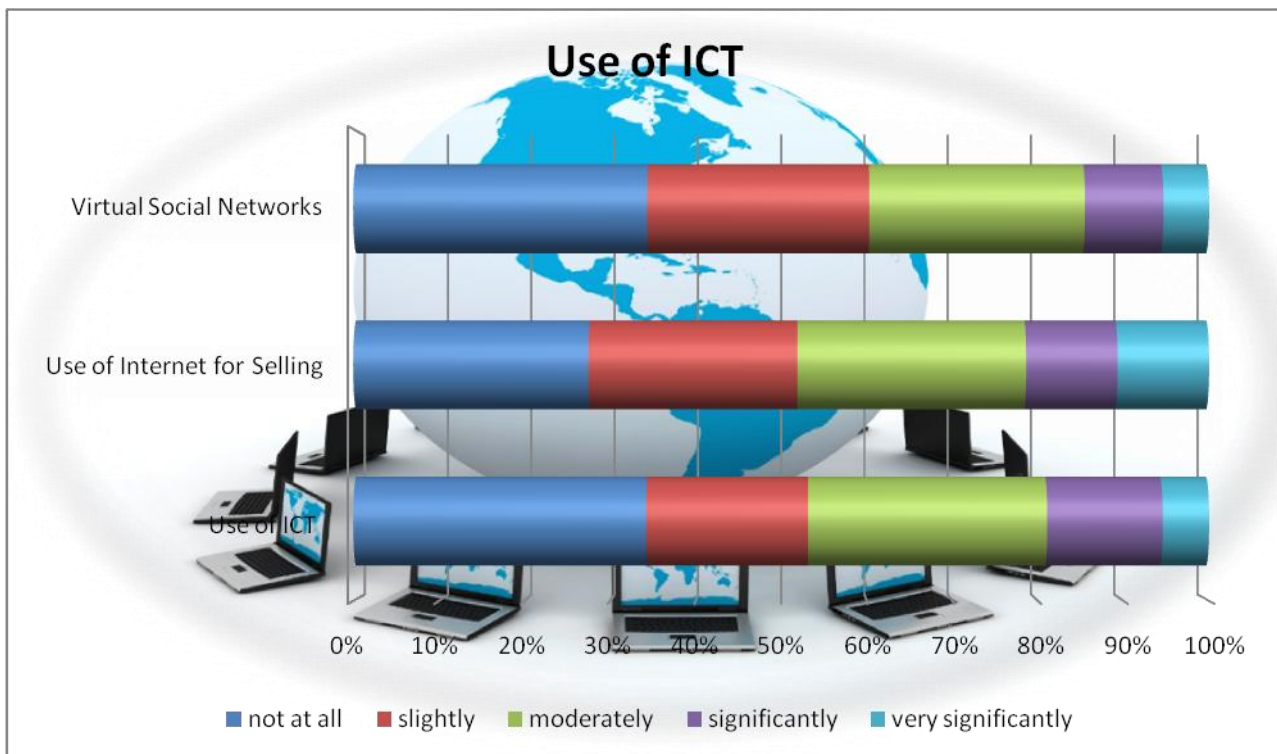
In the ICT era, companies should vigorously use ICTs in creating new business models as well as the internet and virtual social networks for marketing new and existing products. With competition being faced from imports, other countries have resolved to use the internet to push their products into foreign markets. According to a survey carried out by the Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ) in 2009, 88% of firms in manufacturing used the internet. However, the manufacturing sector needs to speed up the use of the internet as a marketing tool. Results from the survey indicated that 10% of the respondents used the internet for selling very significantly while 27% of the respondents stated that they did not use the internet at all. Thirty four percent of the respondents indicated that they did not use virtual social networks for professional and personal communication within their

companies. Only five percent significantly used virtual social networks for communication within their companies.

Thirty four percent of the respondents did not use ICTs in developing new business models, eighteen percent reported that they slightly used ICTs in developing business models while 19% significantly used ICTs to develop new business models. The remainder moderately uses ICTs in the development of new business models.

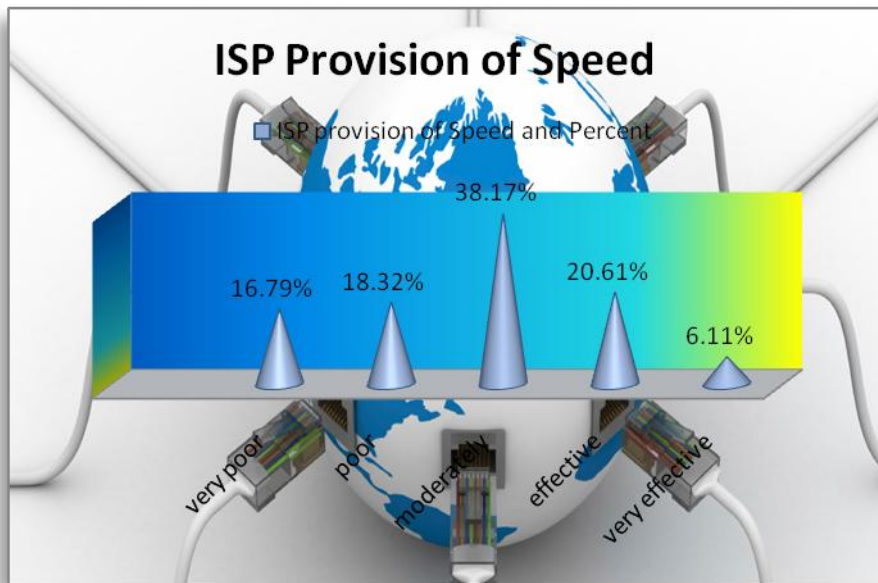
The results are provided in the graph below.

Figure 7: Use of ICTs



In order to access the internet without challenges, there is also need for Internet Service Providers to provide the right speeds and connectivity required by businesses. Respondents were asked if they were satisfied with the service by internet providers in terms of speed and connectivity. The results are indicated in the diagram below.

Figure 8: Service by Internet Service Providers



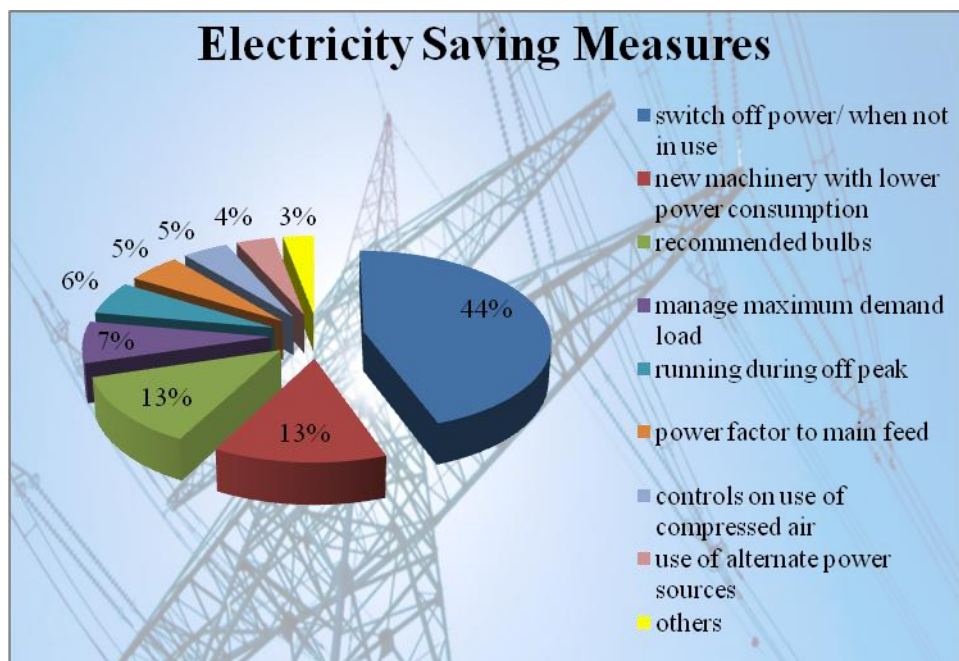
Infrastructure – Rendering Industry Uncompetitive

The state of infrastructure in an economy has a significant bearing on the operating environment of business and ultimately affects the level of competitiveness. The level of efficiency as well as the cost is important to business operations. The absence of adequate provision of infrastructure is usually an added cost to doing business, as firms have to seek alternatives. This section focused on the state of infrastructure and what industry feels government needs to do in order to address the critical issue of power generation and provision.

Electricity Saving Measures

Power is one of the many infrastructural utilities which are supposed to play an enabling role in the economy. The little power that is available should be conserved. In terms of measures put in place to conserve electricity, respondents said they were switching off power outside production times. Some companies have acquired modern, efficient machinery to reduce the cost of electricity. Others have installed recommended energy saving bulbs. Among other measures, some companies have resorted to using alternate power sources i.e. steam/solar for heating, generators and gas. Some of these measures could be regarded as more costly sources of energy. The figure below shows the distribution in terms of the top measures to save electricity.

Figure 9: Electricity Saving Measures

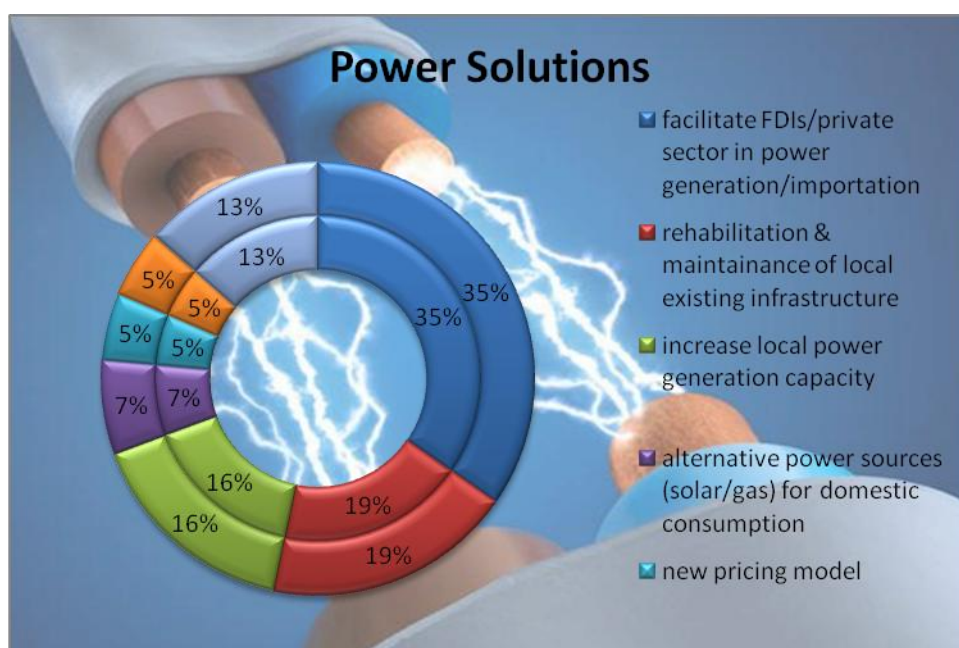


In terms of the important issues that the Government should address in order to deal with the power crisis, respondents suggested the following:

1. Facilitation of FDI and private sector participation in power generation (35%)
2. Rehabilitation and maintenance of existing infrastructure (19%)
3. Increasing local power generation capacity (16%) among other solutions.

The results are provided in the graph below.

Figure 10: Proposed Solutions to the Power Challenges



State of Infrastructure

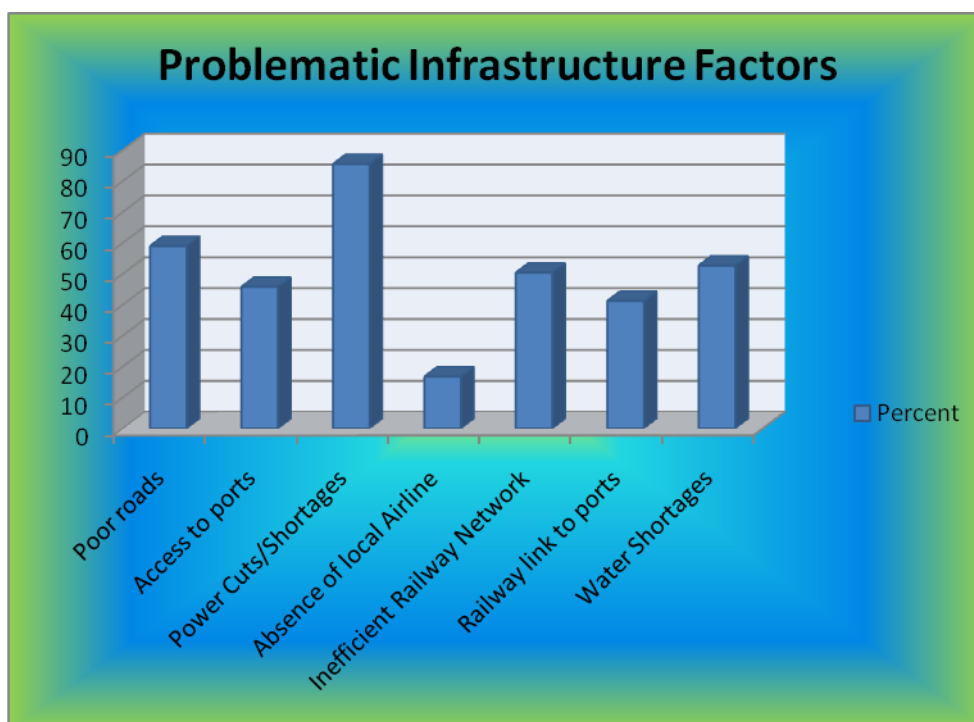
The state of Zimbabwe's infrastructure is deplorable. Eighty percent of the respondents indicated that the state of infrastructure was generally poor and would not be able to sustain medium to long term economic growth.

As much as 84% of the respondents indicated that they were not satisfied by the service delivery of local authorities. Previous surveys have also indicated the same and there is scope for improvement of services by local authorities.

The five most problematic infrastructure factors according to the survey are:

1. Power cuts and shortages
2. Poor road Infrastructure
3. Water Shortages
4. Inefficient rail network within the country
5. Poor transport infrastructure for access to ports

Figure 11: Problematic Infrastructure Factors



Human Capital – The Labour Phenomenon

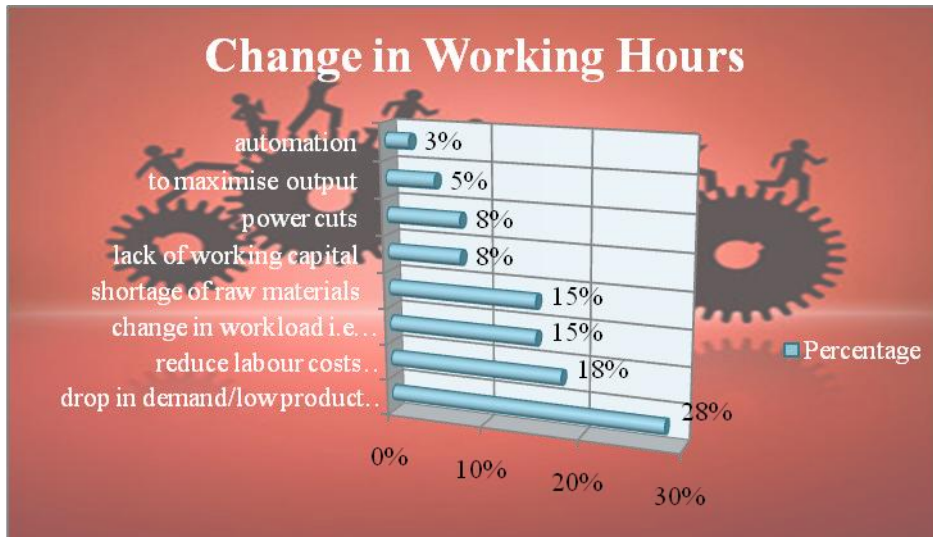
The importance of education, market experience and training cannot be understated when dealing with human capital. The level of skills and experience of human capital at a firm is expected to have a direct bearing on productivity. Labour remains a key ingredient into the production process. Zimbabwe is not

highly mechanised. This section sought to investigate various aspects of human capital and how they have impacted on business.

Working Hours

From the survey results, 20% of the respondents indicated that they had changed the number of working hours.

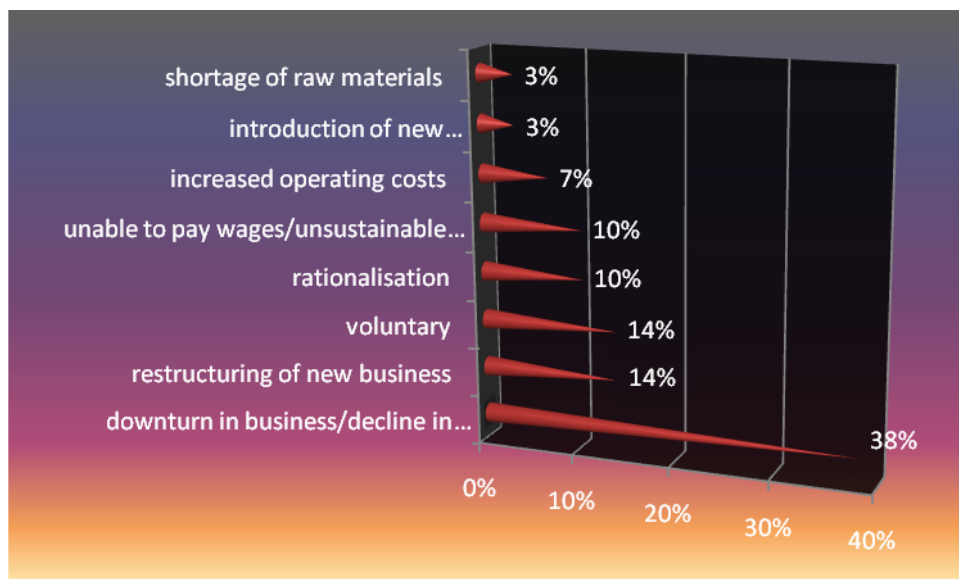
Figure 12: Reasons for Changes in Working Hours



Retrenchments

Respondents said our labour laws were not flexible when it comes to adjusting wages in relation to productivity. They said it was difficult to retrenchment staff where a company failed to sustain its labour costs. Reports from the local press indicate that one company had to recall retrenched workers because it could not afford to pay retrenchment costs. Eighty five percent of the respondents indicated that they did not retrench any permanent staff while 15% said they retrenched. The reasons for retrenchments are presented in the graph below.

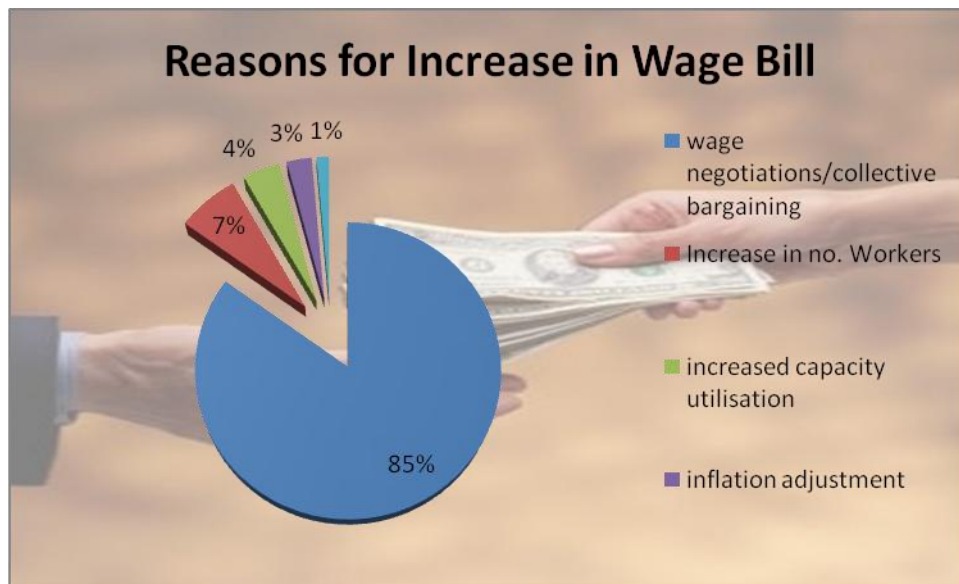
Figure 13: Reasons for Retrenchments



Labour Costs

The issue of labour costs and their negative impact on business viability remains a challenge for industry. A total of 55% of the respondents indicated that their wage bill had increased in 2014 compared to 77% in 2013. The major reasons cited being wage negotiations (85%) and staff recruitment (7%).

Figure 14: Reasons for increase in wage bill



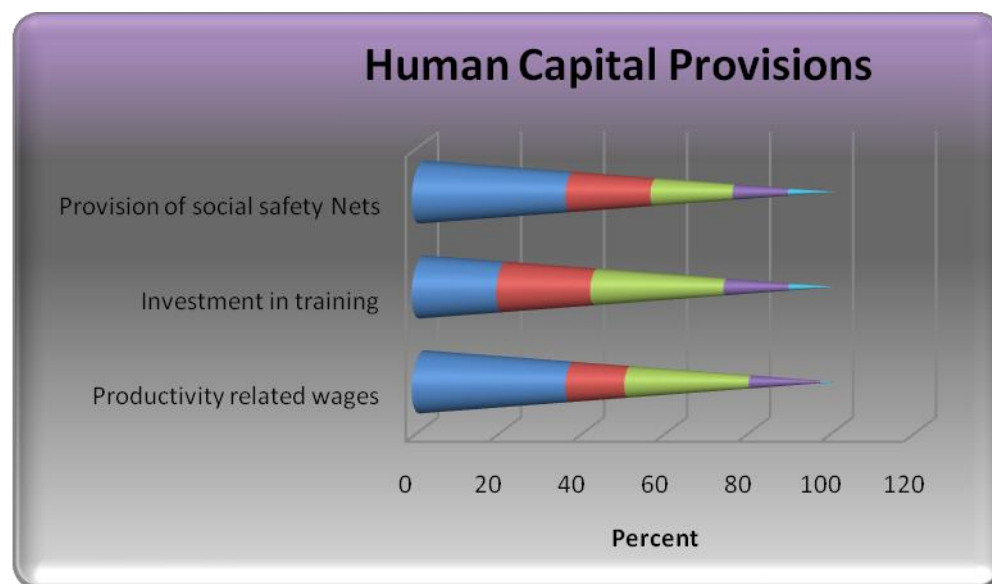
The average labour cost as a percentage of total inputs for the manufacturing sector is 21% while the total employee costs as a percentage of total input costs are 27%.

Human capital is an important element in an organisation's development. It should be continuously developed to remain relevant to industry's needs. Up to 11% of the respondents indicated that they invested in training and employee development while 20% indicated that they did not invest in training and employee

development. In terms of social safety nets, 12% of the respondents indicated that they fully provided while 36% said they did not provide social safety nets. In terms of productivity related wages, 36% of the respondents said wages at their companies were not related to productivity at all, 14% said wages were slightly related, 29% indicated that wages were moderately related to productivity.

The results are presented in the diagram below:

Figure 15: Human Capital Provision



Foreign Trade, Investment and Financial Environment

Export Markets

The survey results show that there was no significant change in terms of export destinations and the respective market shares. The table below shows the various export destinations and their respective market shares.

Table 7: Leading Export Destinations

Country	Market Share in 2014
Zambia	26.2
South Africa	16.7
Malawi	14.3
Mozambique	11.9
Asia	10.3
Botswana	9.5
Rest of Africa	7.9
Europe	3.2

Companies that had not exported in the past two years stated the following as the major reasons for not exporting:

Quality and price don't match international markets
Lack of representation in export markets
Product tailored to local demand
Export costs too high
Low levels of productivity
High input costs/high cost of production
Shortage of working capital

The five most problematic factors for exporters remained the same as in the previous surveys:

1. Access to trade finance
2. Access to imported inputs at competitive prices
3. Identifying potential markets and buyers
4. Burdensome procedures at foreign borders
5. Technical requirements and standards abroad

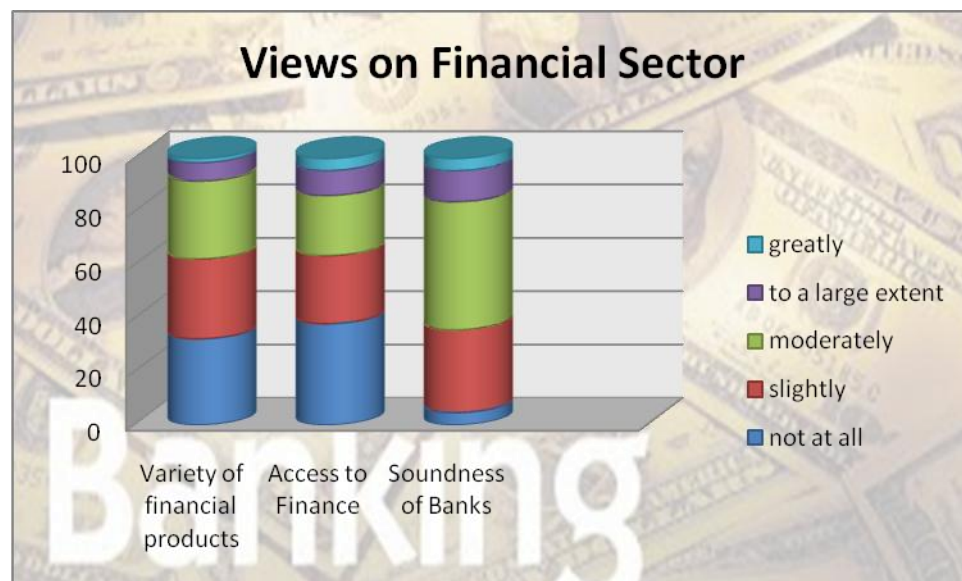
In terms of importing, the five most problematic factors according to frequency are:

1. Complex import procedures
2. High cost or delays caused by domestic transportation
3. Tariff barriers
4. Zimbabwe Revenue Authority (ZIMRA) System Inefficiency
5. Corruption at Borders

Financial Environment

A strong financial sector is a pillar for the growth of a vibrant manufacturing sector. In this section the survey sought views on the variety of financial products and services to business, how accessible loans are to the manufacturing sector and whether banks are sound. Thirty two percent of the respondents indicated that the financial sector did not offer a wide variety of financial products and services to business and 39% of the respondents indicated that it was extremely difficult to access funding from local banks. Half of the respondents indicated that the financial sector was moderately sound compared to 39% last year. The results are presented below.

Figure 16: Financial Environment



Doing Business in Zimbabwe

The following table gives a summary of factors that affect doing business in Zimbabwe and how different companies rated the level of impact.

Table 8: Factors Affecting Doing Business in Zimbabwe

Factor	Very Positive	Positive	No Effect	Negative	Very Negative
Minimum wages	5%	11%	27%	41%	17%
Restrictive Labour Regulations	0%	2%	23%	47%	28%
Policy Instability	0%	1%	4%	43%	53%
Corruption	1%	0%	12%	44%	42%
Power Cuts	0%	1%	8%	36%	55%
Electricity Charges	0%	1%	18%	38%	43%
Access to financing	1%	7%	18%	38%	36%
Domestic Demand	6%	14%	8%	29%	42%
Public Sector Bureaucracy	1%	1%	30%	43%	24%
EMA Requirements	2%	4%	42%	33%	19%
Interest Rates	1%	1%	22%	32%	44%
Exchange Rate	2%	14%	53%	20%	10%
Insufficient capacity to innovate	1%	4%	34%	41%	20%
Ageing Equipment	1%	0%	17%	47%	35%
Competition from Imports	0%	1%	11%	30%	59%
Cash Shortages	0%	1%	8%	33%	59%
Bank System Instability	0%	3%	28%	50%	19%

From the table above the following factors are seen as having the greatest negative impact on doing business in Zimbabwe:

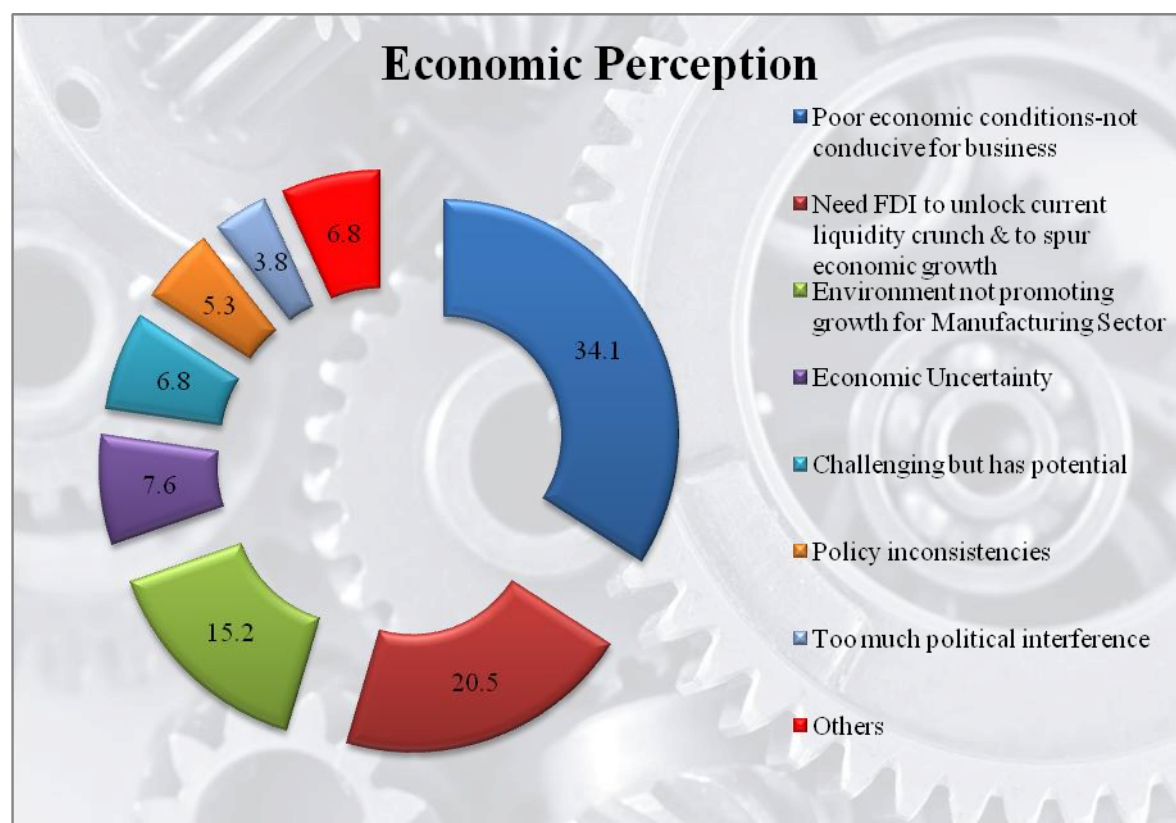
- Cash Shortages
- Competition from Imports
- Power Cuts
- Policy Instability
- Corruption

Economic Outlook

Economic Performance

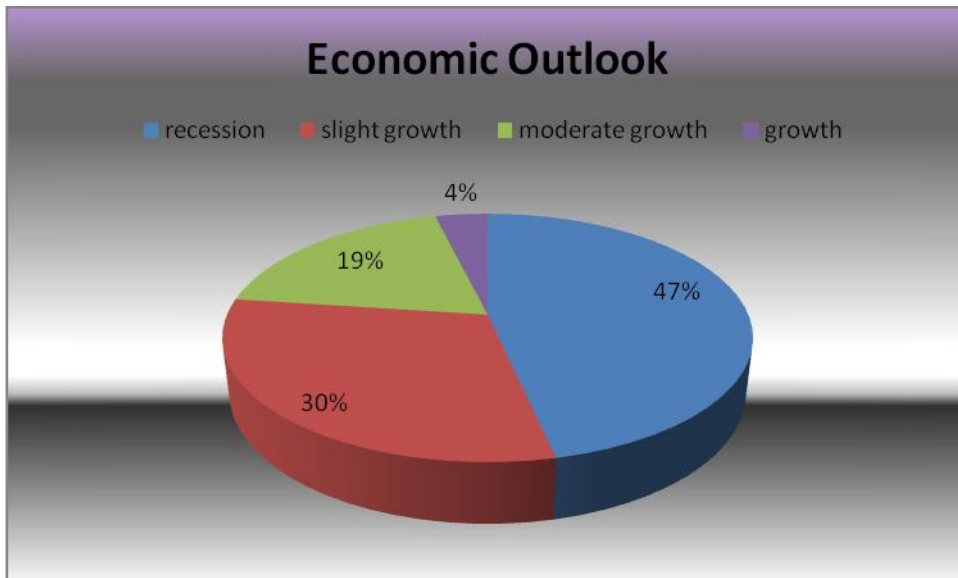
Respondents were asked their views on the current economic conditions and the responses are presented in the pie chart below:

Figure 17: Views on the Current Economic Conditions



There are 38% respondents who indicated that the economy will experience slight growth compared to 30% in 2013. It was the view of the majority of respondents that the current economic environment was not conducive for business. The tight liquidity situation has further exacerbated the situation for most companies affecting cash flow positions thus affecting operations. It was the general view that there was need for a shift in policies to ensure investor confidence to drive investment inflows.

Figure 18: Economic Outlook



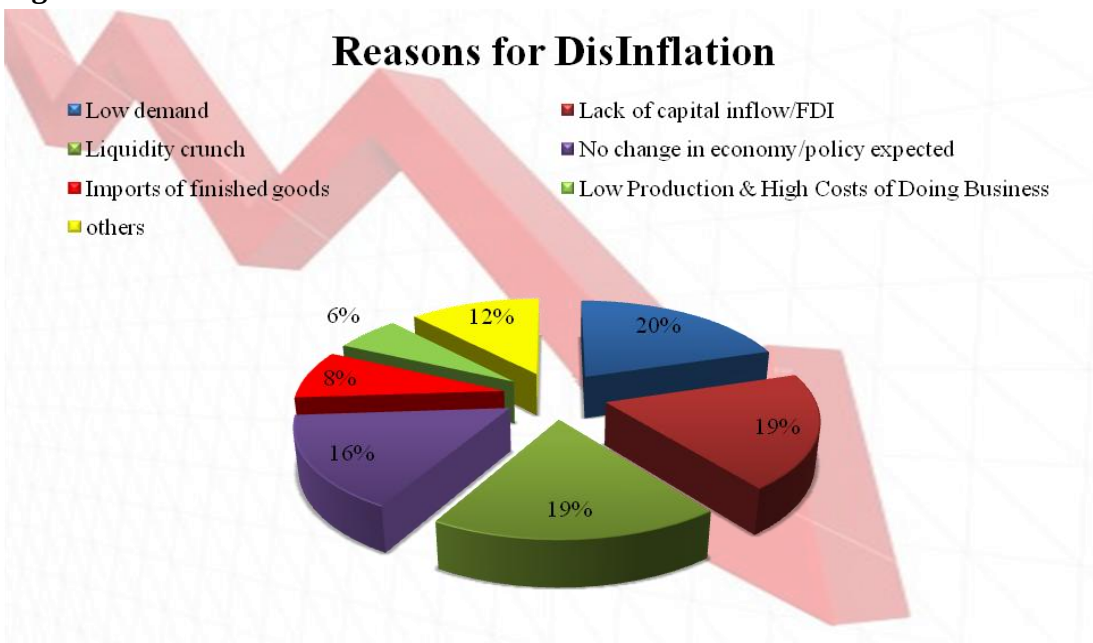
Forty seven percent of the respondents indicated that the economy will be in recession in the next 12 months, 30% expected slight growth, and 19% expected moderate growth while 4% expected strong growth of the economy.

Inflation Developments

As much as 81% of the respondents indicated that the country was likely to continue in a disinflation mode due to the factors listed below:

- Lack of capital inflows
- The liquidity crunch
- Low domestic demand
- No change in economic policy among other reasons.

Figure 19: Reasons for dis-inflation



Other Issues that require attention

- Huge imports hurting industry-need for protection and ensuring enforcement of the duty regime.
- Depressed industry/stagnated economy and poor government responses in addressing challenges
- Punitive duty-unavailability of raw materials
- Need to enhance growth
- Review of labour laws
- Aging equipment/lack of technology
- ZIMRA related problems-heavy taxes and high fees and licence costs
- Need to control/enhance local procurement

CONCLUSION

Five years since the adoption of the multicurrency system, the economy is deteriorating. The crash of the South African rand is playing a big part in this as it has made Zimbabwean products more uncompetitive. The situation in the manufacturing sector remains very difficult and the challenges the sector is facing remain largely unchanged. Government has aggressively implemented import duties to protect the manufacturing sector, but the key question is; are these duties actually being paid?

The importance of the manufacturing sector in the world and Zimbabwe in particular cannot be overemphasised. As the Italian economist Ferdinando Galiani puts it: 'From manufacturing you may expect the two greatest ills of humanity, superstition and slavery, to be healed'. At our recently held Congress in August 2014, one of the speakers, renowned writer and economist from The Other Canon Foundation, Dr Erik Reinert said: 'If the wish is to make it possible for as many Zimbabweans as possible to live well in Zimbabwe, the only viable way forward is to strengthen manufacturing'. Manufacturing can be strengthened through addressing the following:

1. Capital/liquidity shortages
2. Reforming labour laws to facilitate job creation and competitiveness
3. Low confidence
4. Poor industrial linkages
5. Low productivity
6. Lowering the cost of doing business
7. Porous borders
8. Lack of accountability by local authorities and parastatals
9. Lack of transparency in local procurement
10. Infrastructure challenges
11. Corruption, among others.

There is much the private sector can do, in particular to adopt an outward orientation and to seek export markets, particularly in countries to the north such as Zambia. Zambia is already the leading export destination for Zimbabwean manufactured goods. Zimbabwe is much better placed to compete in Zambia rather than in South Africa.

The two articles included in the print version of this report seek to further enunciate the situation of the manufacturing sector and what needs to be done to address the situation.

- The Asian Tigers Development Strategy – This paper was developed with a view to sensitise policy makers on the strategies which Zimbabwe can adopt from the Asian Tigers success story.
- The second article looks at setting the tone for manufacturing renaissance.