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THE CZI ANNUAL MANUFACTURING SECTOR REPORT **2023 SURVEY**

**Manufacturing sector in stagnation:
Deliberate Policy strategies needed to deliver
Structural Economic Transformation**

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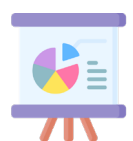
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The CZI 2023 Annual Manufacturing Sector Survey Report

About the CZI Annual Manufacturing sector survey



The Confederation of Zimbabwe Industries (CZI) Manufacturing Sector Survey is recognised among Zimbabwe's leading analysis of the state of the sector and factors affecting manufacturing sector operations and growth. The manufacturing sector is an important sector in the economy as it drives industrialisation and is one of the key economic and employment multipliers in the economy.



Conducted annually, the surveys are designed to ensure that the right information about the state of the manufacturing sector is conveyed to all stakeholders for evidence informed decision and policy making. It is on this basis that the CZI Annual Manufacturing sector survey has become a major reference and most quoted state of the sector report for policy makers, stakeholders, academia, media, development partners and business.



The survey is produced by the CZI Industrial and Economic Research Department. The first publication was in 2009 and with CZI being a knowledge and information driven organisation, continuous improvement in quality and coverage has characterised the subsequent volumes.

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1. Survey methodology

Sample size

The list of all manufacturing sector factories in Zimbabwe that are registered in terms of the Factories and Works Act [Chapter 14:08] is estimated at about 4,552. Using this number as the targeted population, and assuming a small margin of error of only 5%, a sample size that is representative of the establishment size of 4,552 at the 95% confidence interval would be 355. Thus, CZI targeted a sample size of about 355 manufacturing sector firms as a representative sample. After data cleaning, this report is based on a sample of 270 manufacturing sector firms, which is about 76% of the targeted responses. However, a sample size of 270 is still representative of the targeted population at 91% confidence interval, which is still high enough for the statistics to be relied upon.

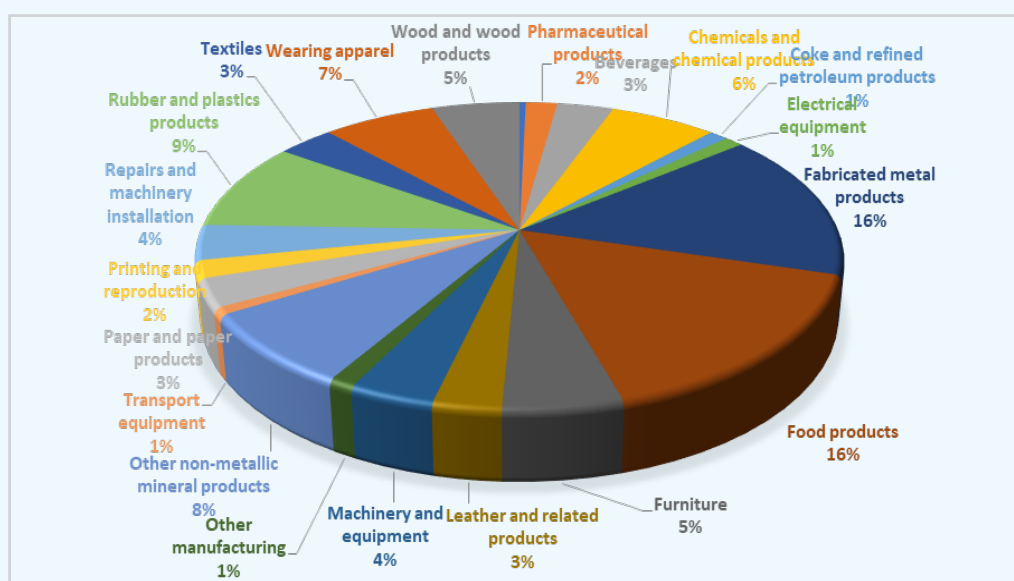
About 36% of the respondents are members of CZI, implying that there was dominance of non-members in the responses. The sample also contained firms listed on the Zimbabwe stock exchange, constituting about 8% of the sample.

Subsector representation

Based on the main products that the manufacturers produce, the players were classified into various subsectors in line with the International Standard Industrial Classification of All Economic Activities (ISIC) as revised in 2022 (Rev. 5). The distribution of the firms across the sectors shows that there was a very wide coverage of the manufacturing sector, with the food and the fabricated metals subsectors dominating at about 16% (Figure 1).

270 Is the sample size This is nationally representative of all the estimated number of manufacturing firms in Zimbabwe at **91%** Confidence Interval.

Figure 1: All segments of the manufacturing sector is represented in the sample



Source: Interview results



Sample by size

For the manufacturing sector, the Small and Medium Enterprises Act [Chapter 24:12] classifies enterprises into small if they have employees up to 40. Medium sized firms are those whose employees exceed 40 but do not exceed 75, with only manufacturing enterprises with employees of more than 75 considered large. Although the small manufacturing sector firms, with employees ranging from a minimum of 10 to a maximum of 40 employees constituted the bulk of the sample at about 45%, about a third of the sample was characterized by large firms (Figure 2).

The sample also consisted of firms with varying levels of experience in terms of operating in Zimbabwe. A look at the sample in terms of experience (Figure 3) shows that all the major categories are fairly represented, although only 4% have been in business for more than 100 years. Only about 28% of the firms have been in business for 10 years and below, which underlines that the transition from small scale to medium scale is a long-term process, as small scale firms dominated the sample at 45%.

Figure 2: The sample managed to include both large and small manufacturing sector firms

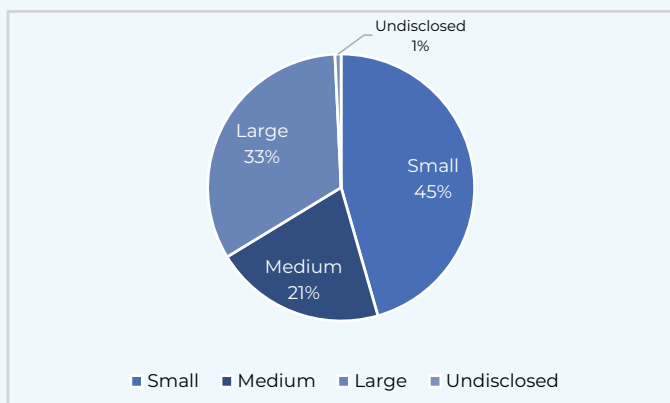
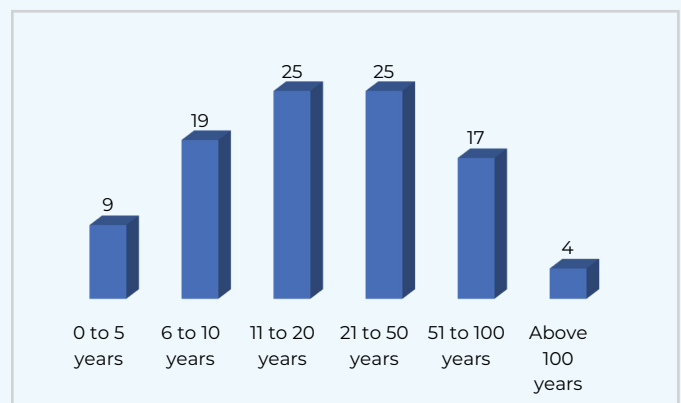


Figure 3: Firms that have been operating for 11-50 years constitute 50% of the sample



Source: Survey results

2. The economic context: The 2023 economic environment

The macroeconomic environment generally shapes the context for the Zimbabwe manufacturing sector performance. Critical macroeconomic variables that matter include exchange rate stability, access to foreign currency, inflation and general liquidity management by government.

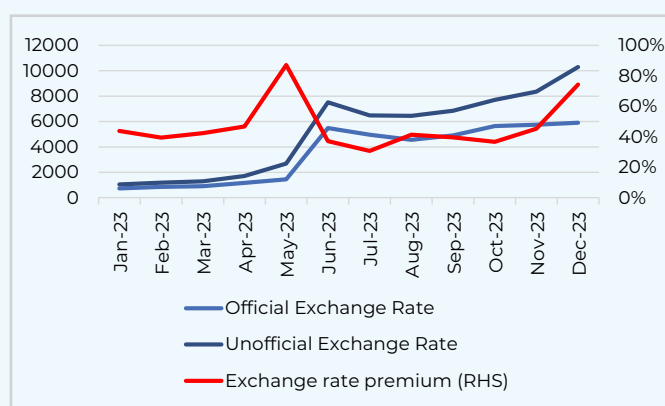
a. Exchange rate stability was a challenge in 2023:

There was a continual depreciation of the exchange rate on both the official and the parallel market. Comparing December 2023 with the same period in 2022, the exchange rate premium increased by 38 percentage points from 36% in 2022 to settle at 74% in December 2023 (Figure 4). The requirement that businesses should price their products in USD at the official exchange rate plus a 10% margin meant that the implied exchange rate in formal shops was 64% lower than the parallel market exchange rate, hence the formal retailers were not attractive for USD purchases compared to the informal sector. Foreign currency access from domestic sales was a challenge for the compliant retailers except for periods when the parallel market premium was very low.

b. Access to foreign currency:

The foreign currency auction was still operational in 2023 and given the suppressed exchange rate, this enabled manufacturing sector firms to get access to cheap foreign currency to purchase raw materials and import capital equipment. A total of about US\$410.2 million was allotted in 2023 from the retail auction, with about US\$188.8 million going towards raw materials. In addition, about US\$464.9 million was allotted under the wholesale auction. However, despite promises to the contrary, the year ended with about US\$80.9 million being owed to business through backlogs. This meant that a lot of capital became tied up as business lost the local currency equivalent which was never settled. However, since the backlog represents only about 20% of the total allotted, it is also expected that access to foreign currency through a sub-optimal exchange rate positively helped manufacturing sector performance.

Figure 4: Currency depreciation continued to the end of the year on both the official and the parallel market



Source: RBZ and CZI estimates

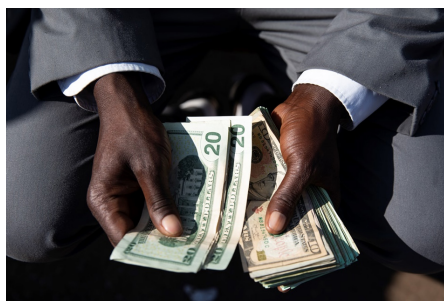
c. Liquidity management by government:

There tight liquidity conditions which government has been enforcing since the August 2022 measures were extended to 2023 to curtail the depreciation of the local currency. The delayed payment of contractors as well as the 'value for money' stance by Treasury slowed down demand for goods and services produced by the manufacturing sector. This was also at a time when the high interest rate regime of 200% was curtailing borrowing for productive purposes. This is expected to have slowed down manufacturing sector growth.

d. Inflation:

Generally, the 2023 annual inflation trend was falling, which might be expected to have created better prospects for the players. Comparing annual inflation in December 2023 with the same period in 2022 using the new methodology shows that December 2023 annual inflation declined by 29.4 percentage points from 55.9% in December 2022. This shows an improvement in inflation management in 2023 compared to 2022. This is also confirmed by the average annual inflation of 29.8% for 2023, which is about 12.9 percentage points less than an average annual inflation of 42.7% for 2022.

The general implication from the discussion is that there were both enablers and inhibitors in 2023 for manufacturing sector performance. Thus, the CZI 2023 Annual Manufacturing Sector Survey sought to establish the actual status of the manufacturing sector in 2023 in terms of performance and challenges.



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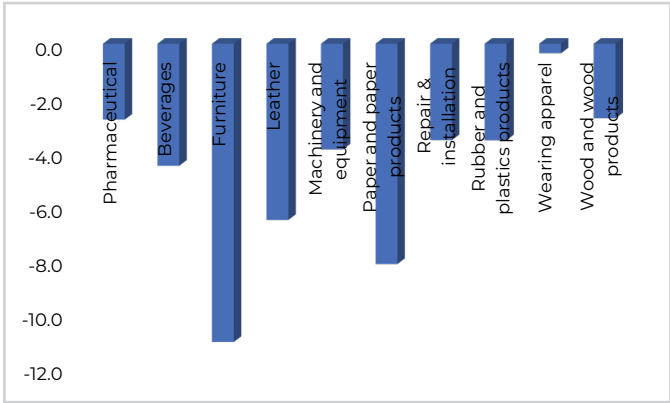


3. Performance indicators

3.1 Output produced remained relatively flat in 2023

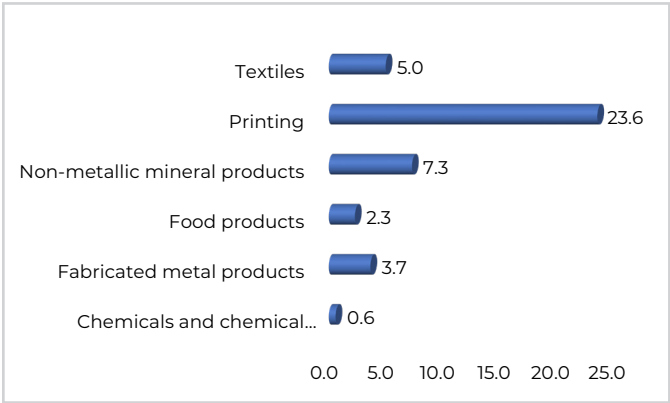
The change in output in 2023 compared to 2022 goes a long way in showing whether the general manufacturing sector performance improved. The survey results show that on average, output generally remained the same, as it took a slight decrease of about 0.1% compared to 2023. However, a breakdown by subsector shows that there were mixed developments, with some registering growth while others registered a decline in output. Some subsectors registered an average decline in output in 2023 compared to 2022, with the furniture, paper and leather subsectors registering the largest decline in output at 11%, 8% and about 6.5% respectively (Figure 5).

Figure 5: The furniture subsector registered the largest average decline in output at 11%



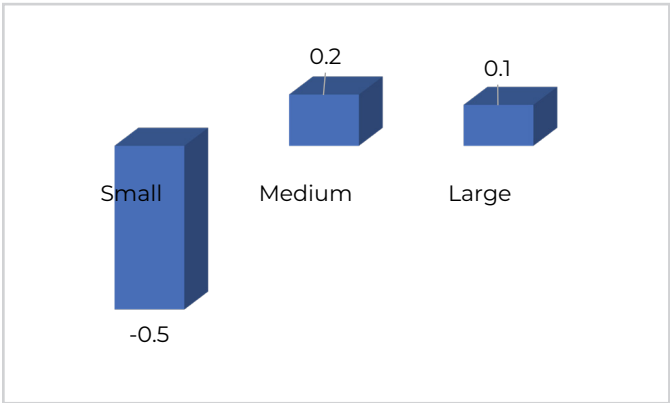
On the other hand, some subsectors registered growth in output, and these included the printing industry, registering an average growth in output of about 24%, followed by the non-metallic mineral products subsector at about 7% (Figure 6). This shows that despite the operating environment being similar, there were different copying mechanisms which helped differentiate the impact on output performance.

Figure 6: The printing subsector registered the largest average increase in output at about 24%



A look at the output performance by size shows that it is largely small-scale firms that registered a decline in output in 2023 compared to 2022, as both large and medium scale firms generally maintained their 2022 output levels, albeit with a very insignificant increase (Figure 7). Thus, the overall decline in manufacturing output was more confined to small scale firms.

Figure 7: The decline in manufacturing output was mainly confined to small scale firms at 0.5%



It is also expected that the experiences which firms face might be influenced by the length of time when they have been in operation.

3.2 A decline in capacity utilization registered

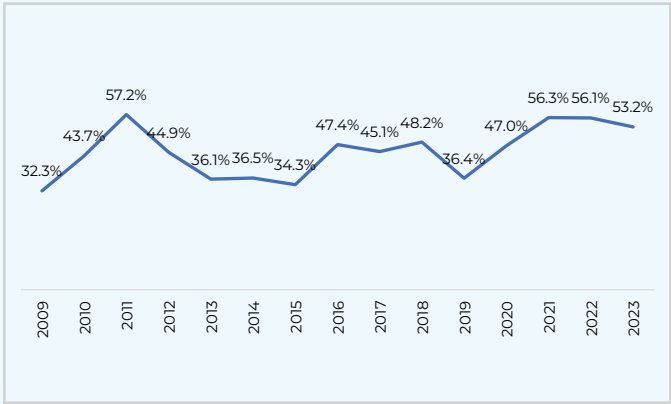
CZI capacity utilisation level is defined as the ratio of actual manufacturing output to potential full capacity output. The full potential capacity output is based on equipment supplier manuals, considering all idle plants that are not decommissioned. CZI has been consistently estimating the average capacity utilisation of the manufacturing sector since 1994 through surveys. Capacity utilisation is a useful indicator as it generally reflects whether there is need for new investment to expand output or the existing assets are still able to create additional output if optimally used. The change in capacity utilisation levels from one period to another is generally dependent on two main variables:

- The change in the level of output produced in a given period. An increase in output produced increases capacity utilisation.
- The additional capacity that was created through new investments that extended production capacity.

An expansion of capacity decreases capacity utilisation if unmatched with increased output.

The capacity utilization trend had generally been an upward once since 2020, only to plateau in 2022. In 2023, capacity utilization dropped 2.9 percentage points from the 2022 level to close at 53.2% (Figure 8). Given that output only declined by an insignificant level, the pronounced fall in capacity utilization reflects that there was additional investment that enhanced optimal capacity.

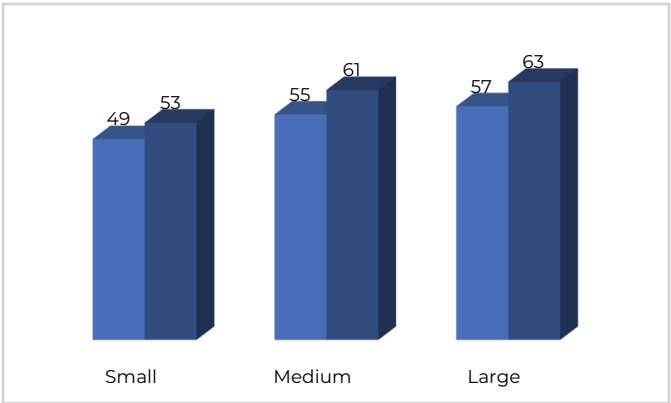
Figure 8: In 2023 capacity utilization dropped 2.9 percentage points to 53.2%



The capacity utilisation trends generally mean that close to half of the exiting investment in plant capacity is currently lying idle. The implication is that there might be little scope to look for new investors into the manufacturing sector as the existing ones are already struggling to make use of their own investments.

A look at capacity utilization by size shows that the average capacity utilization level was weighed down by small scale sector players, whose average capacity utilization was below 50% (Figure 9). However, across all the three categories, there was a pronounced decline in capacity utilization compared to the levels recorded in 2022, with the large and medium sized firms dropping about six percentage points. This generally shows that the year 2022 was not very favorable to enhanced manufacturing sector output.

Figure 9: A pronounced decline in capacity utilization across all sizes in 2023



A look at the distribution of capacity utilization by subsector shows that the paper industry has the lowest capacity utilization at about 36% (Figure 10). The printing, clothing, rubber and chemical subsectors are also among those whose capacity utilization levels were below 50%. The beverages subsector on the other hand utilizes about 61% of its capacity, making it the best performer on capacity utilization basis.

Capacity utilization also differs by the length of time in years which a business has been in operation. The trends show that those firms that are still new to the Zimbabwe environment were greatly affected by the 2023 operating environment and have the lowest level of capacity utilization (Figure 11). Only recent entries into the sector, mainly those that are less than 5 years old, have their capacity utilization level at below 50%.

Figure 10: The paper industry has the lowest capacity utilization at about 36%

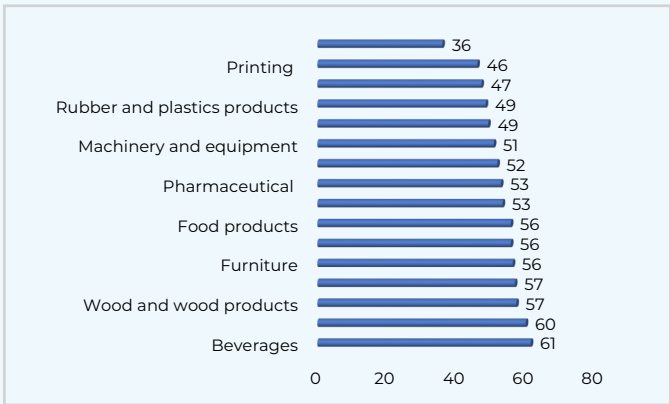
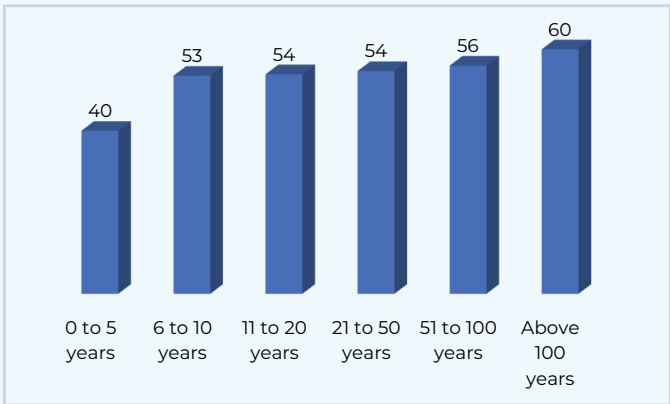


Figure 11: Recent entrants had the lowest capacity utilisation in 2023

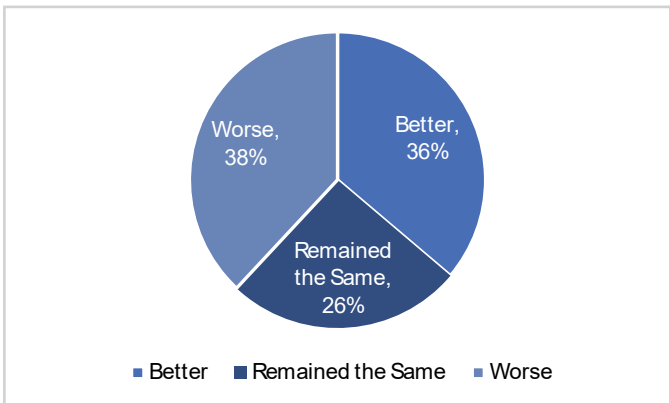


4. Perceptions and forecasts

4.1 Mixed feeling on subsector performance perception

Generally, the perceptions that the manufacturing sector players have formed with respect to the performance of their subsectors in 2023 compared to 2022 are quite varied (Figure 12). The proportion that feels that the performance of their subsector was worse in 2023 compared to 2023 is slightly larger at 38% compared to those who felt that the subsector performed better (36%). However, the fact that about 26% felt that the performance remained the same implies that those feeling that things turned for the worse for their subsectors are in the minority.

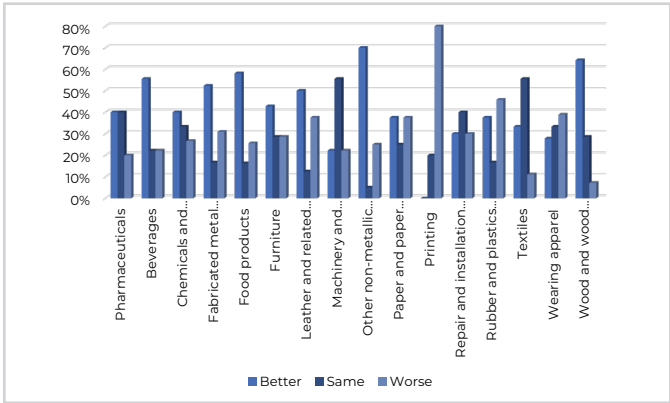
Figure 12: About 38% of the firms felt that subsector performance turned for the worse



An analysis by subsectors shows that the non-metallic mineral products and the chemicals and chemical products subsectors, with 57% and 50% respectively of the firms indicating that they performed better are the only two where the majority registered increases (Figure 13). However, subsectors such as paper, machinery, rubber & plastics, wearing apparel and leather saw the majority perceiving that

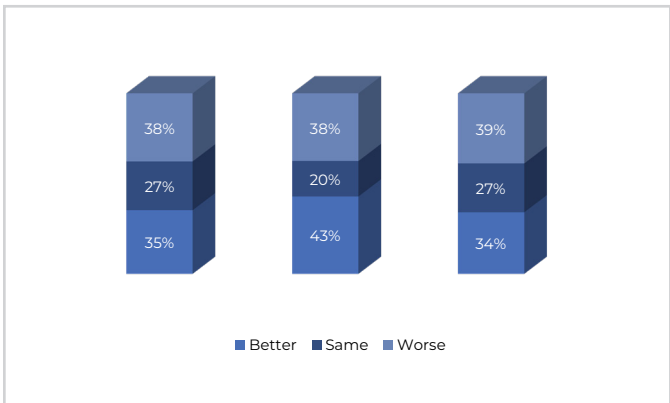
the year subsectors performed worse than they did in 2023.

Figure 13: Perceptions on performance in 2023 relative to 2022 varied with subsectors



Small firms (35%) and medium firms (43%) had a larger proportion of players that indicated that they performed better in 2023 as compared to the previous year compared to large firms (Figure 14). However, the difference is not too pronounced, hence the challenges and positives were generally affecting the firms the same regardless of size.

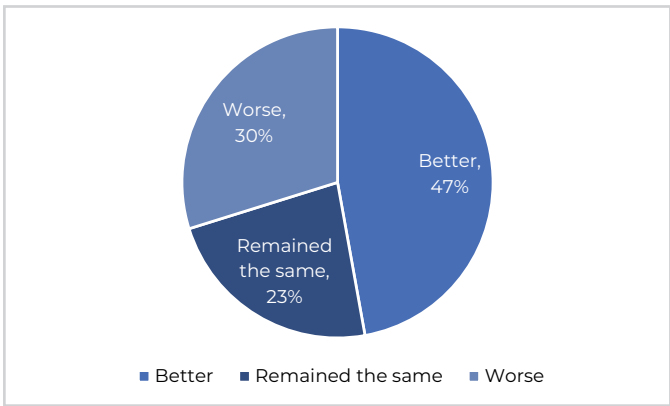
Figure 14: Perceptions on performance were not significantly different with size



4.2 Some optimism on the 2024 Economic Environment

Given the announced policy environment for 2024, the survey also sought to establish the perceptions that the manufacturing sector has with respect to the economic situation. The findings show that close to half (47%) of the respondents felt that the 2024 economic environment was going to be better than 2023 (Figure 15). Given that only about 30% felt that things would worsen, there is a significant level of trust among the manufacturing sector that the policy makers would be able to turn the economic environment for the better.

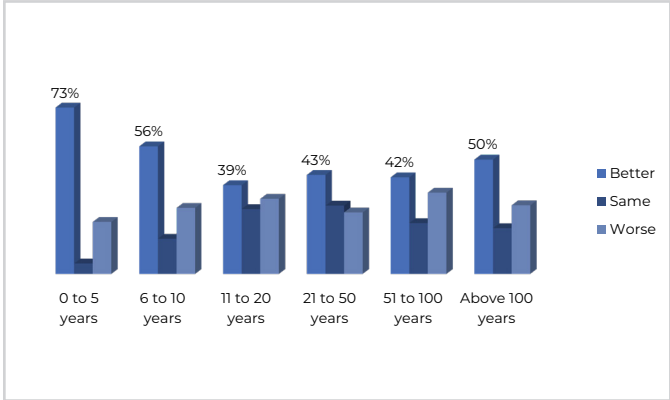
Figure 15: Almost half believed that the 2024 economic environment will improve



Further analysis by age of the firms shows that there is a more pronounced optimism for 2024 among the recent entrance compared to those that have been in manufacturing for a long period of time. About 73% of the firms that have been in operation for less than five years were highly optimistic about 2024, while about 56% of the firms that have been in operation for 6-10 years also believe that

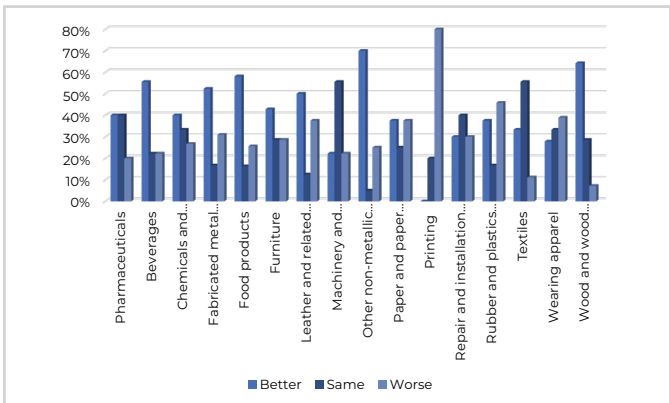
the environment will be better (Figure 16).

Figure 16: Recent entrants are more optimistic about 2024 compared to experienced



A breakdown by subsector shows that the non-metallic mineral products subsector was the most optimistic, followed by wood, food and beverages subsectors (Figure 17). On the other hand, the printing subsector was the only one where those perceiving that 2024 would be worse were in the majority.

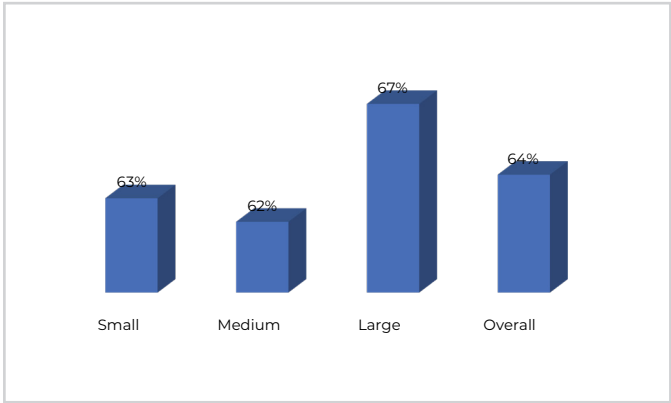
Figure 17: Only the printing subsector perceived that 2024 environment will be worse



4.3 Capacity utilization forecast to improve on 2024

Given that generally those perceiving that the subsector performance as well as the economic environment would be worse in 2024 were in the minority, the manufacturing sector firms generally expect an improvement in capacity utilization in 2024. The sector’s capacity utilization is forecasted to increase to 64% in 2024, with the large firms being more optimistic than the smaller firms (Figure 18). This means that capacity utilization is expected to increase by about 11 percentage points, which is highly optimistic, as such an increase only happened in 2020 over the past decade.

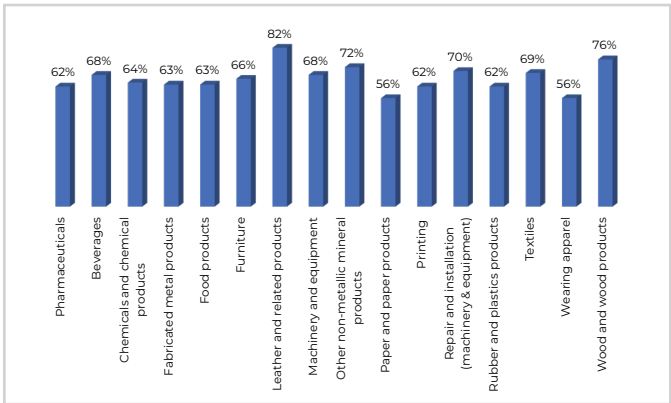
Figure 18: Larger firms are more optimistic about capacity utilisation in 2024



Analysis by subsectors also indicates that all the manufacturing sector firms are optimistic about the year 2024, though the firms differ in terms of the degree of expected capacity utilization. Firms in wood and wood products as well as the leather and related products are highly optimistic about 2024, with an expected capacity utilization of about 76% and 82% respectively (Figure 19). However, subsectors like the wearing apparel and paper and paper products indicated a

lower expected capacity utilization as compared to all the other subsectors.

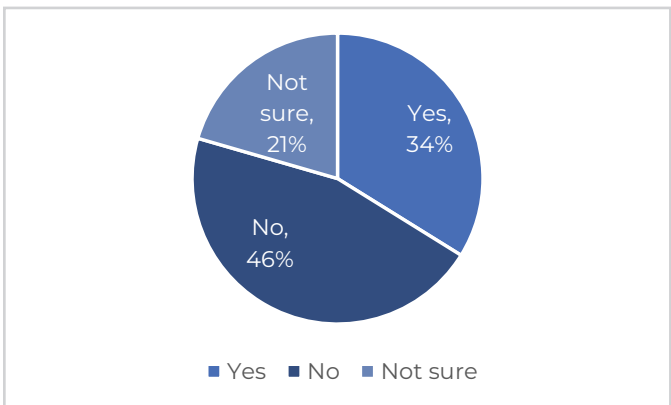
Figure 19: Expected capacity utilisation levels for 2024 differ across subsectors



4.4 General fear of the AfCFTA

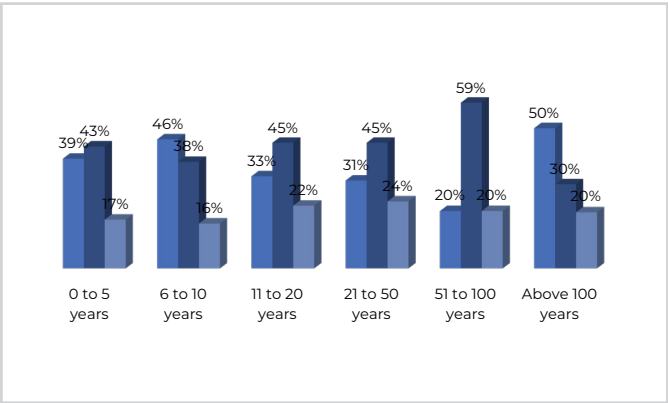
Zimbabwe is a signatory to the African Continental Free Trade Area (AfCFTA) Agreement, making it important for all the manufacturing firms in the country to be adequately equipped to compete in the AfCFTA. However, only about 34% of the respondents indicated that they are indeed ready to compete in the AfCFTA (Figure 20). This generally demonstrates that the sector is still characterized by fear of the forthcoming free trade under the AfCFTA.

Figure 20: Only about a third believe that they are ready to compete in the AfCFTA



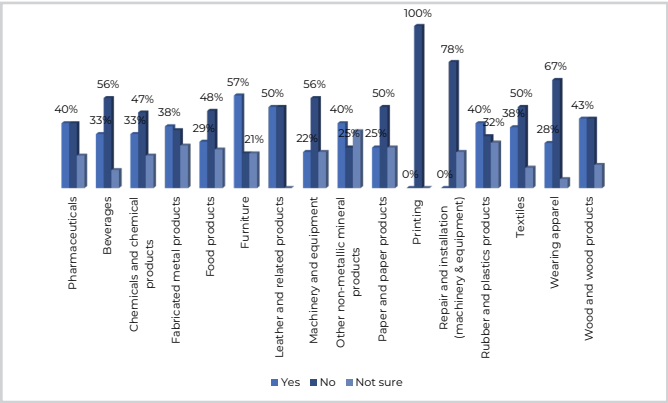
Manufacturing firms that are above 100 years of age are the only firms with a larger proportion (50%) of firms that indicated that they are adequately equipped to compete in the AfCFTA (Figure 21). However, about 59% of the firms that have been operating in Zimbabwe for 51-100 years also indicated that they are not adequately equipped to compete in the AfCFTA. Thus, the readiness to compete in the AfCFTA is not correlated with experience.

Figure 21: The fear of the AfCFTA is not correlated with experience in operations



A disaggregation across subsectors reveal that the furniture (57%) and the leather (50%) subsectors are the only ones where the majority believe that they are ready to compete in the AfCFTA (Figure 22). However, all of the firms in the printing subsector indicated that they are not adequately equipped to compete in the AfCFTA, while the wearing apparel (67%), machinery & equipment (56%) as well as the beverages (56%) subsectors also stand out as having the majority of firms indicating that they are not ready to compete in the AfCFTA.

Figure 22: Only the furniture and leather players show readiness to compete in the AfCFTA



Reasons why subsectors will not be able to compete in the AfCFTA

Close to 50% of the firms indicated that they are sure that they are not ready to compete in the AFCFTA. Some of the reasons given for this include:

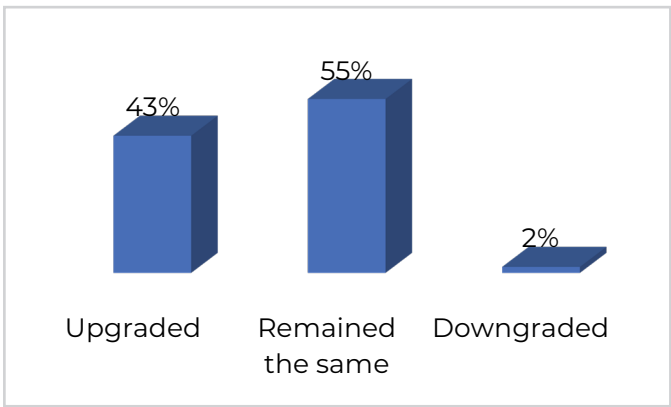
- High production costs making them uncompetitive, including high cost of production driven by electricity charges & availability, taxation, high labour costs and compliance costs.
- Inability to raise adequate financing for investment and working capital required to compete.
- The use of aged equipment and technology due to lack of capital.
- Lack of relevant IT skills needed to reduce operation costs.
- Unfavorable regulatory environment that is restrictive and cumbersome.
- Unavailability of forex and credit terms at competitive rates.
- The general state of the economic environment as compared to regional countries like South Africa.

5. Technology upgrading and advancement

5.1 Zimbabwean manufacturing trying to keep up with latest technology

In 2023, about 43% of the manufacturing firms upgraded their technology as they strived to remain competitive, although the majority of the firms maintained their technology levels (Figure 23). However, there were some firms that had to downgrade. Only 2% of the firms highlighted that they downgraded their technology. Adopting latest technology when the bulk of the firm's ecosystem is not compliant with it could easily result in loss of supplies or custom. Sometimes firms migrate to new technology but face difficulties in operationalising it, resulting in them reverting back to the old technology to adequately prepare. This will also be regarded as a downgrade.

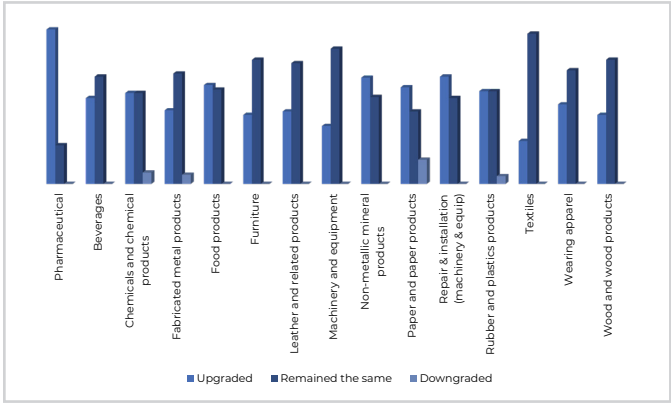
Figure 23: More than 40% of manufacturing firms upgraded their technology in 2023



A look at the disaggregation by sector reveals that the sectors have firms which upgraded their technology in 2023 (Figure 24). However, the disaggregation also helps reflect that the downgrading of technology was in the paper industry,

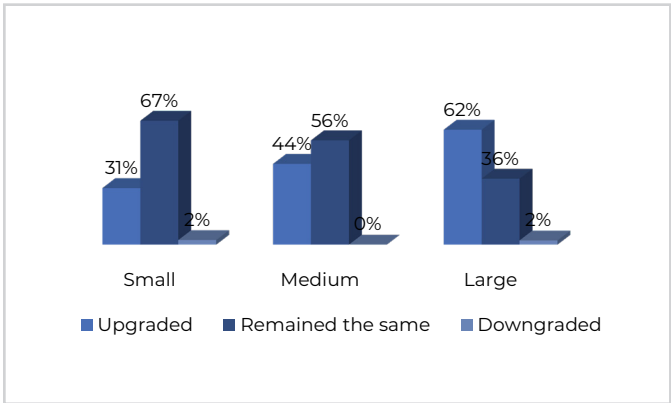
where 13% of the firms had to downgrade their technology.

Figure 24: Majority of firms in the pharmaceutical industry upgraded their technology



The distribution by size shows that technology upgrading is correlated with size as most of the large firms (62%) upgraded their technology in 2023 (Figure 25). Only 31% of small firms managed to upgrade their technologies. This is a positive development as it demonstrates that large firms are positioning themselves to adequately compete in the international market.

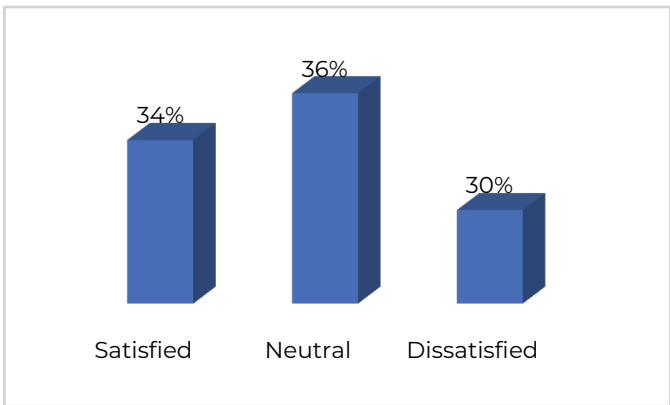
Figure 25: Most of the large firms upgraded their technology



5.2 Are manufacturing firms satisfied with their current level of technology?

Almost a third of the manufacturing companies (30%) in Zimbabwe are not satisfied with the level of technology in use at their firms compared to those used by competing firms in the region (Figure 26). Although this implies that the majority are generally okay, it is only about 34% of the manufacturing firms that are very certain that their technology in use places them at a position to adequately compete in the international market (Figure 26). About 36% are just neutral, being not sure whether their technology is top notch or not.

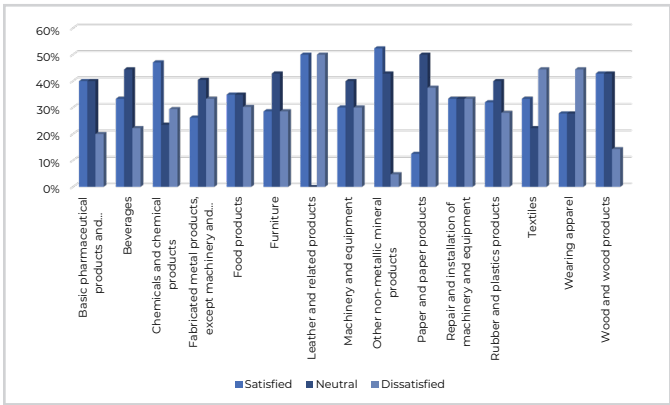
Figure 26: Only 34% of the manufacturing firms are satisfied with their technology



A subsector breakdown shows that the non-metallic mineral products sector is the only sector where the majority (52%) are satisfied with the technology in use at their firms compared to their regional counterparts (Figure 27). The leather sector is equally divided, with half of the firms (50%) being satisfied with the technology they are using with the other half not being satisfied. The textiles, wearing

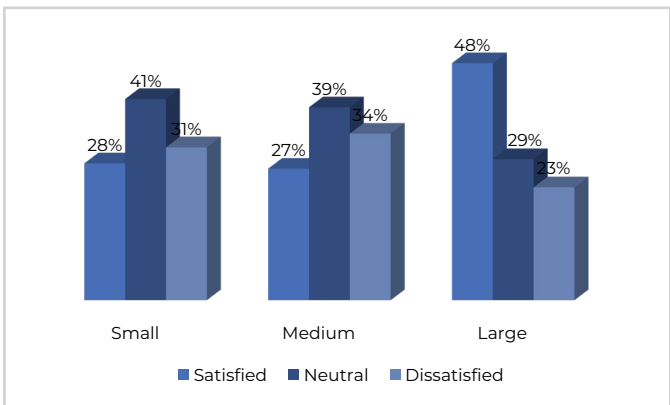
apparel and fabricated metal subsectors also have a higher proportion of firms being dissatisfied with technology in use compared to those that are satisfied.

Figure 27: The textile and wearing apparel industry have higher levels of dissatisfaction with technology in use



A disaggregation by size shows that only large companies have a larger proportion of their firms being satisfied with their technology than those not satisfied, as close to half (48%) are satisfied (Figure 28). This is not surprising as the results also established that about 62% of the large companies upgraded their technology in 2023.

Figure 28: The level of satisfaction with the level of technology higher for large firms





Given that almost a third of the manufacturing firms highlighted that they were not satisfied with the level of technology in use at their firms, the survey also sought to establish the basis for this level of dissatisfaction. Some of the reasons include:

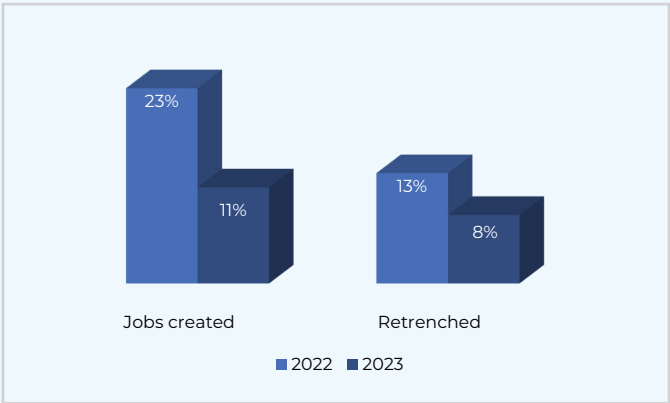
- A lot of manual handling that still need to be removed to reduce handling costs. Some factories still too manual and labour intensive for competitiveness.
- A significant level of retooling is still needed as a lot of equipment is outdated, with the need to replace old and costly machinery with modern machines being paramount.
- Companies appreciating the need for replacing current technology as it is outdated but lacking the means to do so
- Research and development either lagging behind or being non-existent in some companies, hence not even aware of the best technologies to adopt.
- Being caught up by the speed of technology, which is ever advancing and companies failing to catch up quickly.

6. Some notable net employment creation in 2023

The survey revealed that in 2023, the new permanent jobs created as a percentage of total employment was 11%. Comparing with the year 2022, employment creation massively decreased by 13%. In terms of retrenchment, there was an improvement since retrenchment levels decreased from 13% in 2022 to 8% in 2023 (Figure 29).

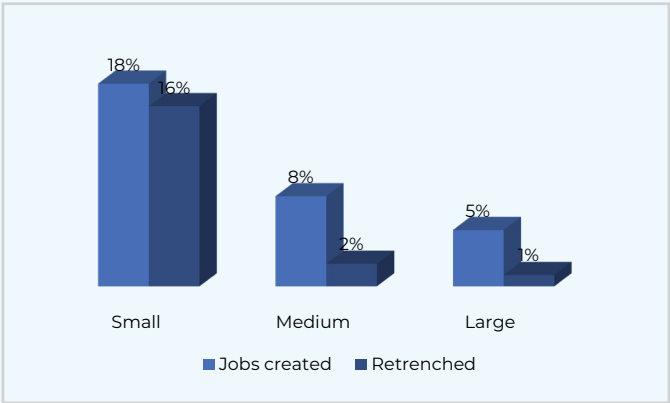
A look at the new permanent jobs creation as a percentage of total employment by size of firms shows that small players both created new employment (18%) at permanent basis as well as retrenching more employees (16%) when compared to other categories. The large firms retrenched only 1% of their employees and created 5% new permanent jobs.

Figure 29: Creation of new permanent jobs decreased in 2023 compared to 2022 levels.



Source: survey results

Figure 30: Small scale players both recruited and retrenched more as percentage of total employment

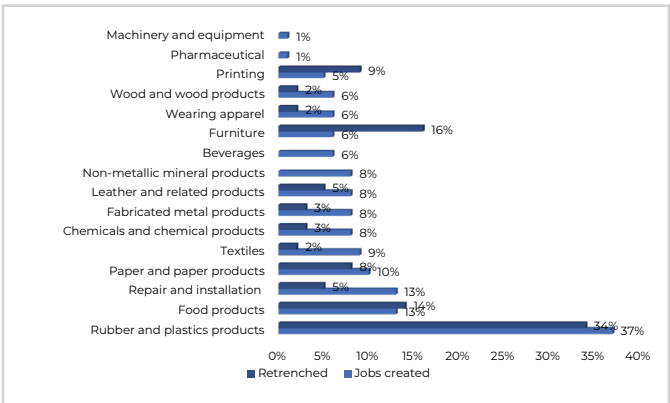


Source: survey results



A look at the employment creation by subsectors shows that the rubber and plastic products (37%), Food products (13%), repair and installation of machinery and equipment (13%) and the paper and paper products subsectors all managed to create at least 10% new permanent jobs as a percentage of total employees (Figure 31). In terms of retrenchment, also a number of subsectors did not retrench any of their permanent employees, these include machinery and equipment, basic pharmaceutical products and pharmaceutical preparations, beverages, and other non-metallic mineral products.

Figure 31: Rubber and plastics products subsector created the most permanent jobs relative to existing employees

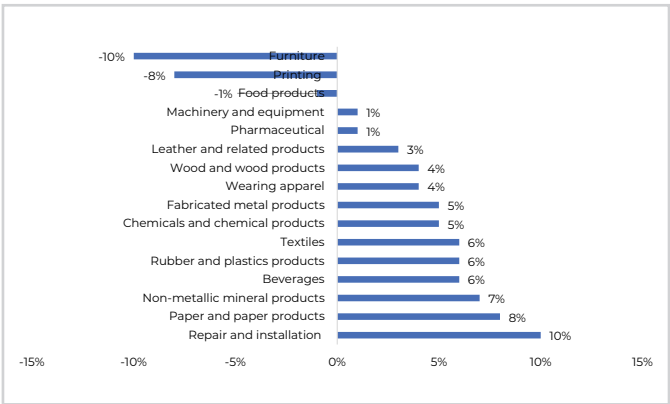


Source: survey results

Given that there were both employment creation and retrenchments, the net effect would reflect whether the subsectors expanded or contracted their workforce. An analysis of net effect of employment by subsector shows that only three subsectors retrenched a higher percentage of employees more than it created new permanent jobs (Figure 32). Although the repair and installation of

machinery and equipment created only 13%, the subsector has the highest net job creation at 10% of existing workforce.

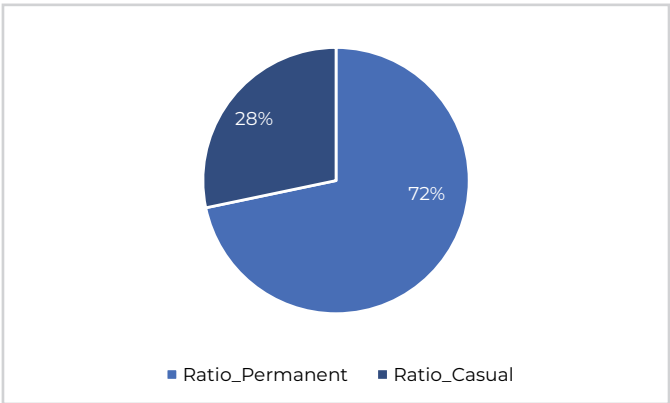
Figure 32: The furniture industry has a net employment of negative 10%



Source: survey results

The survey results also show that the level of casualisation of labour is very significant, as more than a quarter (28%) of the manufacturing sector workforce are casual rather than permanent employees (Figure 33). Casualisation increased from 24% in 2022.

Figure 33: Casual workers constitute more than a quarter of the workforce



Source: survey results

7. Manufacturing sector invested to boost capacity in 2023

About 46% of the manufacturing sector firms undertook investment that was meant to increase their production capacity in 2023. On average, this level of new investment boosted the existing capacity of the manufacturing sector by only about 1%. However, the value of the investment was quite significant as the firms involved in capacity boosting in the sample invested a total of about US\$128.7 million, which went a long way in enhancing their production capacities. This also implies that the reduction in capacity utilization also has the expanded capacity as an explanation.

A distribution across the period that the firms have been operating in the market shows that about 70% of the firms that have been in the manufacturing industry for more than 100 years expanded their capacity (Figure 34). New entrants also invested more towards capacity expansion compared to those that have been in the industry for six to 100 years, which also shows that there are more optimistic towards the future.

A look at the sectoral distribution shows that investment into capacity expansion was mainly pronounced in the non-metallic mineral products and pharmaceutical subsectors, where about 71% and 60% respectively of the players were involved in investment to boost their capacity. However, only 20% of the players in the printing industry expanded their production capacities, reflecting less optimism about the future of the industry.

Figure 34: 70% of firms that have been operating for a century expanded their capacity

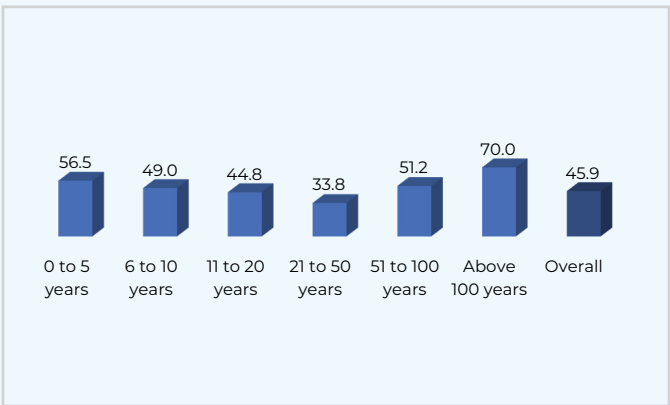
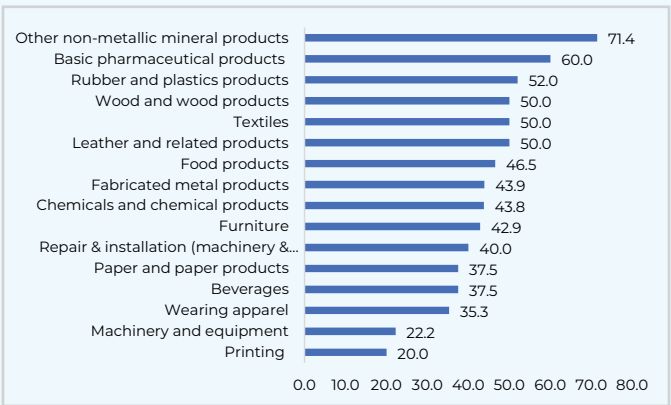


Figure 35: Capacity expansion more pronounced in non-metallic mineral products and pharmaceutical subsectors



8. The USD was the most dominant transacting currency in the manufacturing sector

Manufacturing firms sold their goods in both local currency and USD. The split of revenue showed that on average the manufacturing firms received 65% of their revenue in USD (Figure 36). Small manufacturing firms received 63% of their revenue in USD, which was slightly lower than their large counterparts. Since the ZWL\$ sales were mainly in huge supermarkets, this largely reflects that their bargaining power over them was lower than for large firms.

A sectorial analysis highlights that all the sectors expect the paper and paper products subsector have a revenue split of at least 50% in USD (Figure 37). The rubber and plastic products sector received 75% of its revenue in USD in the year 2023. The paper and paper products subsector was characterised by a dominance of the ZWL\$ in sales.

Figure 36: Across all sizes manufacturing firms received more than 60% of sales in USD in 2023

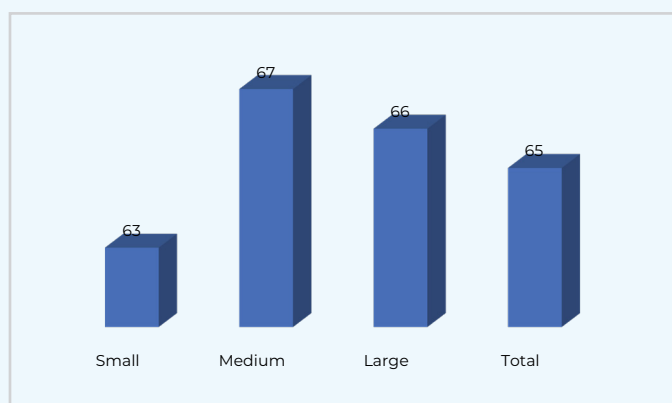
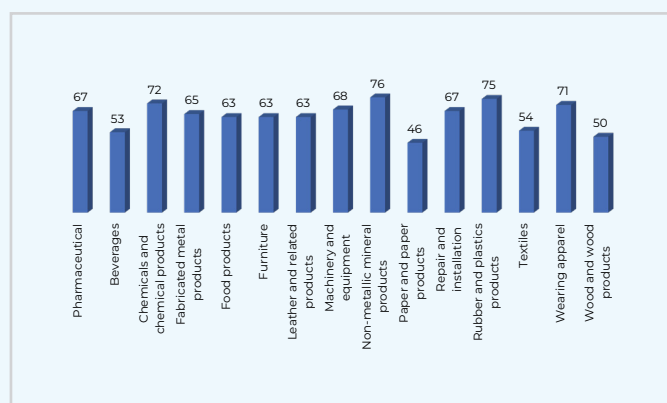


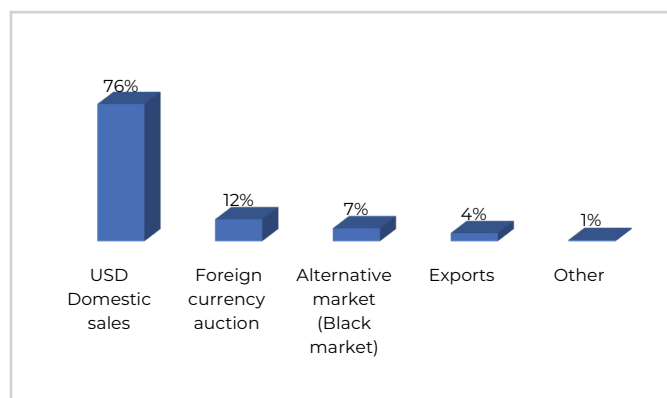
Figure 37: The wood sector received a balanced split of revenue at 50% USD and ZWL



8.1 Domestic sales were the main source of USD for manufacturing firms

In 2023, the manufacturing sector firms obtained 76% of its USD from domestic sales (Figure 38). The foreign currency auction market accounted for 12%, with the alternative market accounted for 7%. Due to the surrender requirement at a sub-optimal exchange rate, exports as a source of foreign currency accounted for only about 4% of foreign currency requirements.

Figure 38: Domestic sales is the main source of foreign currency in the manufacturing sector



9. Regulatory cost (compliance cost) a burden to the manufacturing sector

On average, about 17.9% of overhead cost are regulatory cost in the manufacturing sector (Figure 39). The situation is dire for small companies, where regulatory cost constitutes about 21% of regulatory cost for small firms. Many regulatory fee templates do not consider size of the firm thus, small firms and large firms will be charged the same regulatory fees.

The burden of regulatory cost differs across sectors. Compliance cost constitute 26% of overheads cost in the furniture subsector (Figure 40). The beverages sector is also highly regulated with compliance cost accounting for 22% of overhead cost.

Figure 39: Small firms are hit the most by regulatory costs, constituting 21% of total overheads

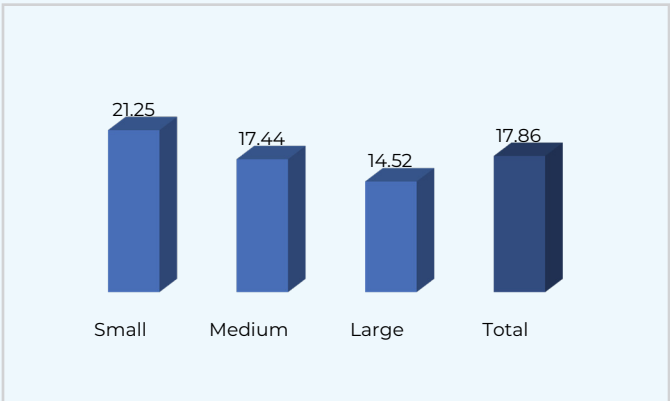
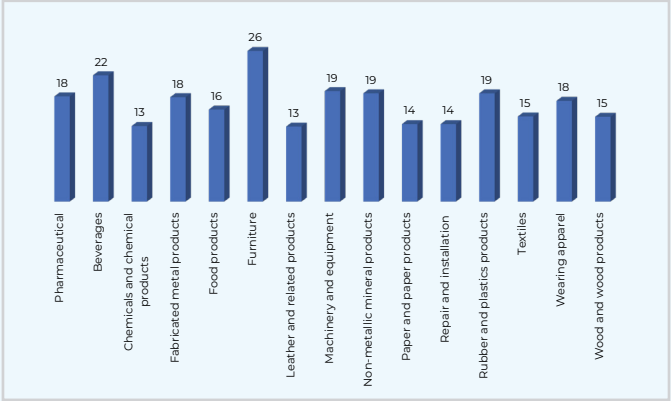


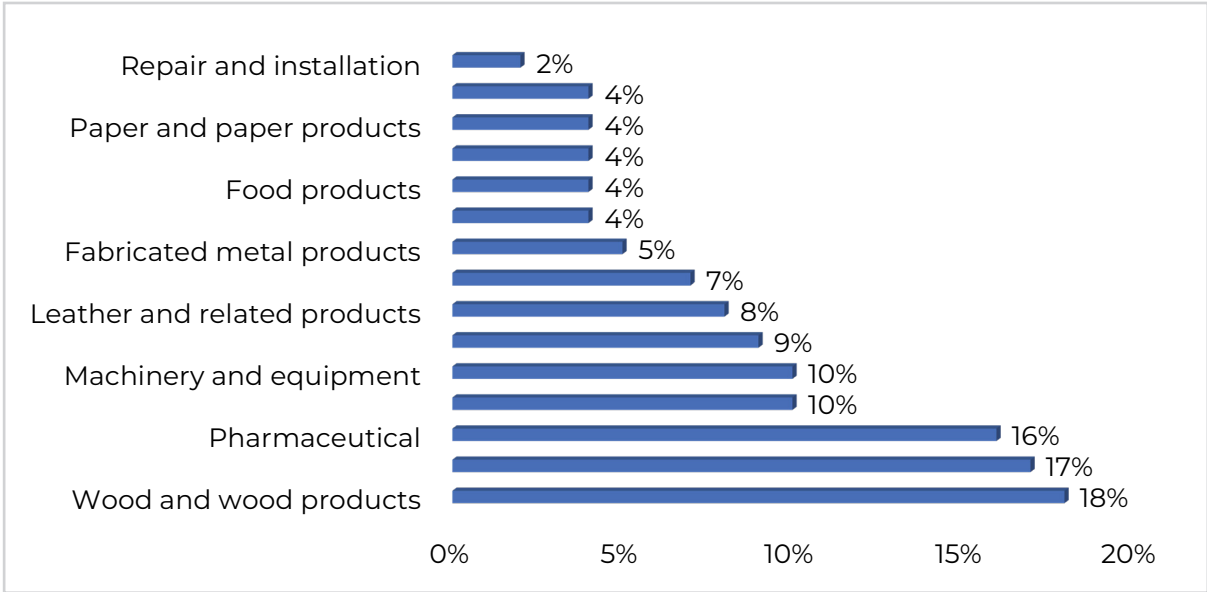
Figure 40: Regulatory costs constitutes about 26% of overheads in the furniture subsector



10. Low exports appetite by manufacturing

There is low appetite for exporting in the manufacturing sector as indicated by exports averaging at only about 7% of the output produced. All the subsectors are exporting less than 20% of their output, with the highest being the wood and wood products subsector which is exporting 18% of its output (Figure 41).

Figure 41: The wood subsector exporting 18% of its total output was the leading exporter by output



Source: survey results



There are several challenges that need to be addressed to incentivise manufacturers to export. Examples include those given by the players during the survey (Table 1).

Table 1: Manufacturing sector firm's barriers to export

Trade barriers	Regulatory and Policy barriers	Competitiveness barriers	Other exporting barriers
Customs procedures increase the time and costs associated with exporting goods.	Compliance - export permits are not located in one location/office therefore the time taken to apply and receive all permits is time consuming	High cost of doing business in Zimbabwe compared to neighbouring countries making local products too expensive compared to those manufactured in the region.	The use of the USD which is stronger compared to regional currencies
The SADC Double Transformation requirement is a challenge	Exchange control regulatory inconsistencies	Lack of raw materials locally hence too much of transport cost is added into the final product making it expensive	Hijacking of trucks in South Africa
Non-Tariff Barriers (NTB) are a major impediment to trade and economic development.	Lack of consistency in economic policy resulting in monetary and fiscal instability	The quality of work produced is low due to the machinery used as well as caused by inferior inputs	The abroad markets are saturated
			Companies financially not at a position to produce to the capacity required
			Poor road infrastructure.
			Lack of adequate skills and resources to meet international standards
	Boarder delays due to ZIMRA inefficiencies		

11. Raw materials importation rather than reliance on local sources

In 2023, on average the proportion of imported raw materials in total raw materials purchased by the manufacturing sector stood at 52%. This implies that more than half of the procurement in terms of raw materials is procured from external markets in the manufacturing sector.

Most subsectors import more than 50% of their raw materials from external markets. The pharmaceutical, printing and the wearing apparel subsectors import at least 70% of raw materials (Figure 42). However, subsectors that have a low import dependence, such as wood and non-metallic mineral products subsectors are likely to have better backward linkages.

Analysis by size of the firms reveals that larger firms procure about 60% of their raw material from external markets (Figure 43). This implies that size of the firm has a role to play in determining the firm’s capacity to import raw material. The survey further reveals that only small firms procure less than half (46%) of their raw material outside the country, hence localization of value and supply chains can be enhanced using small scale firms who are more locally oriented.

Figure 42: The manufacturing sector imports about 52% of its total raw material requirements

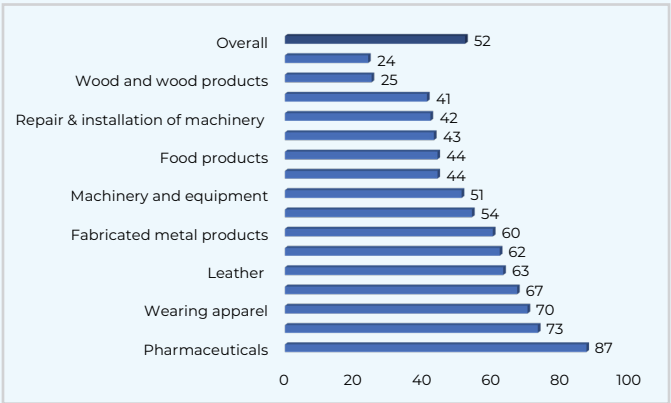
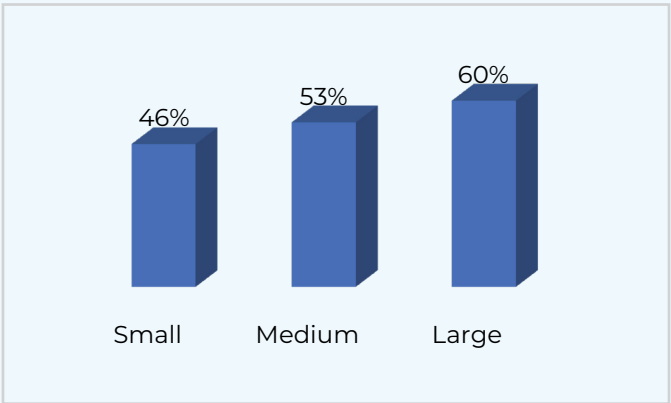


Figure 43: Only small manufacturing firms are importing less than half of their raw materials





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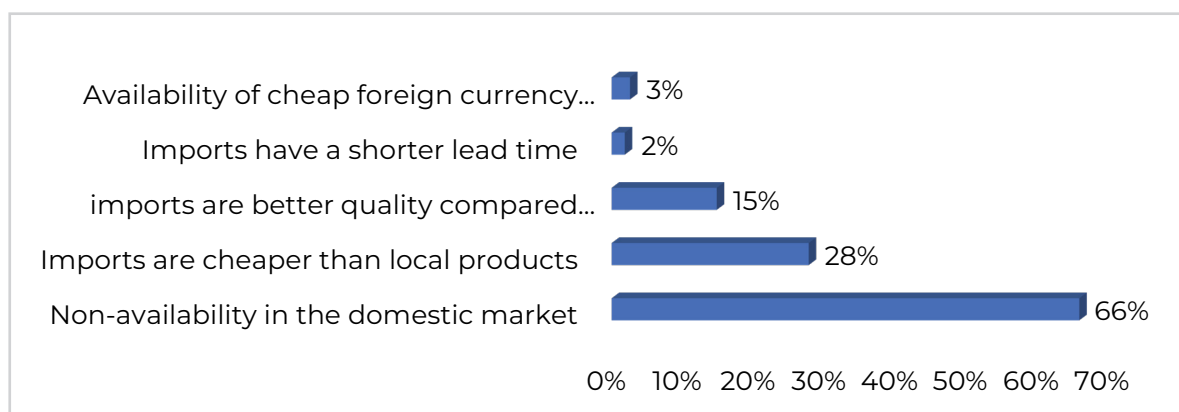
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It is imperative to understand the reasons why manufacturers are importing their raw materials before castigating the subsectors for their heavy reliance on imports. The main reason for imports is non-availability in the local market, which is the reason for importing by about 66% of the manufacturing sector firms (Figure 44). However, prices also matter, as about 28% of the manufacturing firms import because imports are cheaper than local products. This underlines the need to enhance competitiveness.

Figure 44: Non-availability of raw materials locally is the major driver of importation



12. Conclusion

The manufacturing sector generally remained stable despite the various challenges associated with the operating environment. This is reflected in a sustained level of output as well as efforts to boost capacity. The expansion of capacity at a time when output remained stagnant can be attributed to the fall in capacity utilization by about three percentage points.

There are a lot of opportunities for repositioning the manufacturing sector as an economic driver for Zimbabwe in line with the industrialization path envisaged under NDS1. Critical intervention areas should continue to be centered around the following:



Reducing the cost of compliance burden. One low hanging fruit which policy can try to use to enhance manufacturing sector competitiveness is to reduce the compliance burden. The regulatory template needs to be adjusted to reduce the amount that industry has to endure, even if the reduction is aimed at reducing the burden from 18% to only 10% in the short term.



Macroeconomic stability needs to be ensured. The resilience of the manufacturing sector in 2023 can be attributed to some periods of exchange rate and inflation stability that characterized some periods in 2023. The coming in of ZiG should help sustain this in 2024.



Prioritising the enforcement of NDS1. One of the priority areas under NDS1 is Moving the Economy up the Value Chain & Structural Transformation. However, this priority area is the only one where little milestones have been realized, as the objective was to rebalance the economy which is characterized by the dominance of primary sectors. There is need to reposition manufacturing by prioritising the enforcement of the provisions as they remain critical in reversing manufacturing sector decline by enhancing linkages with mining and agriculture.

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