

## Table of Contents

|                                                               |    |
|---------------------------------------------------------------|----|
| SURVEY METHODOLOGY .....                                      | 2  |
| EXECUTIVE SUMMARY .....                                       | 5  |
| ECONOMIC OVERVIEW .....                                       | 7  |
| TRENDS ANALYSIS .....                                         | 11 |
| REDUCING THE TRADE IMBALANCE THROUGH IMPORTS MANAGEMENT ..... | 14 |
| SURVEY RESULTS .....                                          | 15 |
| Response Rate and Company Information .....                   | 15 |
| Company Operations and Strategy .....                         | 16 |
| Source of Competition .....                                   | 16 |
| Pricing Mechanism.....                                        | 17 |
| Turnover composition .....                                    | 17 |
| Source of Raw Materials.....                                  | 17 |
| Factors Affecting Raw Material Supply.....                    | 18 |
| Capacity Utilisation .....                                    | 18 |
| Distribution of Capacity .....                                | 19 |
| Sectoral Contribution to Capacity.....                        | 19 |
| Capacity by Region.....                                       | 20 |
| Expected Capacity in 2017 .....                               | 20 |
| Major Capacity Constraints.....                               | 20 |
| Business Viability .....                                      | 21 |
| Business Strategy .....                                       | 22 |
| Value Chain Development and Business Synergies .....          | 23 |
| Synergies with other Players .....                            | 23 |
| Linkages with SMEs.....                                       | 24 |
| Strengthening Business Linkages.....                          | 25 |
| Subcontracting.....                                           | 25 |
| Collaboration on Innovation and Knowledge Flow .....          | 26 |
| Collaboration with Tertiary Institutions .....                | 26 |
| Strategies for Price Reduction .....                          | 27 |

|                                                                   |    |
|-------------------------------------------------------------------|----|
| Innovation and Technology .....                                   | 28 |
| Age of Equipment .....                                            | 28 |
| Source of Equipment .....                                         | 28 |
| Figure 27: Capital Investment.....                                | 29 |
| Use of ICT in Business .....                                      | 29 |
| Infrastructure – Contributing To Industry Uncompetitiveness ..... | 30 |
| Problematic Infrastructure Factors.....                           | 30 |
| Energy Conservation and Resolving the Power Crisis.....           | 31 |
| Human Capital .....                                               | 32 |
| Working Hours.....                                                | 32 |
| Change in Wage Bill .....                                         | 32 |
| Retrenchments .....                                               | 33 |
| Employee Training and Development .....                           | 34 |
| Safety and Health at Work.....                                    | 35 |
| Foreign Trade, Investment and Financial Environment.....          | 36 |
| Exports .....                                                     | 36 |
| Reasons for not exporting .....                                   | 36 |
| The top problematic factors for exporters .....                   | 37 |
| Export Strategies.....                                            | 37 |
| Financial Environment .....                                       | 39 |
| Cost of Finance.....                                              | 39 |
| Structure of Finance Suitable for the Manufacturing Sector .....  | 40 |
| Overall Perception of the Economy.....                            | 41 |
| Doing Business in Zimbabwe .....                                  | 41 |
| General Comments on the Manufacturing.....                        | 42 |
| CONCLUSION.....                                                   | 43 |

## **SURVEY METHODOLOGY**

### **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 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 provides businesses with a lobbying position and reference point when meeting policy makers, so that problems 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 made publicly available annually on the CZI website. 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. Value Chain Development
4. Technology and Innovation
5. Infrastructure
6. Human Capital
7. Foreign Trade, Investment and Financial Environment
8. Overall Perception of the Economy

### **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.

This year, data collection was done through Probe Research, a local company specialising in research. Data analysis and report generation was done internally through the CZI Economics Department.

### **2. Who is surveyed?**

Over the past years in the history of the survey, more than 250 questionnaires are 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. This year, the response rate was 62% compared to 39% last year. This is mainly attributed to the one on one interviews carried out by Probe Research.

## EXECUTIVE SUMMARY

The 2016 State of the manufacturing Sector Survey an improved methodology developed by a group of experts. The experts worked on improving the questionnaire in order to capture key aspects of the manufacturing sector that are important to the financial sector, policy makers and individual companies. The Survey explores further and is underpinned by the work that has already begun in CZI on Value Chain Development and Business Linkages.

The Findings depict opportunities in business linkages and value chain development. Fifty three percent of the respondents indicated that they already have Small and Medium Enterprises in their supply chain. This shows that inasmuch as linkages with SMEs has not been coordinated, a number of companies have already been working directly with SMEs. Of the 53%, 41% indicated that SMEs supply raw materials, 10% indicated distribution services, 2% indicated after sales support. The results also show that there are opportunities for sector players to develop synergies and collaboration on advocacy, sector standards, sector training and generic research.

The gains of Statutory Instrument 64 of 2016 are beginning to be realised as capacity utilization increases by more than 10% from 34.3% in 2015 to 47.4% in 2016. In order for the gains not to be reversed, other underlying challenges should be addressed. The mutual understanding is that SI64 is not in perpetuity but a temporary measure aimed at nurturing and “incubating the manufacturing sector to allow it to reach competitiveness in the wake of weakening regional currencies and an apparent technological lag in the manufacturing sector.

In order to consolidate these gains internal devaluation should be given prioritised as it addresses some of the underlying challenges. Respondents who are not operating at full capacity cited the following as key constraints:

- Low demand for domestic products
- Liquidity Crisis
- Competition from Imports
- Competition from Domestic Producers
- Capital Constraints

The responses also indicate a generally low level of retooling by companies in Zimbabwe. The Midlands region is lagging in terms of retooling as evidenced by 70% of respondents with equipment older than 20 years. This is followed by Bulawayo with 50% of respondents indicating that their equipment is older than 20 years.

In light of the power cuts, respondents were asked to state their source of back up energy. The results point to the need to consider green energy as the use of solar among industrialists is very minimal. 25% of the respondents indicated that they have no back up energy source. This has a direct impact on production given the level of power outages.

International Labour Organization (ILO) estimates that economic burden of poor occupational safety and health practices is estimated at 4 per cent of global Gross Domestic Product each year. To reduce these losses, organizations should have operational safety and health plans. Sixty-five percent of the respondents have a safety and health plan, while forty-five percent have a medical insurance plan. 19 percent of the respondents reported injuries in the previous year.

The problematic factors for exporters are:

1. Access to trade finance
2. Access to imported inputs at competitive prices
3. Burdensome procedures at foreign borders
4. Difficulties in meeting customer requirements
5. High cost of delays caused by domestic transportation

In terms of importing, the five most problematic factors are listed below:

1. Corruption at the Border
2. Import Licencing Requirements
3. Zimbabwe Revenue Authority (ZIMRA) System Inefficiency
4. Burdensome Import Procedures
5. Delays Caused by Domestic Transportation

The major factors impacting business are:

1. Corruption
2. Policy Instability
3. Access to Finance
4. Competition from imports and
5. Low demand for domestic products.

## ECONOMIC OVERVIEW

The Zimbabwe economy continues to operate under pressure. Confidence remains low amongst both business and consumers. Among other things, we are seeing delays in foreign payments, cash shortages, a significant imbalance between the RTGS account and the underlying dollars backing the account and people trying to withdraw every last dollar they have from the banks. The postponed introduction of bond notes has worsened the situation in that the uncertainty has increased levels of cash withdrawals from the banking system.

The path that we are on, if not arrested and changed, will lead to a significant economic recession. There is of course no quick and easy solution. Nor is there a perfect solution. Whatever we do will involve compromises, choices and difficult decisions.

The key priority issues that CZI believes need to be worked on are:

1. A pervasive lack of confidence in the economy that is hurting new investment
2. Fiscal Imbalance-Government spending money it does not have while crowding out private sector
3. Uncompetitive and depressed private sector that is shrinking
4. Monetary Imbalance-Between money in the RTGS account and underlying Nostro
5. A growing untaxed and unregulated informal economy that competes with a burdened uncompetitive formal sector.

**Table 1. Macroeconomic Indicators**

|                            | 2015   | 2016 Orig | 2016 Rev | 2017 Proj |
|----------------------------|--------|-----------|----------|-----------|
| Nominal GDP (US\$M)        | 13 891 | 14 171    | 14 010   | 15 000    |
| GDP Growth (%)             | 1.1    | 2.7       | 1.2      | 4.8       |
| Annual Inflation (%)       | -2.4   | -1.6      | -1.1     | 1.1       |
| Government Revenue (US\$M) | 3 737  | 3 850     | 3 650    | 4 000     |

|                                       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|
| Government Expenditure (US\$M)        | 3 901 | 4 000 | 4 000 | 4 300 |
| Exports of Goods and Services (US\$M) | 4 001 | 3 673 | 3 741 | 4 071 |
| Imports of Goods and Services (US\$M) | 7 553 | 6 221 | 6 212 | 6 261 |

*Ministry of Finance*

### **Budget Performance**

Slower growth, on account of El-Nino induced drought, liquidity and investment constraints, among others continue to undermine overall economic performance with revenues performing well below targets. On the other hand, expenditures have been overshooting on the back of unavoidable grain importation triggered by the El-Nino induced drought, which necessitated accelerated grain importation to avert hunger among other pressures. The Government wage bill continues to constitute a disproportionate share of total resources implying the need to strike a balance on the demand of the economy with a combination of rationalisation, as well as enhancing the supply side measures in order to grow the economy. The current scenario has a crowding out effect and has led to shelving and postponing implementation of a number of projects and programmes.

### **Trade Balance**

Exports for the period January to September stood at \$1.766 billion and imports of \$3.778 billion, giving an unsustainable trade deficit of US\$2.013 billion. This gap is being financed through domestic resources, FDI and offshore lines of credit.

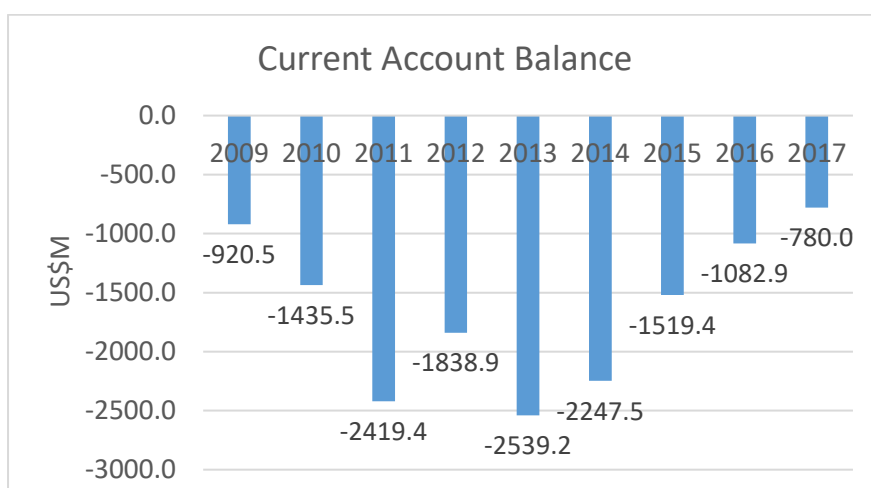
### **Figure 1. Trade Balance**



### Current Account Balance

Current account deficit has been improving, from 18.6% of GDP in 2013, to 7.6% in 2016. The improvement is largely due to slowdown in imports.

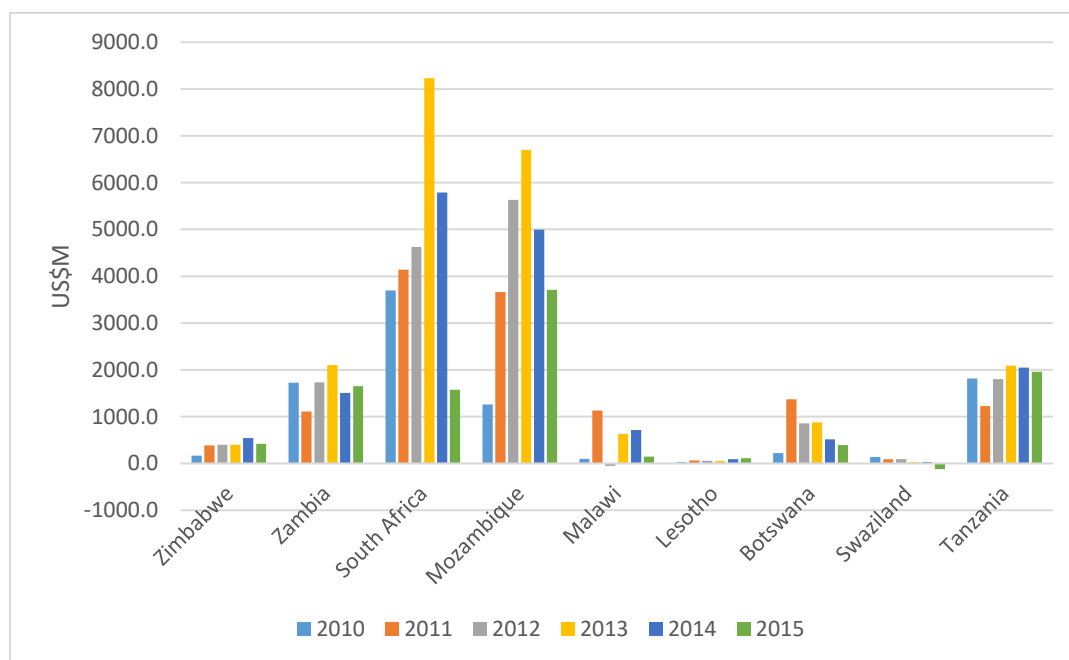
**Figure 2. Current Account Balance**



### FDI Inflows: Selected SADC Countries

FDI flows have remained subdued over the past years. In 2015, Zimbabwe received FDI of US\$625 million compared to Zambia which received US\$1.7 billion and South Africa US\$1.6 billion. This development calls for the country to expedite the implementation of Ease of Doing Business Reforms in order to compete with regional countries.

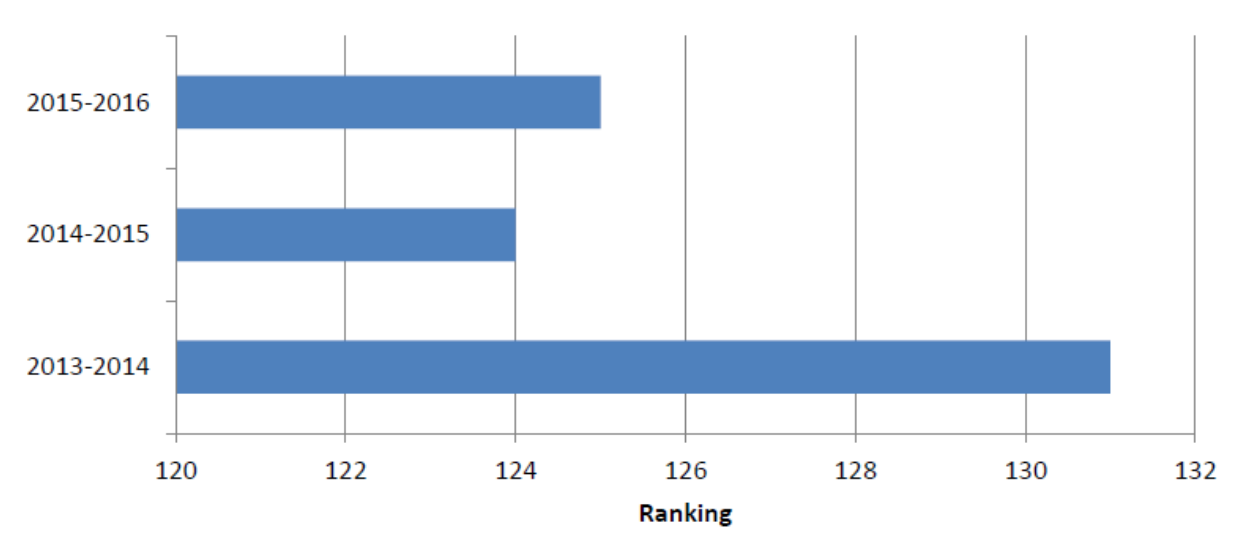
**Figure 3. FDI Inflows**



### Zimbabwe's GCI Ranking

The figure below shows trends in Zimbabwe's GCI ranks over the last three years. Zimbabwe lags behind its comparator countries in key competitiveness indices. Zimbabwe registered a notable improvement of seven ranks in the overall GCI ranking during the period 2013-2015, from 131 in 2013-2014 to 124 in 2014-2015. However, in 2015-2016 the country slipped by one rank to 125 position as shown below. The country, however, has taken some measures in recent years to improve the business environment.

**Figure 4. Global Competitiveness Ranking for Zimbabwe 2013-2016**



*Source: World Economic Forum GCI Report (2015-2016)*

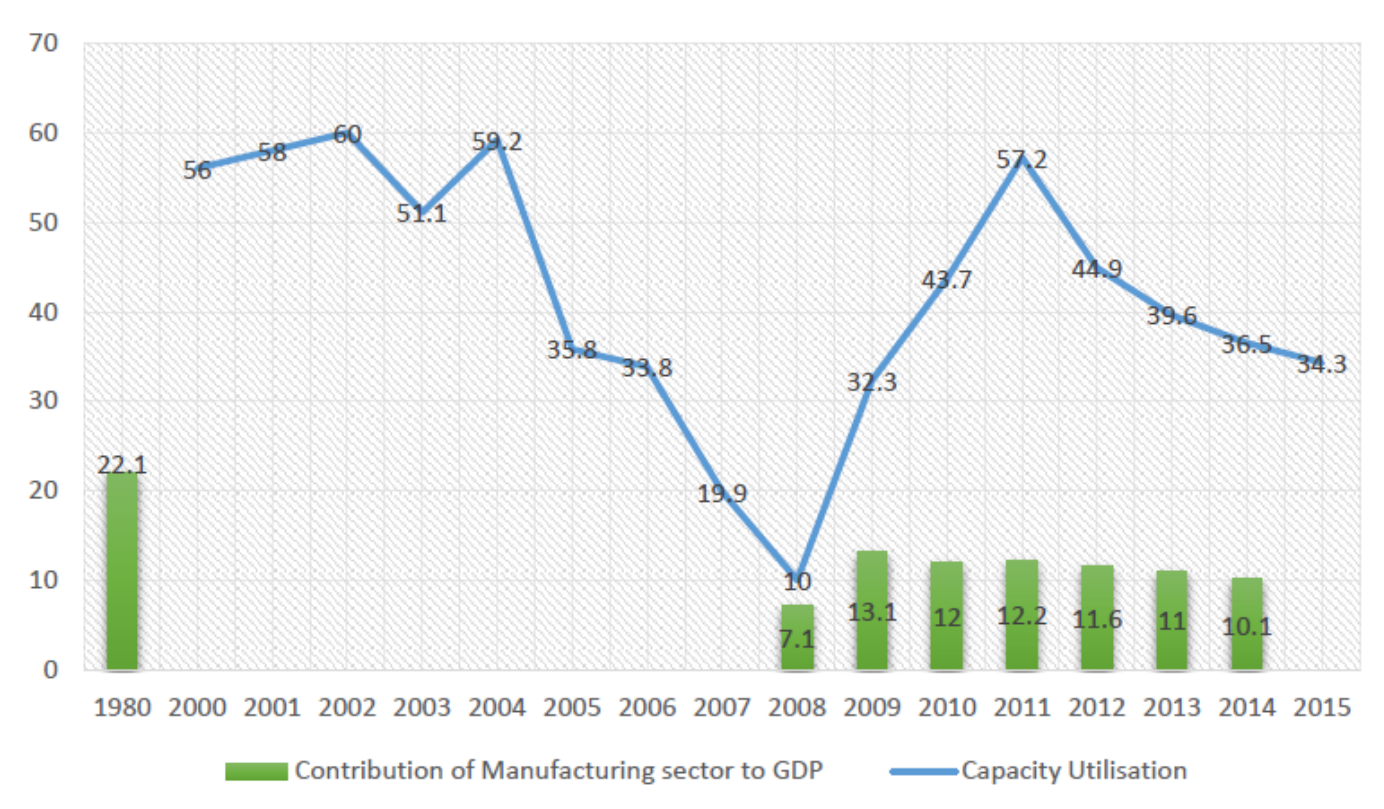


#### **TRENDS ANALYSIS<sup>i</sup>**

The trends analysis seeks to track key manufacturing variables over time. Data for this section is mainly secondary based on ZIMSTAT, ITC and data obtained from the National Competitiveness Report (a report prepared under the auspices of National Economic Consultative Forum).

At its peak, the manufacturing sector used to contribute about 42% to export earnings, but as of 2010, the sector's contribution to exports was 27% and 14.48% in 2014 (Zimstat) signifying inert problems within the sector, as shown on Figure 6.1. Employment in the sector has also declined significantly from 206,000 in 1991, 127,300 in 2009 to 91616 in 2013 (Zimstat CIP 2013).

**Figure 5. Manufacturing Contribution to GDP and Capacity Utilization**

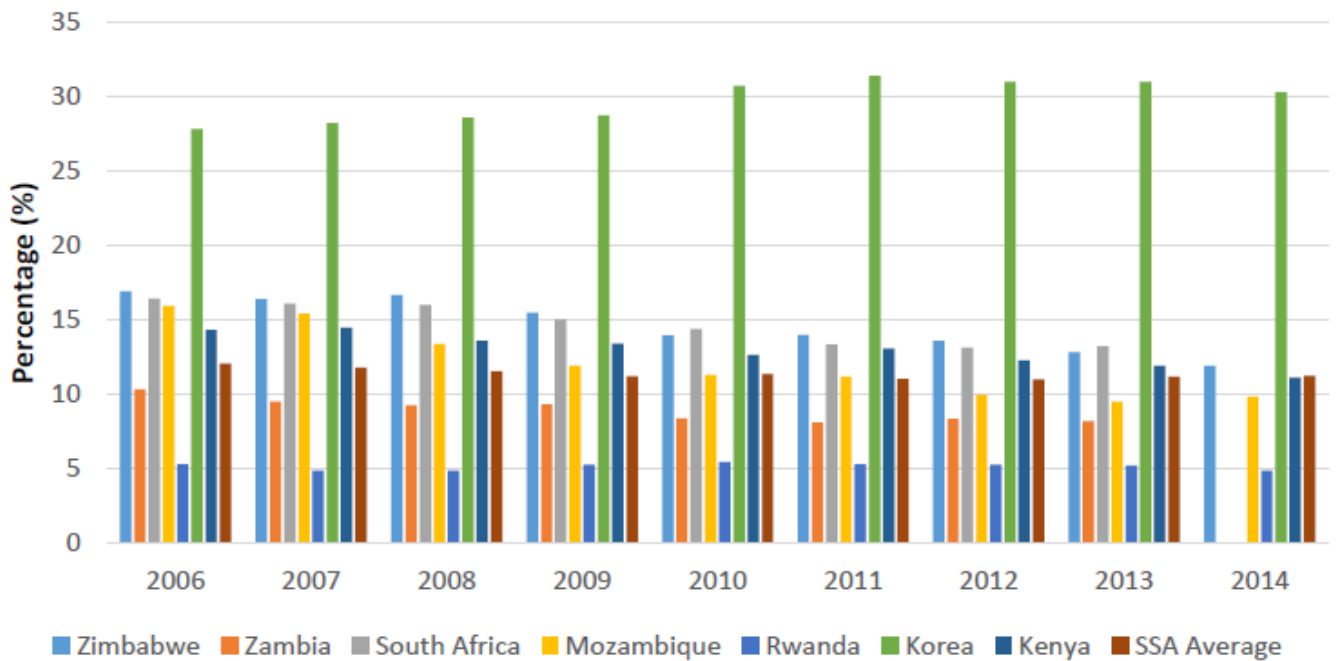


Both the contribution of the manufacturing sector to GDP and capacity utilization has been declining over time as indicated above.

### **Manufacturing Value Added (as a percentage of GDP)**

Manufacturing Value added refers the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. Zimbabwe has a manufacturing value added as a percentage of GDP of about 17%. Zimbabwe's manufacturing value added is the highest among comparator countries in Africa and the SSA average.

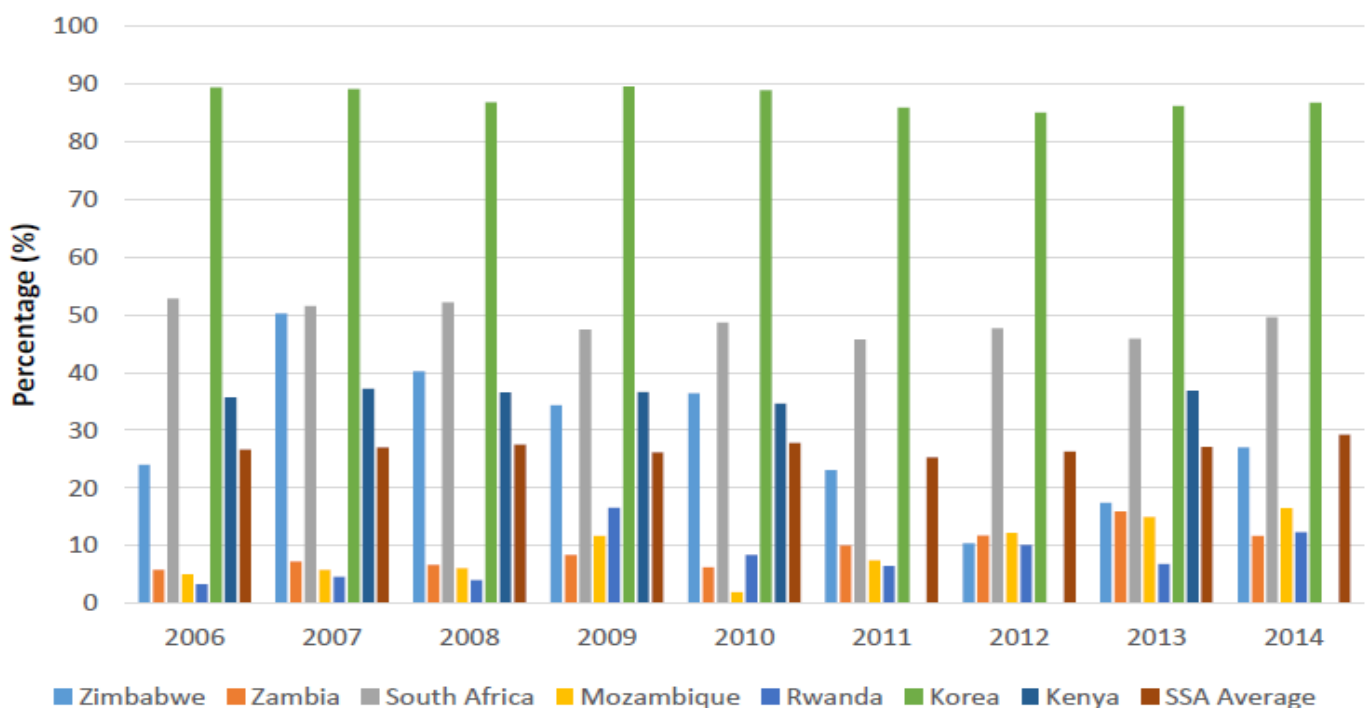
**Figure 6: Manufacturing Value Added**



### Manufactured Exports (as a percentage of merchandise exports)

Zimbabwe mainly exports Ferro alloys, cotton lint, chemicals, manufactured tobacco, foodstuffs, machinery and transport equipment, among other things. Zimbabwe's manufacturing exports as a proportion of total exports is around 27% and falls below the SSA average of 29% and South Africa of 50%.

**Figure 7. Manufactured Exports**



## REDUCING THE TRADE IMBALANCE THROUGH IMPORTS MANAGEMENT

Import management is a tool for the resuscitation and growth of local industries given the economic challenges that the country went through. Import management is a temporary stop gap measure which gives room for industry to retool, increase production, employment and quality levels in order to be able to be competitive on the local market.

*Import management Measures in the past year:*

1. **Statutory Instrument (SI) 64 of 2016** gazetted on 17 June 2016 – removed 42 products from the Open General Import Licence (OGIL).–Some of the products which have an impact on the agricultural sector include plastic pipes and fittings for irrigation; wheelbarrows; metal structures and products; tinned fruits and vegetables; cereals; dairy products; fertilisers; furniture and cotton woven fabrics.
2. **SI 20 of 2016** – batteries, candles, floor polish and tobacco twine
3. **SI 19 of 2016** – 2<sup>nd</sup> hand clothing, shoes and blankets.
4. **SI 18 of 2016** – 23 pharmaceutical products.  
**SI 126 of 2014** - milk, potatoes, tomatoes, onions, biscuits & yeast , cement, soap and soap preparations, tubes, pipes, conveyor belts, rubber hoses and plastic bags  
**SI 6 of 2014** - sugar, poultry and meat products

*Accrued and Expected Benefits*

- Prevents foreign competitors from dumping or offloading agricultural and processed products at sub-standard prices.
- Increased capacity utilisation and productivity in some agro-processing industries. For example, capacity utilisation in the cooking oil industry increased from levels of below **10% in 2009** to current levels of **60-80%** whilst the yeast industry is currently operating at **83%** capacity utilisation which had gone down to **50% in 2011**. The biscuits manufacturing industry has increased capacity utilisation from **35% in 2013** to current levels of around **75%**.
- Gives local agro-processing industries as well as farmers enough time to invest and build capacity in order to become competitive in the long run. This will promote the inflow of resources and capital formation across the agricultural value chain.
- Economies of scale emanating from increased capacity utilisation in agro-processing industries will stimulate price and cost correction mechanisms. *Case in Point: **The Cooking Oil Industry**. Prices declined from around US\$4.20 per 2 litre bottle in 2009 to current prices of around \$2.90. (Ministry of Industry and Commerce)*

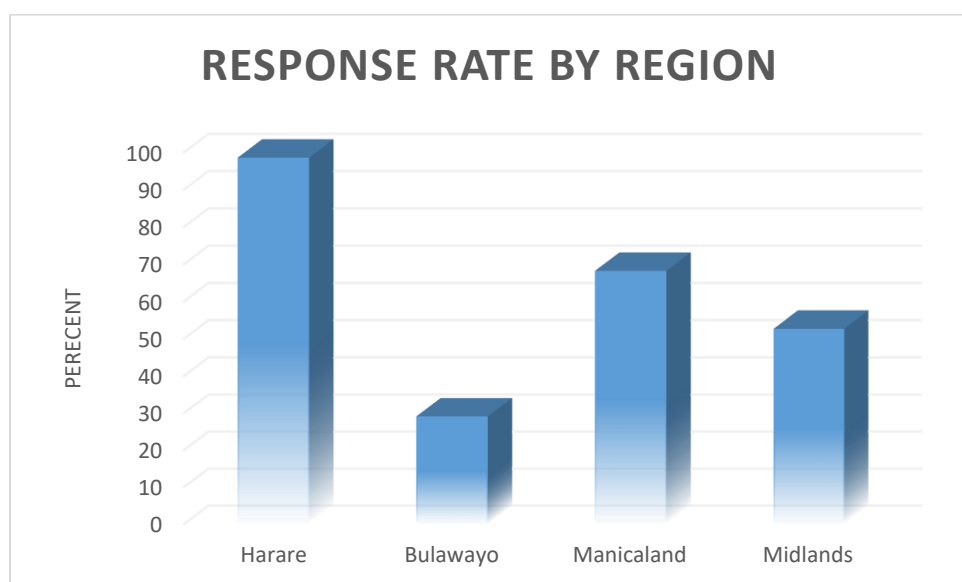
## SURVEY RESULTS

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.

### Response Rate and Company Information

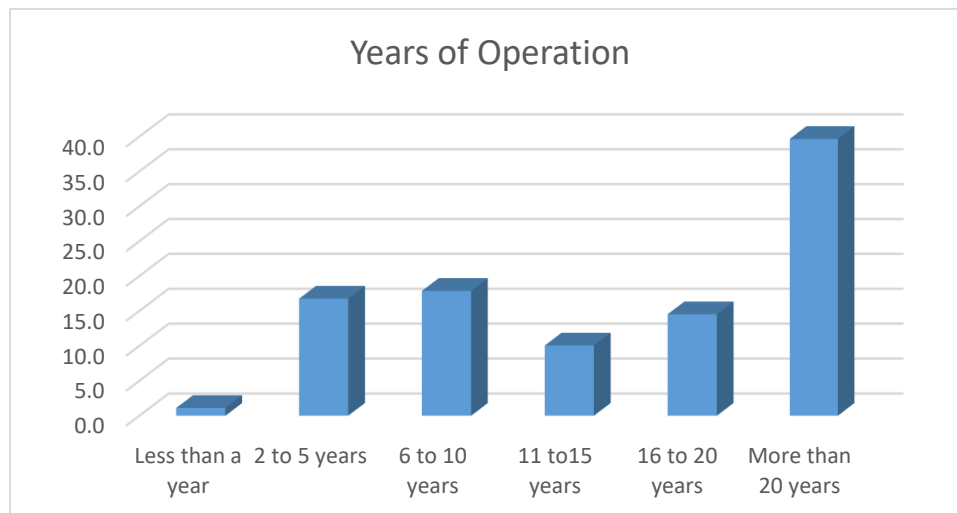
This section sought to ascertain basic information on company operations. This information includes number of years in existence and ownership structures. Responses received were classified and grouped according to the International Standard for Industrial Classification (ISIC Rev 4). Harare recorded a response rate of 98%, Manicaland recorded 68% while Bulawayo had the least response rate of 29%. It should also be noted that some Bulawayo companies have head offices in Harare and the rate maybe higher than 29%. Overall response rate was 62%.

**Figure 8. Distribution of Responses**



39.7% of the respondents have been in existence for over twenty years while one percent indicated they have been in operation for less than a year.

**Figure 9. Number of years in operation**



### Company Operations and Strategy

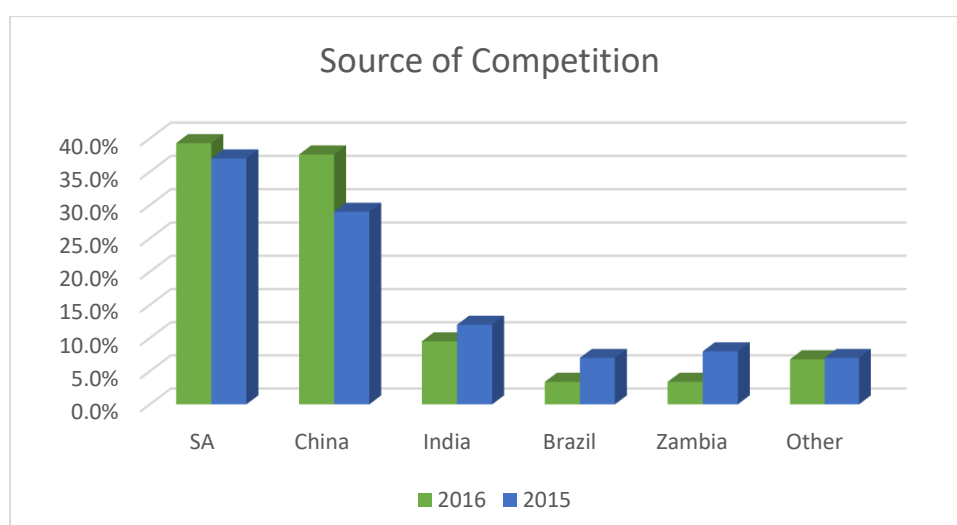
The scope of a firm can often be linked to the level of productivity. In this survey, the first step was to understand the structure and nature of firms, from the composition of the firm, to the make-up of competitors, right down to how they set their prices. No link to productivity was estimated as 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 four (4%) of the respondents being conglomerates. The majority of firms only specialise in their lines of business. This is a strategy used by a company to gain control over its suppliers or distributors in order to increase the firm's power in the marketplace, reduce transaction costs and secure supplies or distribution channels.

### Source of Competition

Seventy-eight (78%) of the competition from the manufacturing sector is both domestic and foreign induced while 20% is domestic induced. From the respondents, two (2%) of the respondents do not face any competition.

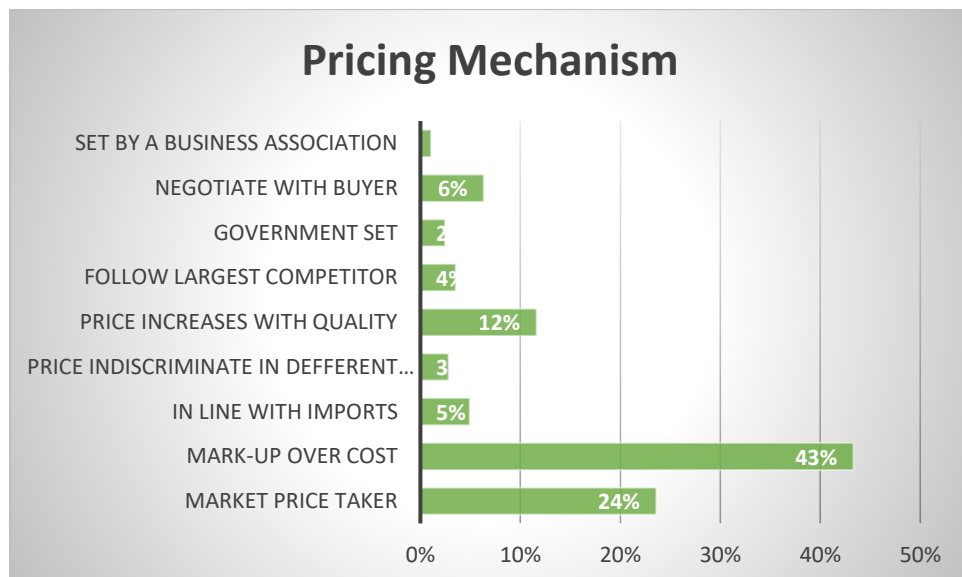
**Figure 10: Competition by Country**



### Pricing Mechanism

The popular pricing mechanism used by local companies is mark up over cost as indicated by 43% of the respondents. Twenty four percent are market price takers while 12% of respondents indicated that they price according to quality. The results also indicate that 9% of the respondents use more than one pricing mechanism.

**Figure 11: Pricing Mechanism**



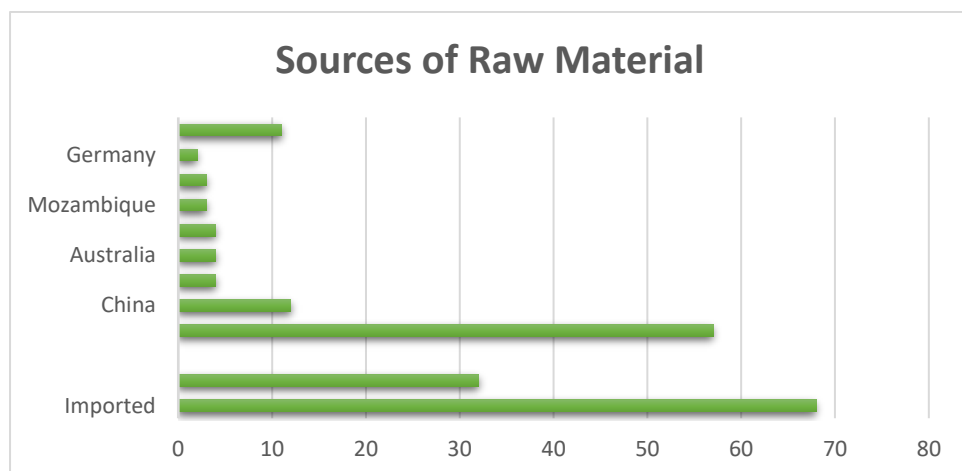
### Turnover composition

The share of exports also increased by 4% as the share of export turnover increased from 16% to 20%.

### Source of Raw Materials

The proportion of respondents who import raw materials increased by 4% from 2015 compared to 2016. Local raw materials constitute 32% of the total raw materials used in the manufacturing sector. In terms of the source for imported raw materials, 57% of respondents indicated they source their raw materials from South Africa while 12% get their raw materials from China.

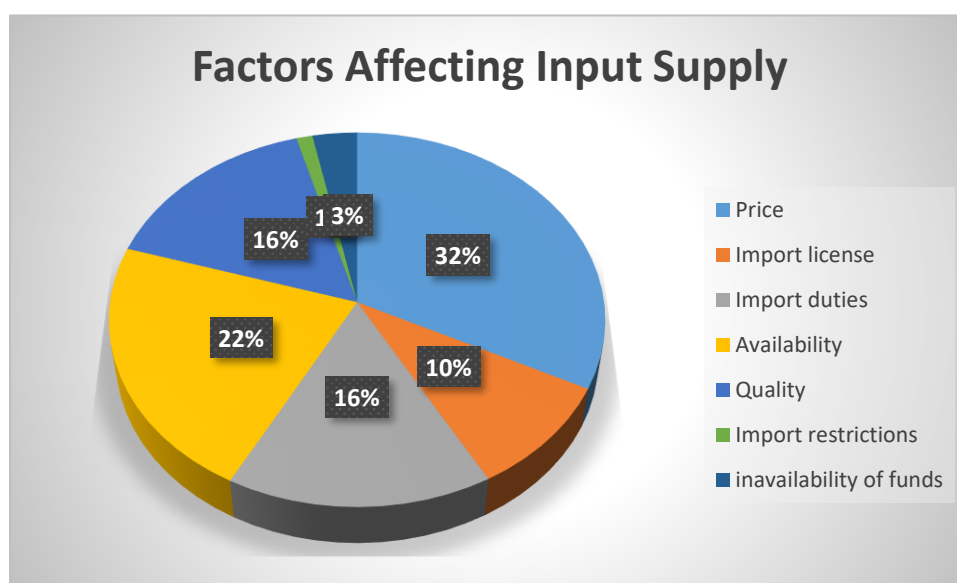
**Figure 12: Sources of Raw Material**



### Factors Affecting Raw Material Supply

Supply of raw materials is mainly affected by prices as indicated in the pie chart below. Requirements of import licence contributes 10% to the challenges encountered in sourcing raw materials.

**Figure 13: Factors Affecting Input Supply**



Eighty three percent of the respondents indicated that they use their raw materials within a year after they have purchased them while 14% store raw materials for between 2 to 5 years. 2% of the respondents store their raw materials for more than 5 years. By ensuring that raw materials are not stored for a long time before production, the cost of storage is reduced. However, for some inputs it is necessary that raw materials are stored for some time before production takes place.

### 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 focus on the weighted capacity utilisation based on the contribution of each manufacturing subsector to GDP. The weight of each manufacturing subsector was obtained from ZIMSTAT.

**Table 2: Capacity Utilisation**

|      | Weighted Capacity Utilisation |
|------|-------------------------------|
| 2015 | 34.3                          |
| 2016 | 47.4%                         |

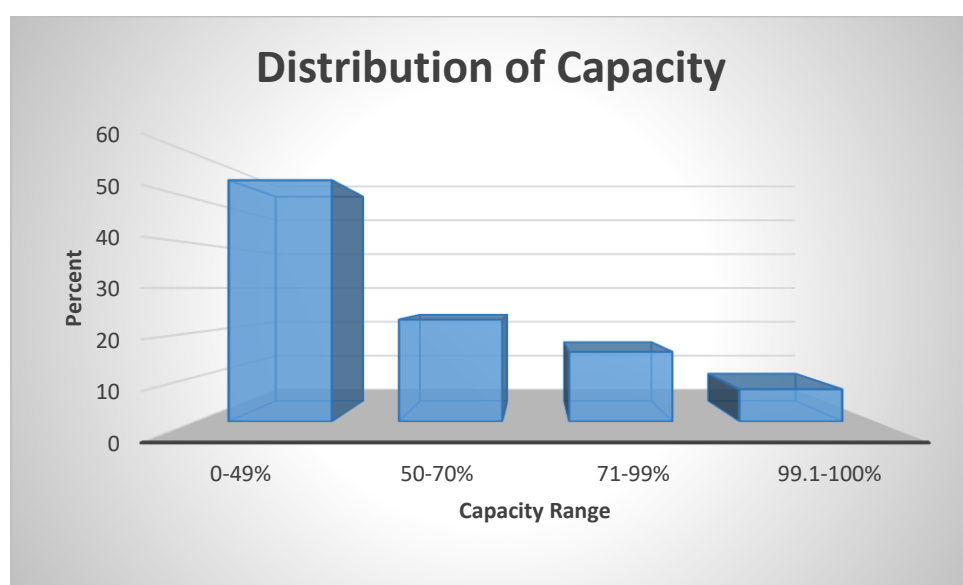
The weighted capacity utilisation of 47.4% would imply an increase of 13.1 percentage points from last year's weighted of 34.3%. The increase in capacity has been driven by three factors:

1. Boosted response rate within the small to medium sized enterprises
2. Increase in production by companies whose products are under Statutory Instrument 64. Sectors that largely contributed to the increase are Foodstuffs; Drinks, Tobacco and Beverages; Wood and Furniture as well as Paper, Printing and Packaging.
3. Import priority list

#### Distribution of Capacity

Fifty four respondents recorded capacity below 50% while 7% of the respondents recorded capacity utilization of 100%. The survey does not analyse the quality of the capacity as measured by the age of equipment and other factors.

**Figure 14: Distribution of Capacity**



#### Sectoral Contribution to Capacity

The sectoral contribution to capacity utilization is depicted below. The sectors are classified in terms of the ISIC classification of industrial activities. Sectoral contribution to capacity utilization for 2015 is unavailable.

**Table 3: Average Capacity Utilization by Subsector**

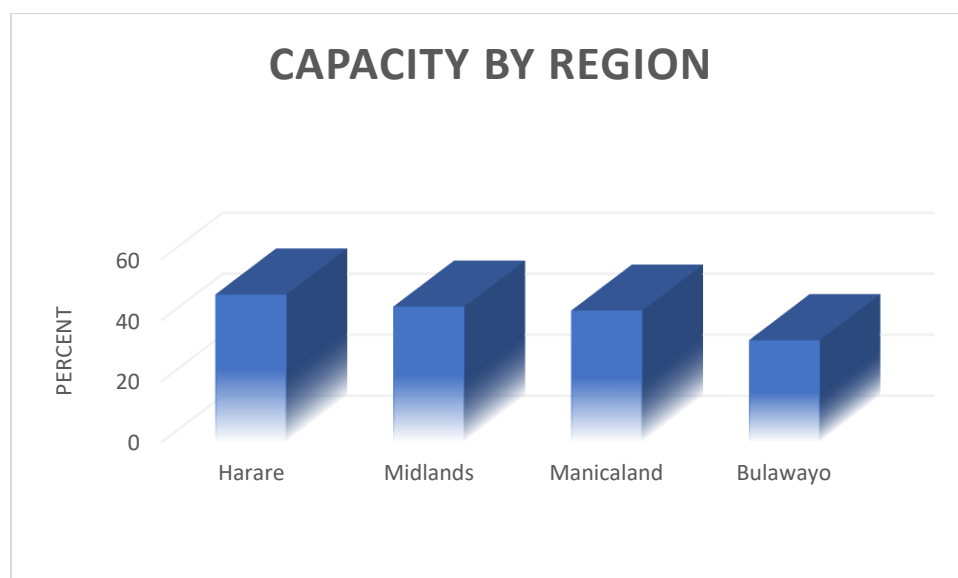
| Subsector                       | Average Capacity Utilization |
|---------------------------------|------------------------------|
| Chemical and Petroleum Products | 43.6                         |
| Textiles, Clothing and Footwear | 46                           |
| Drinks, Tobacco and Beverages   | 52.4                         |
| Foodstuffs                      | 56.1                         |

|                               |      |
|-------------------------------|------|
| Metal and Metal Products      | 37.5 |
| Non Metallic Mineral Products | 57.5 |
| Paper, Printing and Packaging | 52.9 |
| Transport Equipment           | 45   |
| Wood and Furniture            | 57.8 |
| Other Manufacturing           | 43   |

### Capacity by Region

Capacity was estimated in terms of regions based on CZI's Chambers that is Harare, Bulawayo, Manicaland and Midlands. In Harare, the average capacity is 48.3%, Bulawayo 44.3%, Manicaland 43% and Bulawayo 33.3%. The results are as follows:

**Figure 15: Capacity by Region**



### Expected Capacity in 2017

Respondents were asked the level of capacity utilization they would expect in 2017 if things were to remain the same. The expected capacity for 2017 is 50.3%.

### Major Capacity Constraints

As can be seen in the tables below, common constraints that respondents stated as inhibiting capacity are premised around low demand for domestic products, liquidity crisis, competition from imports and domestic competition. In 2016, 21.7 % of all respondents reported low demand for domestic products as the major inhibitor to capacity, followed by liquidity related issues. Respondents who reported low demand has declined from 28% in the previous survey.

**Table 4. Top 5 Capacity Constraints**

|                                             |        |
|---------------------------------------------|--------|
| Low Demand for local products               | 21.79% |
| liquidity crisis                            | 14.2%  |
| Competition from Imports                    | 12.86% |
| Competition from Local Producers            | 11.43% |
| drawbacks from current economic environment | 10.36% |
| Capital Constraints                         | 8.93%  |
| High cost of doing business                 | 4.64%  |
| Cost/Shortage of raw materials              | 4.64%  |
| Antiquated Machinery and breakdowns         | 4.28%  |
| Power and water shortages                   | 3.21%  |
| Others                                      | 3.57%  |

### **Business Viability**

The **viability** of a business is measured by its long-term survival, and its ability to have sustainable profits over a period of time.

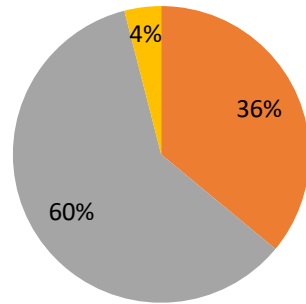
If a business is viable, it is able to survive for many years, because it continues to make a profit year after year. The longer a company can stay profitable, the better it's viability.

Respondents were asked whether business viability has improved over the past year, 60% indicated that the situation remains the same while 4% recorded significant positive change.

### **Figure 16: Business Viability**

## Business Viability

WORSE NO CHANGE SIGNIFICANT

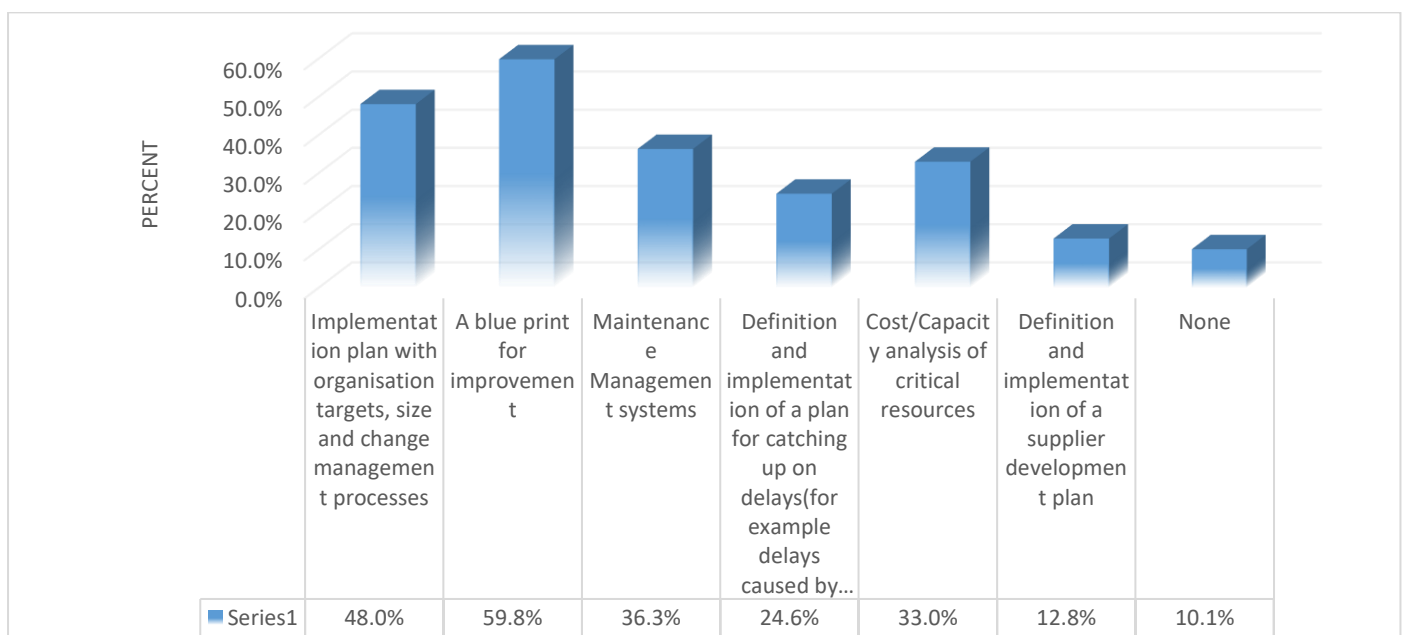


## Business Strategy

A business strategy is the formulation of responses to changes in the industry, competitive conditions and in the business environment in manner that enables the business to improve and sustain competitive advantage. It also summarises how a business plans to achieve its goals and to improve and to sustain its market position in the industry. It is important for resource allocation as well as follow up systems. Manufacturing companies were asked if they have the following in place:

- Implementation Plan with organization targets, size and change management processes
- A blueprint for improvement
- Maintenance Management Systems
- Definition and Implementation of a plan for catching up on delays
- Cost/ Capacity Analysis of critical resources and
- Definition and implementation of a supplier development plan

**Figure 17: Strategic Documentation**



A greater proportion of companies represented by 59.8% of the respondents has a blueprint for improvement. Ten percent of the respondents indicated that they do not have any of the strategies stated above in place.

### Value Chain Development and Business Synergies

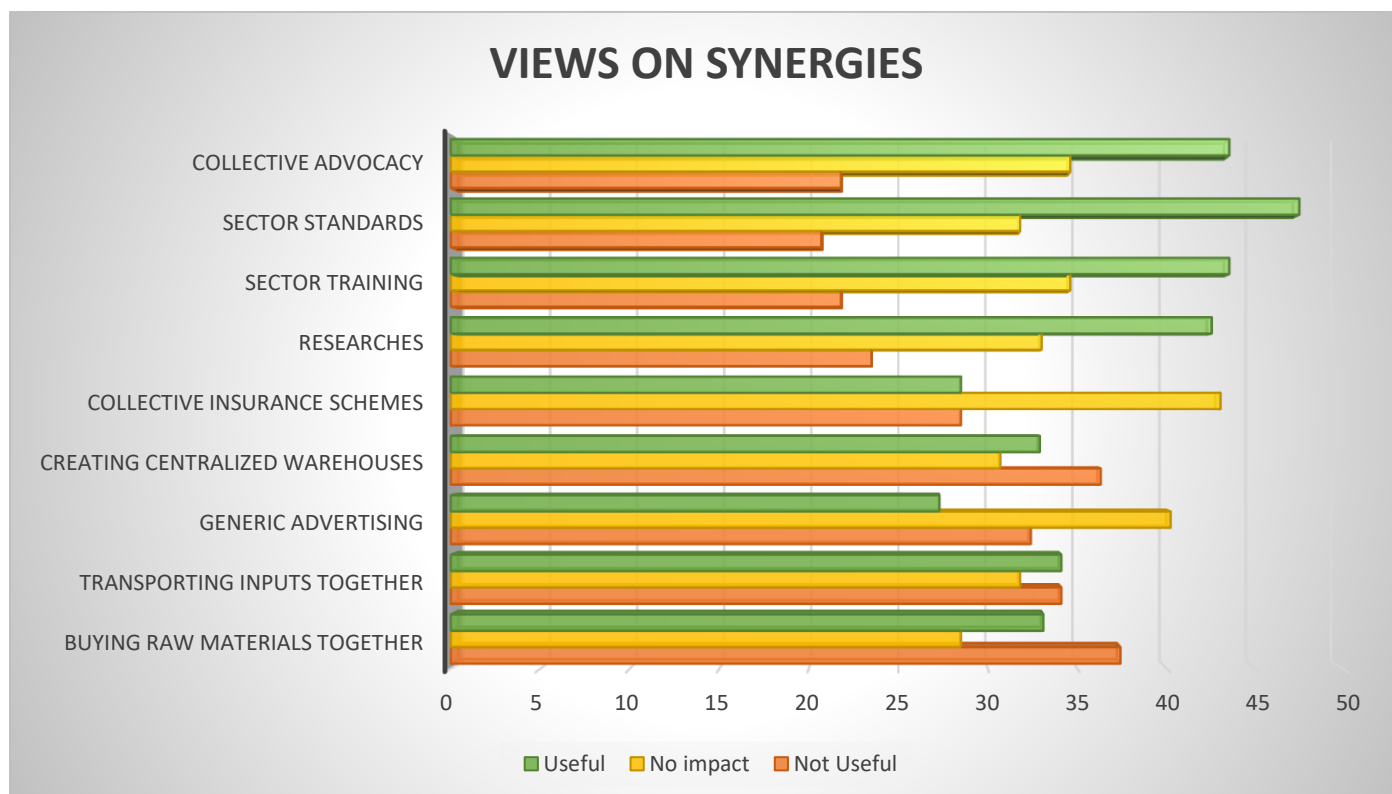
This is a new section that has been brought about by the advance work that CZI is doing on value chains. Over the years, CZI has advocated for the value chain approach to interventions as opposed to a silo approach or addressing company by company. Strong value chains also have a positive impact on associated clusters. The position emanated from conflicts within CZI membership where one subsector called for intervention that hurt the other sector. This expanded the role of CZI as more time was spent on mediating the conflicts as opposed to lobbying and advocacy. To this end, CZI has taken upon itself to organize the subsectors and other players along the different value chains in order to come up with inclusive positions that grow the economy. CZI identified 18 sustainable value chains and mapped these in order to identify gaps and quick wins among these.

The section will provide more insights on the importance of value chains and how companies are working towards the development of the value chain concept and business linkages. Inasmuch as companies within the same sector are competitors, there is scope for collaboration for the improvement of the whole sector. Eighty three percent of the respondents indicated that they are interested in linkages.

#### Synergies with other Players

To achieve economies of scale through synergies that come with adopting common practices, respondents were asked how likely they would consider a number of key issues to adopt as a subsector. The following graph depicts the responses. Companies are more interested in partnering on sector specific standards, collective advocacy, training and researches.

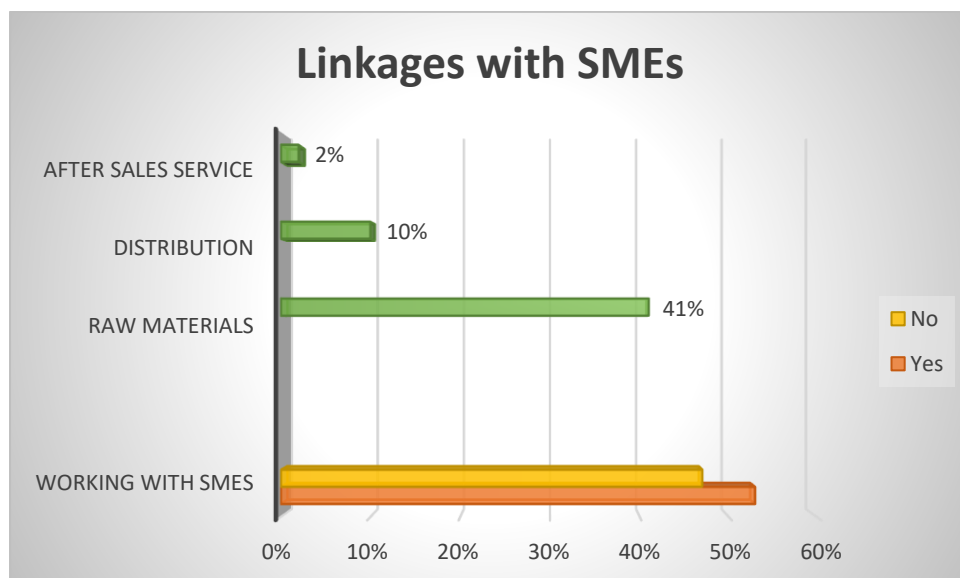
### Figure 18: Views on Synergies



#### Linkages with SMEs

Fifty three percent of the respondents indicated that they already have Small and Medium Enterprises in their supply chain. This shows that inasmuch as linkages with SMEs havenot been coordinated, a number of companies have already been working directly with SMEs. Of the 53%, 41% indicated that SMEs supply raw materials, 10% indicated distribution services, 2% indicated after sales support. The results are depicted below:

**Figure 19: Linkages with SMEs**



### Strengthening Business Linkages

In order to strengthen business linkages, 19% of respondents highlighted the need for SMEs to be professional and formalise their operations. Other respondents cited Government intervention and training development.

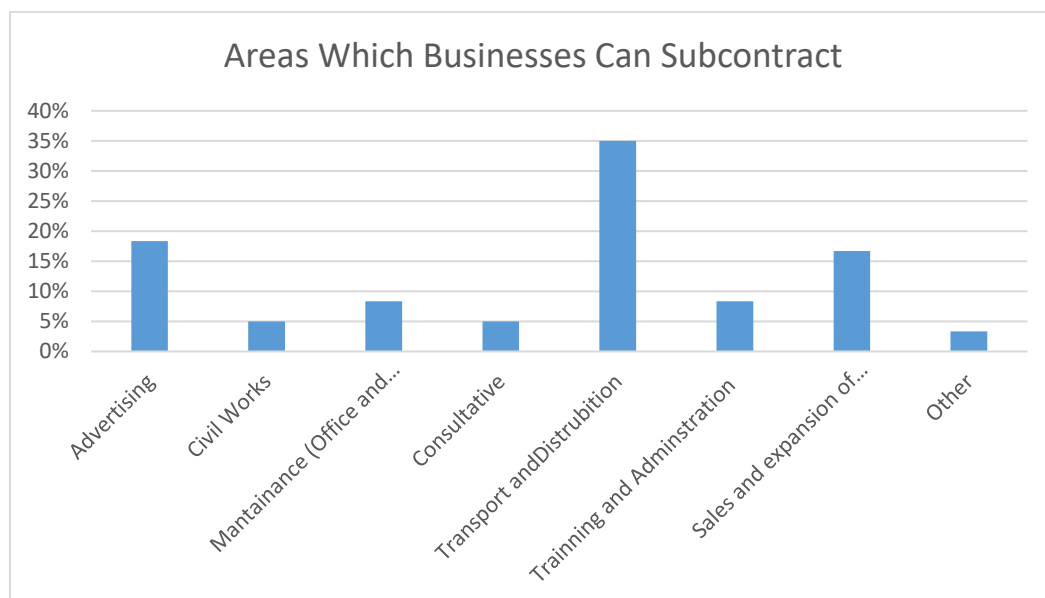
**Figure 20. What to do to strengthen business linkages**



### Subcontracting

Subcontracting can help a business to focus on its core activities. In terms of areas which business can subcontract 35% indicated that they can outsource transport and distribution. Other areas that can be subcontracted are advertising, sales and expansion of product.

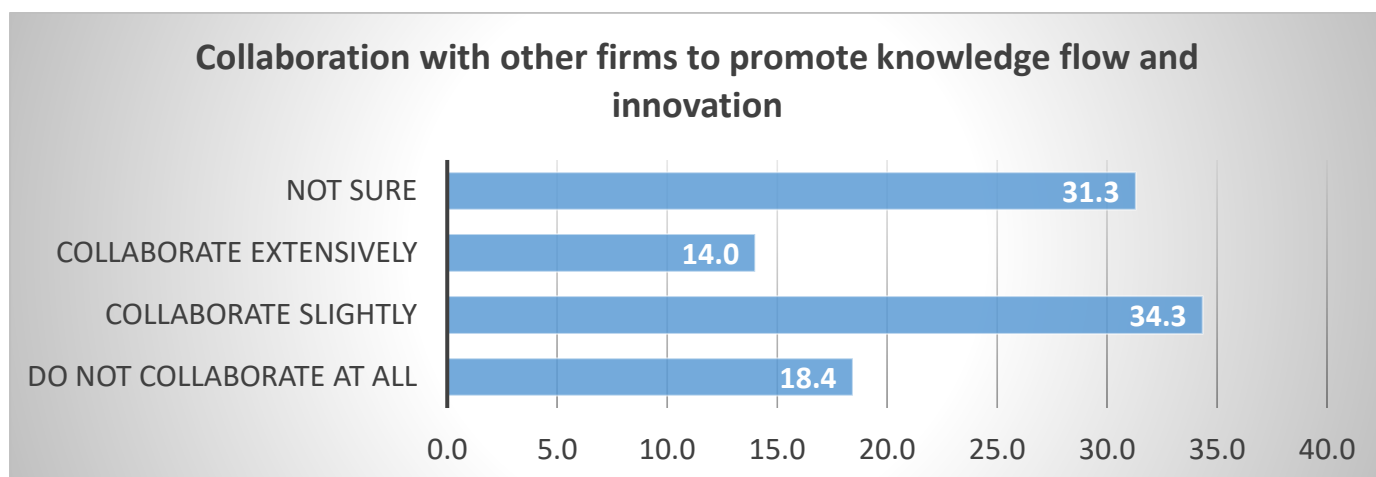
**Figure 21. Areas for Subcontracting**



#### Collaboration on Innovation and Knowledge Flow

When asked if they collaborate with other companies on innovation and knowledge flow, 18.4% of the respondents indicated they do not collaborate with other firms.

**Figure 22: Collaboration within a subsector**



#### Collaboration with Tertiary Institutions

Besides collaborating with other players, establishments can collaborate with local universities in terms of research and development. The level of cooperation with local universities is depicted below:

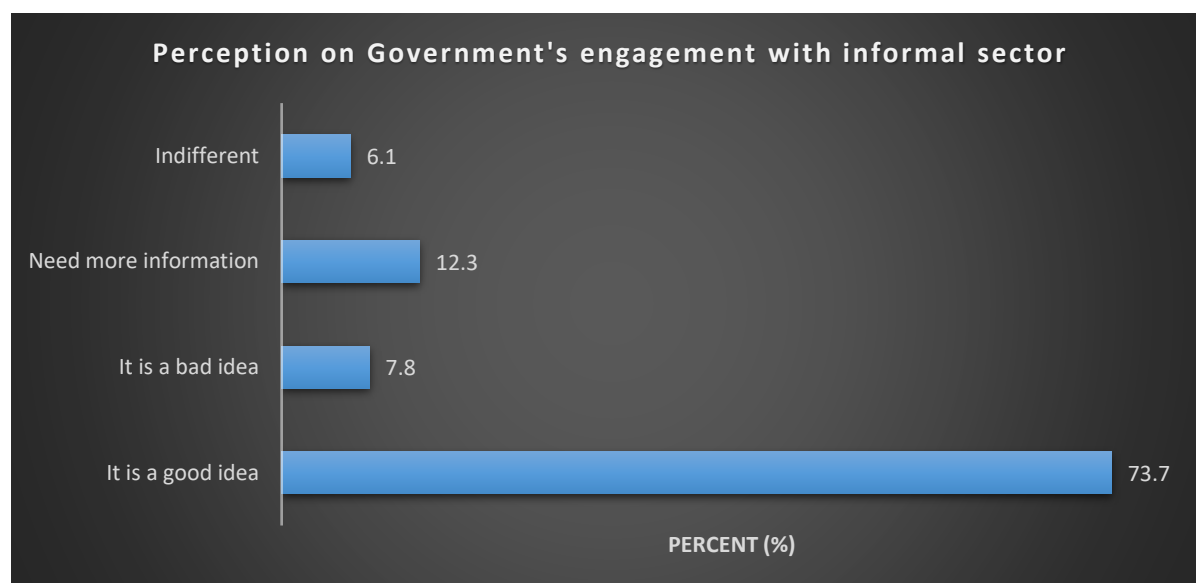
**Figure 23: Collaboration with Tertiary Institutions**

### Collaboration with local tertiary institutions on R&D



With the high level of informalization and the need for informal business to contribute to the fiscus, respondents were asked about their perception on Government engaging the SMEs. The responses are depicted below:

**Figure 24. Government engagement with informal sector**



### Strategies for Price Reduction

Consumers are key as they are the end users of products. Prices play an important role in consumer retention over and above quality. Respondents were asked what can be done to reduce the price at which their products reach the consumer. The results are tabulated below:

**Table 5. Strategies to assist in price reduction**

|                                                 |     |
|-------------------------------------------------|-----|
| Reduce tax and tariffs on raw materials         | 39% |
| Distribution system Improvements                | 26% |
| Improved Infrastructure                         | 10% |
| Operation Expansion to enjoy economies of scale | 4%  |

|                                         |    |
|-----------------------------------------|----|
| Improve Ease of doing Business          | 7% |
| Reduction of fuel and electricity costs | 5% |
| Other                                   | 5% |

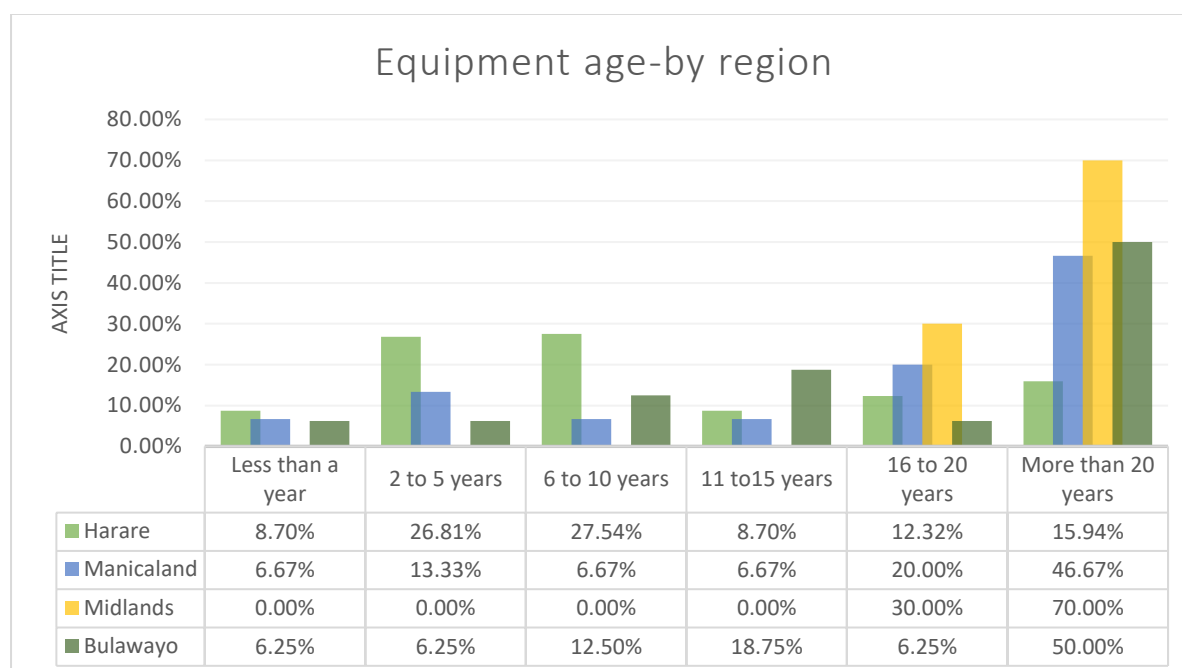
## Innovation and Technology

In previous CZI Surveys, one of the key capacity constraints highlighted is obsolete equipment. CZI, with support from Zimbabwe International Trade Fair (ZITF) started a programme to link local manufacturers to original equipment manufacturers (OEMs). Equipment requirements differ from sub sector to subsector. In this section, we sought to establish the age of the equipment, the miles companies are taking to retool as well as the source of their equipment in order to inform future OEMs programmes.

### Age of Equipment

The responses depict low level of retooling by companies in Zimbabwe. The Midlands region is lagging in terms of retooling as evidenced by 70% of respondents with equipment older than 20years. This is followed by Bulawayo with 50% of respondents indicating that their equipment is older than 20 years. The detailed results are depicted in the graph below.

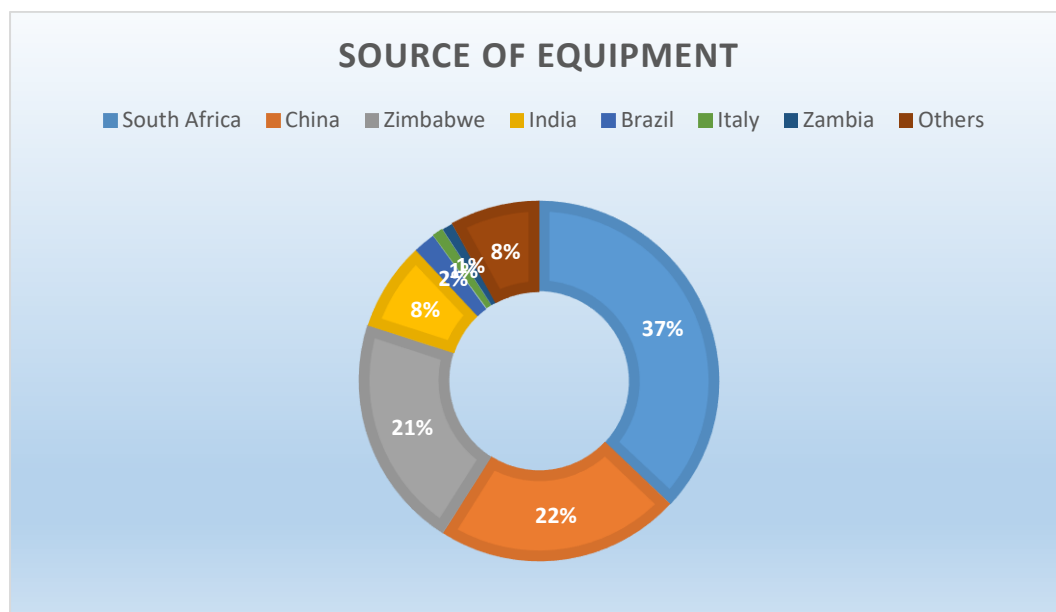
**Figure 25: Age of Equipment**



### Source of Equipment

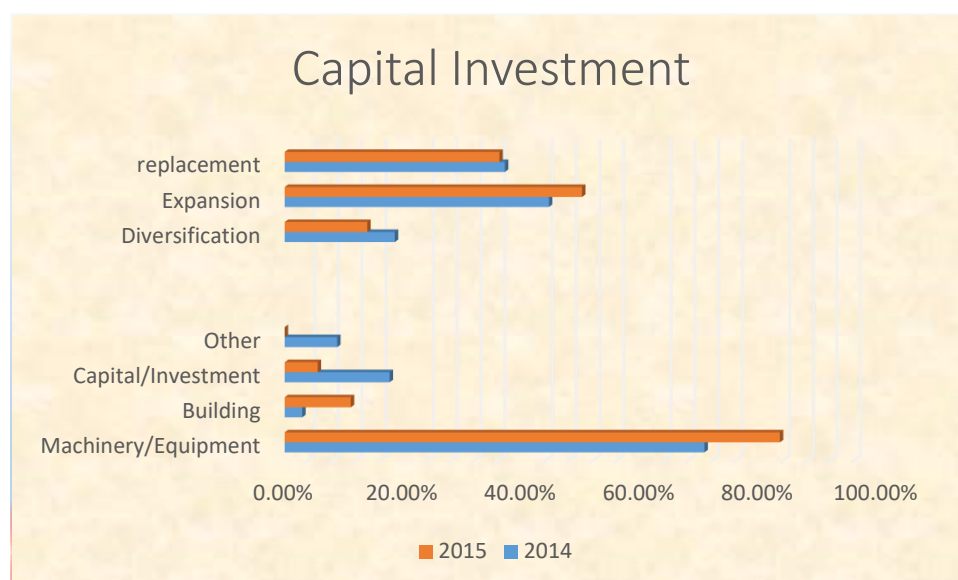
Thirty-seven percent of the respondents source their equipment from South Africa, while 22% source from China. Twenty-one percent of the respondents indicated they source their equipment locally. Thirty-six percent of the respondents indicated that they face duty when importing capital equipment. The detailed results are depicted below.

**Figure 26: Source of Equipment**



Eighteen percent of the respondents carried out new investments in capital in 2015. Of the proportion who made capital investments, 83% invested in machinery and equipment with the main reason being expansion. Fifty percent of the respondents who invested indicated that they invested in order to expand their businesses. A comparison of the results with last year's investment is depicted in the diagram below.

**Figure 27: Capital Investment**

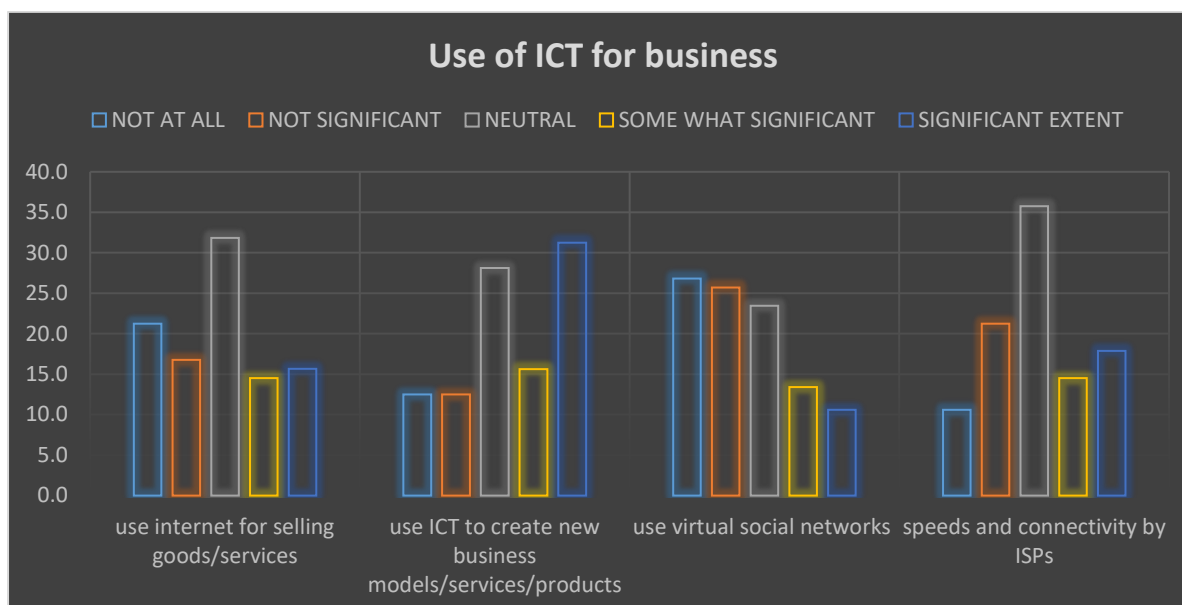


The use of internal resources and profit remain the largest source of investment with 54% pointing it out as the main source. Eighteen percent of capital investment was financed from loans and borrowings with another 18% coming from FDI.

#### Use of ICT in Business

In the global economy technologies are rapidly developing and improving business productivity. Technology development cannot be ignored when speaking of factors responsible for economic growth. While the use of virtual social networks remains subdued, twenty-one percent of the respondents use internet for selling their products.

**Figure 28: Business and Technology**



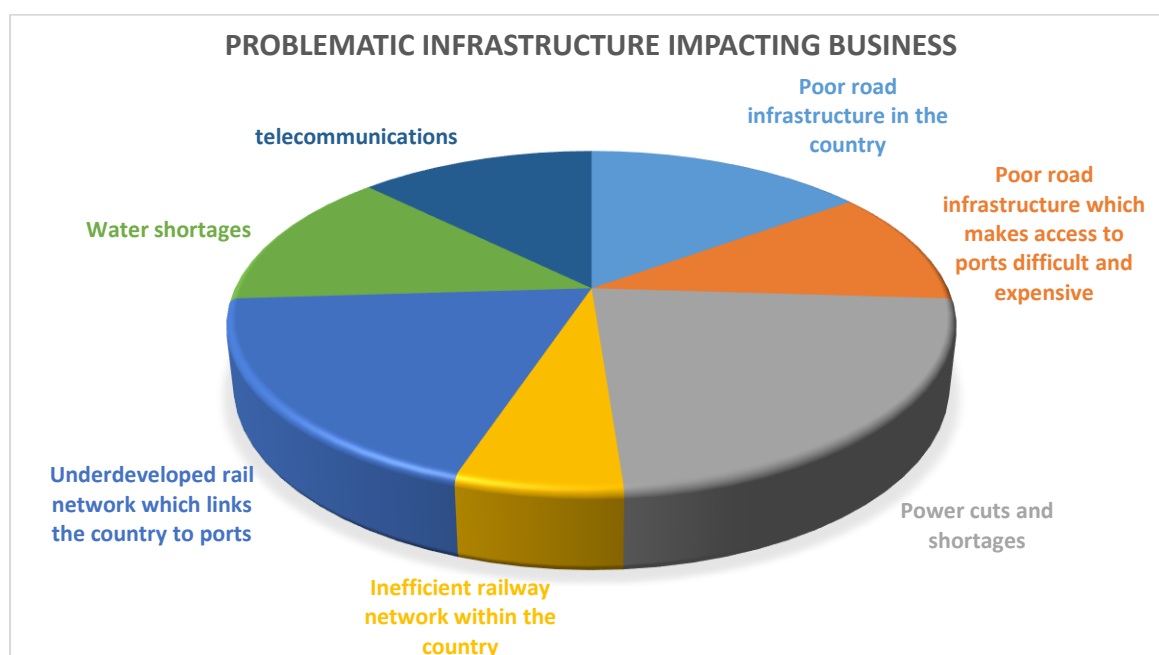
## Infrastructure – Contributing To Industry Uncompetitiveness

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. Sixty-eight percent of the respondents indicated that the current state of infrastructure is unable to support future growth.

### Problematic Infrastructure Factors

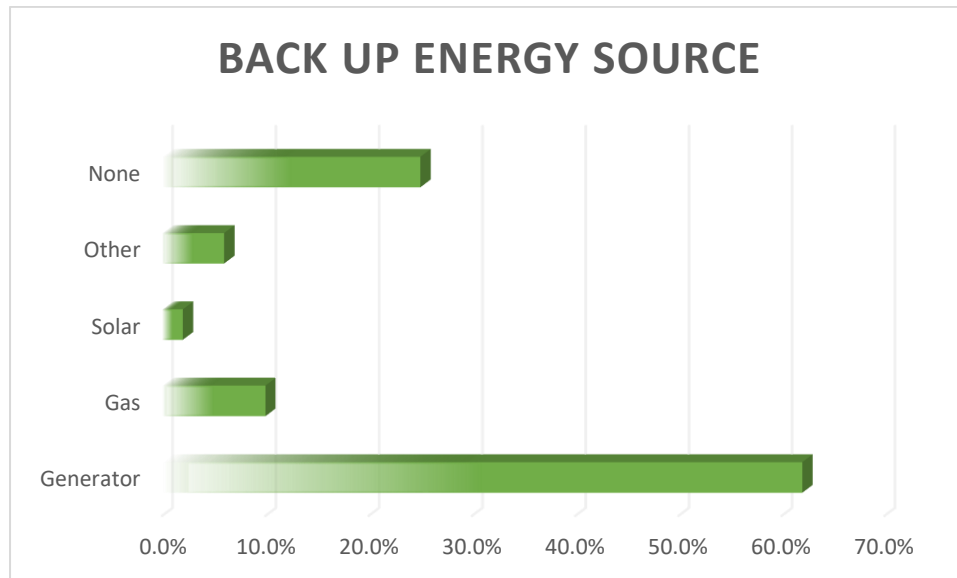
Power cuts and underdeveloped rail network continue to be top of the infrastructure challenges for the manufacturing sector. Alternative sources are expensive and add to the cost of production.

**Figure 29: Problematic Infrastructure Factors**



In light of the power cuts, respondents were asked to state their source of back up energy. The results point to the need to consider green energy as the use of solar among industrialists is very minimum. Twenty- five percent of the respondents indicated that they have no back up energy source. This has a direct impact on production given the level of power outages. The responses are as follows:

**Figure 30: Back up Energy Source**



Back up energy contributes an average of 30% of the total energy cost for the manufacturing sector. Electricity contributes an average of 8% to the total costs of the manufacturing establishments.

#### Energy Conservation and Resolving the Power Crisis

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.

**Table 6. Issues to be addressed to deal with the current power crisis**

|                                                  |        |
|--------------------------------------------------|--------|
| promote affordable alternative sources of energy | 24.24% |
| increase electricity production and supply       | 36.36% |
| Debt recovery                                    | 9.09%  |
| Price reduction                                  | 15.15% |
| prepaid meters                                   | 9.09%  |
| Don't know                                       | 6.06%  |

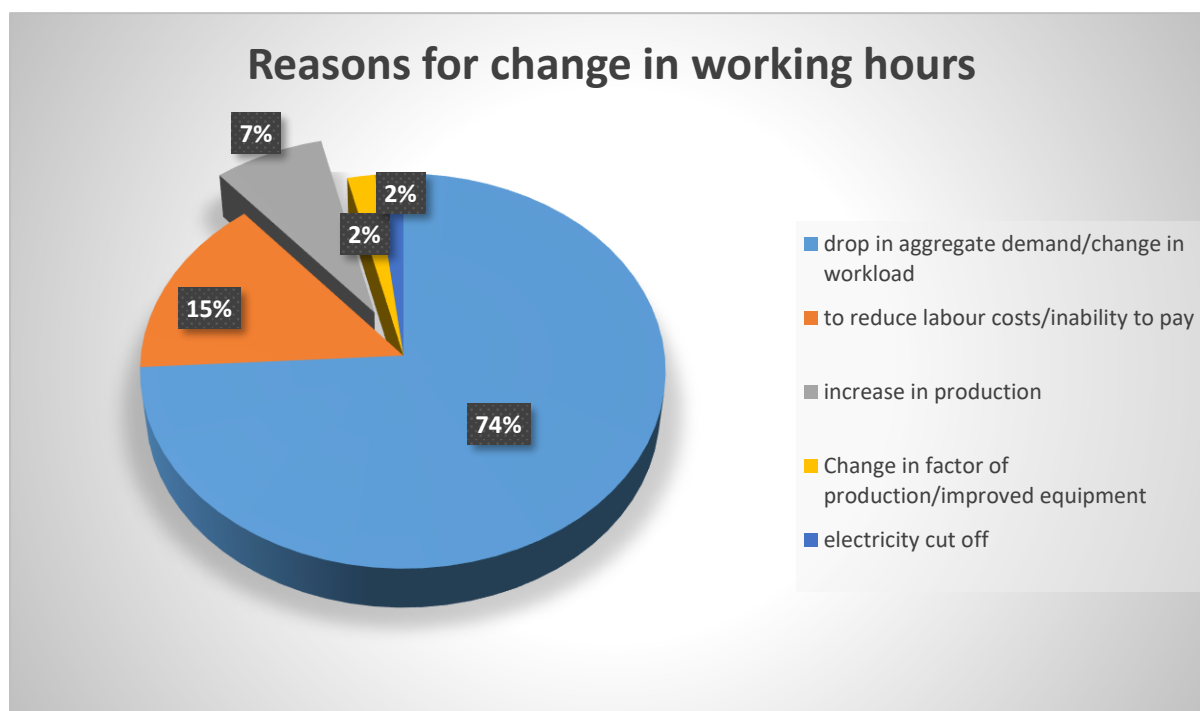
## Human Capital

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

Respondents were asked if they changed working hours in 2014/2015 and were further asked the main reasons that necessitated the change (if any) in working hours. Twenty-six percent of the respondents indicated that they changed their working hours. Of the respondents that had indicated having changed working hours, 7% increased their working hours to cater for increased production. Seventy-four percent cited that the changes were due to a drop in aggregate demand which necessitated reduction in output hence the change. Twenty-two percent of the respondents cited changing working hours directly to reduce labour costs to enhance viability and also due to inability to pay.

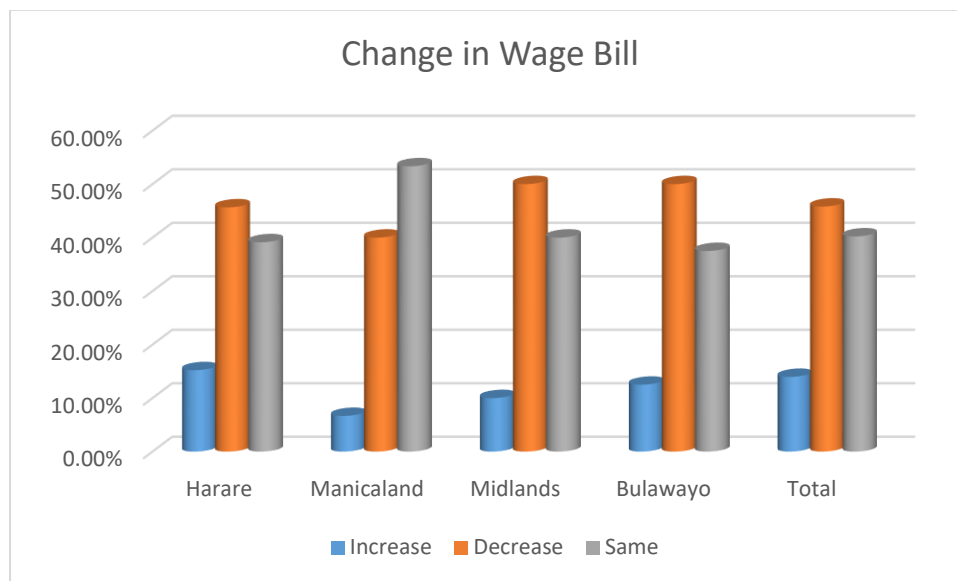
**Figure 31:**  
**Reasons for**  
**Changes in**  
**Working**  
**Hours**



### Change in Wage Bill

Fourteen percent of the respondents indicated that their wage bill had increased compared to 2015 while 45% reported a decline in the wage bill and 41% had no change in the wage bill.

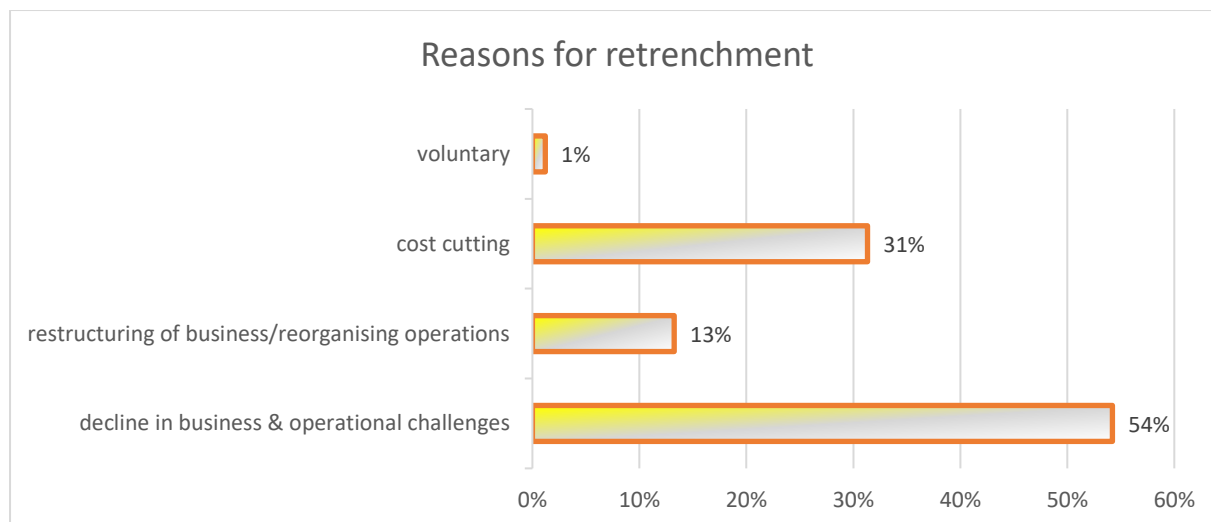
**Figure 32. Change in Wage Bill by region**



#### Retrenchments

In terms of retrenchment, 24% retrenched permanent employees while 76% did not retrench. Of the companies who retrenched, 54% highlighted declining business, 31% indicated cost cutting, while 13% indicated restructuring.

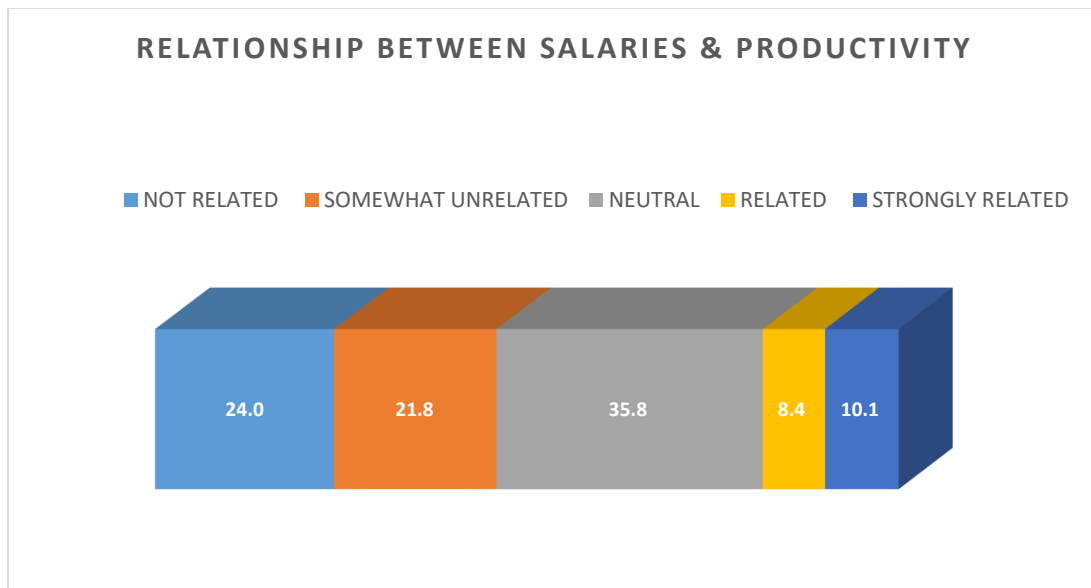
**Figure 33. Reasons for Retrenchment**



Direct labour costs constitute 24.5% of the total input costs in manufacturing, while total employee costs constitute 29.9%.

Twenty four percent of the respondents highlighted that their wages are not productivity related. Only 10% of the respondents have their salaries strongly related to productivity. The results are depicted below:

**Figure 34: Productivity Related Remuneration**



#### Employee Training and Development

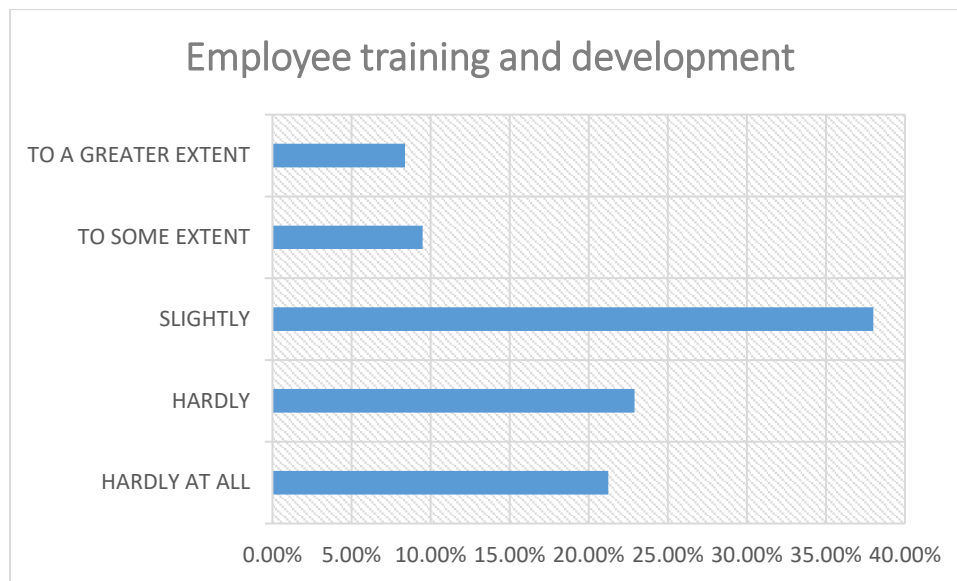
Employee training is crucial for an organization as there are a number of benefits that can be realised.

The benefits of training can be summed up as:

1. Improves morale of employees- Training helps the employee to get job security and job satisfaction. The more satisfied the employee is and the greater is his morale, the more he will contribute to organizational success and the lesser will be employee absenteeism and turnover.
2. Less supervision- A well trained employee will be well acquainted with the job and will need less of supervision. Thus, there will be less wastage of time and efforts.
3. Fewer accidents- Errors are likely to occur if the employees lack knowledge and skills required for doing a particular job. The more trained an employee is, the less are the chances of committing accidents in job and the more proficient the employee becomes.
4. Chances of promotion- Employees acquire skills and efficiency during training. They become more eligible for promotion. They become an asset for the organization.
5. Increased productivity- Training improves efficiency and productivity of employees. Well trained employees show both quantity and quality performance. There is less wastage of time, money and resources if employees are properly trained.

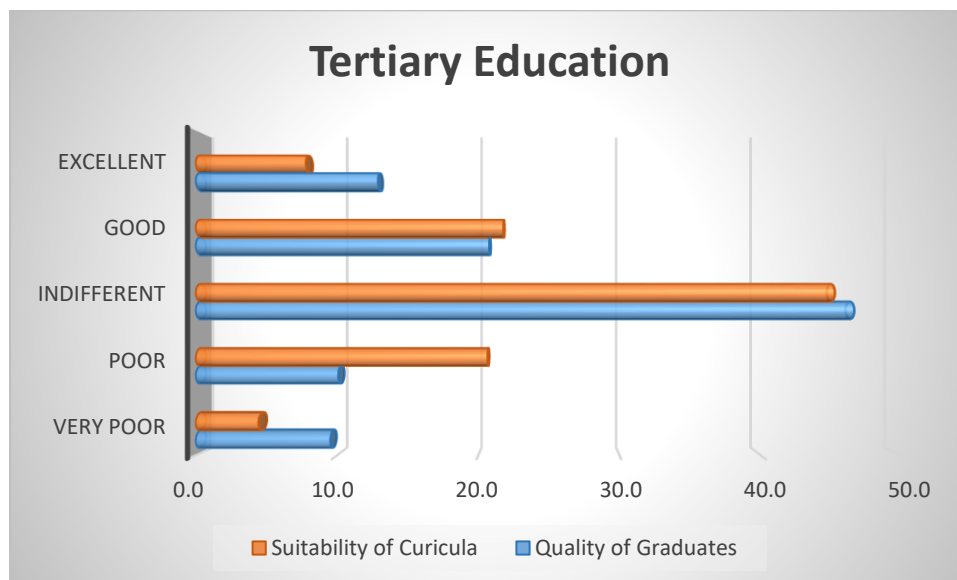
The results show that only 9% of the respondents extensively invested in employee training and development in the past year. More than 40% of the respondents did not invest in training and development.

**Figure 35. Employee Training and Development**



The quality of graduates is key to the development of all organizations and quality can be affected by the tertiary institutions curriculum. The graph below depicts the respondents' views on the curriculum and quality of graduates.

**Figure 36. Tertiary Education**

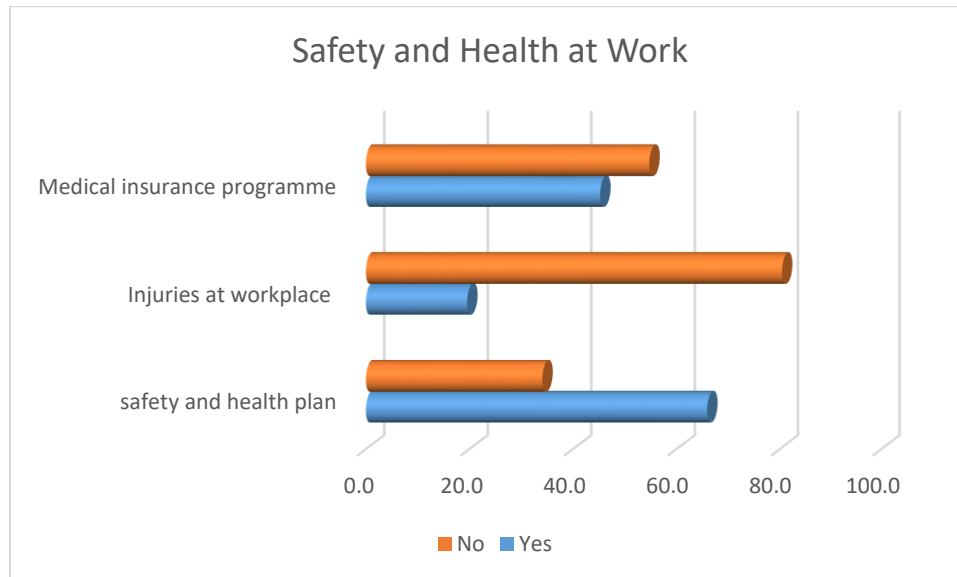


### Safety and Health at Work

International Labour Organization (ILO) estimates that economic burden of poor occupational safety and health practices is estimated at 4 per cent of global Gross Domestic Product each year. To reduce these losses, organizations should have operational safety and health plans. Sixty-five percent of the respondents

have a safety and health plan while forty-five percent have a medical insurance plan. Nineteen percent of the respondents reported injuries in the previous year.

**Figure 37. Safety and Health plan at work**



## Foreign Trade, Investment and Financial Environment

### Exports

Twenty-one percent of the respondents indicated that they export their products.

### Reasons for not exporting

Companies that have not been exporting over the last two years cited lack of competitiveness and high cost of exporting as the top reason for not exporting. A summary of the reasons for not exporting is provided in the table below.

**Table 7. Reasons for not Exporting**

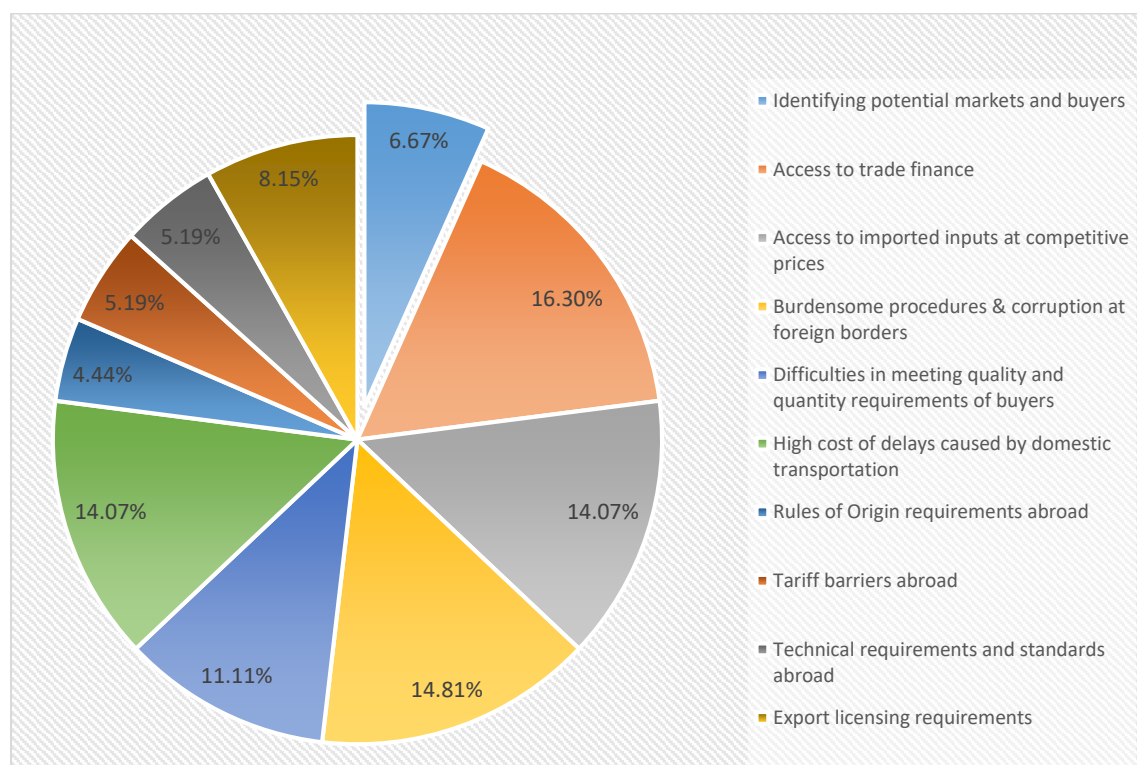
|                                               |               |
|-----------------------------------------------|---------------|
| <b>competitiveness/high cost of exporting</b> | <b>29.13%</b> |
| <b>no export market</b>                       | <b>22.83%</b> |
| <b>low capacity for export</b>                | <b>19.69%</b> |
| <b>cumbersome export procedures</b>           | <b>9.45%</b>  |
| <b>prefer local market</b>                    | <b>8.66%</b>  |
| <b>products can't be exported</b>             | <b>3.15%</b>  |
| <b>capital constraints</b>                    | <b>3.15%</b>  |

|                               |              |
|-------------------------------|--------------|
| <b>no incentive to export</b> | <b>3.15%</b> |
| <b>Other</b>                  | <b>0.79%</b> |

The top problematic factors for exporters are:

1. Access to trade finance
2. Access to imported inputs at competitive prices
3. Burdensome procedures at foreign borders
4. Difficulties in meeting customer requirements
5. High cost of delays caused by domestic transportation

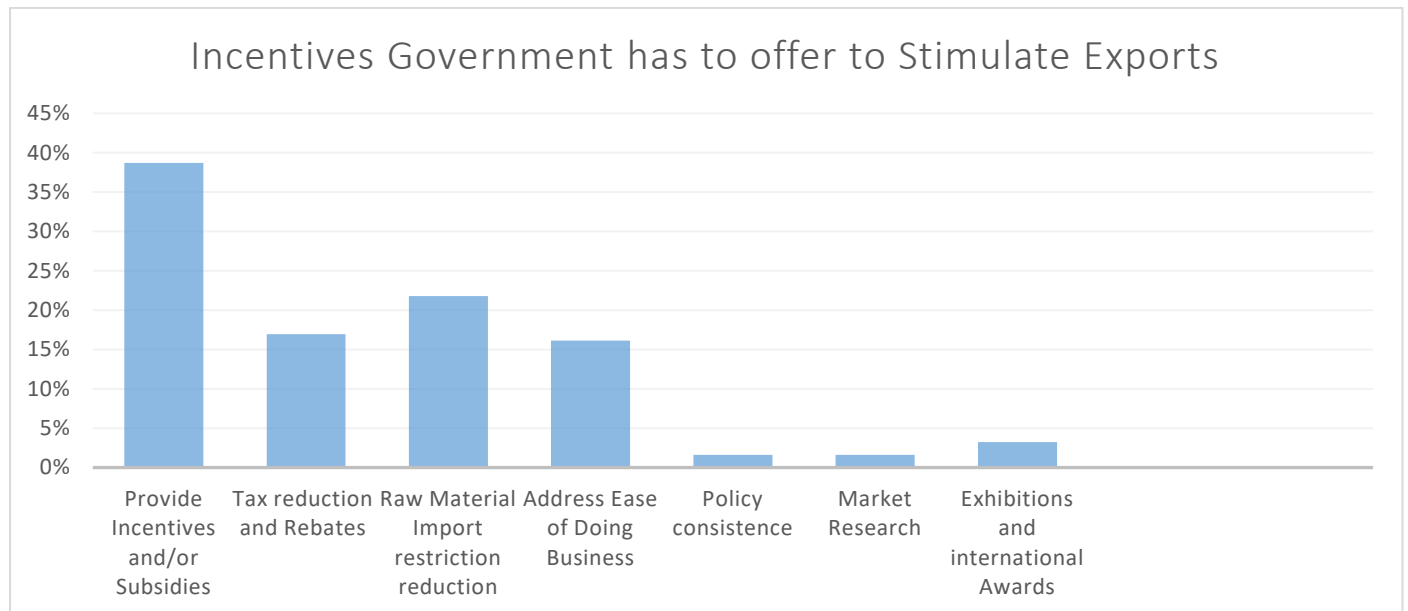
**Figure 38. Problematic factors when exporting**



### Export Strategies

In terms of what Government can do to stimulate exports, respondents highlighted the following:

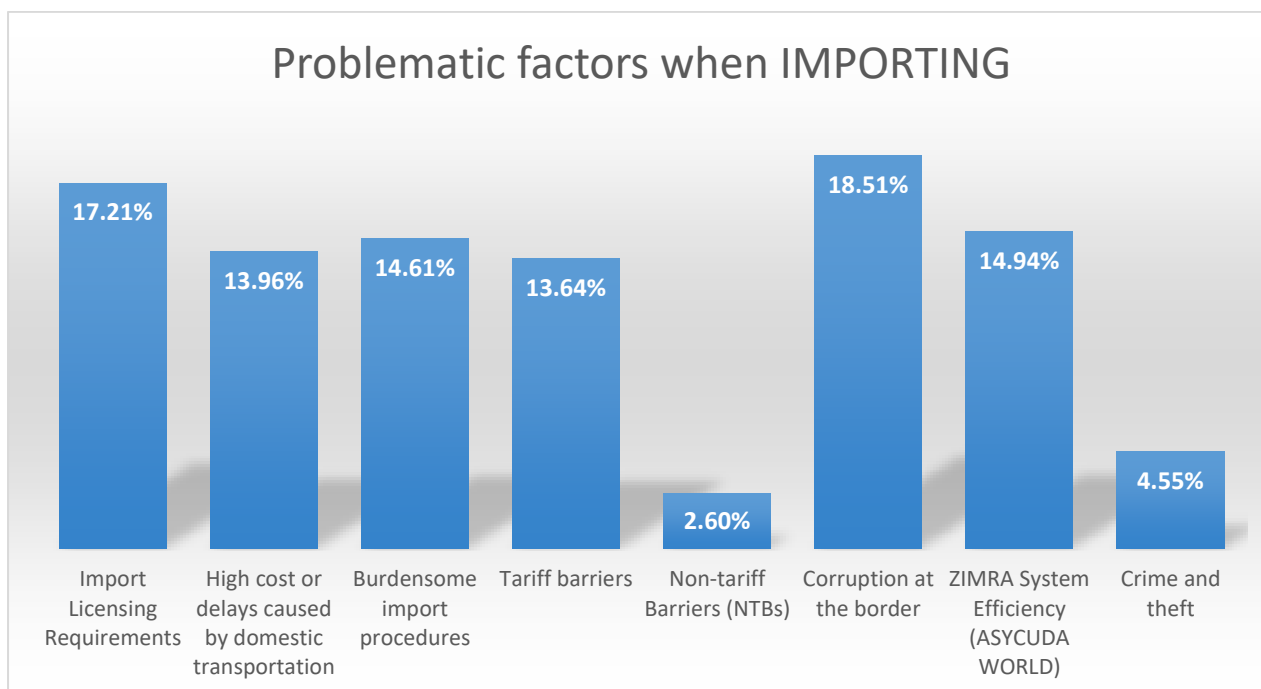
**Figure 39. Incentives Government has to offer to stimulate exports**



**In terms of importing, the five most problematic factors are listed below:**

1. Corruption at the Border
2. Import Licensing Requirements
3. Zimbabwe Revenue Authority (ZIMRA) System Inefficiency
4. Burdensome Import Procedures
5. Delays Caused by Domestic Transportation

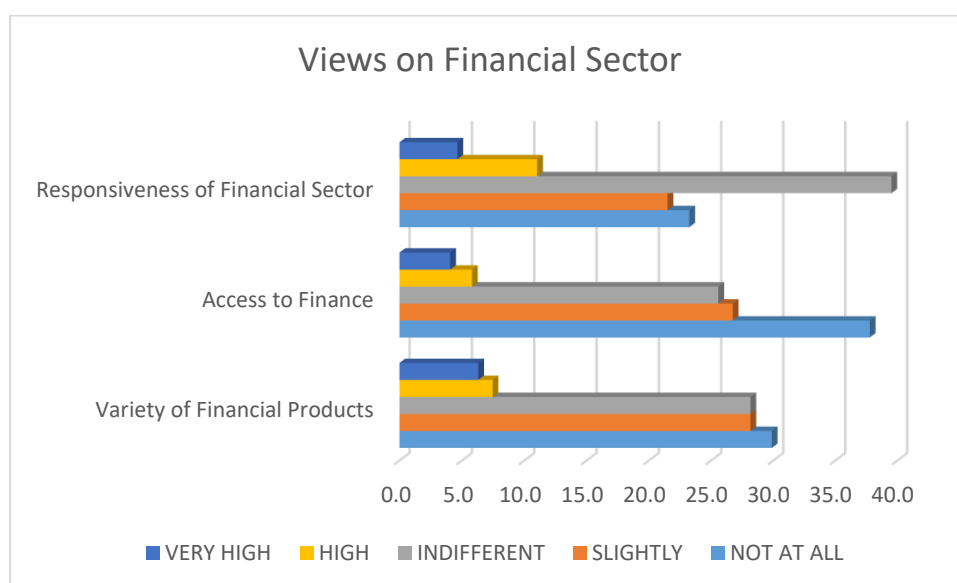
**Figure 40. Problematic factors when importing**



#### 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. The packaging of the financial products is also key. Respondents were asked whether the financial sector provides a wide variety of financial service. Close to 14% indicated that banks provide a wide variety of financial services. More than 50% of the respondents indicated that it is not easy to access funding or loans from the local banks, while another 44% indicated that the financial sector is unresponsive to industry needs.

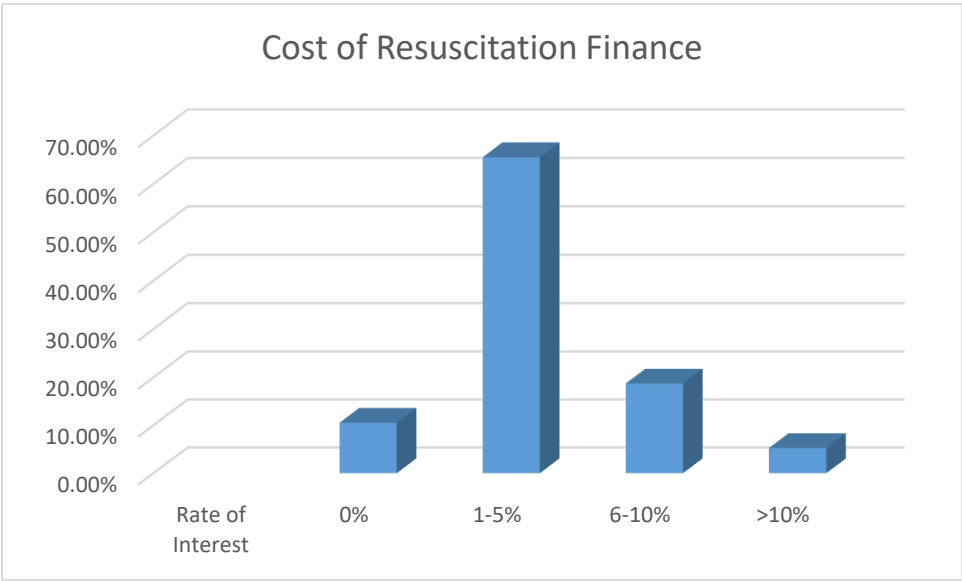
**Figure 41. Views on financial sector**



#### Cost of Finance

Respondents were asked the rate of interest they would expect if government is to revive financial facilities such as DIMAF and ZETREF. 66% indicated that the interest rate should be between 1-5%, 18% indicated 6-10% while 11% indicated these should be disbursed at no cost.

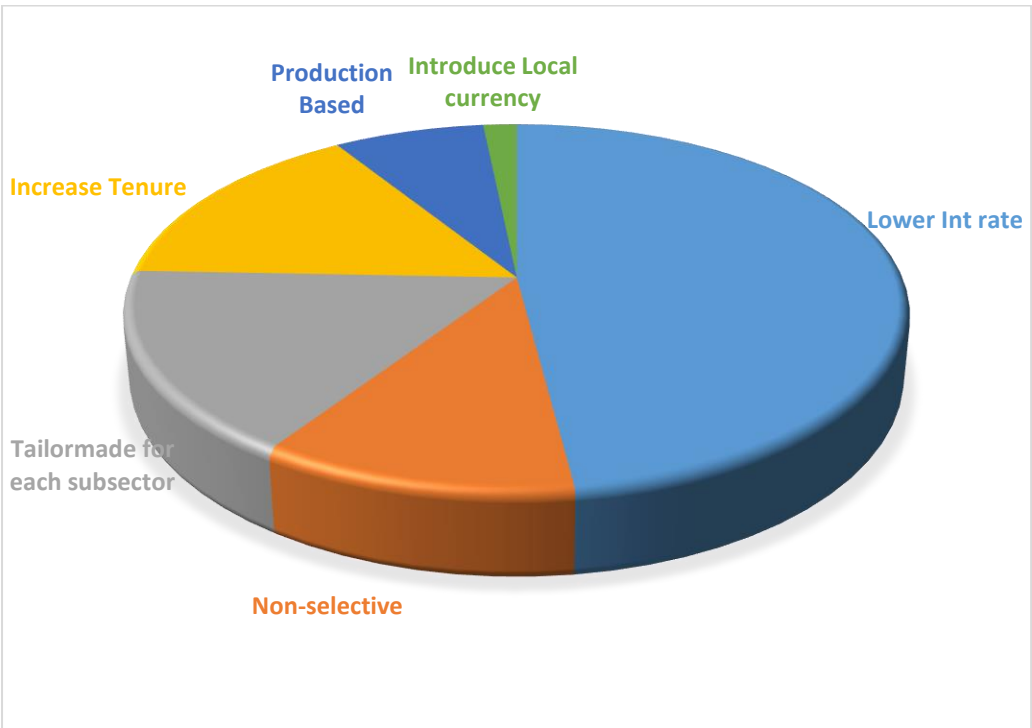
**Figure 42. Cost of finance**



**Structure of Finance Suitable for the Manufacturing Sector**

Respondents indicated the need for low interest rate financial solution and long term.

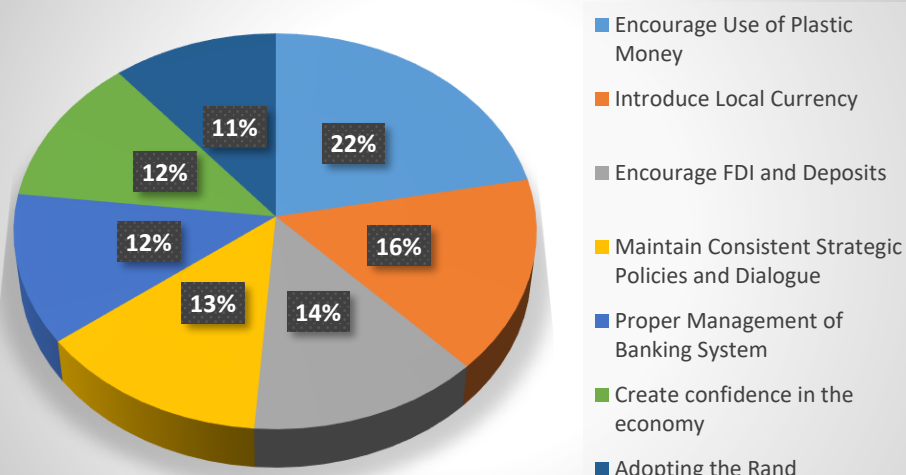
**Figure 43. Structure of financial products for manufacturing sector**



The cash crisis has not only affected individual consumers but all businesses. To ease the cash shortages, respondents to the survey proposed the following:

**Figure 44. What RBZ should do to ensure money circulation**

### What RBZ should do to ensure money circulation



## Overall Perception of the Economy

### 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 Negative | Negative | No Effect | Positive | Very Positive |
|--------------------------------|---------------|----------|-----------|----------|---------------|
| Minimum wages                  | 17.9%         | 30.7%    | 40.8%     | 5.0%     | 1.1%          |
| Restrictive Labour regulations | 19.6%         | 36.9%    | 33.0%     | 5.6%     | 0.0%          |
| Policy instability             | 43.0%         | 34.1%    | 17.3%     | 1.1%     | 0.0%          |
| Corruption                     | 52.5%         | 33.0%    | 9.5%      | 0.0%     | 0.0%          |
| Power cuts                     | 24.0%         | 38.5%    | 26.8%     | 5.6%     | 0.0%          |
| Electricity charges            | 21.8%         | 51.4%    | 20.1%     | 1.7%     | 0.0%          |
| Access to financing            | 38.0%         | 40.8%    | 14.5%     | 1.7%     | 0.0%          |
| Domestic Demand                | 30.2%         | 37.4%    | 16.8%     | 6.7%     | 3.9%          |

|                                                |       |       |       |       |       |
|------------------------------------------------|-------|-------|-------|-------|-------|
| SI 64 of 2016                                  | 14.0% | 29.6% | 30.7% | 10.6% | 10.1% |
| EMA Requirements                               | 14.0% | 29.1% | 46.9% | 5.6%  | 0.0%  |
| Interest Rates                                 | 22.9% | 49.7% | 19.0% | 3.4%  | 0.0%  |
| Depreciation of Regional Currencies            | 15.6% | 44.7% | 29.1% | 6.1%  | 0.0%  |
| Insufficient capacity to innovate              | 17.3% | 48.0% | 27.4% | 2.8%  | 0.0%  |
| Ageing equipment                               | 23.5% | 45.8% | 24.6% | 1.1%  | 0.0%  |
| Competition from imports                       | 35.2% | 40.8% | 17.9% | 1.7%  | 0.0%  |
| Consignment Based Conformity Assessment (CBCA) | 10.6% | 32.4% | 48.0% | 4.5%  | 0.0%  |

From the Table above, the major factors impacting business are:

1. Corruption
2. Policy Instability
3. Access to Finance
4. Competition from imports and
5. Low demand for domestic products.

#### General Comments on the Manufacturing

Most respondents felt that the conditions are poor or deteriorating and are not conducive for business growth and development. Most producers continue highlighting the challenge of informal imports. Despite import restrictions, some of the restricted products have started flooding the informal market. Food manufacturers acknowledge the positive returns realized from SI64 of 2016 and highlighted that production has increased. Respondents called for rationalization and review of license fees by different arms of government.

Fifty-seven percent of the respondents are pessimistic of the future as they indicated that the economy will be in a recession.

## CONCLUSION

Capacity utilisation has jumped significantly by 13.1 percentage points from 34.3% in 2015 to 47.4% in 2016. This is a very positive development largely resulting from the moves on the part of Government to protect local industry and the import priority list.

At the same time is in notable that only 20.7% of respondents viewed SI 64 as positive. This seems to indicate that the overriding concern of industrialists is the uncertain macro-economic environment. This conclusion is supported by the fact that 77.1% of respondents rated policy instability as negative or very negative for the economy. In addition 73% feel that the Government and/or BMOs are not improving in private- public dialogue consultation with the private sector to address economic challenges. Sixty-percent of the respondents do not know of any public-private dialogues or consultations conducted by Government or BMOs in the past 24 months to address economic challenges.

The priority therefore for both Government and the Private sector to accelerate the already existing initiatives for broad based macro-economic stabilization.

Particular consideration should be given to:

1. Elimination of the budget deficit via cash budgeting and supporting measures
2. Continued growth in local manufacturing via import substitution through alleviation of constraints on productivity.
3. Adoption of the rand as the reference currency within the multi-currency system to ensure sustained competitiveness
4. Internal devaluation in line with the “second approach to internal devaluation” outlined in the monetary policy statement of September 2016.

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<sup>i</sup>CZI acknowledges NECF National Competitiveness Report for this section