The Annual CZI 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. This year, CZI has expanded the scope of the survey to not only look at the performance of the manufacturing sector, but also analyse how competitive the sector is and what factors need to be addressed to deal with enhancing competitiveness of the manufacturing sector. The performance of the manufacturing sector is closely linked to competitiveness. The competitive performance of industry is influenced by the business environment within which industry operates.

The aim of the survey is to provide:

- Businesses with a lobbying position and reference point when meeting policy makers
- Government with information on obstacles to economic growth as well possible solutions in designing better economic policy
- Academia with information on analyzing the current business environment

The Survey provides a unique source of insight of the economy from the business perspective to give a more accurate portrayal of the current and prospective health of the country's economic and business environment. A strong, competitive and diversified industrial manufacturing sector is vital for the economic well-being of Zimbabwe. A competitive industry can lower costs and prices, create new products and improve quality, thus contributing to wealth and job creation and productivity growth throughout the economy.

Sections Covered in this Survey

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

Survey Methodology

The CZI survey has been conducted on an annual basis and provides a unique source of insight of the economy from the business perspective view. The survey is so significant that policy makers, IMF, World Bank, UNDP among others always anticipate it and make use of it. The relevant survey documentation would be publicly available on the CZI website.

1. Who conducts the survey?

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

2. Who is surveyed?

Typically more than 250 questionnaires are sent throughout the country, with the manufacturing sector being the target sector. Companies were drawn from the four CZI Chambers namely Mashonaland, Manicaland, Matabeleland and Midlands. These include both the CZI members and non members. The questionnaires were completed by the firms Director or Chief Executive Officer.

The 2012 CZI Manufacturing Sector Survey

EXECUTIVE SUMMARY

The 2012 CZI Manufacturing Sector survey shows that the manufacturing sector is in crisis. An analysis of factors affecting performance and competitiveness indicates that majority of the factors are impeding meaningful growth in the sector. Capacity utilization in the manufacturing sector has declined from 57.2% to 44.2%. It is important to note that the worst performing manufacturing subsector (leather and allied products) for 2012 is operating as low as 27.5% and the best performing subsector (battery) operating at 76.5%

The survey points to a stagnant performance, with the average manufacturing output growing below 2%.

Manufacturing export sales have remained unchanged at 15% of total turnover. Zambia remains the top export destination for manufactured products receiving 30% of the manufacturing share of exports. Next is Mozambique and South Africa has dropped to fourth position. The poor competitiveness of local products on the export market is the main reason for unchanged growth in export sales.

South Africa tops the list of competing imported products with 85% respondents indicating that they compete with South African products while 66% of the competing products are from China.

The following factors were identified as having the greatest negative impact on capacity utilization and doing business in Zimbabwe in 2012:

1. Availability and cost of funding
2. Infrastructure in particular power shortages and cost
3. Economic policy instability
4. High labour cost and rigid labour laws

49% of respondents indicated that the economy will experience no growth in 2013 while 30% forecast slight growth. The remainder are optimistic on growth.

The general view from the survey is that policy inconsistencies and ambiguity have resulted in capital flight and reluctance of foreign investors to make significant investments across all sectors of the economy. 65% of the respondents are positive that the country will meet its year end target of inflation of 5%.

ECONOMIC OVERVIEW

Although the economy continues to grow, the challenges faced by active business become more enshrined in the economy. The level of growth has significantly slowed down, with the economy expected to shed almost 4 percentage points on the 2011 GDP estimate. GDP growth for 2012 has been revised downwards from 9.4% to 5.6%.

According to the Ministry of Finance in his 2012 Mid-Term Fiscal Policy Review Statement; the economy would not meet initial forecasted GDP growth due to the following factors:

i. A poor rain season
ii. Policy inconsistencies & uncertainties undermining investor confidence
iii. Lack of capital & the absence of alternative financing instruments
iv. Revenue underperformance against a high unsustainable wage bill, crowding out social & infrastructure spending among others.

In his Mid-Term Monetary Policy Statement, the governor of the Reserve Bank further added more factors currently besieging the economy. These include:

i. Policy reversals and inconsistencies
ii. Indiscipline in the financial sector
iii. Deterioration of infrastructure
iv. Adverse global economic developments
v. Difficult external sector position
vi. Persistently recurrent liquidity challenges among others.

All these factors mentioned above have serious consequences on the manufacturing sector as a whole. Industry has since the beginning of dollarization, pointed out these key factors to government and at the recently ended CZI Annual Congress, a declaration of an economic crisis was made. Little or no action from policy makers has left industry in a very precarious position. Since dollarization several policies have been put in place and as rightfully pointed out by the Ministry of Finance, implementation and monitoring capacities of these policies is limited.

In the recently launched World Economic Forum Global Competitiveness Report 2012, the following are listed as the most problematic factors to doing business:

Table 1: The Most Problematic Factors for Doing Business

Factor	**% of Responses**
Access to finance	27.3
Policy instability	18.7
Inadequate supply of Infrastructure	16.3
Inefficient Government bureaucracy	9.9
Corruption	7.6
Restrictive labour regulations	7.3

Source: WEF Global Competitiveness Report2012

SURVEY RESULTS

The next section of this report will cover the results from the survey. It is imperative to state that all results given below are based on views given by respondents are a 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 sector.

ARE LOCAL MANUFACTURERS STRUCTURED FOR GROWTH?

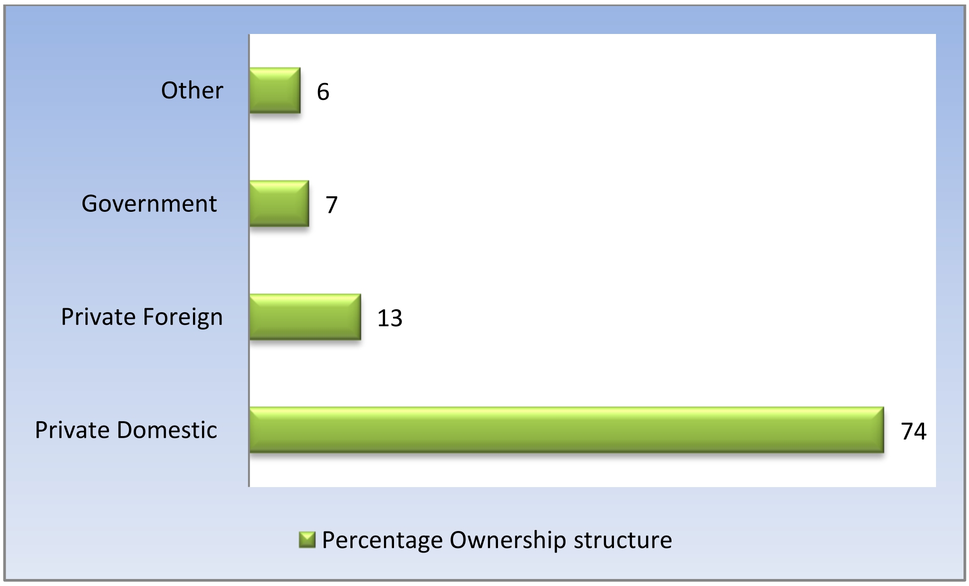
COMPANY INFORMATION

This section sought to ascertain basic information on company operations, this information included products being manufactured, number of years in existence and ownership structures. Responses received were classified and grouped into 16 sub-sectors of manufacturing. In terms of number of years that these firms have been in existence was diverse, with new enterprises that have been operating for as little as a year to firms that have been in existence since 1912.

Company Structure

In terms of ownership structure, the aim was to determine participation of domestic private entities, government, foreign entities and other players in the economy. The distribution below provides insights into the levels of equity in the economy.

Figure 1: Percentage Ownership Structure



Within the organisational structures of companies surveyed, only 5% of the companies indicated being led by females whilst the remainder are headed by males.

COMPANY OPERATIONS AND STRATEGY

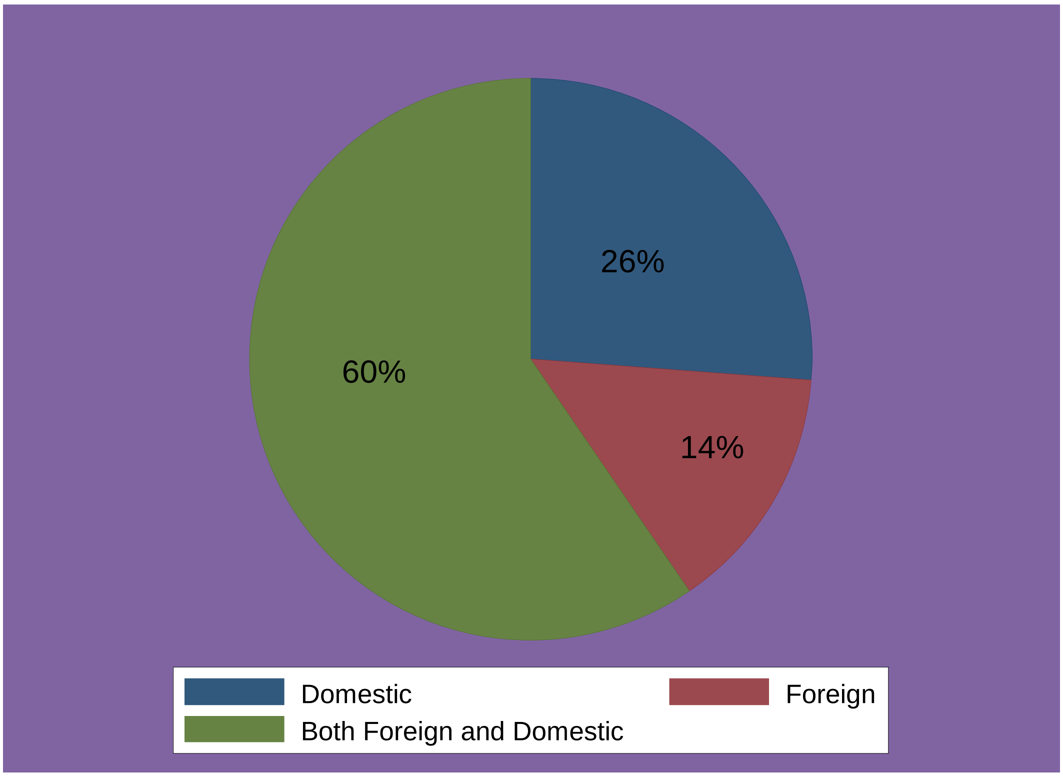
The scope of a firm can often be linked to the level of productivity. In this survey, our first step was to understand the structure and nature of firms, from the composition of the firm, to the make-up of their competitors, right down to how they set their prices. No link to productivity was estimated as we would need to have obtained data over a period of time to make any meaningful 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 8% of the respondents being conglomerates. The majority of firms only specialize in their line of business. Of the respondents, 30% are vertically integrated thereby producing their own inputs and having own distribution channels. While only 17% of the repsondents are or have subsidiaries.

Source of Competition

The analysis indicates that 60% of the manufacturing firms face competition from both home and away, whilst 26% only face domestic competition, the remainder only faces foreign competition i.e. no domestic competition.

Figure 2: Source of Competition



In terms of the countries that pose most of the competition, South Africa tops the list with 85% response rate. The table of competition by country is provided below:

Table 2: Competitor by Country

Country	**Indication of Competition by %**
South Africa	85
China	66
India	30
Brazil	19
Other	19

Pricing Mechanism

The most popular pricing mechanism amongst the manufacturers is the mark up over cost, with 73% of the respondents indicating that they use it. 22% of the respondents are market price takers, whilst it is worth noting that since market liberalisation, government is playing a dormant role in product pricing, with less than one percent of the respondents (0.8%) indicating that their prices are set by government. 19% of the respondents indicated that they negotiate with the buyer whilst 14% base their prices in line with imports. The results show that most companies have more than one pricing mechanism depending on the target market.

A Closer Look at Our Traditional Statistics:

Turnover and source of raw materials

Results indicate that on average production for local consumption is 85% whilst the remainder is for the foreign market. This result remains unchanged for the past three years – a clear indication that exports remain depressed.

The ratio of local inputs to imported inputs has slightly increased from 1.17:1 in 2010 to 1.25:1 in 2011. Local raw materials increased by 1.9% whist the imported raw materials declined by 1.3%.

Capacity Utilisation

In the survey we sought to determine levels of capacity utilisation i.e. the level to which the productive capacity of a plant/firm is being used in the generation of goods. The global capacity utilization for the manufacturing sector for 2012 is **44.9%.** From the respondents only 46.5% recorded capacity utilisations of above 50%, with a total of 4 firms recording a capacity of 100%.

The average capacity utilisation of 44.9% would imply a decline of 12.3 percentage points from last year's average of 57.2%. However, a lateral comparison in this case is not ideal due to the increase in scope and coverage of the survey. To give a clearer picture of the levels of capacity utilisation in the sector, the table below summarizes the capacity by subsectors.

Table 3: Average Capacity Utilization by Subsector

Manufacturing Subsector	Average Capacity Utilisation (%)
Bakers	40.0
Battery	76.5
Building (construction and related)	59.5
Car Assemblers	30.3
Electric Appliances Manufacturers	43.8
Engineering Iron and Steel	36.7
Food, Dairy and Beverages	58.2
Grain Millers	30.0
Chemical	41.6
Leather and Allied	27.5
Paints and Inks	30.5
Pharmaceuticals	58.0
Plastic, Packaging and Rubber	46.1
Paper, Printing and publishing	58.3
Textiles and Clothing	34.4
Timber Processors	53.8

Major Capacity Constraints

Since the introduction of the multicurrency system, the challenges affecting manufacturing have remained largely unchanged. Over three years down the line and we are still singing from the same hymn book. This should clearly be an indication that the problem is far greater than the challenges listed below. What has government done to address these challenges, and what have the industrial players themselves done to address these challenges.

Table 4: Major Capacity Constraints

Capacity Constraint	Percentage
Working capital constraints	32.3
Low local demand	13.3
Antiquated machinery and machine breakdowns	11.4
Power and water shortages	9.9
Competition from Imports	9.5
Drawbacks from the current economic environment	8.4
High cost of doing business	8.0
Shortage of raw materials	5.3
Other	1.9

Business Viability

In terms of whether business viability has improved over the past year, 31% indicated that business has not improved at all and has actually been declining, 24% recorded a slight increase, and only 10% recorded a significant improvement in business viability. The graph below summarizes the findings on business viability.

Figure 3: Changes in Business Viability

INNOVATION AND TECHNOLOGY

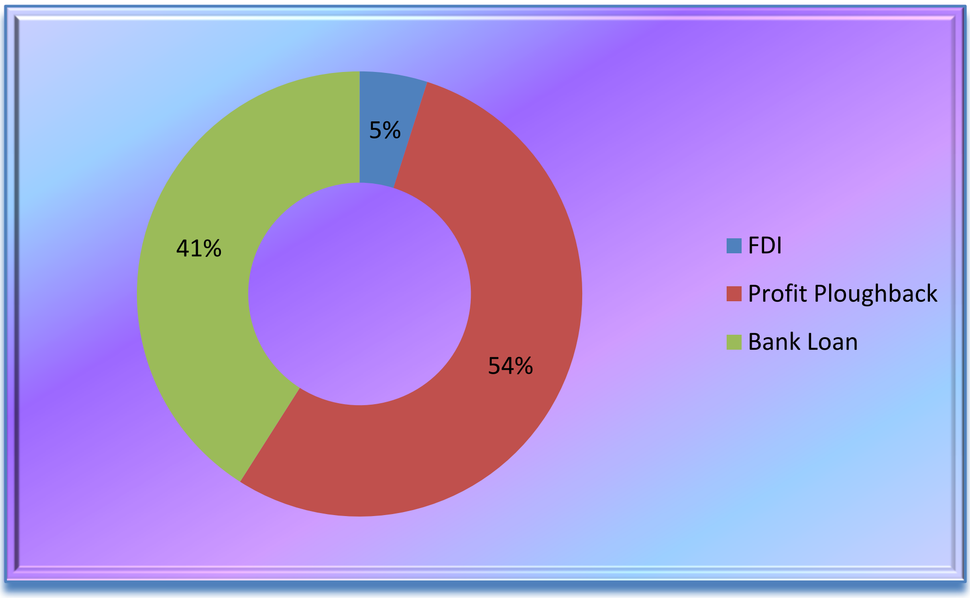
In the global economy technologies are rapidly developing and improving business productivity. This section of the survey sought to ascertain the levels of technology development and innovation within local firms in the manufacturing sector. Technology development cannot be ignored when speaking of factors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

Capital Investment

In 2011, the total number of companies which carried out new capital investment increased by 11%. Of these, 93% invested in machinery and equipment whilst 7% invested in land and buildings. The major reason for investment was to replace worn out machinery and equipment (46%) whilst 44% indicated that they wanted to expand their operations.

The issue of capital investment has been critical and discussed widely, largely as a result of lack of capital to undertake such projects. From the respondents who invested, the graph below highlights sources of capital.

Figure 4: Sources of Funding

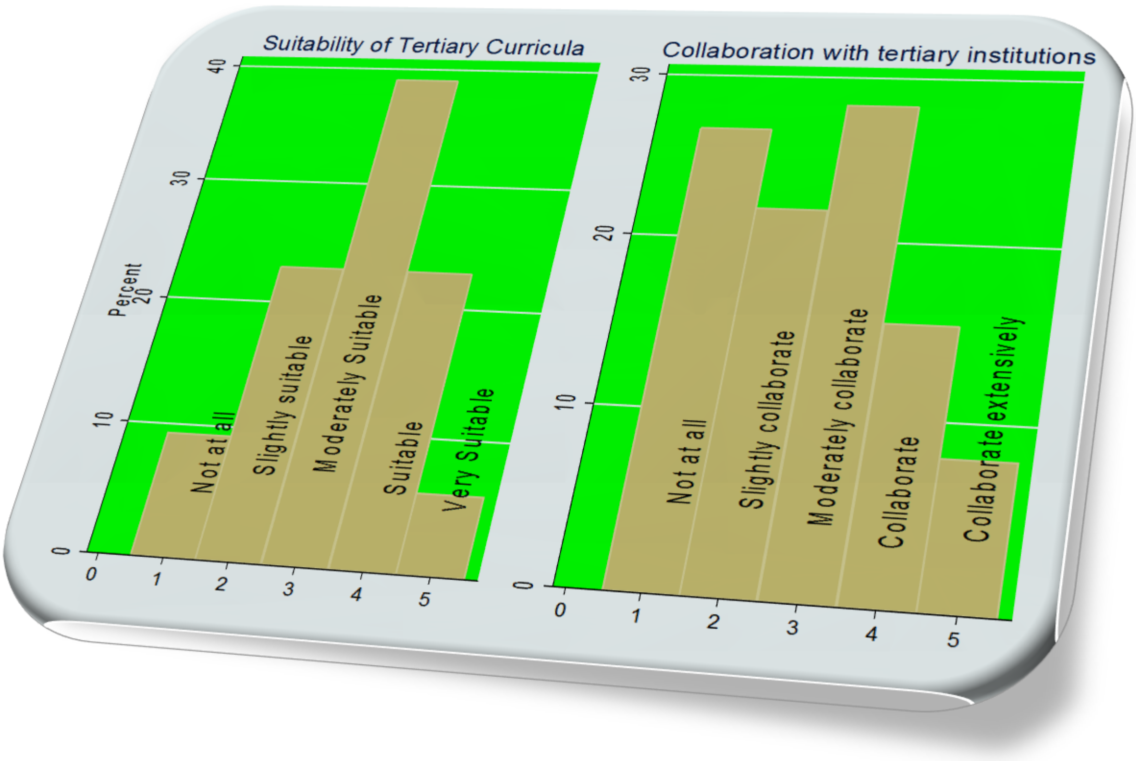


Source: CZI Manufacturing Sector Survey 2012

Innovation and Technology

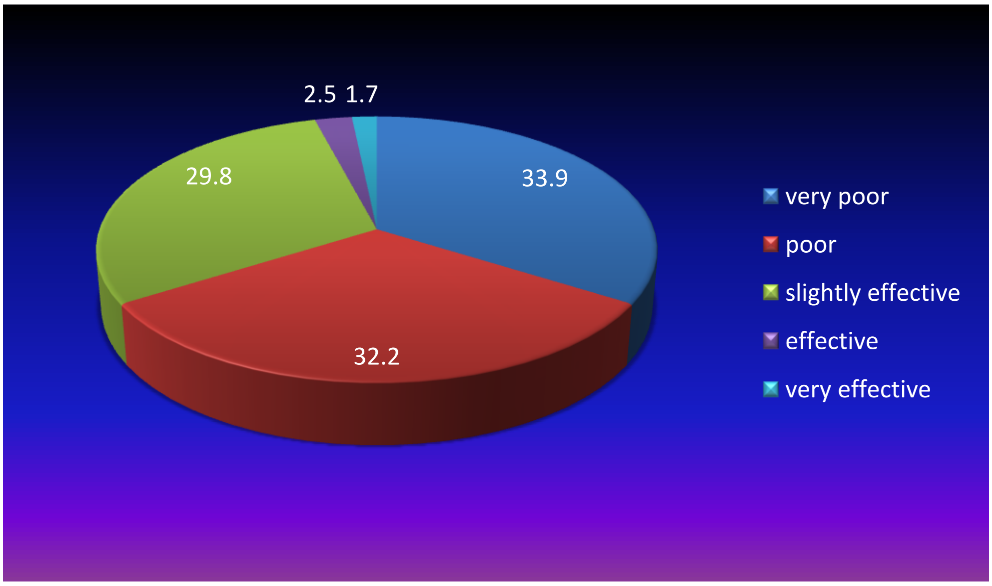
Collaboration with tertiary institutions ensures that tertiary institutions produce the right products (human capital) for the market. This is also the same for the curricula offered in these institutions. Most respondents indicate that they collaborate moderately with the tertiary institutions whilst the curricula offered by these institutions are moderately relevant for the companies. The results are tabulated below.

Figure 5: Views on the Tertiary Education System



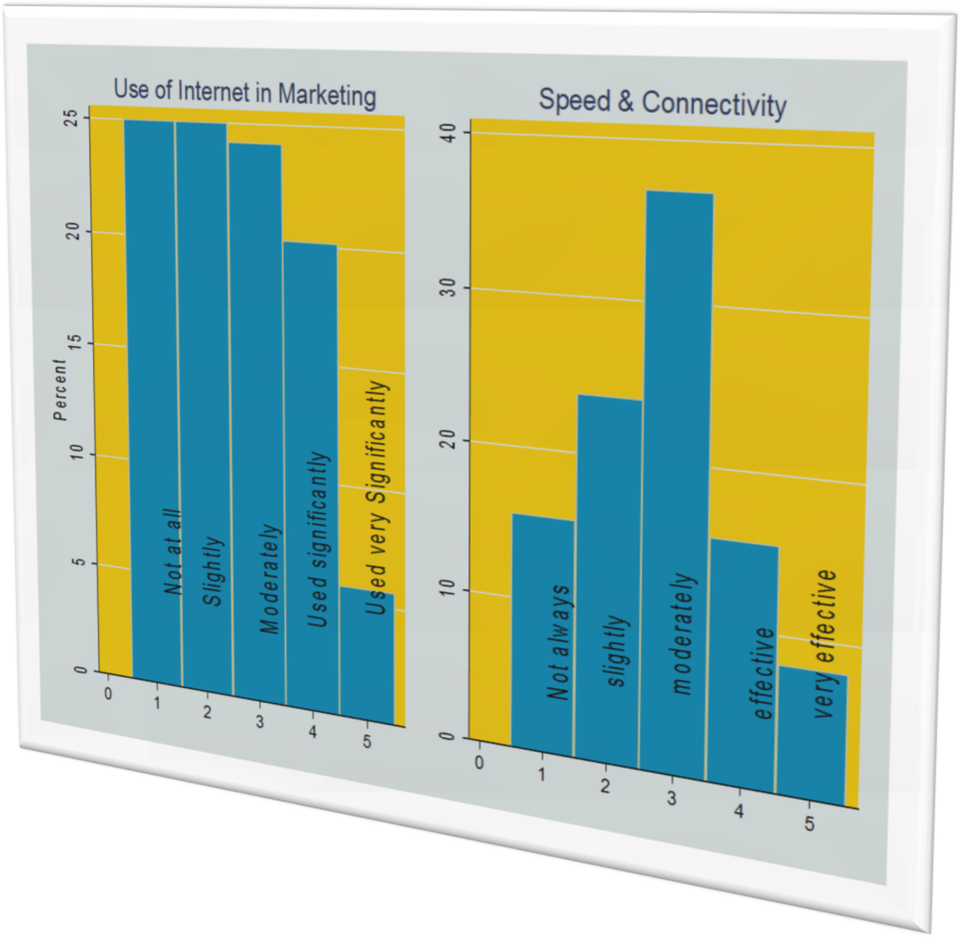
The survey indicates that the research and development being undertaken by research firms is not effective. The responses are presented in the pie chart below:

Figure 6: Effectiveness of Research & Development



The survey results indicate that most companies are yet to use the internet as a tool for buying and selling their products. This is indicated by a 50% response rate of those who slightly use on do not use internet at all in marketing their products. Most respondents note that internet service providers are moderately providing the right speeds and connectivity required for their business. The results are presented below.

Figure 7: Use of Technology



INFRASTRUCTURE – RENDERING INDUSTRY UNCOMPETITIVE

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

State of Infrastructure

Respondents indicated that the state of infrastructure in the country is generally poor. The graphs below depict views on the current state of infrastructure and whether the current state of infrastructure is impeding economic growth or promoting economic growth.

Figure 8: State of Infrastructure

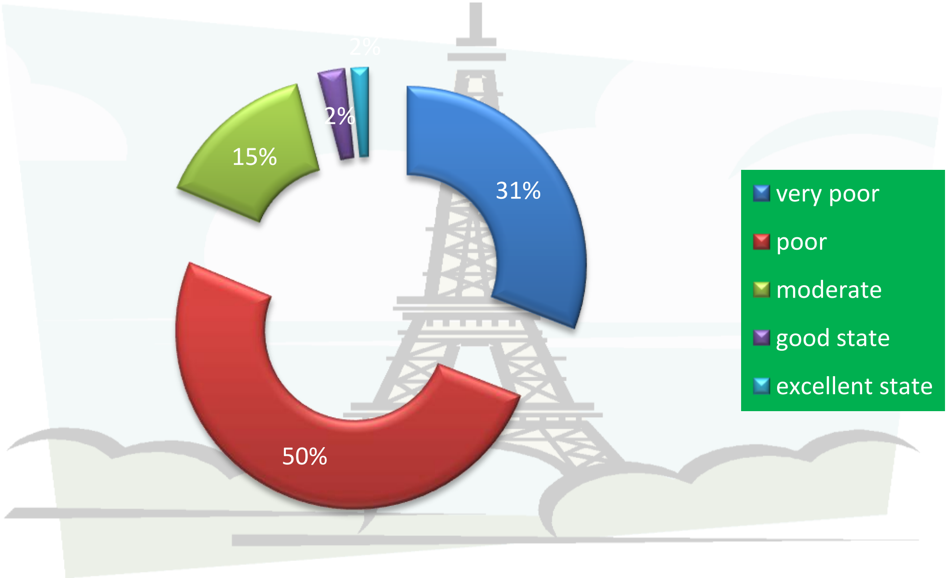
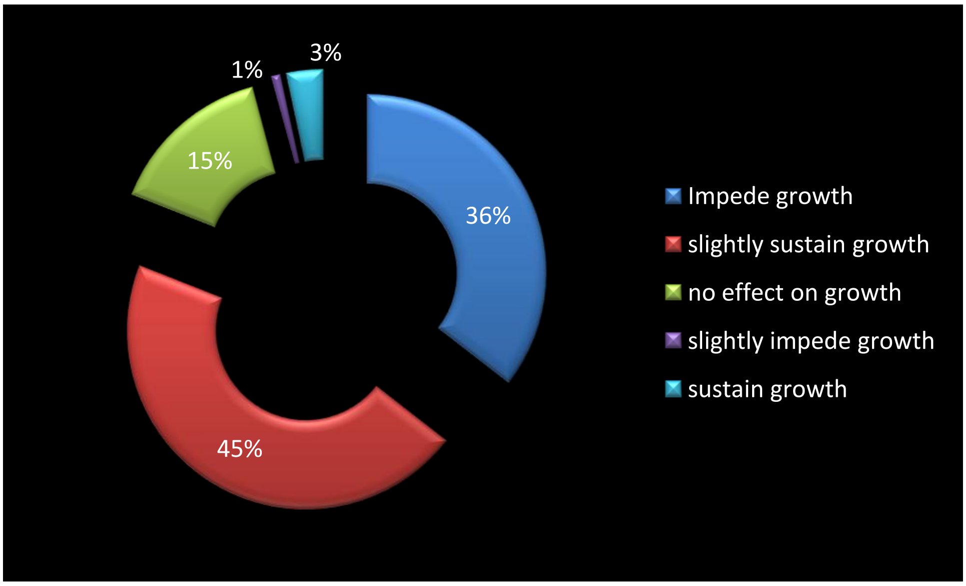
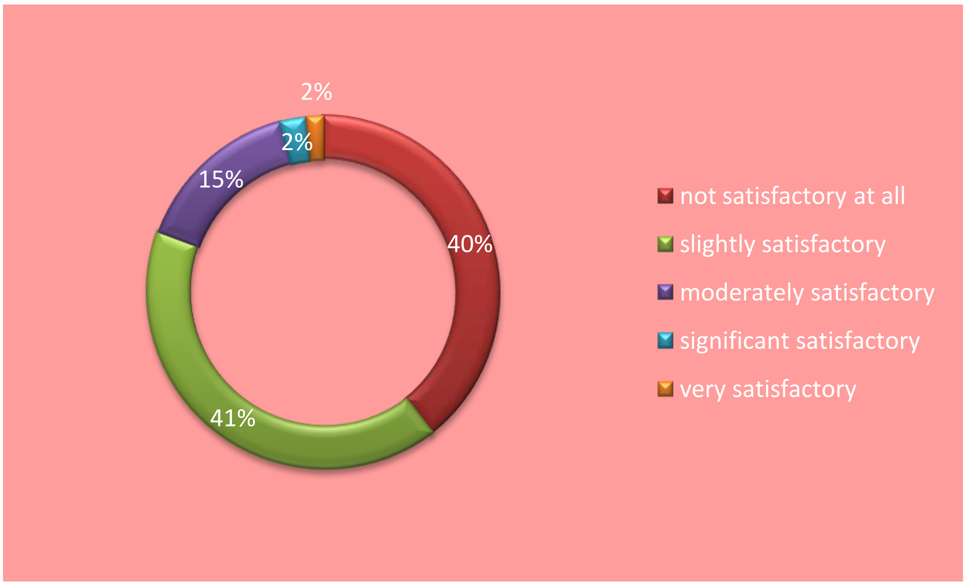


Figure 9: Infrastructure's Ability to Sustain Economic Growth



Local authorities have been pointed out as providing unsatisfactory service and respondents indicate that they are not doing a satisfactory job in addressing the current challenges being faced in terms of service delivery. The responses are summarized in the pie chart below.

Figure 10: Local Authorities & Service Delivery



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

1. Power cuts and shortages
2. Inefficient railway network within the country
3. Water Shortages
4. Poor road Infrastructure
5. Absence of a well developed rail network which links the country to the ports

Effectively dealing with the Power Crisis – Industry Perspective

The issue of power cuts remains a great hindrance to industry, the survey asked respondents to state what they felt Government need to do to address the power crisis and the following are responses received. The main thrust of the views given was that there is need for government to increase local power generation capacity, the how and when are explained below:

- In the short term, there is need to prioritise the rehabilitation and maintenance of existing infrastructure.
- Ensure that adequate resources are set aside for energy development. It was even suggested that Government link mineral resources to energy development.

- In addition to ensuring availability of resources there is need for Government to prioritise the completion of projects such as Batoka that will boost local generation capacity.
- There is need to focus on the development and encouragement of use of alternative sources of power, especially for domestic consumption.
- Government needs to facilitate FDI and private sector participation in power generation and/or importation.
- Maintain regular payments for imports to avoid disruptions to supply.
- Effective debt management – to being with arrear payments by Central and Local Government.
- In terms of improving the efficiency of the power company the following suggestions were proffered:
    - Disband ZESA Holdings whose monopoly is discouraging proper business management fuelling corruption and lack of innovativeness and efficiency
    - New pricing model
    - New billing system to be put in place

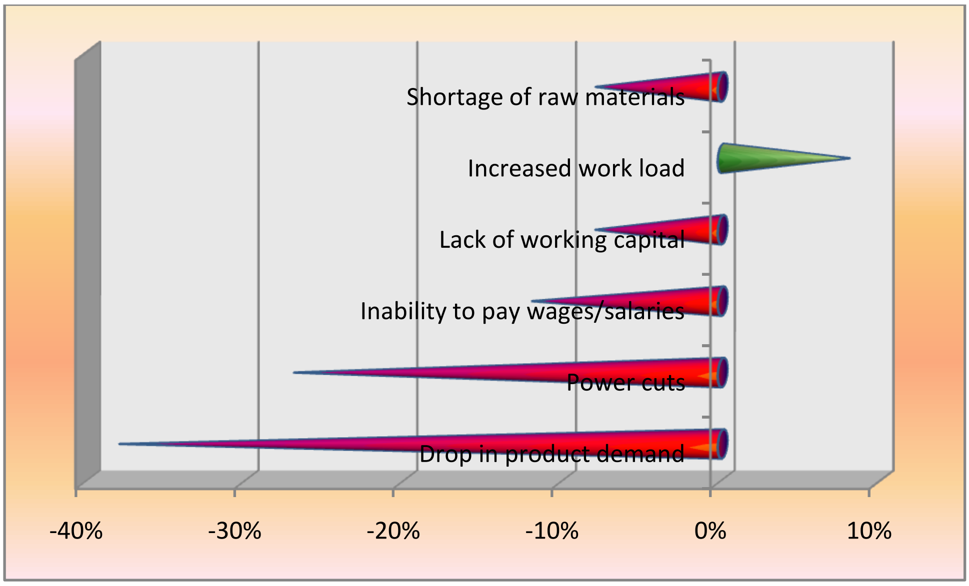
HUMAN CAPITAL – THE LABOUR PHENOMENON

The importance of education, market experience and training cannot be undermined 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. This section sought to investigate various aspects of human capital and how they have impacted on business.

Working Hours

From the survey results, only 16% of the respondents indicated having changed the number of working hours. In the case of a decrease in working hours, this was mainly necessitated by a drop in product demand and power outages. Only 1% indicated an increase in working hours as a direct result of an increase an increase in workload due to increased product demand. The graph below shows highlights reasons for changes in working hours:

Figure 11: Reasons for Changes in Working Hours



Retrenchments

In terms of retrenchments, 21% of the respondents indicated that they had retrenched permanent staff and reasons cited were mainly due to rationalisation following a downturn in business, and introduction of new technologies (automation). Some members indicated that they wanted to retrench but were however blocked by government.

Labour Costs

The issue of labour costs and the negative impact on business viability remains a challenge for industry. A total of 81% of the respondents indicated that their wage bill had increased from 2010 to 2011 with the major reason cited being wage negotiations (74%) and staff recruitment (20%).

The average labour cost as a percentage of total inputs for the manufacturing sector is 27% whilst the total employee costs as a percentage of total input costs is 35%.

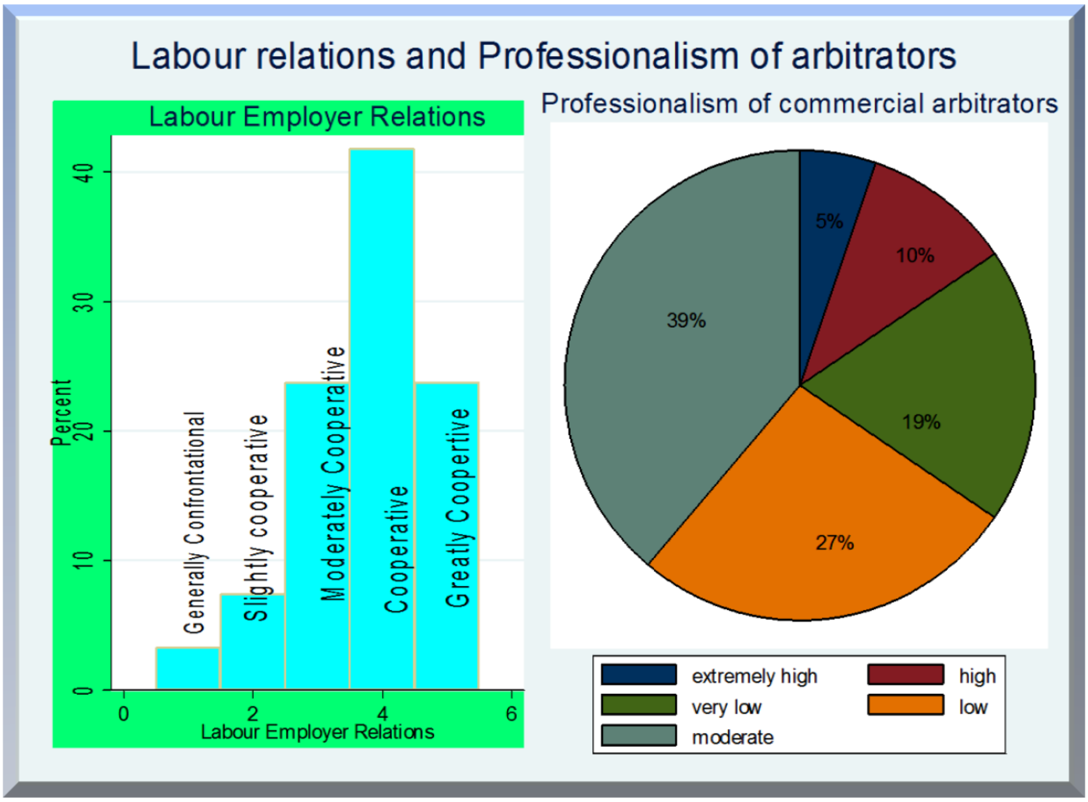
The survey shows mixed reactions in terms of productivity related wages for the companies.

Figure 12: Views of Productivity Based Wages

Labour Relations and Professionalism of Commercial Arbitrators

The survey indicates favourable employer-employee relations as indicated by the graph below. Only 3% of the respondents indicated a confrontational relationship between employees and employers whilst 23% reported a greatly cooperative relationship. The pie chart depicts the responses to the question on the rate of level of professionalism of commercial arbitrators. 39% indicated that the level of professionalism whilst 27% indicated that commercial arbitrators exercise low professionalism

Figure 13: Labour Relations and Professionalism of Arbitrators



FOREIGN TRADE, INVESTMENT AND FINANCIAL ENVIRONMENT

Export Markets

Zambia maintained its number one spot as the leading export destination. South Africa has continued to slide down the rankings. The table below shows the various export destinations and their respective market share.

Table 5: Leading Export Destinations

Country	Market Share
Zambia	30%
Malawi	17%
Mozambique	13%
South Africa	12%
Botswana	11%
Rest of Africa	9%
Europe	5%
other	0.0

Companies that had not exported in the past two years were asked to state reasons for failure to export and the following were the main reasons for not exporting:

1. Local product cannot compete in other markets, both in terms of price and quality;
2. Shortage of working capital to meet orders;
3. High cost of production which is rendering the product expensive; and
4. Failure to identify potential export markets.

The five most problematic factors when **exporting** identified by the survey which different companies are facing are:

1. Access to trade Finance
2. Identifying potential markets and buyers
3. Access to imported inputs at competitive prices
4. Difficulties in meeting quality and quantity requirements
5. Cost of delays caused by domestic transportation

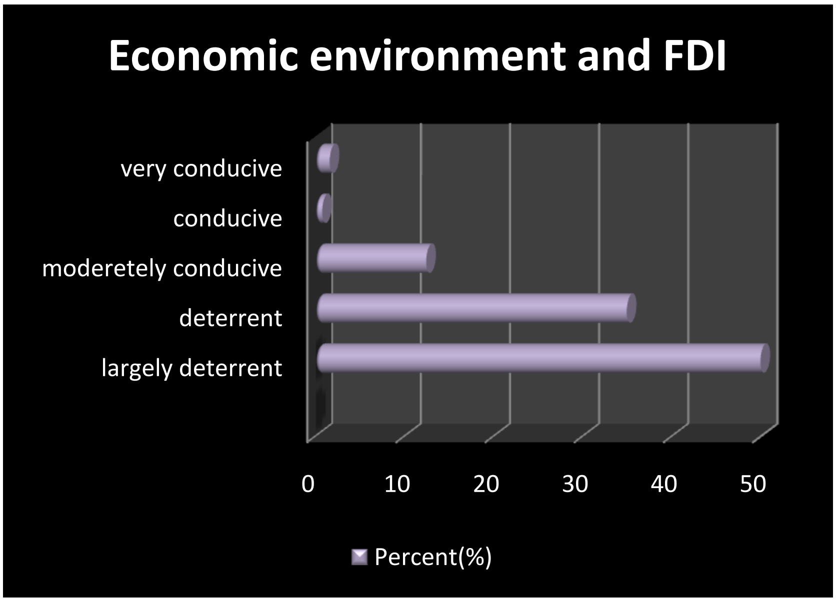
In terms of **Importing,** the five most problematic factors identified according to frequency are:

1. Burdensome import procedures
2. High cost or delays caused by domestic transportation
3. Zimbabwe Revenue Authority (ZIMRA) System Inefficiency
4. Tariff Barriers
5. Corruption at the border

Investment & Financial Environment

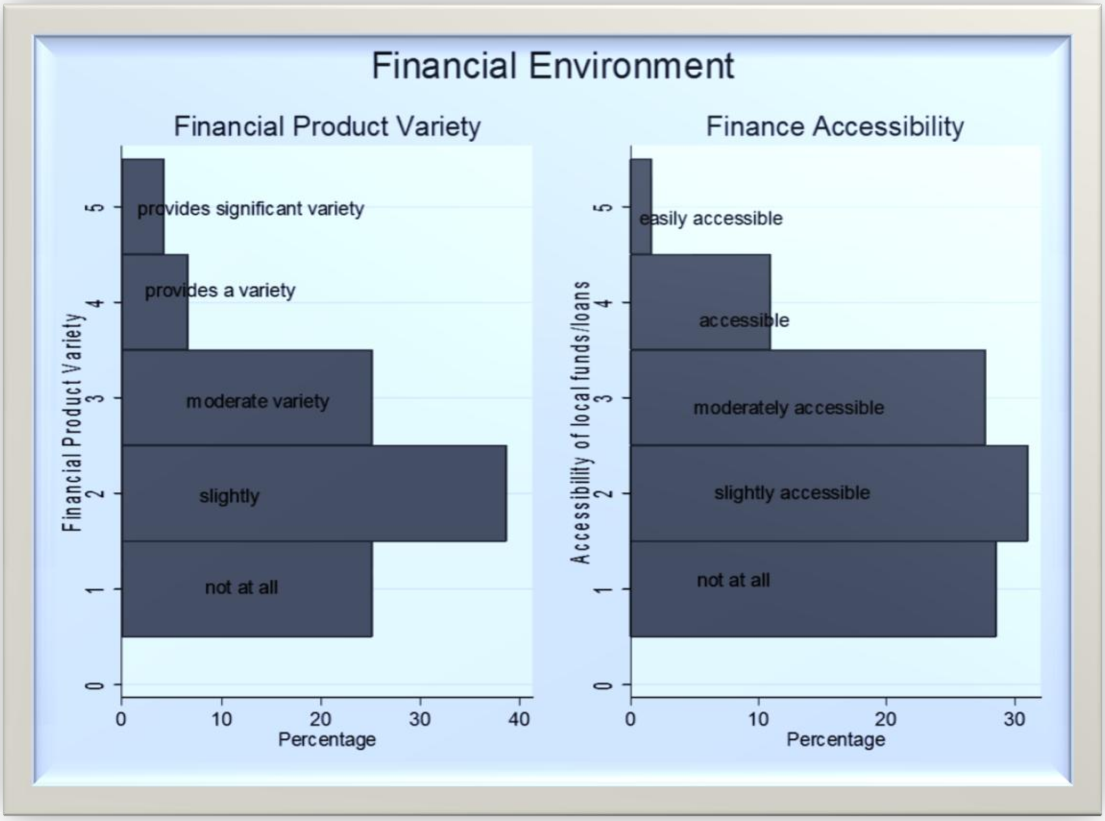
The economic environment is not conducive for foreign direct investment as shown by the bar chart below. Only 0.8% of the respondents indicated that the environment is conducive for FDI whilst half of the respondents indicated that the environment is largely deterrent.

Figure 14: Economic Environment & Foreign Direct Investment



With the introduction of multicurrency, it seems the financial sector has not lived up to the expectations of the manufacturing sector. More than 50% of the respondents indicated that it is difficult to access financing from the local banks and the choice of financial products is limited. The results are presented below.

Figure 15: Financial Environment



Doing Business in Zimbabwe

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

Table 6: Factors Affecting Doing Business in Zimbabwe

Factor	Very Positive	Positive	No Effect	Negative	Very Negative
Minimum wages	1%	7%	23%	48%	21%
Restrictive Labour Regulations	1%	7%	26%	42%	25%
Policy Instability	3%	1%	15%	46%	36%
Corruption	0%	4%	21%	45%	30%
Power Cuts	3%	3%	5%	36%	54%
Electricity Charges	3%	4%	10%	48%	36%

Access to financing	4%	3%	12%	40%	42%
Domestic Demand	7%	40%	5%	28%	19%
Public Sector Bureaucracy	0%	3%	28%	48%	22%
EMA Requirements	2%	16%	39%	23%	20%
Interest Rates	2%	1%	13%	41%	43%
Exchange Rate	2%	10%	59%	23%	7%
Insufficient capacity to innovate	1%	4%	31%	54%	11%
Ageing Equipment	3%	2%	9%	51%	35%
competition from Imports	2%	3%	18%	32%	46%
Cash Shortages	0%	4%	17%	32%	47%
Bank System Instability	1%	2%	24%	56%	17%

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

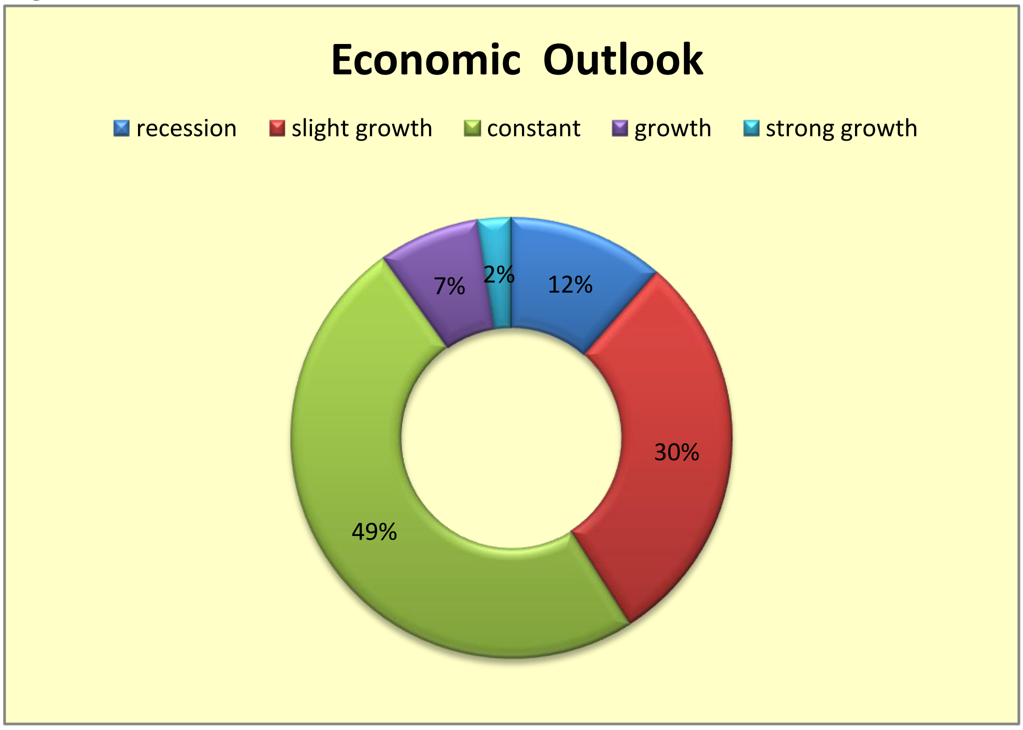
- Power Cuts and Cost
- Access to finance and interest rates
- Policy Instability
- Ageing equipment

ECONOMIC OUTLOOK

Economic Performance

About half of the respondents (49%) of the respondents indicated that the economy will experience no growth, i.e. constant, whilst 30% forecast slight growth. 12% of the respondents are expecting a recession. The general view from respondents is that policy inconsistencies and ambiguity have resulted in capital flight and reluctance of foreign investors to make any meaningful investments across all sectors of the economy.

Figure 16: Economic Outlook



Inflation Target

64% of the respondents indicated that the country will be able to meet its year-end target of inflation of 5%, whilst the remainder predict otherwise due to cited factors below:

- Non-performance of key sectors of the economy
- Fuel price increase
- General increase in the prices of basic commodities and rentals
- Wage demands
- Impact of global recession

Views on the Performance of the Manufacturing Sector

Manufacturing industries continue to face viability challenges with cheap imports finding their way into the country through porous borders. Lack of meaningful policy and political will to resuscitate industry has worsened the situation. The sector is in dire need of investment, and it is clear that the local banking sector does not have the capacity to meet the needs of industry, hence the need for foreign direct investment. Unfortunately the prevailing environment is not conducive for FDI, and until there is political stability and guaranteed security of foreign investments, FDI flows into the country will remain depressed.

The inefficiencies that exist within the economy will continue to make the locally manufactured product expensive. The cost of doing business is too high, the greatest contributors to these are power and labour. According to respondents the high cost of labour and punitive labour regulations encourage lack of productivity and will ultimately lead to unemployment. While others highlighted that business is under pressure from a non-productivity based posture on wages.

From the respondents there was also a distinct call for protection. Other called for outright protection of industry, while others felt that there is need for CZI to promote an incubation strategy.

CONCLUSION

The challenges faced by the manufacturing sector are not new. There has been a lot of talk of what needs to be done, several policies put in place to address these challenges but nothing has been done. This year's survey is running under the theme ***"Decisive Action Needed!"***, this is a call to both Government and Captains of Industry that the **time for action is now**.

In the foreword to this document the president of the CZI touches on several key issues, many of which are echoed by the respondents to the survey. The manufacturing sector is in crisis. The current operation environment is not conducive to business and if no decisive action is taken, the reality of de-industrialisation will be sooner realised. Our retail outlets have already become South Africa Supermarkets, shall the rest of the economy turn into the same.

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

- Article is on company closures: the article seeks to clarify the current situation on the ground and set the alarm bells' ringing that industry is in crisis.
- Positioning Manufacturing for Economic Growth: this article by the CZI President was taken from his presentation at the ZITF Marketing Launch in October 2012.
- The third article looks at the critical importance of value chains and how strong, competitive and diversified industrial value chains are paramount for the well being of the Zimbabwean economy.
- The final article looks at the issues surrounding the labour phenomenon in Zimbabwe – i.e. the factors industry wants addressed concerning labour and what are some of the solutions industry has to proffer.