# Contents

# INTRODUCTION

## *About the Manufacturing Survey*

The Confederation of Zimbabwe Industries (CZI) is a membership organization whose role is to provide leadership and services aimed at enhancing the development of a competitive manufacturing sector in Zimbabwe. The confederation is the leading representative body of industry and our goal is to drive the country's industrialization process and promote competitive local manufacturing in a market economy.

In order to do this, CZI realized the importance of having the right information on hand in order to make informed decisions. The State of the Manufacturing Sector Survey was commissioned by CZI to assess, determine and document the structure, performance and challenges facing industries in Zimbabwe. The main objective of the survey is to give CZI a sound basis for developing strategies and action plans for the future growth of the manufacturing sector. The survey not only presents facts and figures of the manufacturing sector in Zimbabwe but is also intended to inform the readers on current developments within the sector and potential areas of growth, development and investment opportunities. The survey also clearly highlights the overall importance of the manufacturing sector to the economy.

This year's survey is the result of desk research and quantitative and qualitative surveys which polled the views of 100 manufacturers in Zimbabwe. The survey results analysis will highlight current developments in the sector, trends in exports, employment, capacity utilization as well as current constraints. It also documents the views of recent monetary and fiscal policy announcements and recommendations for future economic policies.

***Editor's Note***

***Foreword***

***Word from the Sponsor***

***Executive Summary***

The year 2010 has been a relatively stable year, with the continued use of multi-currencies. Though there has been debate over the reintroduction of the Zimbabwean dollar, the economy has been stable. Policy pronouncements such as the indigenization and empowerment act impacted on the performance of the sector with some companies adopting a wait and see attitude. Generally the manufacturing sector is improving though at a slower than anticipated level.

Capacity utilization remains a key challenge within the manufacturing sector. Although a few firms are producing to their full capacity or close to 100%, the majority claim under utilization. From the survey, average capacity utilization has continued to improve, albeit, at a much slower rate than expected. Average capacity utilization as at the end of the first half of 2010, stood at 43.7%, compared to 32.3% at the end of the first half of 2009. This has been largely due to the stable environment which has allowed companies to plan and budget.

The manufacturing sector is yet to experience the big leap to high sustainable growth that had been projected by Government. On interrogation, it was observed that the major constraints to capacity remain largely unchanged with government having failed to address the fundamentals required to attract the much needed investment. The three major capacity constraints have been attributed to lack of working capital; antiquated plant machinery which has resulted in loss of time due to machinery breakdowns or plant and machinery refurbishment; and low demand.

Levels of exports remain depressed; in terms of export markets Zambia continues to be the leading export destination. Interesting to note is the drop in market share of South Africa, and a considerable increase in market share to Mozambique, from 5% in 2009 to 11% in 2010.

The high wage bills continue to constrain several companies within the sector. Workers continue to demand wage increments that are neither productivity based or in line with inflation developments. As the confederation we believe that any wage adjustments should be productive based, we need to realize the need to contain unnecessary inflationary pressures in the economy.

From the survey results, the wage bills of respondents increased on average by 12% from the 2nd half of 2009 to the 1st half of 2010.

Energy is one area where the Confederation has been actively lobbying on. In addition to negotiations with Zimbabwe Electricity Supply Authority, members of the Confederation have been encouraged to institute energy saving measures. Such encouragement can be witnessed by the Energy Efficiency Award that was introduced by the Confederation in 2009, which seeks to reward those who are directing efforts at energy saving. Results from the survey show that whilst the majority of respondents (76%) had instituted at least one measure to save electricity, there still remained a percentage that had not made any efforts in line with energy saving measures

Over the first half of 2010, the estimated volume of domestic raw material has increased by 32%, while that of imported raw materials has increased by 62%. This is a clear indication of the local market failing to supply raw material to industry. In terms of value proportion of raw materials, locally sourced raw material accounted for 51% of the total cost, with imports accounting for 49%.

In terms of Future outlook of the economic performance in 2011, there was a mixed reaction with the majority of respondents feeling there would be positive minimal growth, given the right fundamentals are put in place. One of the fundamental issues that need to be addressed is that of capital, once this is in place, there will be significant improvements in economic performance. Secondly the issue of power shortages, as long as industry does not have sufficient power, capacity levels will remain depressed.

Going forward there is need for a strategic response at National level where the country's strengths are identified and investment incentives structured to drive the country towards exploiting its competitive advantages. Efficiency, cost competitiveness, consistency and cooperation between government and private sector are key to the revival of industry and the economy at large.

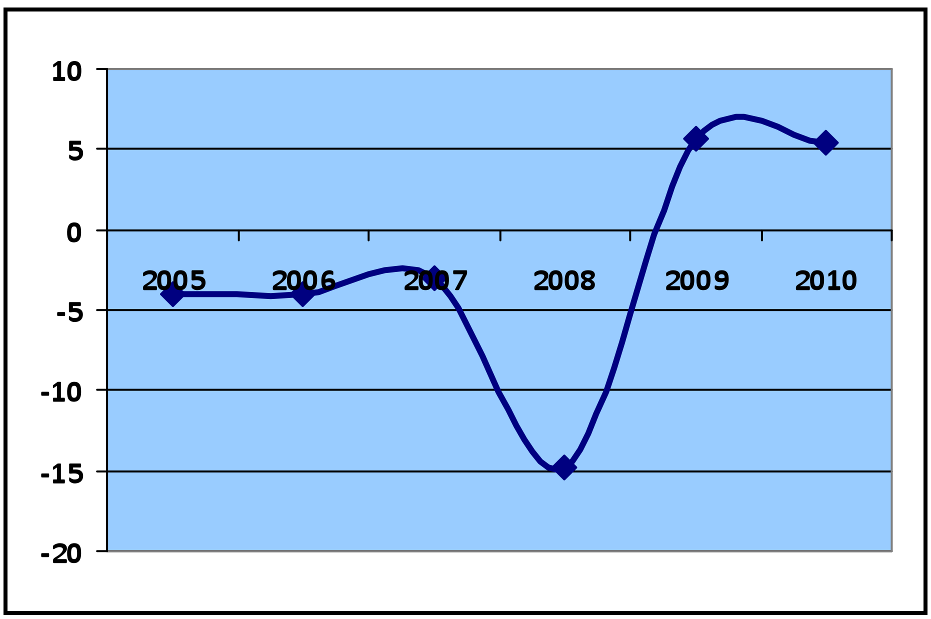
# SECTOR OVERVIEW

## *Economic Overview*

Following over a decade of economic decline, 2009, the economy was estimated to have grown by 5.7%. The growth recorded in 2009 was largely a result of policies measures instituted following the formation of the Government of National Unity (GNU). The consistent implementation of these policies, which included adoption of a multi-currency regime, cash budgeting by the fiscus, as well as other liberalisation measures, which included the removal of price distortions as well as quasi-fiscal operations, lead to the stabilization of the economy. Although the country witnessed economic recovery of a certain magnitude, the levels fell below anticipated levels. This was largely due t

The country's GDP, which is a measure of the total production in the economy for a given year, grew from an estimated USD--- in 2008 to USD5.22 billion in 2009 and is further estimated to grow to USD5.517 billion in 2010.[1] The graph below shows GDP growth over the past decade.

**Figure 1: GDP Growth Rates**




2010 is projected to record a positive GDP growth on the back of a growth in the agricultural sector (rebound of the tobacco sector) and an improvement in the mining sector.

[1] Source: Ministry of Finance Mid-Term Fiscal Policy Review Statement.

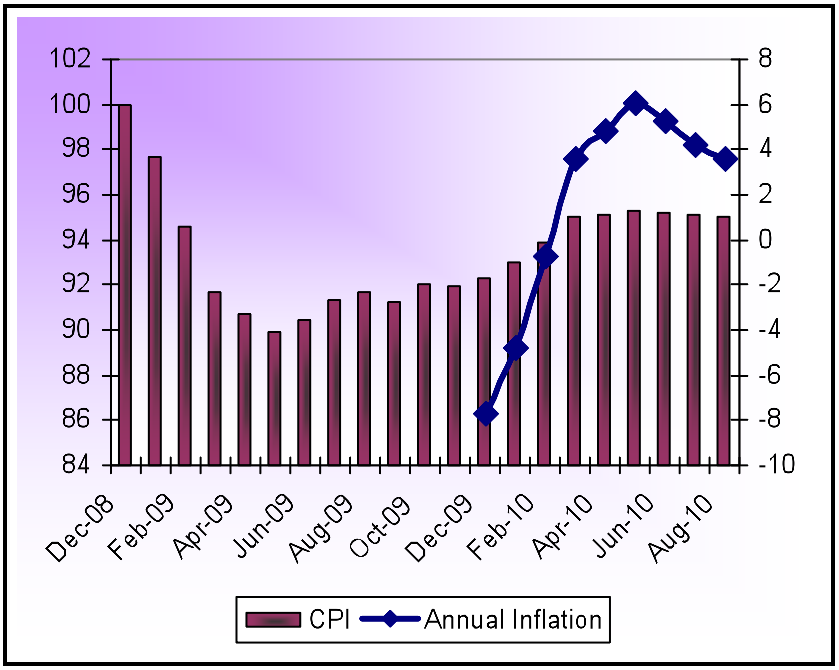
The table below gives a summary of the country's balance of payments position.

**Table 1: BOP Summary**

| | 2005 | 2006 | 2007 | 2008 | 2009est |
|---|---|---|---|---|---|
| | US$m | US$m | US$m | US$m | US$m |
| Current Acc. (excl. official transfers) | -549 | -365 | -243 | -779 | -928 |
| % of GDP | -9.7 | -6.7 | -4.6 | -15.7 | -17.8 |
| Trade Balance | -406 | -475 | -294 | -972 | -1622 |
| Exports fob | 1588 | 1721 | 1819 | 1657 | 1591 |
| % of GDP | 3.6 | 3.8 | 4.4 | 4.6 | 5.8 |
| Imports fob | 1994 | 2196 | 2113 | 2630 | 3213 |
| % of GDP | 35.2 | 40.3 | 40.1 | 53 | 61.6 |
| Non factors services (net) | -109 | -121 | -143 | -207 | -32 |
| Income (net) | -197 | -209 | -245 | -224 | -200 |
| Private Transfers (net) | 163 | 439 | 440 | 625 | 926 |
| Capital Account (incl. official transfers) | 3 | 88 | 166 | 273 | -70 |
| | | | | | |
| Overall Balance | -208 | -286 | -323 | -725 | -1908 |
| Memorandum Items | | | | | |
| Gross Official Reserves | 61 | 74 | 153 | 76 | 366 |
| Months of Import Cover | 0.3 | 0.3 | 0.7 | 0.3 | 1.2 |

## *Recent Trends – Key Macroeconomic Indicators*

Annual inflation which had peaked at over 231 million in July 2008, significantly declined to disinflation levels following the introduction of a multicurrency system. Inflation stabilized at low levels and the beginning of 2010 saw annual inflation begin to rise. Considerable inflation pressures exist in the economy, and these need to be kept in check by the relevant authorities. The graph below depicts inflation trends since December 2008.




Interest rates since the introduction of the multicurrency system have largely remained unchanged. Bank deposits rates have remained largely depressed, with rates ranging from 0.05% to 5%. Lending rates continue to vary widely from different financial institutions and tenure of loan, according to official statistics rates range from 8% to 60%.

### *The Role of the Manufacturing Sector in the Turnaround of the Economy*

The manufacturing sector is one of the secondary sectors of the economy which comprises establishments engaged in the mechanical, physical or chemical transformation of materials, substances or components into new products for use or sale. This sector is divided into light industry and heavy industry. Establishments in the manufacturing sector are often described as plants, factories or mills and use power-driven machines and material-handling equipment. The sector produces an excess of 6 000 range of products in the country, ranging from the textile, telecommunication, plastics, food and beverages, printing and publishing and other sectors.

As prospects of economic recovery continue to unfold, the manufacturing sector is left on the spotlight to see the role it has to play in this process. The past decade has been characterised by a consistent and massive economic meltdown of about 40%. However, the introduction of the multicurrency regime in 2009 brought the economic contraction to a halt, followed by a period of stability. The economy has since started recovering. However, according to estimates, full recovery – a return to the peak real per capita income levels achieved in 1991 – would take about 12 years, assuming uninterrupted growth of 5% annually, from 2009 to 2020. Real economic growth will only start to be a new phenomenon after full recovery.

Manufacturing is a key factor in Zimbabwe's continuing growth and prosperity. There are basically four sectors of the economy that generate wealth; wiz agriculture, mining, construction and manufacturing. Other sectors like services and trade redistribute this wealth and are built on the products created by the wealth generators. This simply takes us to a conclusion that manufacturing is a wealth-producing sector of an economy whereas the service sector tends to be wealth-consuming. Of the four wealth creating sectors, manufacturing plays a unique role because, unlike agriculture and construction, most manufacturing products are easily transferrable across national and international borders. The manufacturing sector can play an invaluable role towards achieving a speedy economic recovery in Zimbabwe. The government has recognised the potential that this sector has and recently it has disclosed that it was pursuing the formulation of a draft Industrial Policy Framework (2011-2015) targeted at revitalisation of the economy, with special focus upon the recovery and growth of the manufacturing sector. Although we needed a policy such as this as soon as yesterday it's never too late to do a good thing.

The government's envisaged Industrial Policy Framework comes against a background of a decade of decrease in industrial production which has resulted in many jobs getting shed, a situation which resulted in significant ripple effects through related service industries. The multiplier effects of the fall in industrial production were quite adverse as many service sector jobs depend on manufacturing. This long term decline in industrial employment created a major problem of structural unemployment - where workers who were made redundant from industry experienced occupational immobility and found it difficult to gain re-employment in sectors where new jobs were being created, due to their specific training. It is hoped that the Industrial Policy Framework will stimulate and incentivize industrial production so that employees previously made redundant can be re-hired, thereby wiping away the stubborn structural unemployment.

Despite the sector's huge contribution to tax and to the development of innovation, empirical correlation between the degree of industrialization and per capita income in developing countries has been noted to be strong. If one plots the share of manufacturing in commodity production against per capita incomes, there is a clear significant relationship between the two. Although the correlations are not perfect, the poorest countries are invariably the least industrialized ones and the more successful developing countries are at the upper end of the scale. Furthermore, compared to agriculture, the argument is that the manufacturing sector offers special opportunities for capital accumulation. Capital accumulation can be more easily realized in spatially concentrated manufacturing than in spatially dispersed agriculture. This is one of the reasons why the emergence of manufacturing is so important in the country's economic recovery.

Once a dominant contributor to the GDP at 22% the manufacturing sector now contributes 17% to GDP. The manufacturing sector supplies 50% of its output into the agricultural sector (e.g. fertiliser, stock feeds and insecticides) whilst 63% of its input is obtained from agriculture. Manufacturing sector also provides input of consumables to the mining industry, as well processing minerals for export. Though the statistics that the country has the potential to produce a quarter of world diamond production are still widely contested, forecasts are that there is going to be an even stronger correlation between the manufacturing and mining sectors. From these statistics, it is self evident that there are strong relationships between manufacturing and the rest of the economy. Therefore a deep recession in manufacturing, such as the one which obtained in the country for the past decade, has seriously damaged overall prospects for economic growth during that period – because of negative multiplier effects and the wider impact on consumer confidence and business investment. As prospects of recovery continues to brighten up there should be stronger linkages between the manufacturing sector and research community (like universities and SIRDC) for the conducting of researches aimed at enhancing productivity through innovation.

The critic uppermost in most environmentalists' minds is that the manufacturing process may involve significant and social environment costs. The sector can emit hazardous materials which may expose workers to health risks, and degrade the environment a further blow to the climate change and global warming agenda. However, we cannot throw the baby along with the bath water, as the risks can outweigh the collective benefits. It should also be noted that manufacturing activity is highly regulated by labour and environmental laws to reduce risks to acceptable levels. Manufacturing provides important material support for national infrastructure and for national defence.

The manufacturing sector also provides special opportunities for technological progress. Technological advance is concentrated in the manufacturing sector and diffuses from there to other economic sectors such as the service sector. As the country pursues the economic recovery agenda, it must embrace state of the art technology and mechanize throughout the value chain, if at all its products are to be competitive in this highly integrated and globalised world. However issues of unemployment will come into play, as a result of mechanization, and calls for a balance to be stricken between labor and capital in line with the economy's fundamental macro economic objectives.

The manufacturing sector plays a vital role in balance of payment adjustment. Although exports are highly exposed to global economic forces such as changes in the exchange rate and fluctuations in the international economic cycle, they bring in foreign currency which is an injection of new money in the economy. We currently do not have a currency of our own and our fiscal and monetary policy instruments for economic stabilisation are very limited. We cannot print more money to, say, curb unemployment. Neither can we have a fixed exchange rate. Currently our cash injection variables are foreign direct investment, exports, inter alia. Exports are the only reliable variable we can influence to pursue policies earmarked for macro economic stabilisation. We have no control over other cash injection variables like FDI. The manufacturing sector can significantly contribute to exports, as capacity utilisation improves.

The manufacturing sector is operating under a very low capacity utilisation. Local companies supplying locally have lost a huge market to cheap foreign products which are being dumped here. Foreign products are dominating retail shelf space in the country, and our locally produced goods still have a big composition of imported raw materials. The manufacturing sector has got a strong appetite for recapitalisation. The government's Industrial Policy Framework must put in place SMART measures of attracting skills back in the country, how to boost competitiveness and how to promote exports. The policy must also be sexy enough to seduce international capital. Capital is very coward and can only choose Zimbabwe as its final destination if and only the socio-economical and religio-political environment is conducive. Stand alone manufacturing can easily move across borders, but when manufacturing is the base around which we build product development, marketing, distribution and supply chain services becomes more embedded into the Zimbabwe economy and more important to the global corporation.

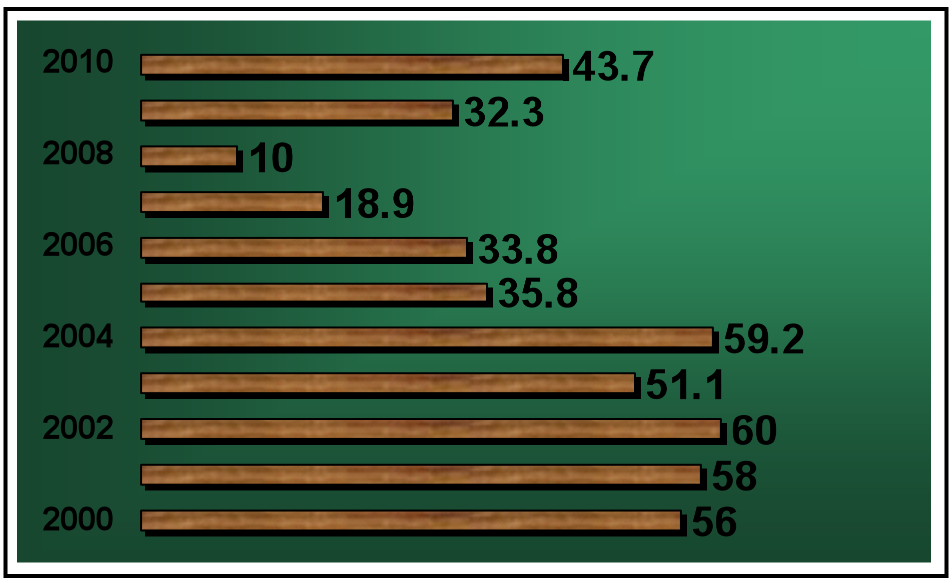
# SURVEY RESULTS

## *Review of Trends and Constraints*

### Capacity Utilisation

Capacity utilization remains a key challenge within the manufacturing sector. Although a few firms are producing to their full capacity or close to 100%, the majority claim under utilization. From the survey, average capacity utilization has continued to improve, albeit, at a much slower rate than expected. Average capacity utilization as at the end of the first half of 2010, stood at 43.7%, compared to 32.3% at the end of the first half of 2009[2].

**Figure 2: Trends in Capacity Utilisation**




The table below shows the distribution of capacity utilization – from the table it is clearly evident that levels of capacity utilization vary widely from as low as below 30% to levels above 74%.

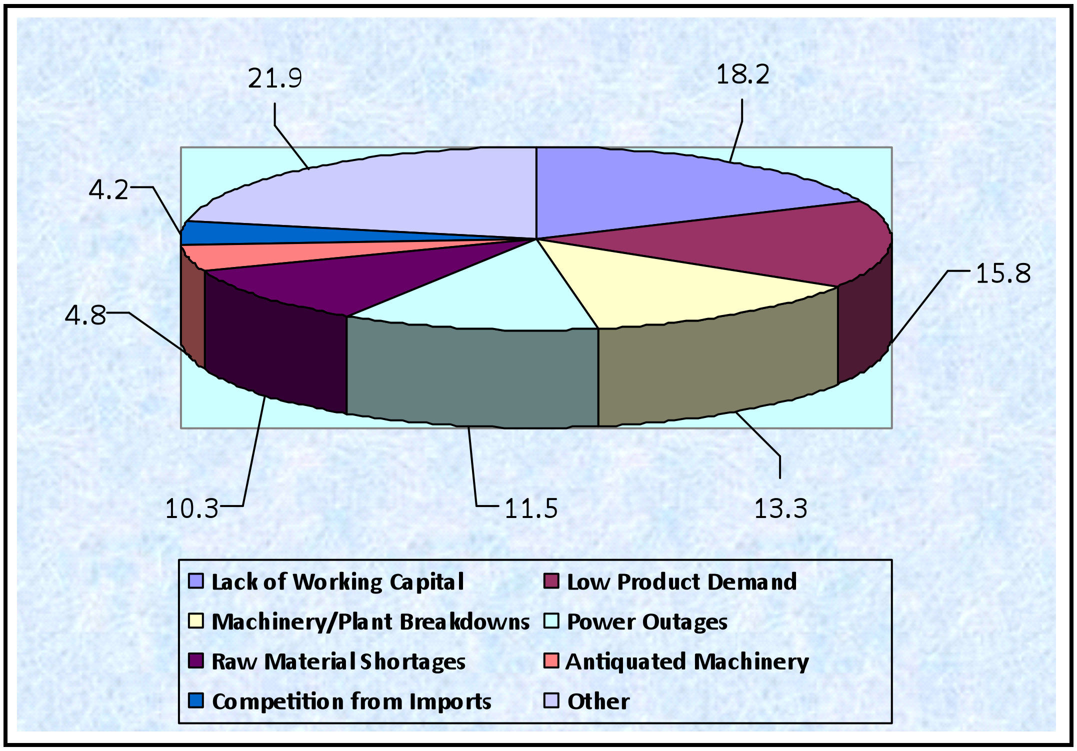
[2] As recorded in the 2009 CZI State of the Manufacturing Sector Survey

**Table 2: Distribution of Capacity Utilisation**

| Capacity | 2005 | 2006 | 2007 | 2009 | 2010 |
|---|---|---|---|---|---|
| **<30%** | 14% | 18% | 38% | 45% | 26% |
| **<50%** | 46% | 49% | 76% | 82% | 55% |
| **>49%** | 55% | 51% | 24% | 18% | 45% |
| **>74%** | 13% | 97% | 4% | 6% | 15% |
| **100%** | 3% | 0% | O% | 0% | 4% |

Major constraints to capacity remain largely unchanged with government having failed to address the fundamentals required to attract the much needed investment. The three major capacity constraints have been attributed to lack of working capital; antiquated plant machinery which has resulted in loss of time due to machinery breakdowns or plant and machinery refurbishment; and low demand. The various capacity constraints are summarised in the pie chart below:

**Figure 3: Major Capacity Constraints**




These challenges need to be addressed if the manufacturing sector is ever to return to productivity levels of the pre-economic depression era.

## Volume of Production

From the survey results, overall output volume growth increased by 34%, compared to 110% recorded over the same period in 2009. From the respondents, 67% recorded a positive output growth (compared to 89% in 2009), while 33% of the respondents recorded a decline in volume of output (compared to 11% in 2009). The table below gives a summary of volume of production growth.

**Table 3: Volume of Output Growth Analysis**

| Category | 2006 | 2007 | 2009 Q2 | 2010 Q2 |
|---|---|---|---|---|
| Overall Output Volume Growth | 78% | -28% | 110% | 34% |
| Volume growth >0 | 20% | 30% | 89% | 67% |
| Volume growth <0 | 80% | 70% | 11% | 33% |

### Factors Affecting Business Performance

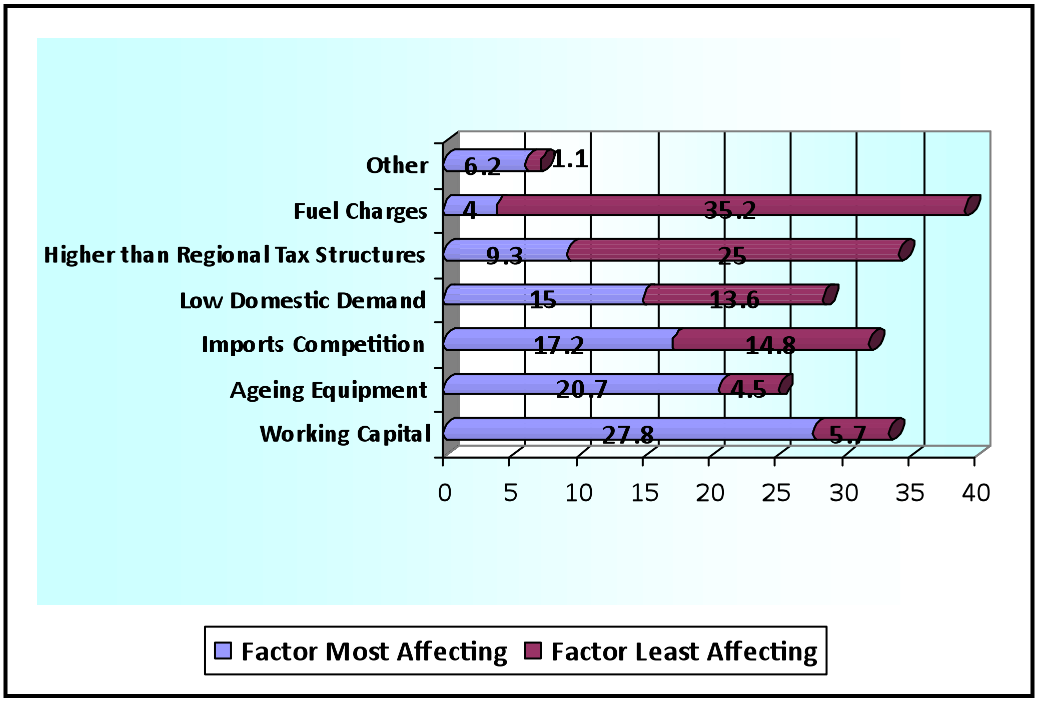
The manufacturing sector is yet to experience the big leap to high sustainable growth that had been projected by Government. This survey attempted to interrogate the main constraints to achieving optimum performance, and the respondents cited the following:

1. Working Capital;
2. Ageing Equipment;
3. Competition from Imports; and
4. Low domestic demand

It must be noted that similar factors were cited earlier as constraining capacity utilization. The lack of working capital stands out as the most constraining factor as perceived by industry.

The graph below depicts the respondents views on the factors that most impacted on business performance and those that they felt were of little significance to business performance.

**Figure 4: Factors Impacting on Business Performance**




While the issue of working capital needs to be addressed, the manufacturing sector needs to embrace modern technologies that enable them to develop efficient production, in order to achieve competitiveness on both regional and international markets. Currently the manufacturing sector cannot compete on both the export and local market largely as a result of production inefficiencies which result in high cost of production, hence goods produced are priced out of both local and export markets.

## Exports

Levels of exports remain depressed; in terms of export markets Zambia continues to be the leading export destination. Interesting to note is the drop in market share of South Africa, and a considerable increase in market share to Mozambique, from 5% in 2009 to 11% in 2010.

**Table 4: Leading Export Destinations**

| Leading Export Market | 2005 | 2006 | 2007 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Zambia** | 30% | 29% | 23% | 31% | 30% |
| **Botswana** | 15% | 18% | 13% | 12% | 15% |
| **Malawi** | 15% | 13% | 11% | 16% | 15% |
| **South Africa** | 22% | 20% | 27% | 20% | 14% |
| **Mozambique** | 3% | 5% | 7% | 5% | 11% |
| **Other SADC** | 7% | 13% | 7% | 7% | 10% |
| **Other** | 9% | 4% | 13% | 9% | 5% |

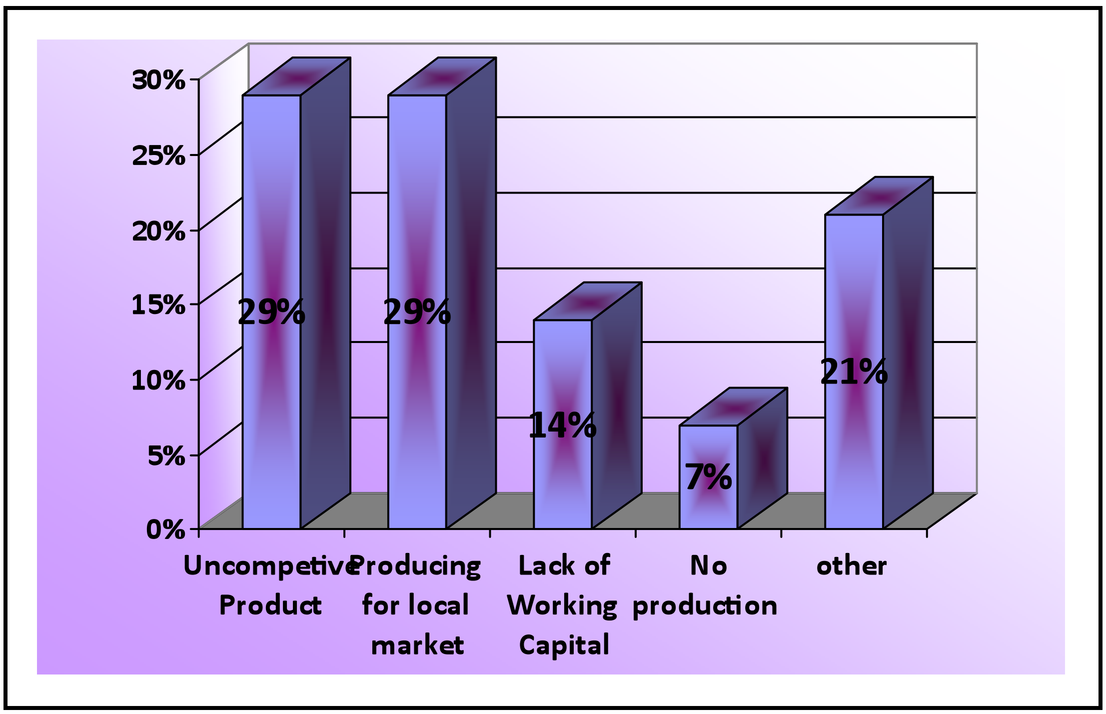
From the companies surveyed, three major reasons emerged for failing to export, these are:

1. Local products are not competitive on the international market both in terms of cost and quality and this is largely a result of high production cost and lack of technology.
2. Many companies have resorted to producing for the domestic market mainly due to low capacity levels, companies are failing to satisfy the local demand.
3. Lack of working capital to finance orders due to the unfavourable borrowing conditions on the local market and unavailability of external lines of credit.

Other factors that hindered companies from exporting according to the research findings include inadequate knowledge of export markets, failure to secure orders, unavailability of raw materials and in some instances companies cited non production.

The bar graph below illustrates the respondents' views on their reason for not exporting during the period under review:

**Figure 5: Major Reasons for not Exporting**




## Employment Trends

Working Hours

Survey results show that 23% of the respondents recorded a change in working hours between the last half of 2009 and the first half of 2010. However, of this total, 67% recorded a decrease in working hours largely due to capacity constraints as a result of lack of working capital. The drop in working hours is clearly an indication of struggling industries, this is in contrast to last year's survey respondents recorded a 72% increase in working hours.

Staffing Levels

The table gives proportions of permanent employees vis-à-vis casual employees.

**Table 5: Employment Distribution**

| Year | Casual | Permanent |
|---|---|---|
| 2003 | 29% | 71% |
| 2004 | 42% | 58% |
| 2005 | 25% | 75% |
| 2006 | 18% | 82% |
| 2007 | 19% | 81% |
| 2009 | 42% | 58% |
| 2010 | 25% | 75% |

In the 2009 survey results there was a definite increase in the number of casual employees, as the year progressed, and the economy continued to improve, it is clearly evident from the shift in proportions that companies begun to take on more permanent staff. Notwithstanding the increase in staffing levels, 10% of respondents cited that in the period under review they had retrenched a total of 823 workers. Reasons for retrenchments were cited as decline in business performance or business was no longer viable due to working capital constraints, low product demand leading to low sales volumes; and restructuring.

The Wage Bill

The high wage bills continue to constrain several companies within the sector. Workers continue to demand wage increments that are neither productivity based or in line with inflation developments. As the confederation we believe that any wage adjustments should be productive based, we need to realize the need to contain unnecessary inflationary pressures in the economy.

From the survey results, the wage bills of respondents increased on average by 12% from the 2nd half of 2009 to the 1st half of 2010. The percentage increase in the wage bill is way above the increase in inflation over the same period, over the same period the rate of inflation increased by 4.3%.

## Raw Materials

Over the first half of 2010, the estimated volume of domestic raw material has increased by 32%, while that of imported raw materials has increased by 62%. This is a clear indication of the local market failing to supply raw material to industry. In terms of value proportion of raw materials, locally sourced raw materials accounted for 51% of the total, while imports accounted for 49%. This shows that we are still loosing a significant amount of money to external economies.

## Capital Investment

Capital investment is a critical element in our endeavor to achieve stability and growth within the sector. Levels of investment continue to rise, on average 27% of the respondents undertook capital investment in the 2nd half of 2009, compared to 17% in the first half of 2009. In the first half of 2010, 42% of respondents undertook capital investment projects. Total investment for the period under review i.e. July 2009 to June 2010, is estimated at just above $32.5 million. In cases were capital investments were undertaken the bulk of the investment went into plant, machinery, equipment and vehicles. Reasons for undertaking investments included replacement, expansion, maintenance and diversification.

## Electricity Usage

Energy efficiency mechanisms have been confirmed to be useful in terms of loss minimization and reduction of waste in production systems. One of Zimbabwe's key challenges at the moment is the provision of sufficient energy to meet both industrial and domestic use. As the confederation we understand the current challenges that ZESA faces and continue to work together to find amicable solutions for all the players involved. Industry needs a minimum of 18 hours uninterrupted power supply to enhance capacity within its operations. Not withstanding the need for adequate provision of energy we also understand that as industry we also have a critical role to play in Demand Side Management.

As the confederation our focus as not only being on how ZESA can deliver better service but has also been on educating our members on the importance of demand side management initiatives within their various business. To this end the survey also sought to establish the extent to which industry is implementing such measures.

Results from the survey show that whilst the majority of respondents (76%) had instituted at least one measure, there still remained a percentage that had not made any efforts in line with energy saving measures. The table below highlights the most common measures instituted by companies in their efforts to reduce electricity consumption.

**Table 6: Electricity Saving Measures**

| Measure Instituted | Percentage of Respondents |
|---|---|
| Power Factor Correction Unit | 21% |
| Maximum Demand Management | 21% |
| Turning off lights when not in use | 12% |
| Switching on machinery only when necessary | 10% |
| Use of energy saving light bulbs | 7% |
| Load shifting from peak hours to off peak hours | 7% |
| Increased user awareness of staff through training | 6% |

### *Future Performance of the Economy/Sector*

In spite of the plethora of factors identified as standing in the way of robust growth of the sector, the survey sought to gauge the overall view in terms of current business confidence and the future performance of the economy.

From the survey results 36% of the respondents were pessimistic about the current business confidence levels, while 24% felt that the current business confidence was average. The majority of respondents (40%), however, felt optimistic that business confidence levels were high at the moment. The result show a definite increase in business confidence, the 2009 survey indicated only 9.5% of the respondents being optimistic about the future economy.

In terms of Future outlook of the economic performance in 2011, there was a mixed reaction with the majority of respondents feeling there would be positive minimal growth, given the right fundamentals are put in place. However, it was the view that if the current status quo is maintained, the economy will remain static. On the other hand there was a section of respondents that felt that in light of current political developments, potential elections in 2011 would have a negative impact on economic performance.

From the survey it was apparent that the key fundamentals that need to be addressed in order to ensure continued economic growth in 2011 include the following:

1. Lack of working capital, once this is in place, there will be significant improvements in economic performance.
2. The issue of power shortages, as long as industry does not have sufficient power, capacity levels will remain depressed.
3. The issue of local products competing with imports needs to be addressed otherwise 2011 will see several industries outcompeted to closure by cheaper imports.

In addition, several respondents were of the opinion that if proceeds from diamond sales are to be used correctly, the economy will definitely witness geometric growth in 2011. A smaller proportion felt that growth in 2011 will be anchored from the agriculture and mining sector, with manufacturing likely to remain static. In a nutshell, positive growth is expected on the back of liquidity improvements from diamond and tobacco sales, as well as credit lines currently being negotiated by the Ministry of Finance.

### *Access to Lines of Credit*

From the survey results on 23% of the respondents said they have existing lines of credit with the international community. These means the majority of respondents (77%) are operating solely on financing accessed locally. So why is the access to lines of credit crucial to the manufacturing sector? In a nutshell, lines of credit would provide the much needed liquidity and working capital to grow the Zimbabwean Economy.

In the years prior to recession, most companies enjoyed the benefits of well structured lines of credit, both from local and foreign institutions. However, the decade of economic decline, did not spare this very important aspect of business. The current situation that industry faces is one of absence of long-term capital from the domestic banking sector to recapitalize balance sheets and the high country risk continues to keep the doors to international financing options closed. In addition, the external debt situation also means that we can not benefit from credit facilities being offered by multilateral institutions such as the World Bank and IMF.

This however does not mean that there are no lines of credit being offered to the country. Several foreign institutions are offering lines of credit through local commercial banks but in most cases the tenure and interest rates are unfavourable to business. The local financial institutions are also offering credit, but again at punitive interest rates ranging from 8% to 60%, and short term tenure of between one to six months. Although most are offering a roll over facility, this also comes at a cost to industry. Official statistics indicate that the domestic credit continues to grow, with domestic credit increasing from $766.8 million in January 2010, to $1.247 billion in July 2010. Albeit the fact that domestic credit has been increasing the conditions remain unfavourable to industry.

It is critical to ensure that the availability and cost of credit do not constrain economic activity. The current situation in terms of accessing credit lines is definitely hampering economic activity. The terms do not allow for the much needed infrastructure developments and as such industry continues to work with outdated machinery and no real working capital to undertake any investment into much needed research and development. So this means industry continues to lag behind the global village and will remain uncompetitive.

The government is aware of liquidity constraints in the domestic financial market and that it is necessary to identify additional lines of credit and make them available as a priority to support the country's industrial development. Therefore short to medium term credit lines with grace periods of 3-6 months and a repayment period of over 12-24 months need to be identified. The target is to finance the procurement of raw materials, packaging material, production consumables, laboratory chemicals, spare parts, repairs and maintenance of plant and equipment, as well as other working capital costs.

## POLICY ENVIRONMENT

### *Fiscal Policy*

#### Perspectives from Fiscal Policy

The general view is that given the limited fiscal space, the Minister has tried to produce policies that are rational and targeted to stimulate the economy on a more stable gradient facilitating unrushed adjustment. Respondents have alluded to the fact that there have been several positive policies put in place that have gone a long way in stabilising the economy and to a certain extent improved the general business operating environment.

Some of the positives alluded to by respondents include:

- Cash budget is an effective control on government expenditure
- Assurance of use of USD up to 2012 gives some confidence in terms of economic stability
- Removal of duty on polymer raw materials was welcome
- duty free regime for raw materials had positive impact but needed to cover more raw materials

However, concern was raised on a few issues that government still needs to address and these are highlighted below:

**1. Fiscalised Tax Registers**

In the 2010 Budget Statement, the Minister alluded to the introduction of tax registered from all operators. Modalities and implementation dates have been announced but from the survey it is evident that the business community feels that there are issues that need to be addressed pertaining to the implementation of the tax registers.

- the fiscalised electronic register was too ambitious and the deadline is not workable
- Introduction of tax registers is going to tie us to only two registered service providers , who might overcharge because of the monopoly
- ZIMRA should have given companies the first set of registers for free
- VAT cash registers to be supplied by ZIMRA and to be ZIMRA property

**2. VAT Payment**

Respondents acknowledged the issue of the movement of the payment dates but it was still a view that there is need to further revert to past systems. In addition the issue of payment of VAT in advance at the port of entry is further constraining cash flows through the tying up of potential working capital.

3. **Export Incentives**
   No export incentives have been put in place in 2010, export incentives to be put in place to stimulate exports, as this is a source of capital injection into the economy.

4. **Stimulation of Economic Activity**
   Tax free threshold for individuals is still too low. The tax bands appear too narrow. There is need for the government to address this issue to increase the levels of disposable incomes.

5. **Public Utilities**
   No real address regarding utilities

### *Monetary Policy*

**Perspectives on the Monetary Policy Statement**

The majority of respondents felt that the current monetary policy had no impact on the manufacturing sector and of little relevance, largely due to the fact that we are using a multicurrency system and the monetary authority is currently not in a position to carry out their main functions. However a few key issues that came through from respondents are the following:

- Measures like removal of statutory reserve requirements and the move toward the recapitalisation of the RBZ to perform its lender of last resort function will increase liquidity in the economy and improve bank tending to industry which is lacking working capital

- Policy did not address banking sector high exorbitant charges, interest rates are too high
- Did not offer much hope on external credit facilities or other forms of support to the industry
- The monetary policy needs to complement the fiscal policy. Much need to be done to avail affordable lines of credit trough banks

### *Policy Recommendations*

The final part of the survey sought to seek policy recommendation from the business sector. This part of the survey sought to illustrate policies that players in the manufacturing sector feel need to be put in place to bring about growth in the sector.

The text box below captures the most common responses received:

1. **Policy:** Privatisation of loss-making parastatals
   **Reason:** This will bring new skills (managerial) as well as foreign currency (capital) inflows to improve national liquidity

2. **Policy:** Restrict imports of products that can be locally manufactured
   **Reason:** Level the playing field and promote infant industries

3. **Policy:** Establishment of policy that protects property rights
   **Reason:** Market liquidity is the main constraint in hindering economic growth

4. **Policy:** Duty free importation of raw materials
   **Reason:** Importing raw materials with duty makes manufacturing more expensive than just buying finished goods from other countries

5. **Policy:** Review of income tax bands and levels as well as thresholds
   **Reason:** Increase the level of disposable income and this will increase demand for products and in the same vein increase capacity utilisation and reducing fixed costs. In addition this may also attract back Zimbabwean skilled manpower and professionals in the diaspora

6. **Policy:** Identification of business activities that re strictly for Zimbabweans and those that foreign investors should come in and participate in on a joint venture basis
   **Reason:** Empowerment of the Zimbabwean people and reduction of extremes of exploitation and flight of resources and earnings

7. **Policy:** Institute Export Incentives
   **Reason:** The serious liquidity crunch affecting most of the economic players needs a significant increase in export earnings to be resolved

8. **Policy:** More needs to be done to attract international investment including more flexibility on indigenization framework
   **Reason:** Current framework for indigenization may result in negative investment as existing businesses disinvest

## Conclusion

One central objective of CZI is **'to promote a competitive, minimally regulated business environment in Zimbabwe wherein standards of excellence prevail and members are able to succeed'.** In order to achieve this it is critical to have information on the current status of the sector, and also take into cognisance the views of the players in the industry. From the survey it is clearly evident that industries are still struggling currently. Most firms have sacrificed necessary maintenance, have dollar liquidity challenges and are struggling to even pay wages. The one issue that continually came up throughout the survey analysis is that of working capital. The issue of working capital is of paramount importance largely due to the fact that firms need to recapitalize and this will not come from local savings as we have none.

Therefore the issue of attracting investment is critical and government needs to put in place measures that need to be put in place to attract investment. In addition issues to do with Efficiency, cost competitiveness, consistency and cooperation between government and private sector are key to the revival of industry and the economy at large. Industry also needs to embrace the changes that have been bought about by the global village. Industry needs to rethink business strategies; industry needs to focus o reinvestment and restoration. Going forward there is need for a strategic response at National level where the country's strengths are identified and investment incentives structured to drive the country towards exploiting its competitive advantages.

## Reviewing Industrial Policy

## Creating a Competitive Manufacturing Environment

## Electricity in Zimbabwe