2015 CZI MANUFACTURING SECTOR SURVEY REPORT

Table of Contents

LIST OF FIGURES

FIGURE

The Annual CZI State of the Manufacturing Sector Survey

The Confederation of Zimbabwe Industries (CZI) State of the Manufacturing Sector Survey is widely recognised as Zimbabwe's leading analysis of the factors affecting business operations and growth, with a particular focus on the manufacturing sector. The scope of the survey not only covers the performance of the manufacturing sector, but also analyses how competitive the sector is and what factors need to be addressed to enhance competitiveness. The competitiveness of industry is influenced by the business environment within which it operates.

The survey aims to provide:

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

The survey provides insight into the economy from the business perspective. It gives a more accurate portrayal of the current and prospective health of the country's economic and business environment.
A strong, competitive and diversified manufacturing sector is vital for the country.A competitive industry can lower costs and prices, create new products and improve quality, thus contributing to economic stability and job creation.

Sections Covered in This Survey

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

SURVEY METHODOLOGY

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

1. Who Conducts the Survey?

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

2. Who is Surveyed?

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 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 39.2% compared to 42% last year.

EXECUTIVE SUMMARY

External and Internal pressures continue haunting the Zimbabwean economy and the manufacturing sector is not spared. Efforts by government to resuscitate the sector through tariffs continue to be undermined by the depreciation of the regional currencies, among other things. Government and private sector should continue working together to address the economic decline.

The 2015 Manufacturing Sector Survey shows a decline in the sector compared to 2014. The weighted capacity utilization has shed 2.2 percentage points from 36.5% to 34.3%. The constraints to capacity have remained the same since dollarization:

1. Low domestic demand;
2. Capital Constraints;
3. Antiquated Machinery and Machine Breakdowns; and
4. Competition from Imports

Companies, in an effort to sustain their positions on the market, are realising the importance of a business strategy. A greater proportion of companies represented by 80% has an implementation plan with organization targets, size and change management processes. Sixty percent of the respondents highlighted that they have a blueprint for improvement.

In this economy, there is need for a plan to catch up on delays e.g. delays caused by power cuts. Seventy one percent of the respondents indicated that they have such plans at their operations. In an endeavour to manage resources, 76% of the respondents indicated that they have a cost and capacity analysis of critical resources in place.

Forty seven percent of the respondents carried out new capital investment in 2014 while 41% carried out investment in 2013. The bulk of the investment (97%) was directed at machinery and equipment for replacement (60%) and expansion (40%). Profit plough back remains the largest source of financing of new capital as evidenced by a response rate of 71%. Forty four percent expect to increase their level of capital investment in 2015/2016. The current economic environment remains largely deterrent to FDI a major source of capital investment. CZI has previously called for the review of legislations that have a bearing on FDI. This includes the review of indigenization and empowerment act and the resolution of the debt overhang. Strides have been made towards debt resolution with Zimbabwe's strategy being accepted by World Bank in Lima, Peru IN October 2015.

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

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

ECONOMIC OVERVIEW

Zimbabwe's economy faces many fundamental problems that will need to be addressed before any type of economic development can take place. Against the background of weak domestic demand, tight liquidity conditions and the appreciation of the US dollar against the South African rand, inflation remains in the negative recording -3.11% in September 2015 and is projected to remain low in 2015.

CZI introduced a new measure of the manufacturing sector; the Business Confidence Index with results launched on 07 October 2015. In the recently launched CZI Quarterly Business Confidence Index, confidence remains low with the results indicating a composite quarter-on-quarter confidence index of -33.9% and year-on-year of -37.2%. The general rule is that a value above zero indicates business optimism, a value below zero, pessimism, and 0 indicates neutrality. The figure thus indicates that respondents feel pessimistic of the prospects of their companies/organisations.

The real exchange rate overvaluation relative to the South African rand has caused a serious loss in external competitiveness, as it has made imports cheaper than domestically produced goods and exports more expensive. As a result of increasing demand for imports and dwindling exports, the external sector position continues in deficit, with an estimated current account deficit of US$ 3.1 billion this year. However the economy continues to be able to finance this gap and at the same time still show growth in bank deposits. In the absence of lines of credit this is a remarkable achievement. Exactly how we are achieving this feat is not well understood and merits further investigation.

Further analysis of the factors affecting the Zimbabwean economy:

Global issues:

- Volatile and fragile global financial environment.
- Subdued levels of FDI coming into Zimbabwe compared to peers in SADC
- Decline in global commodity prices for Zimbabwe's main mineral exports—gold, platinum, and diamonds—which were already facing high production costs, negatively impacting the fiscal and external accounts.

Regional causes:

- Pressure to comply with SADC and COMESA Trade protocols
- Devaluation of the South African Rand (largest trading partner) and Zambian Kwacha is affecting local competitiveness.
- Influx of cheap low quality imports disguised as coming from the COMESA and SADC region creating an uneven playing field and also contributing to huge trade deficit
- Porous Borders/Inefficiency at border posts
- Attractiveness of US$ environment to other regional players as a hedge against unstable currency (Zambia and South Africa in particular): creates room for 'dumping'.

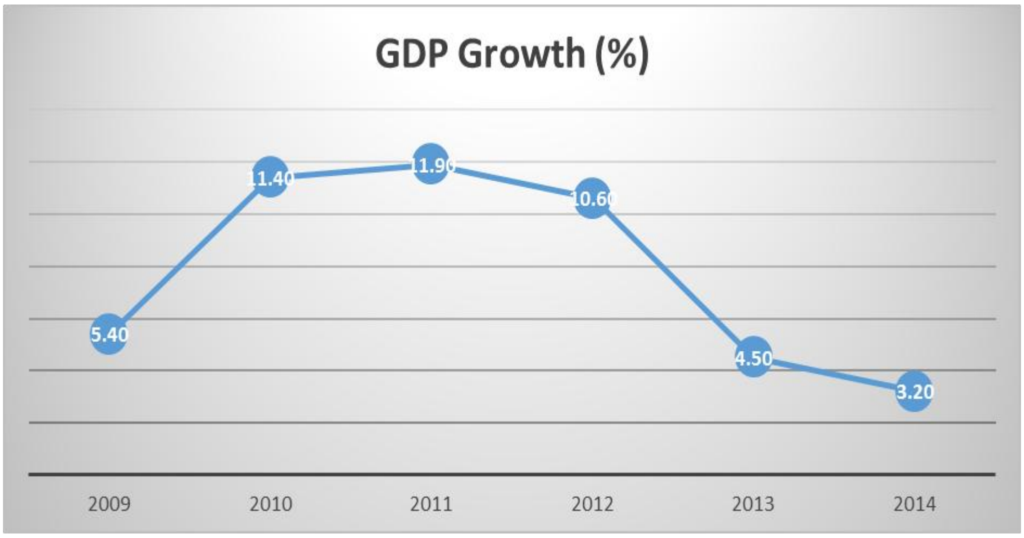
National/Industry wide causes:

- Unclear signalling through sometimes contradictory positions taken by different arms of Government

- Lack of clarity on the Indigenisation and Economic Empowerment policy has become a deterrent to the much needed Foreign Direct Investment.
- Zimbabwe's high country risk premium; low business confidence by investors and high level of disinvestments in the country
- Liquidity challenges (i.e. the lack of and high cost of capital and revenue underperformance)
- Structural bottlenecks that include power shortages and infrastructure deficits
- Corruption
- High cost of doing business/unfavourable doing business environment – too many requirements and licenses/fees
- Lack of bold game changing interventions through policy measures and practices by Government, Local authorities and parastatals.
- Parastatals and local authorities unable to restructure and increase efficiency thereby driving up utility costs and showing punitive behaviour close to parastatal and local authority pay dates.

The 2015 National Budget estimated economic growth to be 3.2%. However a drought-induced decline in agriculture output and inadequate policy reforms has significantly slowed GDP growth for 2015 and both the IMF and Minister Chinamasa reviewed the estimated growth downwards to 1.5%. In addition, continued decline in mining output due to adverse price developments and electricity shortages have contributed to the downward revision of economic growth.

Figure 1: GDP Growth rates



Source: ZIMSTAT

The World Economic Forum Global Competitiveness Index (GCI) Report for 2015/16 showed that Zimbabwe's ranking was largely unchanged being number 124 in 2014 and number 125 out of 144 countries in 2015 on the global competiveness rankings. The report showed that access to finance remains the main problem followed by policy instability and restrictive labour regulations. A summary of the results are as follows:

Table 1: The most problematic factors for doing business

Factor	% of responses 2014	Factor	% of responses 2015
Access to financing	24.6	Access to financing	22.8
Policy instability	19.7	Policy Instability	21.2
Inadequate supply of infrastructure	15.0	Restrictive labour Regulations	12.4
Inefficient government bureaucracy	11.9	Inadequate supply of infrastructure	12.3
Corruption	11.4	Inefficient government bureaucracy	11.5
Restrictive labour Regulations	10.8	Corruption	11.0

Source: WEF Global Competitiveness Report 2015/16

Whilst some progress has been made on the labour front there remain a number of fundamental problems that the country should deal with in order to improve the doing business environment. Amongst some measures is to address the access to capital for industries. Attracting capital from across national boundaries remains tough. We have had a few notable successes but levels of FDI remain well below that in other regional countries. More can be done to improve the investment climate. The National Competitiveness Commission (NCC) is expected to facilitate for an improved competitive environment for business in the economy.

SURVEY RESULTS

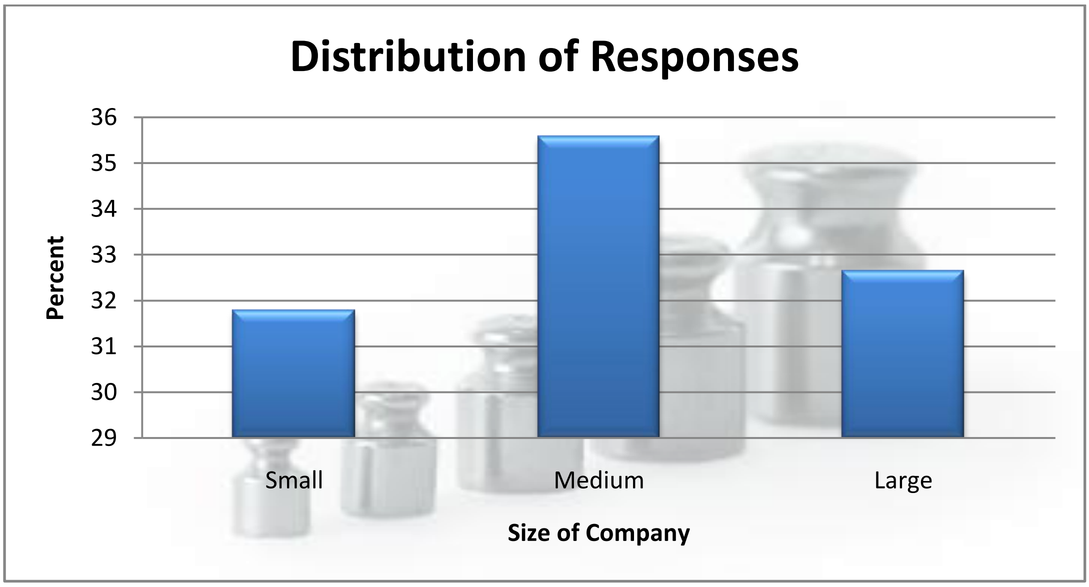
The next section of this report will cover results from the survey. It is imperative to state that all results given below are based on the information and views given by respondents and are taken as a proxy of what is happening in industry. Figures stated in this report are based on figures provided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

Readers should also note that CZI, in the last year's manufacturing sector survey introduced the Purchasing Managers' Index (PMI) as an additional measure of the performance of the manufacturing sector. For administrative purposes, this measure is going to be reported quarterly together with the new and frequent measure of confidence in the Manufacturing sector, the CZI Quarterly Business Confidence Index (BCI). The results reported and published on the 7th of October, together with the Business Confidence Index showed that PMI stood at 43.1%, again indicating an economy near downturn.

Company Information

This section sought to ascertain basic information on company operations. This information includes products being manufactured, number of years in existence and ownership structures. Responses received were classified and grouped according to the International Standard for Industrial Classification (ISIC Rev 4). Thirty six percent of the respondents were from medium size companies i.e. companies with between 20 and 99 employees and 33% came from large corporates i.e. companies with 100 employees and above. The small companies' category contributed 32% of the response rate.

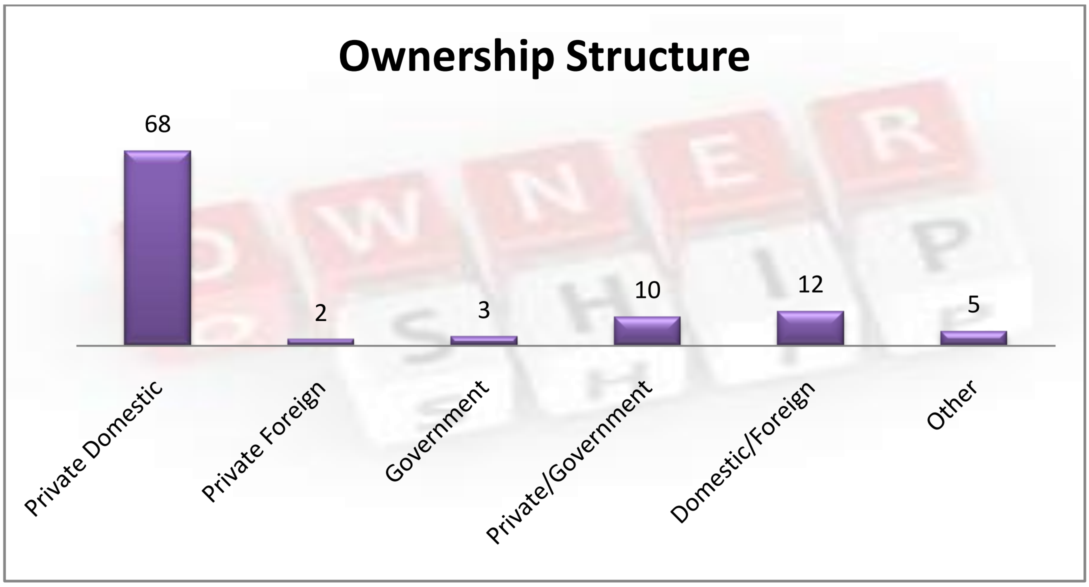
Figure 2: Distribution of Responses



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. From the companies surveyed, 68% are wholly owned by private domestic players while 12% is jointly owned by private domestic players and foreign players. Ten percent is jointly owned by domestic private players and government. Three percent is wholly owned by government. The distribution below provides insights into the levels of equity in the economy.

Figure 3: Ownership Structure



Within the organisational structures of companies surveyed, 6% of the companies indicated being led by females whilst the remainder are headed by males.

Company Operations and Strategy

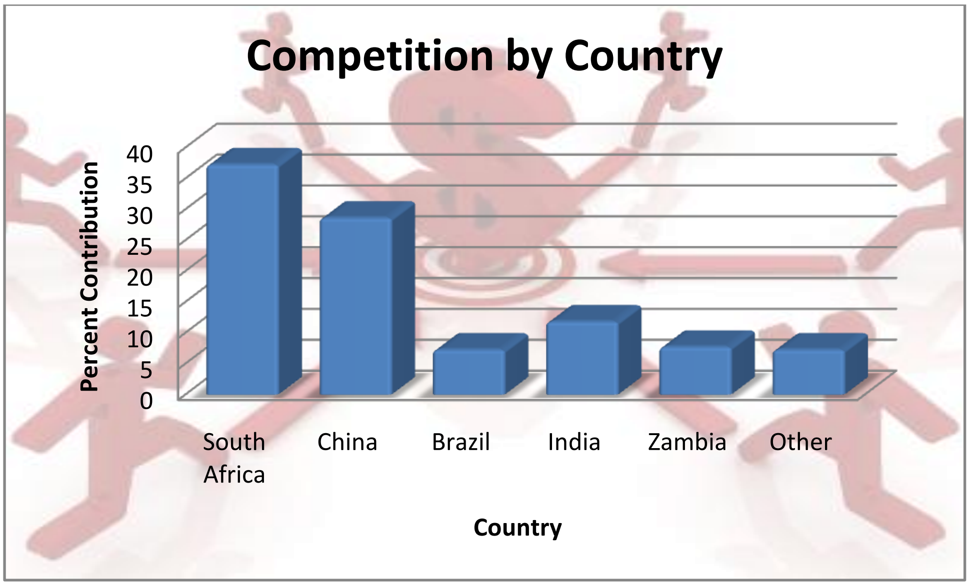
The scope of a firm can often be linked to the level of productivity. In this survey, the first step was to understand the structure and nature of firms, from the composition of the firm, to the make-up of competitors, right down to how businesses set their prices. No link to productivity was estimated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

The results point to the fact that most of the firms in the manufacturing sector concentrate on their main activity, as evidenced by only 3% of the respondents being conglomerates. The majority of firms only specialise in their lines of business. Thirty eight percent of the respondents are vertically integrated. 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. Sixteen percent of the respondents are or have subsidiaries.

Source of Competition

Source of competition remains largely unchanged with 63% of respondents indicating they face competition from both local firms and foreign firms while 11% face foreign competition only. . Twenty three percent compete with local firms only. South Africa remains the largest competitor to Zimbabwean producers followed by China. In the previous survey, we noticed the advent of Zambia as a potential threat to local industry. This year, Zambia has a share of 8% in the local market compared to 4% last year. The results are illustrated below:

Figure 4: Competition by Country



Pricing Mechanism

Forty seven percent of the respondents use mark up over cost as a pricing mechanism while 27% are market price takers. Imports continue playing a significant role in the pricing of local products with 12% of the respondents basing their prices on import prices. Negotiation with buyer is becoming a popular pricing mechanism in Zimbabwe with 10% of the respondents indicating that they use this strategy. 9% of the respondents indicated that they use quality to decide on prices.

Turnover Composition

Sixty seven percent of the respondents produce for both the domestic and foreign markets while 28% produce solely for the domestic markets. Only 5% of the respondents produce specifically for exports.

Traditional Statistics Replaced With New Statistics:

Our statistics on capacity utilisation have been received with mixed reactions from different stakeholders. It is an important tool in determining the performance of the manufacturing sector and hence its accuracy is of great concern. This prompted CZI to revisit the relevance of the statistics and come up with new tools and techniques to improve the statistics as well as introduce new figures that will capture the performance of the manufacturing sector going forward. In the previous survey, CZI introduced the Weighted Capacity Utilization based on a manufacturing subsector's contribution to GDP. The weights were obtained from ZIMSTAT.

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. The subsectors were also reclassified based on the International Standard Industrial Classification (ISIC Rev 3).

Table 2: Capacity Utilisation

	Weighted Capacity Utilisation
2014	**36.5**
2015	**34.3**

The weighted capacity utilisation of 34.3% would imply a decline of 2.2 percentage points from last year's weighted of 36.5%. Of the respondents, 39% said they were operating at levels above 49% while the remainder said they were operating at levels below 49%.

On average, small companies (between 5 employees and 19 employees) are operating at 26% capacity utilization while medium companies (between 20 and 99 employees) are operating at 36.1%. The larger firms (100 and more employees) are operating at 43.1%.

Major Capacity Constraints

A regular trend seems to be developing with regards to the leading factors mainly affecting industry and limiting its capacity. The major capacity constraints remain unchanged over the last 4 years and this possibly explains why capacity utilization has been on a downward trend since 2011, because the major issues being raised keep popping up and hence some are still yet to be addressed. As can be seen in the tables below, common constraints that respondents have been stating as inhibiting capacity over the years are premised around low demand, working capital constraints, outdated machinery, competition from imports, current environment, high cost of doing business and unreliable service provision of utilities. In 2015, 28.4 % of all respondents reported low aggregate demand as the major inhibitor to capacity, followed by capital related issues. This can be attributed to increasing company closure hence increase in unemployment and under-employment and this affects aggregate demand as consumers have less disposable income to spend.

Table 3: Capacity Constraints

2015 Major Capacity Constraints Percentage	
Low local Demand	**28.4**
Capital Constraints	**18.6**
Antiquated Machinery and machine breakdowns	**12.3**
Competition from Imports	**10.3**
High cost of doing business	**8.3**
Cost/Shortage of raw materials	**6.9**
Power and water shortages	**6.4**
Drawbacks from current economic environment	**2.0**
Other	**6.9**

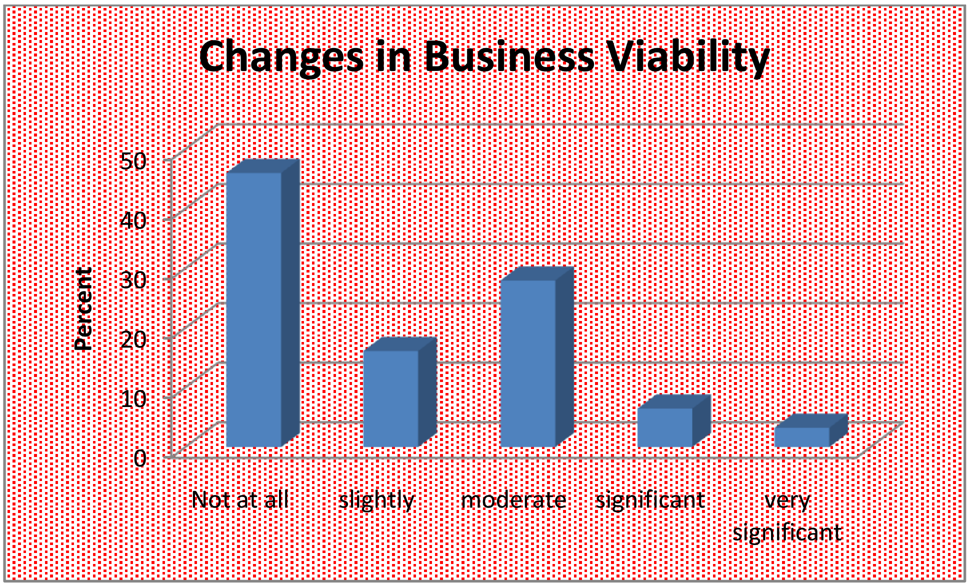
Capacity Constraint-2014	Percentage	Capacity Constraint-2013	Percentage
Low local Demand	28.8	Working capital constraints	40.2
Working Capital Constraints	26.5	Low local demand	17.6

Competition from Imports	14.2	Competition from Imports	12.5
Antiquated Machinery and machine breakdowns	7.3	Antiquated machinery & machine breakdowns	9.8
Drawbacks from current economic environment	7.0	Power and water shortages	8.8
High cost of doing business	6.2	Shortage of raw materials	5.9
Shortage of raw materials	6.2	High cost of doing business	5.2
Power and water shortages	3.8		

Business Viability

Forty six percent indicated that business has not been viable in 2015 compared to 54% in the previous survey. The graph below summarises the findings on business viability.

Figure 5: Changes in Business Viability



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 improves and sustains 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:

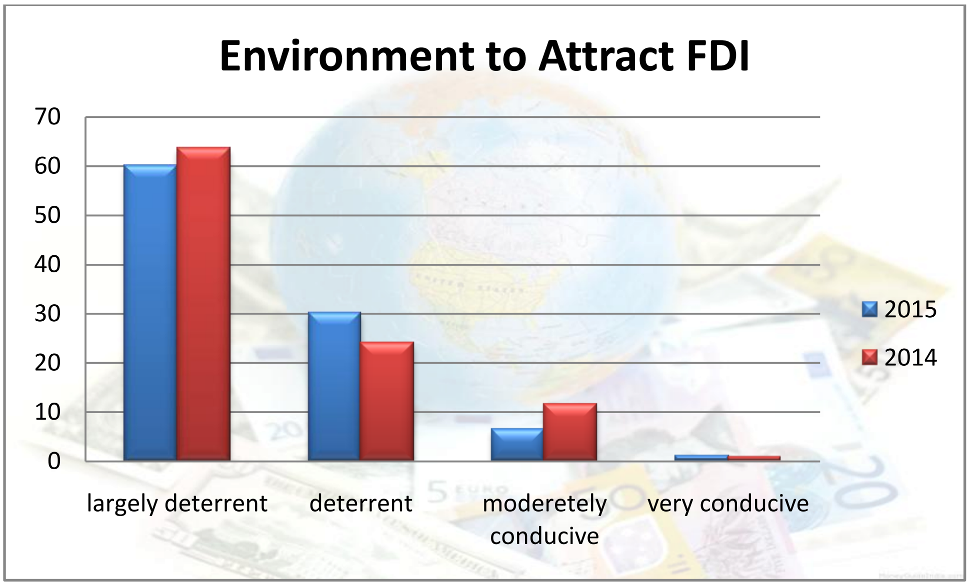
a. Implementation Plan with organization targets, size and change management processes
b. A blueprint for improvement
c. Maintenance Management Systems
d. Definition and Implementation of a plan for catching up on delays
e. Cost/ Capacity Analysis of critical resources and
f. Definition and implementation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

A greater proportion of companies represented by 80% of the respondents has an implementation plan with organization targets, size and change management processes. Sixty percent of the respondents highlighted that they have a blueprint for improvement. Recognising the need for a plan to catch up on delays e.g. delays caused by utilities cuts & shortages, seventy one percent of the respondents indicated that they have such plans at their operations. In an endeavour to manage resources, 76% of the respondents indicated that they have a cost and capacity analysis of critical resources in place.

Capital Investment and FDI

Forty seven percent of the respondents carried out new capital investment in 2014 while 41% carried out investment in 2013. The chunk of the investment (97%) was directed at machinery and equipment for replacement (60%) and expansion (40%). Profit plough back remains the largest source of financing of new capital as evidenced by a response rate of 71%. Forty four percent expect to increase their level of capital investment in 2015/2016. The current economic environment remains largely deterrent to FDI. CZI has previously called for the review of legislations that have a bearing on FDI. This includes the review of indigenization and empowerment act and the resolution of the debt overhang. Strides have been made towards debt resolution with Zimbabwe's strategy being accepted by World Bank in Lima, Peru and this is quite commendable.

Figure 6: Environment to Attract FDI



Innovation and Technology

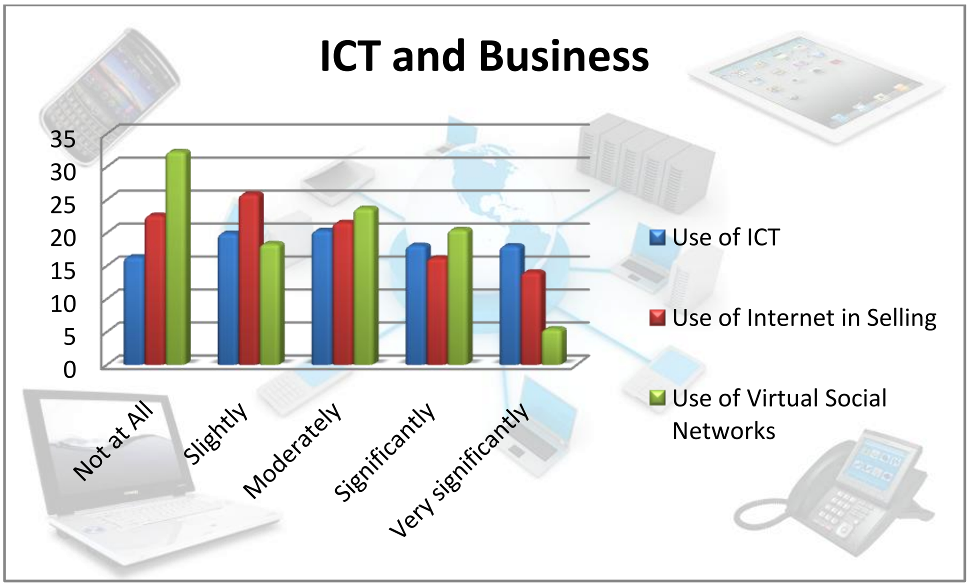
In the global economy technologies are rapidly developing and improving business productivity. This section of the survey sought to ascertain the levels of technology development and innovation within local firms in the manufacturing sector. Technology development cannot be ignored when speaking of factors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

On research and development being undertaken by research firms in the country indications are that there is scope for improvement as well as publicity on work that research institutions are carrying out. Thirty five percent indicated that it is very poor, 36% noted that it is poor while 21% indicated that it is slightly effective.4% of the respondents indicated that they view the R&D by research firms as effective.

Sixteen percent of the respondents compared to 34% last year indicated that they do not use ICT in developing new business models, 19% reported slight use of ICT in developing business models while 18% significantly use ICT to develop new business models. The remainder moderately uses ICT in the development of new business models. In the internet age, companies should vigorously use the internet and virtual social networks for marketing new and existing products. With competition being faced from imports, other countries have resolved to use the internet to push their products into other economies. The manufacturing sector needs to speed up on the use of internet as a marketing tool. Results from the survey indicate that 13% of the respondents use internet for selling very significantly while 23% of the respondents stated that they do not use internet at all. 32% of the respondents indicated that they do not use virtual social networks for professional and personal communication within their companies. Only 5% significantly use virtual social networks for communication within their companies. Sixty percent of the respondents indicated that the internet service providers manage to provide the right speeds and connectivity required for their businesses.

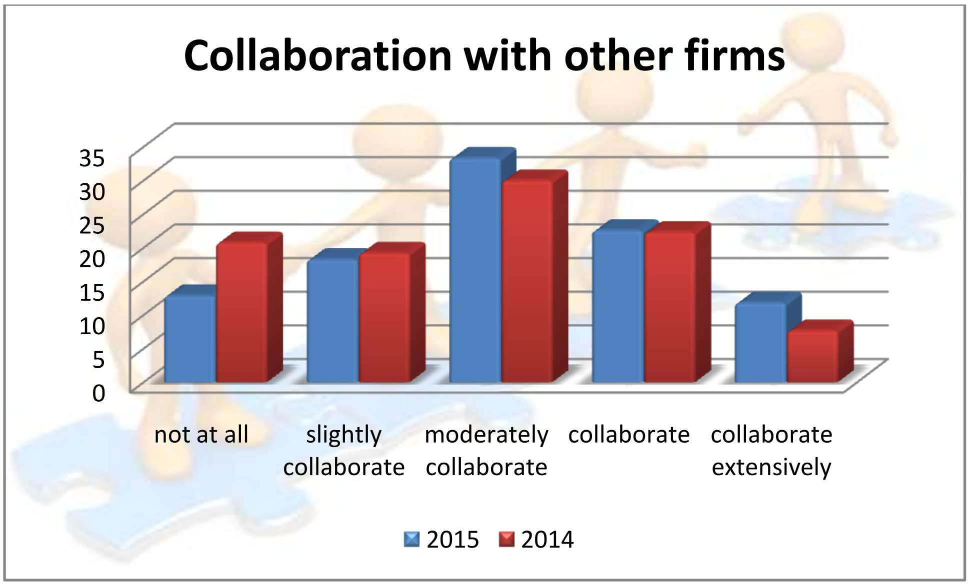
The results are provided in the graph below.

Figure 7: Use of ICTs



In order to share technology and improve innovation and productivity there is need for companies to consider collaboration in the development of technology. A total of twelve percent respondents compared to 21% in the previous survey indicated that they do not collaborate at all with other firms on innovation. 18% slightly collaborate while 33% indicated that they moderately collaborate. Twenty three percent of the respondents indicated that they highly collaborate while 11% reported that they extensively collaborate with other firms on innovation. The result is shown below.

Figure 8: Collaboration for Innovation



Infrastructure – Rendering Industry Uncompetitive

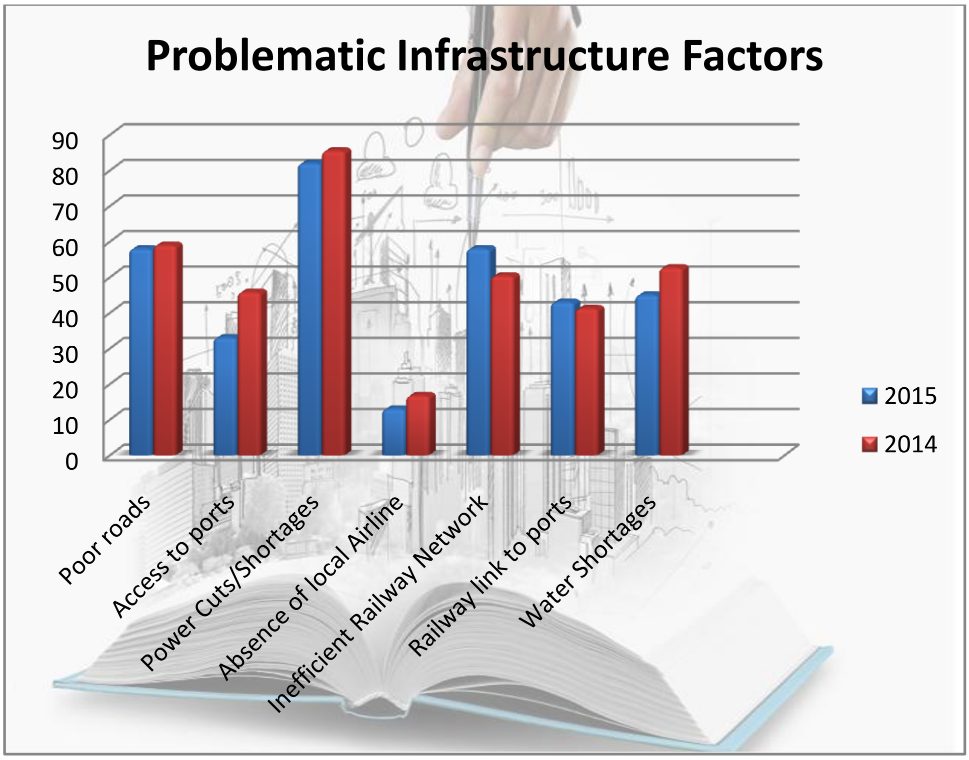
The state of infrastructure in an economy has a significant bearing on the operating environment of business and ultimately affects the level of competitiveness. The level of efficiency as well as the cost is important to business operations. The absence of adequate provision of infrastructure is usually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

Infrastructure remains in a deplorable state. Eighty four percent of the respondents indicated that the state of infrastructure is either poor or very poor. Sixteen percent of the respondents indicate that the state of infrastructure is moderate while no respondents pointed to good infrastructure. Respondents indicated that the infrastructure is unable to sustain economic growth (90%) while 10% indicated that this has no effect on economic growth.

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

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

Figure 9: Problematic Infrastructure Factors



Eighty three percent of the respondents indicated that they are not satisfied by the service delivery of local authorities. Previous surveys have also indicated the same and there is scope for improvement of services by the local authorities.

Electricity Saving Measures

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

Human Capital – The Labour Phenomenon

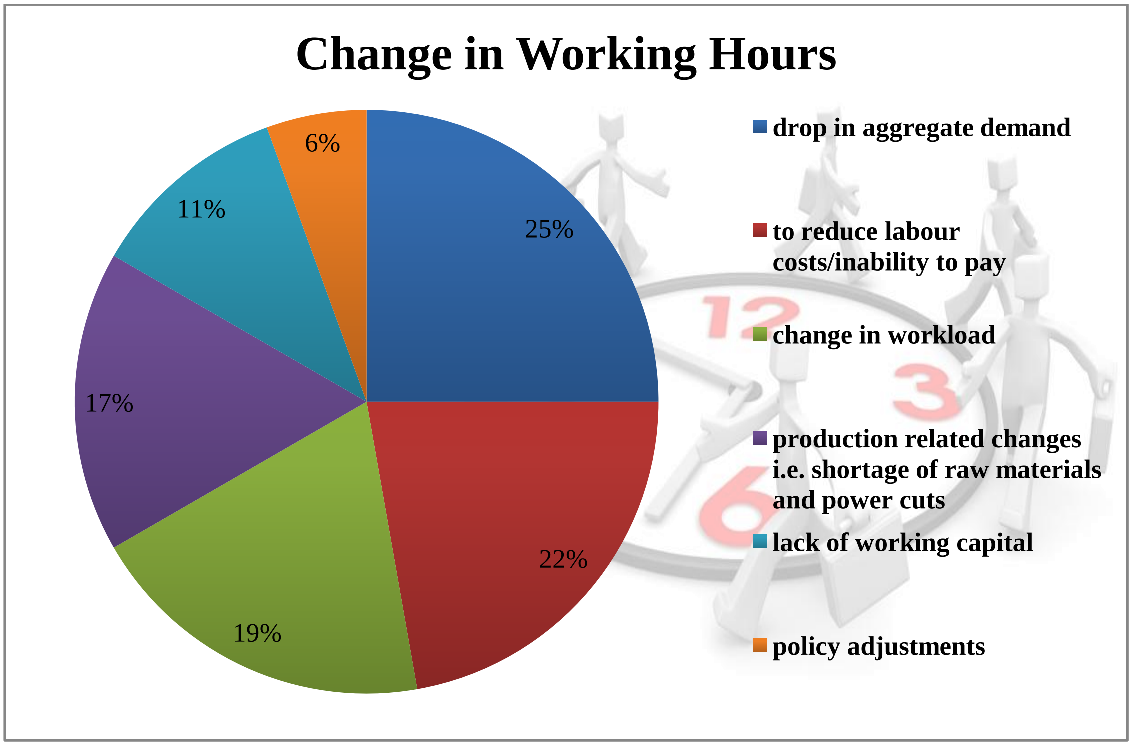
The importance of education, market experience and training cannot be understated when dealing with human capital. The level of skills and experience of human capital at a firm is expected to have a direct bearing on productivity. Labour remains a key ingredient into the production process. Zimbabwe is not highly mechanised. This section sought to investigate various aspects of human capital and how they have impacted on business.

Working Hours

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. Seventy six percent of the respondents indicated that they did not change their working hours. Of the respondents that had indicated having changed working hours, most respondents 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.

This complements industry's cry for productivity-based wages and flexibility of the labour laws of Zimbabwe as it is critical to ensure that wage levels are aligned with overall growth and productivity in the economy.

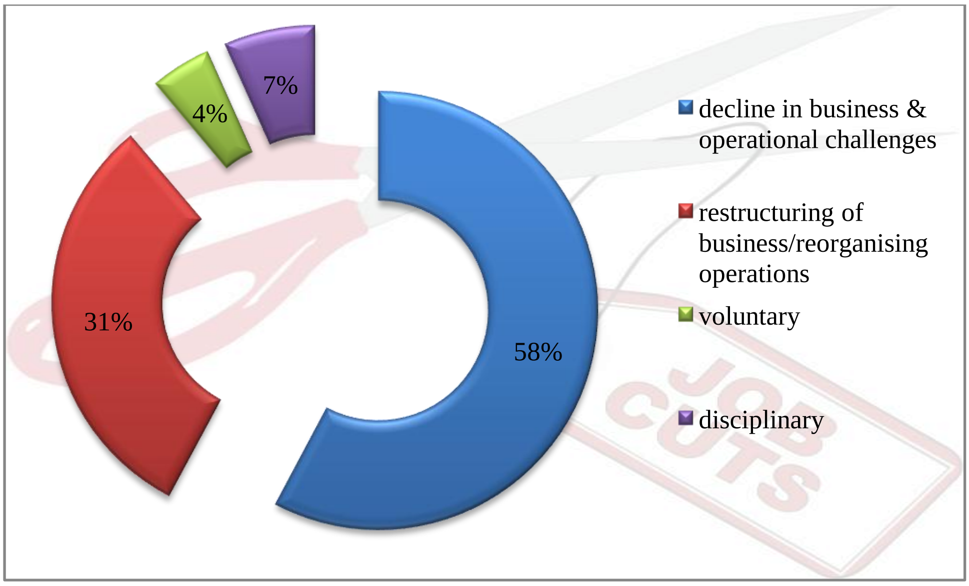
Figure 10: Reasons for Changes in Working Hours



Retrenchments

In terms of retrenchment, 25% retrenched permanent employees while 75% did not retrench. Most respondents cited decline in business and operational challenges as the major reason for the retrenchment. The diagram indicates percentage of respondents which cited each of the mentioned reasons as the major reason for laying off workers.

Figure 11: Reasons for Retrenchment



Percentage of labour costs to direct costs remain unchanged at 22% while total employee cost as a percentage of total input costs is 28%

About 50% of the respondents highlighted that their wages are productivity related. The results are a slight improvement from last year's results. The results are depicted below:

Figure 12: Productivity Related Remuneration

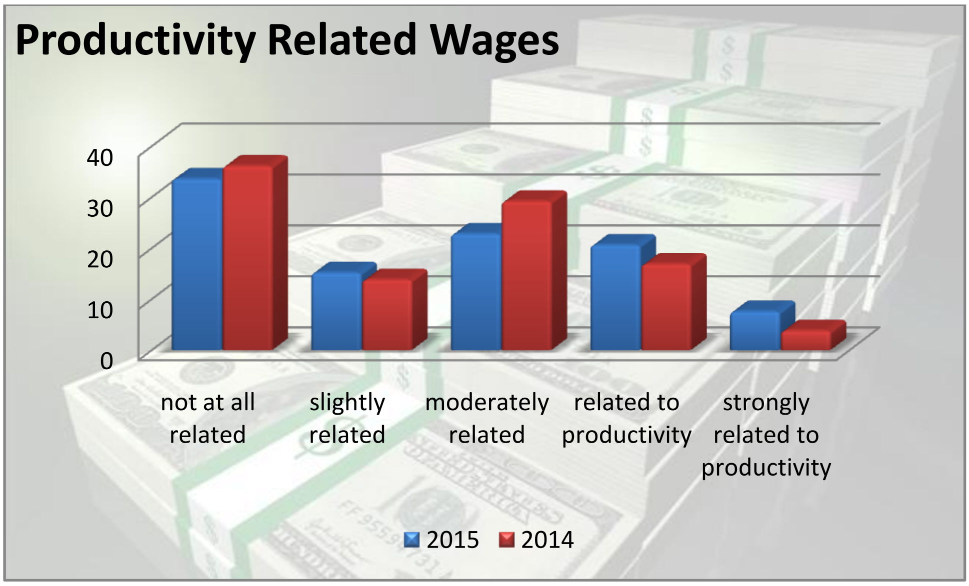
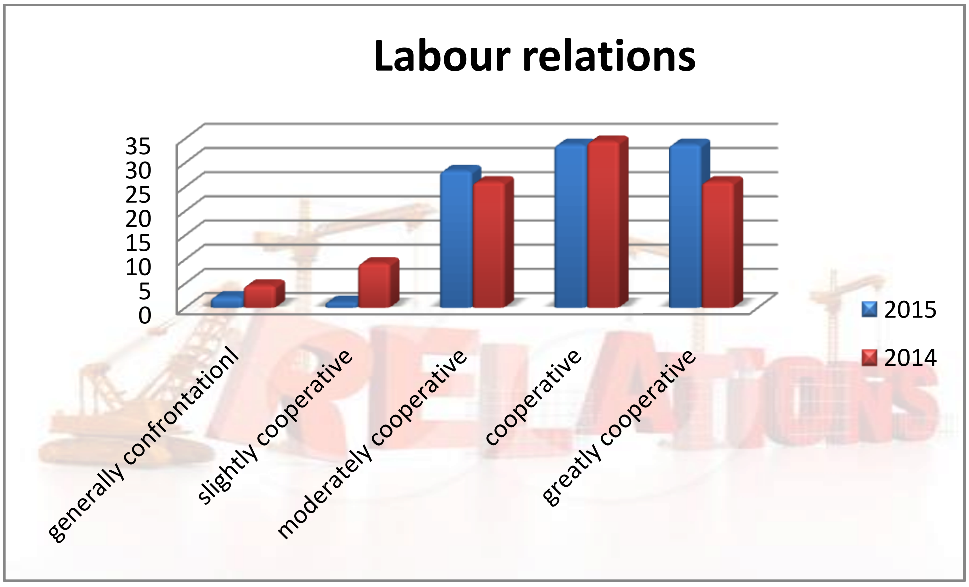


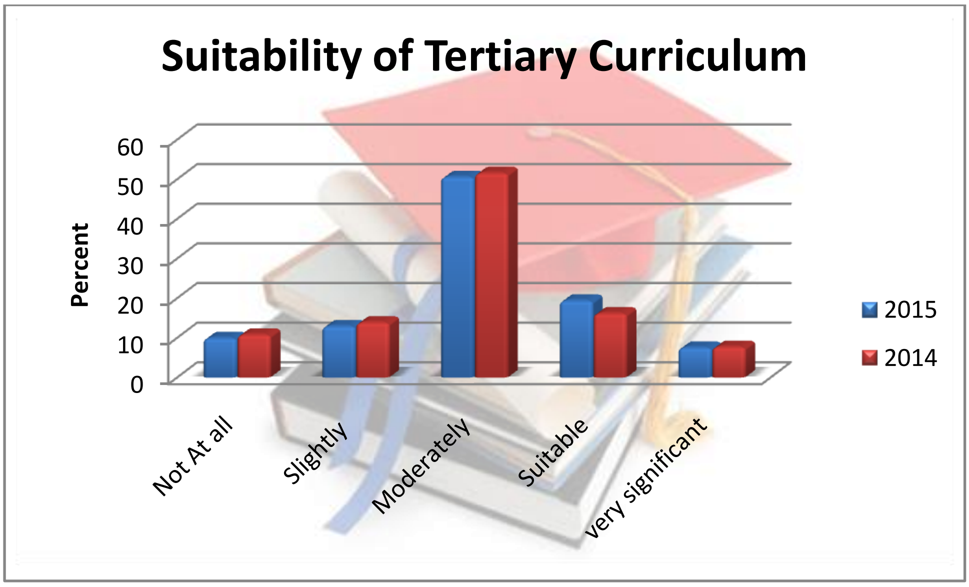
Figure 13: Labour Relations



There has been an improved relation between employers and employees as depicted by the graph above. The level of cooperation ranges from moderate to greatly cooperative**.**

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

Figure 14: Relevance of Tertiary Curriculum



Foreign Trade, Investment and Financial Environment

Leading Export Destinations

Based on the results, there were no major changes in terms of leading export destinations. Zambia remains the top export destination for manufactured products receiving 31.9% of the manufacturing share of exports. South Africa's market share stood at 17.6% while Malawi and Mozambique maintained their positions from last year in terms of the top 4 export destinations as depicted.

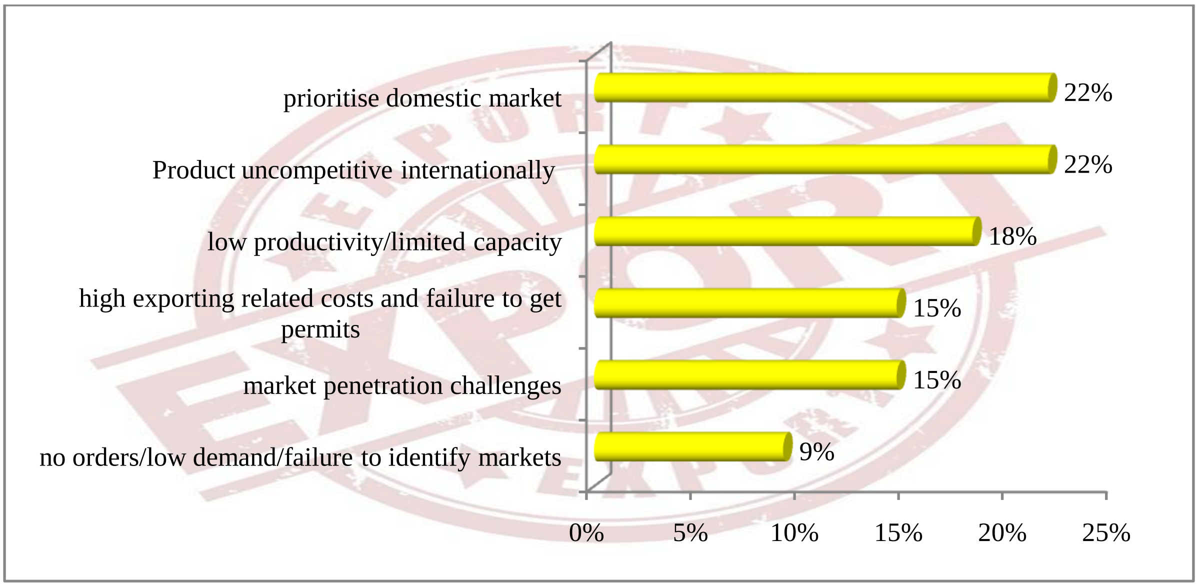
Table 4: Export Destination

Country	Market Share (%) 2015
Zambia	31.9
South Africa	17.6
Malawi	15.4
Mozambique	13.2
Rest of Africa	11
Botswana	7.7
Europe	2.2
USA	1.1

Reasons for not exporting

Companies that have not been exporting over the last two years cited the need to prioritise the domestic market and uncompetitive products internationally as the top reasons. Some respondents cited prioritising the domestic market because exporting is not part of company strategy and some indicated that they stick to local due to lack of export incentives. In terms of product uncompetitiveness, some respondents felt that high costs of doing business and exchange rate differentials are the major aspects affecting pricing of the goods in the international markets which in turn affects competitiveness.

Figure 15: Reasons for not Exporting



The five most problematic factors for exporters are:

1. Access to trade finance
2. Identifying potential markets and buyers
3. Access to imported inputs at competitive prices
4. Burdensome procedures at foreign borders
5. Difficulties in meeting customer requirements

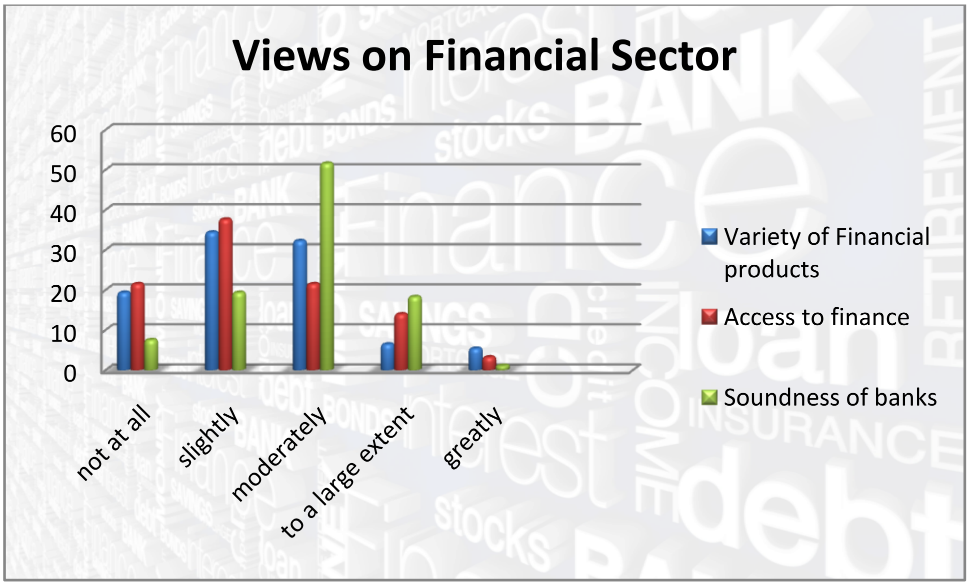
In terms of importing, the five most problematic factors remained the same as in the previous survey:

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

Financial Environment

A strong financial sector is a pillar for the growth of a vibrant manufacturing sector. In this section the survey sought views on the variety of financial products and services to business, how accessible loans are to the manufacturing sector and whether banks are sound. The confidence in banks is increasing as indicated by 70% of respondents indicating moderately sound to very healthy banking sector. Access to finance however remains a challenge with less than 50% of respondents having minor challenges in accessing finance. Banks need to continue innovating on a variety of products offered to clients. The results are presented below.

Figure 16: Financial Environment



Doing Business in Zimbabwe

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

Table 5: Factors Affecting Doing Business in Zimbabwe

FACTOR	Very Positive	Positive	No Effect	Negative	Very Negative
Minimum wages	1%	9%	38%	41%	11%
Restrictive Labour Regulations	0%	1%	24%	50%	24%
Policy Instability	0%	0%	10%	42%	48%
Corruption	0%	0%	21%	37%	43%
Power Cuts	0%	0%	11%	37%	52%
Electricity Charges	0%	3%	8%	45%	45%
Access to financing	1%	6%	17%	37%	39%
Domestic Demand	1%	16%	7%	45%	31%
Public Sector Bureaucracy	0%	0%	19%	53%	27%
EMA Requirements	0%	6%	36%	40%	18%
Interest Rates	0%	2%	13%	48%	36%
Exchange Rate	4%	18%	38%	25%	15%

Insufficient capacity to innovate	0%	3%	28%	45%	24%
Ageing Equipment	0%	1%	19%	41%	39%
Competition from Imports	0%	0%	12%	32%	56%
Consignment Based Conformity Assessment	0%	4%	62%	18%	17%

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

- Competition from Imports
- Power Cuts
- Policy Instability
- Electricity Charges
- Corruption

General Economic Perception

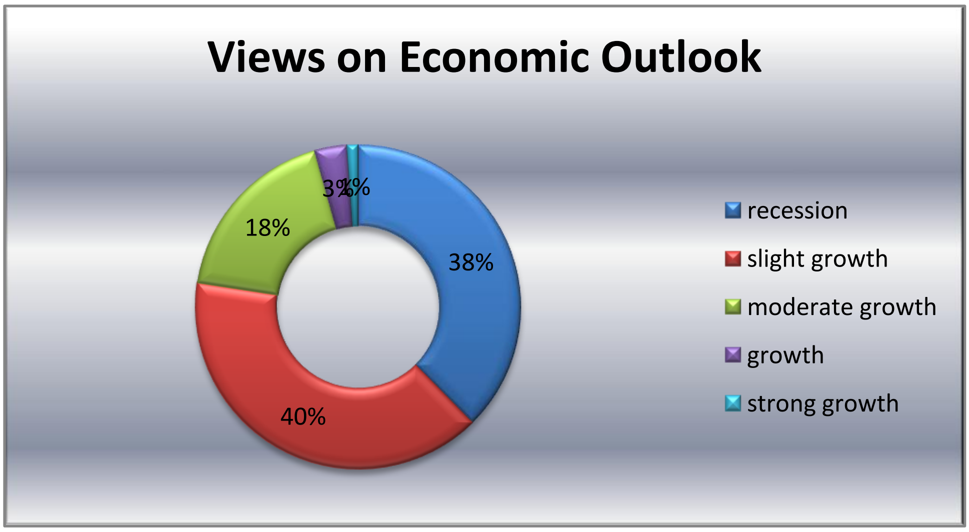
Most respondents felt that the conditions are poor or deteriorating and are not conducive for business growth and development. The need for policy certainty and consistency can never be emphasized enough and the creation of an enabling environment for business development is paramount. Some respondents felt that currently, over and above the inconsistency, there also were too many restrictive policies and the economy needs major changes and business friendly environment. The need for FDI is also key to addressing some of the economic challenges the country is facing.

Table 6: Economic Perception

View	Percentage
Poor/deteriorating economic conditions - not conducive for business growth	45.3
Needs major change & business friendly policies-too many restrictions	14.5
Liquidity challenges-need FDI	12.0
High unemployment & low aggregate demand	12.0
Economy currently stagnant/uncertain	9.4
High costs of doing business	5.1
Upward trend	1.7

Thirty eight percent of the respondents indicated that the country will be in a recession while 40% indicated that the country will experience slight growth. Eighteen percent expect moderate growth and the results are as depicted below.

Figure 17: Views on Economic Outlook



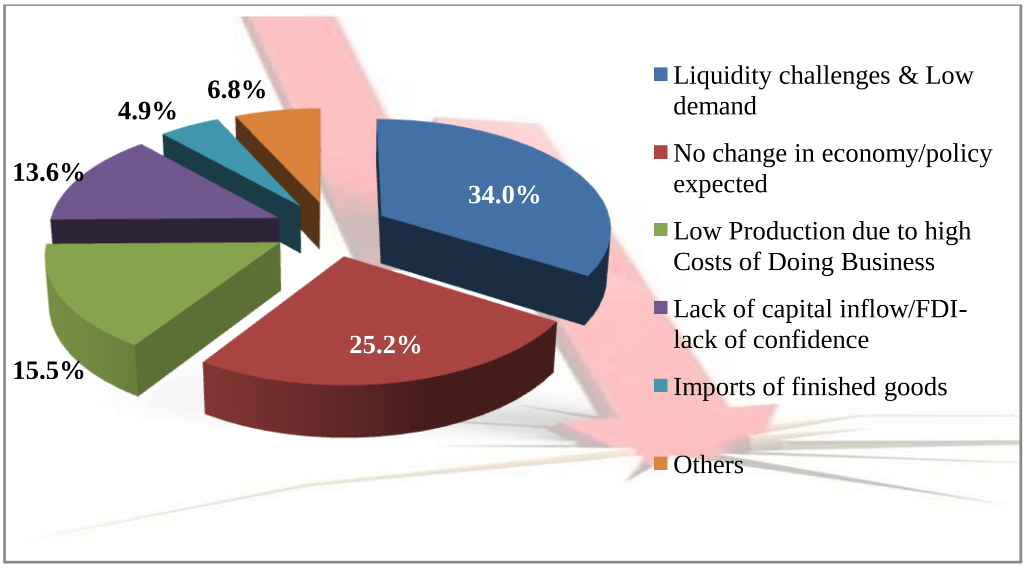
Inflation Outlook

Eighty nine percent of the respondents indicated that the country will continue in dis-inflation mode.

Reasons for disinflation

The table below shows the major reasons cited as to why respondents thought the country would remain in disinflation mode. Thirty four percent of the respondents felt that disinflation would continue due to the current liquidity challenges, and this, coupled with unemployment and high cost of living, would lead to further decrease in aggregate demand and push prices further down. Other respondents (25.2%) felt that the situation will prevail unless the economic initiatives are implemented. Sixteen percent of the respondents cited low production as reasons for low inflation.

Figure 18: Reasons for Disinflation



CONCLUSION

The region and in particular SADC plays an important role in the Zimbabwean manufacturing sector. The crash of the South African Rand and the Zambian Kwacha has caused more complex challenges to the Zimbabwean economy. There have been calls to devalue internally and CZI has gone some strides in exploring the possibility of such an initiative given that Zimbabwe is using a stronger currency.

The debt overhang has been one of the challenges that have seen low FDI flows in Zimbabwe. The debt resolution strategy presented in Lima, Peru is expected to open new capital which will be channelled towards the productive sectors of the economy. The acceptance of the debt resolution strategy is also a sign of confidence and will send signals to the international community that Zimbabwe is a safe investment destination.

Reform is painful but critical. The country needs to ensure that suggested agreed reforms are implemented and that there is no policy reversal. As the current CZI President, Mr Busisa Moyo rightly says that in order to move the country forward, there are 12 Cs that should be addressed:

1. Confidence- from both internal and external stakeholders
2. Courage- to solve our challenges
3. Conversations- amongst all stakeholders
4. Convergence- after conversing stakeholders should have a convergence of minds on what needs to be done to move the country forward
5. Consistency- in implementation
6. Consumption- local consumption stimulates demand and production
7. Costs- our costs structure is very high and need to be looked at
8. Currency- Our currency is stronger compared to regional peers and this should be addressed
9. Competitiveness- we need to produce competitively to remain relevant
10. Copying-our case is not unique in entirety, there is scope for learning from others
11. Corruption- this disease should be addressed as a matter of urgency
12. Common Sense.

Also realising that we cannot only wait for the government to assist us, industry has come up with a strategy for industrialization which has been submitted to the Ministry of Industry and Commerce.