INTRODUCTION

About the Manufacturing Survey

In line with our vision, *"to be a world class leader in building a legacy of prosperity through the development of sustainable business and social programmes"*, the Confederation of Zimbabwe Industries (CZI), conducts an annual survey to provide accurate and timely information on the state of the manufacturing sector. 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.

As categorically stated in Zimbabwe's Medium Term Plan (MTP) document; the successful turnaround of the economy requires a manufacturing sector that is vibrant, diversified and with strong functional linkages with agriculture, mining, construction and the services industry. Hence CZI commissioned the 2011 State of the Manufacturing Sector Survey to assess, determine and document the structure, performance and challenges facing the manufacturing sector in Zimbabwe.

Research Methodology

This section will briefly explain how data for the survey was collected, analyzed and the problems encountered during the survey. The 2011 State of the Manufacturing Sector Survey was based on the use of both primary and secondary data. Primary data was collected from individual manufacturing firms within the four CZI chambers namely, Mashonaland, Manicaland, Matebeleland and Midlands. The data was collected using self-administered questionnaires, but in certain cases research assistants were called in to help complete the questionnaires where firms required some clarity. Secondary data was obtained from various Government publications, mainly those published by ZIMSTAT and the Ministry of Economic Planning and Investment Promotion.

Companies surveyed were drawn from the CZI database. However, since the membership of CZI now covers various sectors of the economy, all firms that do not fall within manufacturing were excluded from the survey. A total of 120 questionnaires were sent out. Unlike in previous years, the response rate was lower than usual. A total of 92 questionnaires were returned but of these, five were not adequately completed[1] to be included in the data analysis. This means the response rate for the 2011 survey stood at 68%.

The data collected by questionnaires from individual firms was analyzed using the statistical package, excel. Ideally data should be analyzed for each sub-sector within the industry, however, due to low or non-response rates within the sub-sectors, data was analyzed for the whole manufacturing sector. Since the response rate was rather low in most cases, analysis has been done for the whole manufacturing sector rather than for individual sub-sectors.

Challenges faced in conducting the 2011 survey were mainly in the data collection stage. The greatest challenge was failure to disclose certain information, as firms highlighted that the information we were seeking was confidential, even firms that have previously completed CZI questionnaires.

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[1]The majority of the sections within these questionnaires had not been completed and hence no meaningful inference could be derived from them.

Upon further investigation, it was alluded that at the moment industry was very sensitive to releasing information given certain policy pronouncements that have been made by Government.

Executive Summary

The state of the manufacturing sector still remains in a precarious position. Although there have been vast improvements on the economic front, the challenges enshrined within the economy will continue to hinder the full growth potential.

Since the institutionalization of the GPA and the subsequent introduction of the multicurrency system, the manufacturing sector has continued to improve. At the end of 2008, the sector was estimated to be operating at capacity levels of below 10%.

This has since improved and as at the end of the 1st half of 2011, average capacity levels are estimated at 57.2%. Albeit the increase in capacity utilization the sector is still constrained by several factors which include low product demand (although not in all sub - sectors); lack of working capital (which also includes unfavourable terms of financing); and machine breakdown.

In addition, the cost of production remains high with continued rises in cost of labour and cost of utilities. The high cost of production coupled with the low levels of capacity and inferior product quality has largely rendered Zimbabwe's manufactured products uncompetitive on international markets. As such, levels of exports have remained depressed, with export destinations being limited to the Southern Africa Region.

In terms of volume of output production, this has over the past three years continued to increase. The rate of increase has decelerated with 2011 recording a percentage increase of 14% compared to 34% recorded over the same period in 2010. There has been a decline in terms of the supply of raw materials both local and imported. Locally sourced raw material supply declined by 8% from the second half of 2010 to the first half of 2011. The price of sourcing raw materials has also increased significantly, with the cost of local raw materials increasing by 7%, while that of imported raw materials increasing by almost 100%.

As highlighted earlier, the cost of labour is greatly impacting on the cost of production. From the survey, wages and salaries as a percentage of total expenses ranges from 12% to as high as 60%. In an economy where inflation levels are averaging 4%, the continued awarding of salary and wage adjustments in excess of 20% is only serving to render business unviable in the medium to long run.

Working capital has remained one of the largest factors impacting on business performance. This has hampered the retooling of the manufacturing sector. Even though the survey results show an improvement in the number of firms that have undertaken capital investments, the level of investment still falls far short of what is required.

The MTP document clearly states two policy targets for the manufacturing sector, these are:

i. Increase capacity utilization to 80% by 2015; and
ii. Restore the manufactured exports to 50% of total exports by 2015 in line with the Industrial Development Policy of 2011-2015.

This report will seek to give a picture of the manufacturing sector survey soon after the policy pronouncement and will allow for future surveys to be used as benchmarks to measure the progress of policies being instituted.

SECTOR OVERVIEW

Economic Overview

Zimbabwe's economy continues on a growth path despite the various challenges that are now inherent in the economy. In 2010 the economy is estimated to have grown by 8.1% following a growth of 6.3% in 2009[2]. According to official forecasts, the economy is projected to grow further in 2011 by 9.3%. The table below gives a summary of some forecasts for macroeconomic indicators for the next five years.

Table 1: Macroeconomic Projections

Year	Nominal GDP US$ million	GDP Growth Rate %	Annual Inflation (year-on-year %)
2011	8 988	9.3	4.5
2012	9 959	7.8	5.0
2013	11 297	6.6	5.5
2014	12 711	6.4	5.7
2015	14 915	5.4	6.0

Source: ZIMSTAT, MEPIP, MOF, RBZ

The manufacturing Sector

As Zimbabwe continues to recover from the decade long economic downturn, it is more important than ever that manufacturers look to improve performance and investigate new strategies and new markets in order to remain competitive.

Table 2: Manufacturing Growth Rates

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP growth	-11.5	-5.4	-13.2	-13.6	-10.2	3.8	1.7	-32.6	17.9	10.2	2.8
Contribution to GDP	13	9	18	17	16	23	27	8	7	13	13
Contribution to exports	37	40	39	42	37	35	31	27	27	27	27

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[2] GDP figures are quoted from Zimbabwe Medium Term Plan 2011-2015 document produced by the Ministry of Economic Planning and Investment Promotion.

Source: ZIMSTAT, MEPIP, MOF, RBZ

At its peak the manufacturing sector contributed a total of 22% to GDP and 37% of export earnings. Currently the manufacturing sector is estimated to contribute 13% to GDP and 27% of total exports. The table below gives a summary of the performance of the various sub - sectors within the manufacturing sector based on volume of indices of production.

Table 3: Volume of Manufacturing Index

	2008	2009	2009 % Growth	2010	2010 % Growth
FOOD	28.6	38.9	35.9%	40.6	4.2%
DRINK	58.2	53.7	-7.7%	68.5	27.6%
TEXTILES	14.4	12.4	-13.3%	13.5	8.3%
CLOTHING	17.9	18.2	1.3%	18.5	1.6%
WOOD	86.2	85.2	-1.1%	85.5	0.3%
PAPER	15.7	17.3	10.7%	15.7	-9.5%
CHEMICALS	23.0	23.2	0.7%	21.1	-9.2%
NON-METALS	71.8	71.4	-0.6%	72.5	1.5%
METALS	34.0	31.9	-6.2%	44.4	39.0%
TRANSPORT	43.5	41.3	-4.9%	35.8	-13.5%
OTHER	38.1	31.4	-17.6%	41.3	31.4%
ALL	**35.4**	**35.4**	-0.1%	41.0	15.8%

Source: ZIMSTAT

SURVEY RESULTS

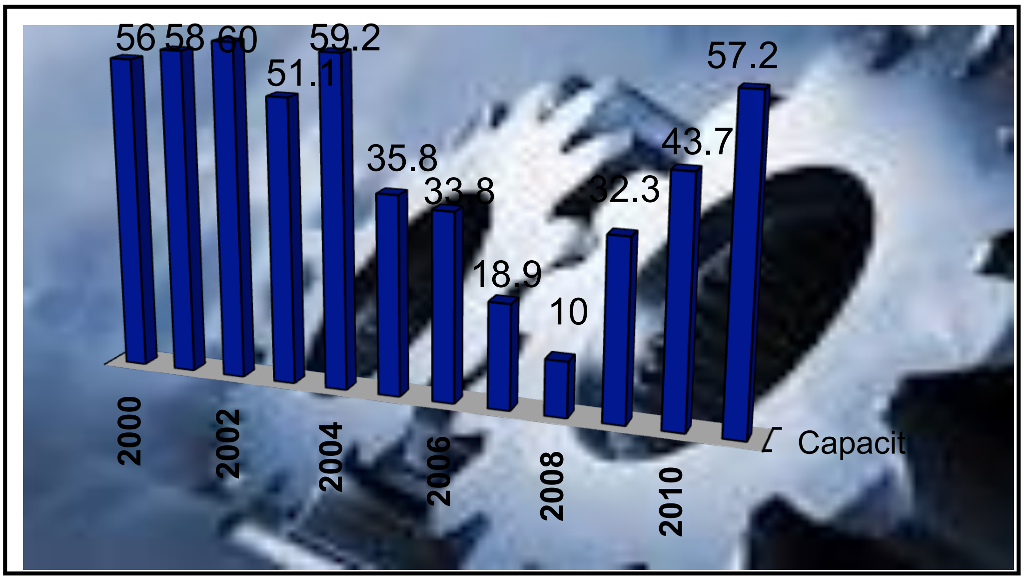
Review of Trends and Constraints

Capacity Utilisation

It is not a new phenomenon in the Zimbabwe economy that low levels of capacity utilization continue to hound the various sectors of the economy, manufacturing included. The period under review shows that the average level of capacity utilization has increased significantly, given the current challenges still inherent in the economy. Although 12% of the respondents indicated to be operated at levels below 30%, it is prudent to point out the percentage of companies operating at levels of 50% and above has increased from 45% to 60%.

Average capacity utilization as at the end of the first half of 2011, stood at 57.2%, gaining 13.5 percentage points from 43.7%[3] recorded at the end of the first half of 2010.

Figure 1: Trends in Capacity Utilisation



The table below shows the distribution of capacity utilization – from the table it is clearly evident that though levels of capacity utilization still

[3] As recorded in the 2010 CZI State of the Manufacturing Sector Survey

vary widely from as low as below 30% to levels above 74%, there is a shift to most companies now operating at levels above 49%.

Table 4: Distribution of Capacity Utilisation

Capacity	2005	2006	2007	2009	2010	2011
<30%	14%	18%	38%	45%	26%	12%
<50%	46%	49%	76%	82%	55%	40%
>49%	55%	51%	24%	18%	45%	60%
>74%	13%	97%	4%	6%	15%	21%
100%	3%	0%	0%	0%	4%	7%

The aspect of idle capacity within the sector has also been very topical, with the issue of lack of working capital being cited as the major reason why companies were not utilizing 100% of plant capacity. From the survey, 35% of respondents indicated to be operating at 100% of plant capacity; while 21% indicated to have 50% or more idle capacity.

Capacity Constraints

As highlighted in previous surveys, the major capacity constraints being faced by industry still remain largely unchanged. The magnitude of perceived impact may have shifted slightly but the reasons remain the same. Major capacity constraints being faced by the manufacturing sector include:

i. Low product demand

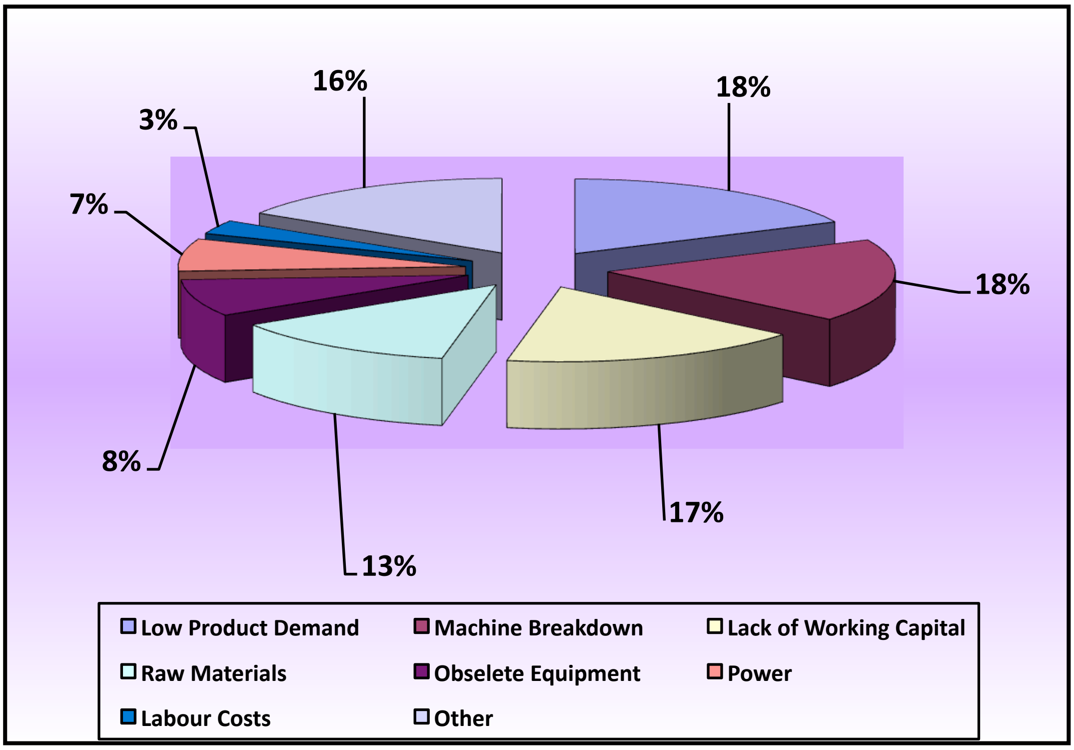
ii. Machine breakdown

iii. Lack of working capital

iv. Lack of raw materials

The various capacity constraints are summarised in the pie chart below:

Figure 2: Major Capacity Constraints



These challenges are similar to those identified in the MTP document and the draft IDP document, and measures alluded to in both documents need to be instituted with haste to ensure policy targets set remain achievable.

Volume of Production

Overall output volume growth continues on an upward trend, increasing by 14.1% in the period under review. From the respondents, 68% recorded a positive output growth (compared to 67% in 2010), while 32% of the respondents recorded a decline in output growth (compared to 33% in 2010). The table below gives a summary of volume of production growth.

Table 5: Output Growth Analysis

Category	2006	2007	2009 Q2	2010 Q2	2011 Q2
Overall Output Volume Growth	78%	-28%	110%	34%	14.1%
Output growth >0	20%	30%	89%	67%	68%
Output growth <0	80%	70%	11%	33%	32%

Table 6: Local Turnover vis-à-vis Export Turnover Growth

	Local Turnover	**Export Turnover**
<26%	17%	79%
<50%	21%	93%
>49%	79%	7%
>74%	64%	2%

From the graph above and the section on exports below, it is evident that exports still remain depressed. From the survey respondents share of turnover was mainly local, with the majority of respondents (79%) stating export share turnover of less that 25%.

Exports

Analysis of the results largely shows that most companies are still producing for the domestic market. The companies that were exporting highlighted that export levels remained depressed due to challenges of lack of working capital to meet orders and unavailability of raw materials. In terms of destination, our markets are mainly still confined to Africa, mainly southern Africa, with only 2% of the respondents exporting to East Africa and 2% to Europe.

Table 7: Leading Export Destinations

Leading Export Market	2005	2006	2007	2009	2010	2011
Zambia	30%	29%	23%	31%	30%	29%
Malawi	15%	13%	11%	16%	15%	16%
South Africa	22%	20%	27%	20%	14%	16%
Mozambique	3%	5%	7%	5%	11%	11%
Botswana	15%	18%	13%	12%	15%	9%
Other SADC	7%	13%	7%	7%	10%	11%
Other	9%	4%	13%	9%	5%	4%

Apart from the fact that most companies were still only producing to satisfy the domestic market, the other main reasons for companies not exporting include the following:

1. Unavailability of raw materials and/or lack of working capital to meet orders and in some instances companies cited low production or non production;

2. 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;

3. Inadequate knowledge of export markets which has lead to failure to penetrate these markets; and

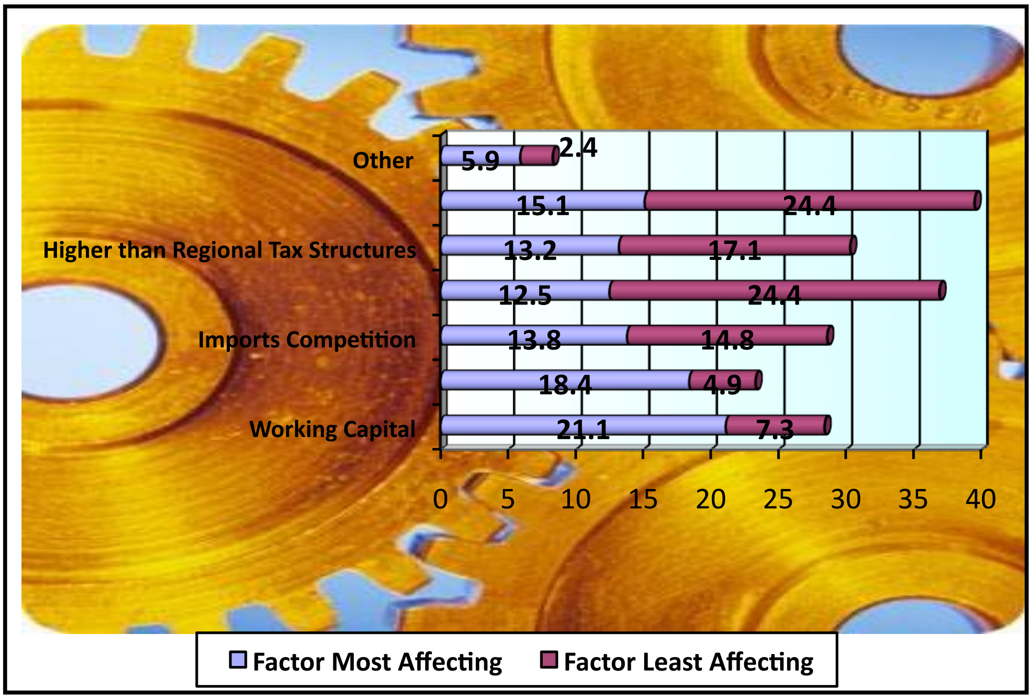
4. Failure to secure orders as a result of negative perceptions of Zimbabwean business.

Factors Affecting Business Performance

The question all foreign investors ask when they come through to meet Zimbabwean manufacturers is "what is holding the sector back from reaching its full potential?" -One of the main aims of this survey was to answer this question. The question shall be answered in a twofold; first by looking at the factors affecting business and secondly by looking at the current business environment.

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 3: Factors Impacting on Business Performance



Business Environment

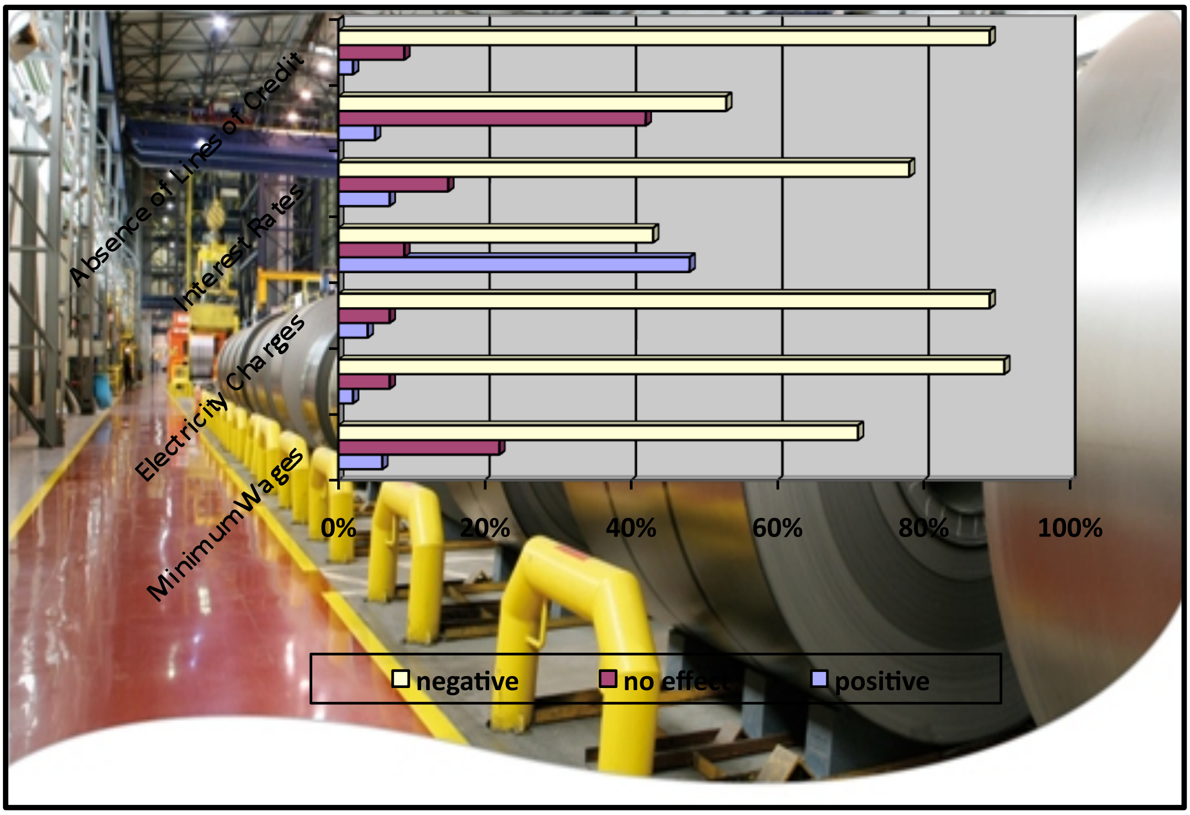
According to the IFC World Bank Doing Business Report 2011, Zimbabwe is ranked 157 out of 183 on the ease of doing business. The survey sought to ascertain the level of impact on selected indicators that have a bearing on the ease of doing business.

Table 8: Factors Impacting on Doing Business

	Very Positive	Positive	No effect	Negative	Very Negative
Minimum Wages	2%	4%	22%	40%	31%
VAT	0%	2%	49%	36%	13%
Coal Shortages	0%	2%	66%	23%	9%
Corruption	0%	0%	40%	33%	26%
Power Cuts	2%	0%	7%	19%	72%
Electricity Charges	2%	2%	7%	36%	53%
Fuel charges	4%	4%	9%	52%	30%
Domestic Demand	15%	33%	9%	20%	24%
Public Sector Bureaucracy	0%	2%	47%	30%	21%
Interest Rates	0%	7%	15%	33%	46%
Exchange Rate	0%	9%	33%	48%	11%
Corporate Tax	0%	5%	42%	47%	7%
Individual Income tax	0%	0%	39%	43%	18%
Lack of Working Capital	2%	0%	5%	38%	55%
Absence of Lines of Credit	2%	0%	9%	40%	49%

From the table above indicators of interest were selected to give graphical representation on impact on business.

Figure 4: Factors Affecting Business Performance



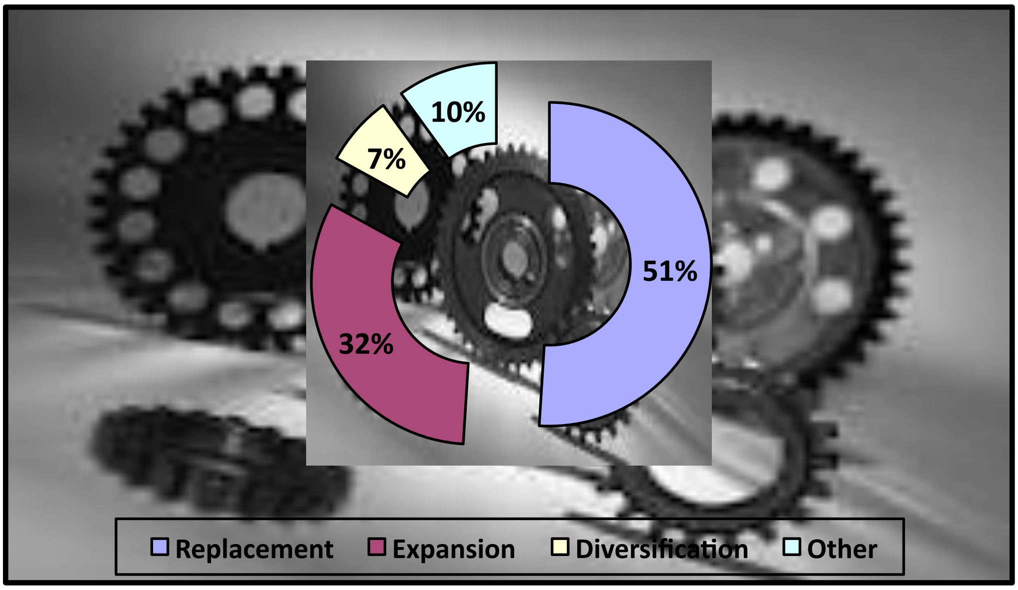
Raw Materials

Over the first half of 2011, the estimated volume of domestic raw material is estimated to have decreased by 8%, and that of imported raw materials is also estimated to have decreased by 57%. This supports the point illustrated earlier that companies are being constrained by the unavailability of raw materials. The reason for the drop in raw materials may be associated by the increase in the cost of raw materials. According the survey, the cost of imported raw materials is estimated to have increased by almost 100%.

Capital Investment

The issue of investment remains critically for the full resuscitation of the manufacturing sector. Levels of investment continue to rise, on average 27% of the respondents undertook capital investment in the 2nd half of 2009, which further increased to 42% in the first half of 2010. The figure remained stagnant in the second half of 2010 with 42% of respondents indicating to have undertaken capital investment projects. In the first half of 2011, the percentage of respondents who undertook capital investment increased by five percentage points to 47%. In terms of total investment for the period under review i.e. July 2010 to June 2011, is estimated at just above $43.4 million. The graph below illustrates the distribution of capital investment during the period under review.

Figure 5: Capital Investment



Employment Trends

Working Hours

During the period under review, 24% of respondents necessitated a change in working hours. In cases where there was an increase in the number of working hours, this was necessitated by the need to meet increased product demand. However, where decreases in the number of working hours was recorded this was a direct result of drop in production due to lack of working capital. What was interesting to note that a few companies alluded to shifting working hours to accommodate the ZESA load shedding.

Staffing Levels

From the survey results, on average, companies recorded staff turnover of 2.2% for the period under review. For companies that alluded to having undertaken retrenchments, the main reasons for undertaking retrenchments were:

i. Working capital shortages

ii. Raw material shortages

iii. Decreased domestic demand

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

Table 9: 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%
2011	41%	59%

The drop in the proportion of permanent employers to contract workers, can be attributed to staff turnover as well as retrenchments. In addition, from analysis of results it is evident that a few companies have had to reorganize their workforce in line with the change in demand of products and the availability of working capital. In a move to maintain viability some companies have resorted to working more on contract basis to ensure during off peak periods overhead costs are reduced.

The Wage Bill

From the survey results, wages and salaries on average constitute 25% of total expenses. From the individual companies surveyed the proportion of wages and salaries ranges from as low as 12% to as high as 60% of total expenses. From the period July 2010 to June 2011, from the companies surveyed a total 210 labour disputes had been handled by companies, with the bulk of these disputes being related to salaries and wages. This represents an average of 52 disputes per quarter.

POLICY ENVIRONMENT

The survey sought to also gauge the general view from manufacturing firms on recent policy pronouncements; the following text boxes give a summary of views from the respondents.

VIEW REGARDING MEDIUM TERM PLAN

- It is a pleasing plan which focuses on main issues that worry us as an economy. If the plans are turned into action (many respondents pointed out that our greatest challenge lies in our inability to implement), Zimbabwe will get back to where it was a decade ago. However accountability should be enforced and prioritized and corruption should be eliminated on the implementation and execution of these plans.
- Others felt that it was too broad, should be focused on the must-do projects.
- Respondents felt there were several key issues the plan failed to address and these include:
  - High cost of service delivery;
  - Impact of politics on business confidence;
  - Issues of liquidity and working capital constraints
  - Exporter incentives, among others.
- The plan needs to be supported by consistent policy and actions on protection of foreign investment.
- The objectives and targets of the plan are a milestone towards economic recovery

VIEW REGARDING RECENT FISCAL POLICY ANNOUNCEMENT

- Welcomes duty imposed to protect local industries, as this will encourage more local production. Economic growth will be in tune of double digit as we go into 2012. However this is possible if the policies suggested are implemented with positive attitude and for the betterment of all in the economy.
- It was a balanced statement

- They are pragmatic and should help industry focus on real issue
- Policy still fails to address the shortfalls of prior Government policies. Issues such as property rights and indigenization are confused
- Imposition of import duty on basic commodities was premature as it would lead to higher inflation
- Paid lip service to acquisition of new technology
- Very positive in terms of protecting local industries from imports
- More resources should have been allocated towards funding primarily agriculture production to enable production of raw materials for the industry
- Supports the continuation of a positive direction but does not provide any concrete incentives for business growth
- Addressed some issues of concern in the manufacturing sector
- The Ministry's forecast on economic growth rate of 9.3% underpinned by agriculture at a growth rate of 19.3% and mining at 44%
- Introduction of duties will reduce disposable income

VIEW REGARDING RECENT MONETARY POLICY STATEMENT

- The ideas are good but the problem is on the implementation phase. If we can do away with corruption, our economy will shine just like it used to be the breadbasket of South Africa.
- The additional exchange control restrictions are negative and affects confidence
- Concern that exchange controls are creeping back
- Interest rates are still to high
- Positive as it seeks to anchor inflation at lower and stable levels
- Positive in terms of the efforts being made to ensure safety of the financial services sector
- The policy did not adequately address issues of liquidity and high interest rates
- Fosters financial sector stability
- Reserve limits should be strictly applied

Policy Recommendations

Policy: Introduction of import duty on all goods and services coming in through our borders over a certain incubation period to allow local industries to recapitalize and ramp up production to meet local demand
Reason: Armed with this protection, industry will employ more people to produce more for consumption, hence growth will be realized

Policy: Greater access, by all economic sectors, to credit
Reason: Increased liquidity

Policy: Export incentives
Reason: To increase cash in circulation

Policy: A cast iron guarantee that any reintroduction of the Zimbabwe dollar will be purely voluntary
Reason: This will boost confidence and lower interest rates

Policy: Indigenisation law should be amended in a manner that brings transparency
Reason: This is the main stumbling block to FDI flows into the country

Policy: Restoration of all property rights in a modern free market economy
Reason: To encourage FDI, growth, and equal opportunities for all Zimbabweans

Policy: Urgent requirement for significant investment to upgrade infrastructure (roads and railways), and boost of water and electricity supplies
Reason: To improve capacity utilization

Policy: Shield the private sector from political interference
Reason: Improved liquidity

Policy: To pay VAT as and when we are paid by customers, not to have a deadline

Reason: Because sometimes there may not sufficient funds to pay ZIMRA

Policy: More resources for equipment and modernization
Reason: To enhance competitiveness and productivity

Policy: Reduction of duty on imported spares
Reason: This reduces production costs and lower selling price

Policy: Business growth incentives
Reason: Businesses are generally undercapitalized at present, tax incentives based on business growth criteria would assist companies to regain scale and competitive age in the face of increased inflows of imported goods, which would otherwise be manufactured locally.

Policy: Capacitating financial institutions to provide more long term funding at reasonable interest rates
Reason: To financing acquisition of equipment

Policy: Conducive environment to attract inward investment
Reason: To increase business opportunities

Policy: Tax policy (VAT and import duty) to be reviewed downwards
Reason: Expensive on the importation of capital equipment

Policy: Government must avail more and cheaper long time credit through bilateral agreements
Reason: This enables the companies to access funds for recapitalization at viable rates

Policy: Housing finance for manufacturing sector
Reason: Zimbabwe has no producer of affordable housing fund for mortgages

Policy: Attraction of FDI and offshore credit lines
Reason: Boost national liquidity

Conclusion

FORECAST OF ECONOMIC PERFOMANCE IN THE THIRD AND FOURTH QUARTER

The survey is an indication of the state of the manufacturing sector for the period up to June 2011. The respondents are people who understand the current business environment, who also know how the rest of the year will be like. They are people whose opinion we cannot just ignore. We take this opportunity to give you a forecast on how the economy is going to perform, from July 2011 to early 2012, based on the informed opinions of industrialists.

Generally, it is viewed that the third quarter will see prices relatively going up, impacting negatively on the living standards of lower income group. However the fourth quarter will see the correction of this, as employers and labor forces come to terms with each other.

There are three schools of thought, from the industry, on how the economy is going to perform. The majority of the respondents are in agreement that the economy will continue to grow and becoming more stable. The growth will be much better in the second half of 2011, than in the first half. Those who belong to this school of thought are of the opinion that this growth will be underpinned by economies of scale arising from increases in capacity utilization as well as a rebound in the banking sector to contribute more positively to economic growth. The economy is also anticipated to grow; as positive measures put in place in the midterm fiscal policy statement and monetary policy statement begin to take effect.

There are also those who think that the economic performance will stay the same due to perceived political risk. These do not feel that the measures put in place through recent policies are not adequate enough to bring change in the last half of the year. They also believe that what the policies are saying in principle is not what is happening in practice. The ZETREF facility, for example, was put in place for businesses but they faced challenges in accessing the funds. Those who belong to this school of thought are of the view that even the Distressed and Marginalised Fund (DIMAF) will not bring results in the second half. They believe that there is delay in policy take off that is pronounced in various policies.

Lastly there are those who think that there economy will perform badly in the last half of 2011. Those who belong to this school of thought are of the view that uncertainties pertaining to elections will be responsible for this bad performance. According to them, the indeginization policy will, which has since cascaded to the manufacturing sector, will continue to scare away foreign investors and raise challenges in terms of compliance. Compliance challenges arise from the fact that the sectorial recommendations that were made are not yet published. There is need for the recommendations to be gazette to encourage full compliance. It is also believed that the economy will perform badly because of the price increases which are going to occur as duty on imports begin to take effect. The duties will result in price increases, which will further distort the macroeconomic environment currently obtaining. The other issue cited is that of tax registers, whereby the deadline of compliance (1 October 2011) has already passed, and those who have not yet complied face either imprisonment or fines. Tax registers are costly to implement now, and should the Government force compliance, then many business are going to face cash flow challenges and forced to close down operations. Liquidity challenges and continued machine breakdowns are also contributing factors of this economic forecast.

All the three schools of thought above are convincing and tempting to go by. However, if we are to judge by using the majority discretion, the economy is certainly going to grow and it is hoped that the growth targets set by the Ministry of Finance will certainly be achieved. The manufacturing sector will continue to play its role to support positive economic performance by working to attain the targets set in the Medium Term Plan