



CZI

CONFEDERATION OF
ZIMBABWE INDUSTRIES
Enterprise Leadership Service

MANUFACTURING SECTOR REPORT

2021 SURVEY

**Sustained
Growth
Momentum**



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FOREWORD



Kurai Matsheza
CZI President

Purpose of the Survey

CZI carries out the Manufacturing Sector Survey annually to produce a broad-based summary of the manufacturing business conditions and regulatory environment which informs policy makers of current and cumulative state of manufacturing. It gives an indication of the impact of policies on the performance and prospects for manufacturing in particular, and the economy in general due to the backward and forward linkages that the sector has with the rest of the economy. The survey report also feeds into and is referenced by Government's annual budget plan and the policy that would measures best advance the growth of manufacturing and the economy.

The 2021 survey has undergone a methodological review to improve the integrity, validity and utility of the data and analysis. These include:

- Increasing sample size to ensure a nationally representative sample.
- Establishing an agreed/shared definition and understanding of capacity utilization among the respondents
- Failure to include SMEs as well in the survey, who account for a significant share in manufacturing activities.

Key findings

The 2021 Annual Manufacturing Sector Survey Report show positive signs of sustained growth of the sector, notwithstanding the challenges that were faced by the manufacturing sector in 2021. Key findings from the survey are as follows:

- The majority of the firms (56%) registered an increase in output produced in 2021, with the average increase in output being 30%. Only 26% of the firms registered a decrease in output, with 18% maintaining the same level of output in 2021. This generally shows that industry performance responded positively to the policy environment.
- The increase in output was also matched by the increase in sales, as the majority (57%) of the firms registered an increase in units sold, with an average increase in units sold of 32%. Only 28% registered a decline with 15% maintaining the same level of sales as in 2020.
- About 38% of the manufacturing sector undertook investments to increase their production capacity in 2021, which resulted in an additional capacity of 25.6% being created in 2021 due to the investments that were undertaken. This means that optimal capacity was expanded by about a quarter in 2021, which would be expected to slow down capacity utilization.
- Despite the expanded capacity slowing down expected capacity utilization from the projected momentum, overall average capacity utilization of the sector registered a massive increase to 56.3% from 47% registered in 2020. This means that output was still able to increase faster than the expanded capacity. Capacity utilization was also lower than the 61% that had been projected mainly due to the inclusion of small scale players in the sample. For example, capacity utilization for small scale manufacturing sector firms (40 employees and below) was 50.7% while that for the large scale players (more than 75 employees) was 62.7%.
- The majority of firms (53.5%) created new jobs in 2021, with the new jobs constituting about 19% of total employment. Only 16% retrenched, with the rest maintaining their employment levels.

Access to foreign currency was a key enabler of performance

In previous surveys, access to foreign currency was identified as a major challenge for the manufacturing sector. The ability of manufacturing sector firms to access foreign currency in 2021 for raw materials as well as for capital and machinery can be identified as the main enabler for the positive performance witnessed in 2021. Thus, if the auction had been more efficient and not accumulated a backlog, performance would even have improved further. Efficient price discovery and formalisation of the forex markets is an imperative that should be achieved without further delay.

The need to sustain this growth momentum

The Manufacturing Sector remains a key sector in the economy in line with the national development agenda as espoused in the aspiration of an upper middle income society by 2030 and the attainment of the first national development strategy towards. The main strategy being "economic structural transformation". This is going to be driven by the manufacturing sector as it delivers the objective of moving the economy up the value chain. This means the backward and forward linkages between manufacturing and agriculture, mining and services should drive the growth.

Manufacturing is the engine of industrialisation which will deliver economic and employment multipliers throughout the economic sectors. It remains a key strategic imperative to the delivery of the NDS 1 as well as the Upper Middle Income Economy status.

There is need to ensure that the positive momentum gained in 2021 is maintained. It is important to ensure that the operating environment is stable, especially bringing finality to the currency and inflation challenges. Despite the challenges faced in 2021, industry was resilient, and it sustained the growth witnessed in 2020. Industry will continue to work with the government to improve the doing business environment towards attainment of vision 2030.



ABOUT THE CZI ANNUAL MANUFACTURING SECTOR SURVEY

The Confederation of Zimbabwe Industries (CZI) Manufacturing Sector Survey is widely recognised as Zimbabwe's leading analysis of the state of the sector and factors affecting business operations and growth, with a particular focus on the manufacturing sector. The survey is conducted annually to ensure that the right information about the state of the manufacturing sector is conveyed to all stakeholders so that evidence based decisions would be made. The survey assesses the performance of the manufacturing sector and the future prospects taking into account the various challenges affecting and opportunities available in the operating environment. The manufacturing sector is an important sector in the economy as it drives industrialisation and is one of the key economic and employment multipliers in the economy.

It is on this basis that the CZI Annual Manufacturing sector survey has become a major reference and most quoted state of the sector report for policy makers, stakeholders, academia, media, development partners and business.

The survey, which is produced by the CZI Industrial and Economic Research was first published in 2009 and has been undergoing continuous improvement over time with the most comprehensive methodological review of the 2021 survey.

ACKNOWLEDGEMENTS

Acknowledgement is due to the CZI Industrial and Economic Research, under the leadership of the Chief Economist Dr Cornelious Dube and Policy Research Officer MacDonald Mutengo. CZI would like to acknowledge the members of the CZI reference group that gave guidance to the methodology and validation processes in undertaking this survey. The production of this report would not have been possible were it not for a strong cooperation framework in data collection. CZI would, therefore, wish to acknowledge collaboration with the following in data collection.

Province	Fieldwork Supervisor	Enumerators
Harare	Fanuel Hazvina Lecturer, University of Zimbabwe Economics Department Tichaona Zivengwa Lecturer, University of Zimbabwe Economics Department Tendai Makova Lecturer, University of Zimbabwe Economics Department	Nyachega Tatenda Kingstone Rwafa Eugene Chibwe Talent Mbudzi Crylow Muswere Mitchel Mujuru Cynthia Munhenga Mellisa Chilimanzi Tariro Madembo Plaxedes
Bulawayo	Vincent Moyo Lecturer, Lupane State University	Gracious Nkomo Tavonga Tavagadza Prince Nqaba Moyo
Midlands	Sipiwe Mandina Lecturer, Midlands State University	Alice Chauya Denver Parichi Stellen Mudyiwa
Manicaland	Thomas Masese Lecturer, Africa University	Tripod Musamba Progress Dhlwayo
Masvingo	Regret Sunge Lecturer, Great Zimbabwe University	Sibongile Makasi

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1. SURVEY METHODOLOGY

Manufacturing sector population for sampling

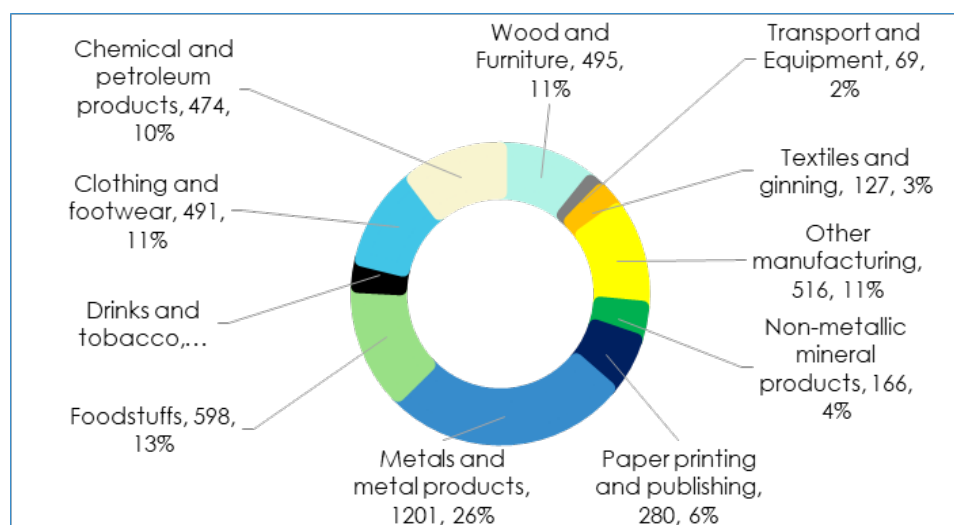
The survey was conducted over the period February-March 2022. The firms were targeted based on a comprehensive list of all manufacturing sector factories that are registered in terms of the Factories and Works Act [Chapter 14:08]. The list contains 13,503 factories, with workers ranging from 1 to 32,000, with an average of 40 workers. Given that there are many small-scale factories which were registered mainly for speculative purposes, it was deemed important to select a minimum number of workers that a serious manufacturing sector establishment might not want to employ if the intention is speculation. This was also important to ensure that there are high chances of the establishment being part of the sample for the foreseeable future. However, it was also important to ensure that small scale manufacturing establishment are included in the sample as their dynamics also need to be included in the survey results. Thus, a minimum of 10 employees per factory was selected to ensure that small scale players are also included in the sample, while also ensuring that only establishments that are relatively long term oriented are included in the sample.

By taking only those factories that have at least 10 workers, the list of factories from which a representative sample was to be drawn was reduced from 13,503 to 4552. Thus, the list of 4,552 firms was considered as the targeted population for sampling.

Sampling

CZI attempted to adopt a stratified random sampling method, with the sector being the strata to ensure that the distribution of firms across the sectors in the sample mirrors the actual population. The sectors were classified into 11 subsectors which are used by Zimbabwe Statistics Agency (ZIMSTAT) in national accounts. The distribution of the firms across the sectors among the population from which sampling was targeted (Figure 1) shows that the bulk of the firms were in the 'metals and metal products' category, which constituted about 26.4% of the firms, while 'transport and equipment' had the lowest number at only 69 firms. The proportion of firms across the sectors in the population were thus to be the targeted sectoral weights in the sample.

Figure 1: The metals and metal products subsector has the highest number of registered firms in the population



Source: Register of firms licensed under the Factories and Works Act

Assuming a small margin of error of only 5%, a sample size that is representative of the establishment size of 4,552 at the 95% and 99% confidence intervals would be 355 and 581 respectively. This means that the sample size that will be deemed representative will be between 355 and 581 to be at least 95% sure that the results are representative. This report is based on a sample of 440 manufacturing sector firms, which falls well within the targeted threshold, specifically corresponding to a confidence interval of 97.3%.

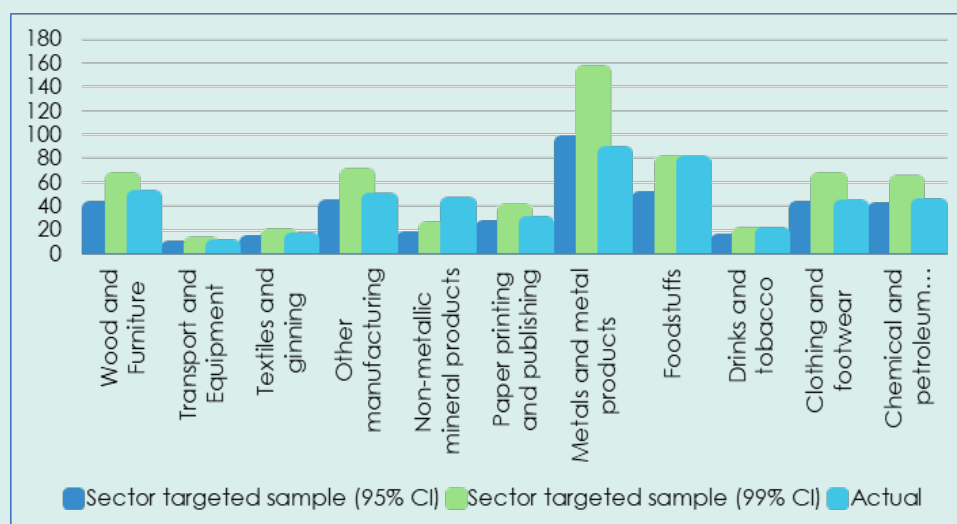
Using the distribution of the number of firms across sectors in the actual population as the sectoral weights for the sample, the targeted samples across the sectors were as in Table 1.

Table 1: The sample distribution was informed by the total population per sample

	Total target population	Sectoral weight	Sector targeted sample (95% CI)	Sector targeted sample (99% CI)
Wood and Furniture	495	10.9	39	63
Transport and Equipment	69	1.5	5	9
Textiles and ginning	127	2.8	10	16
Other manufacturing	516	11.3	40	66
Non-metallic mineral products	166	3.6	13	21
Paper printing and publishing	280	6.2	22	36
Metals and metal products	1201	26.4	94	153
Foodstuffs	598	13.1	47	76
Drinks and tobacco	135	3.0	11	17
Clothing and footwear	491	10.8	38	63
Chemical and petroleum products	474	10.4	37	60
	4552	100	355	581

However, a comparison of the targeted and actual distribution of the responses across the sectors (Figure 2) shows that the actual samples across the subsectors fell between the two confidence intervals except for two subsectors. For these two, the actual response rate was below the 95% confidence interval for the 'Metals and Metal Products' subsector (by only nine firms) while it exceeded both the 95% and 99% confidence intervals with respect to the 'Non-metallic Mineral Products' subsector. Since the rest of the subsectors had a response rate falling within range, these two sectors were not considered to have caused significant distortions to the national representativeness of the survey results.

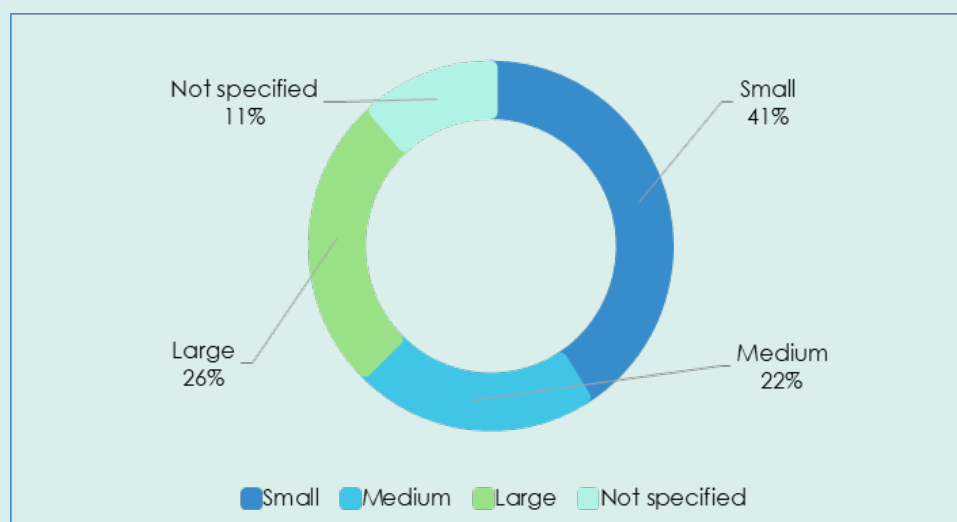
Figure 2: Only the 'Metals and Metal Products' subsector sample was below the target



Source: Survey results

For the manufacturing sector, the National Micro, Small and Medium Enterprises Policy Framework for Zimbabwe classifies enterprises into micro, small and medium size based on maximum employee sizes of 5, 40 and 75 respectively. Thus, enterprises with employees of more than 75 are considered large. With a minimum size of 10 employees, the survey left out micro enterprises and concentrated on mainly small, medium and large firms, which are all fairly represented in the sample (Figure 3).

Figure 3: The sample managed to include both large and small manufacturing sector firms



Source: Survey results

In terms of geographic distribution, the stratified randomly selected 440 manufacturing sector firms (including both CZI members and non-members) are distributed across six provinces¹ (Figure 4), with Harare dominating with more than 60% of the respondents. Since stratification was mainly by sector, the results of the survey cannot be considered geographically representative, hence the results are not presented by geographical location.

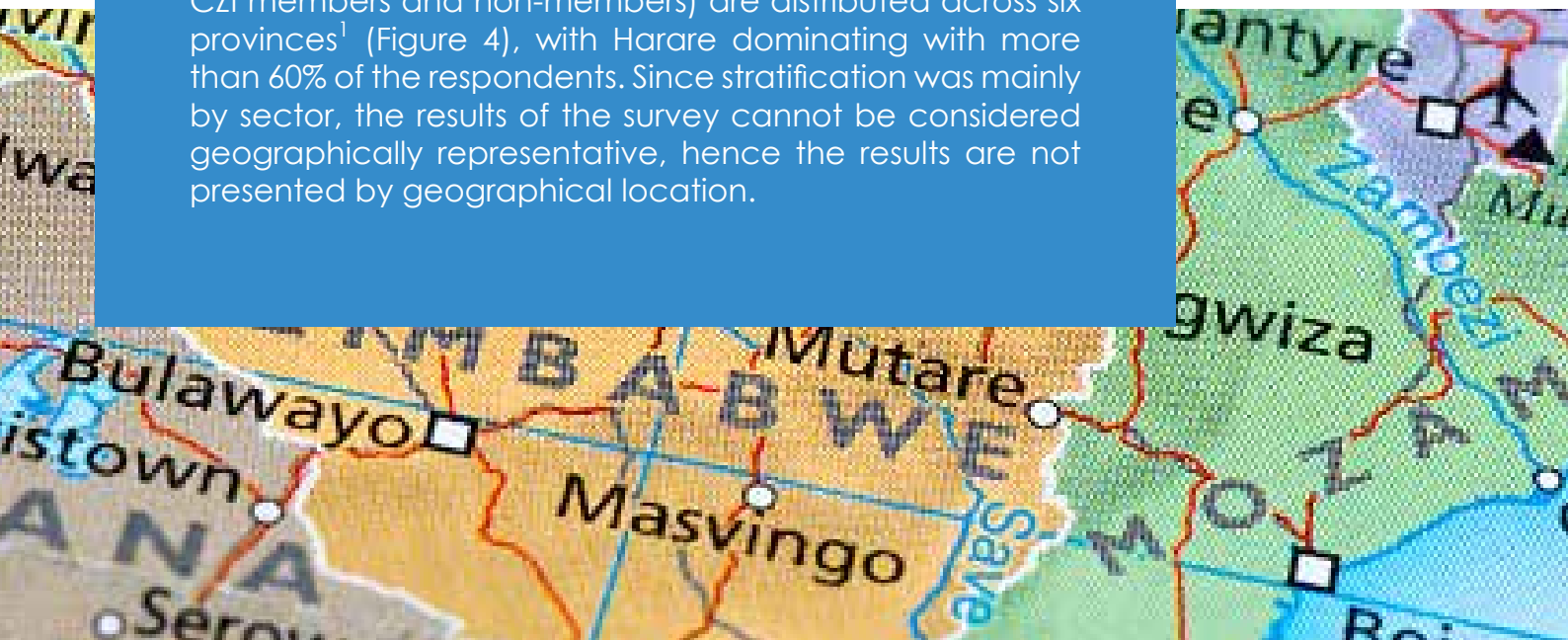
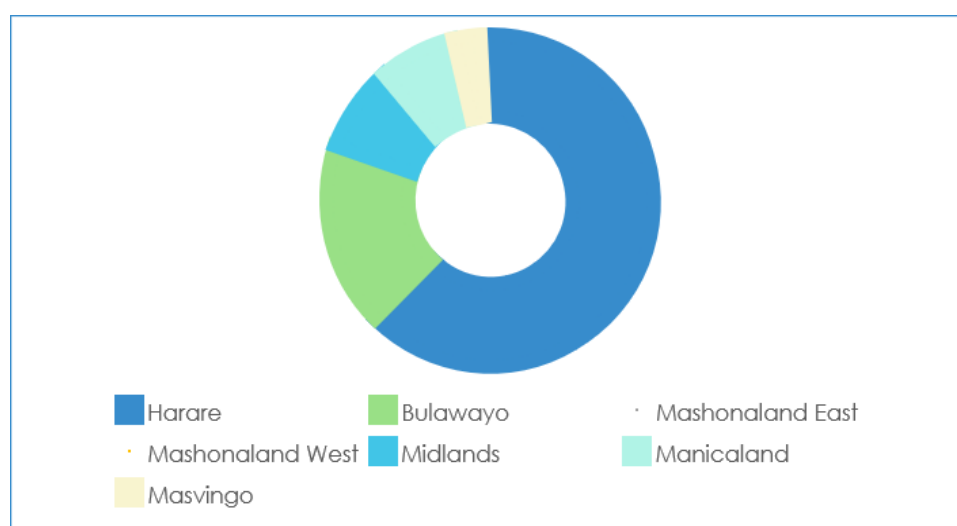


Figure 4: Harare dominated the number of firms in the survey



Source: Survey results

² Location is based on the province in which a firm has the most employees. Thus, while the interview could be conducted in a different location, the firm's location will still be deemed to be the province in another province as long as that province has the most employees

Capacity Utilisation Definition in this report

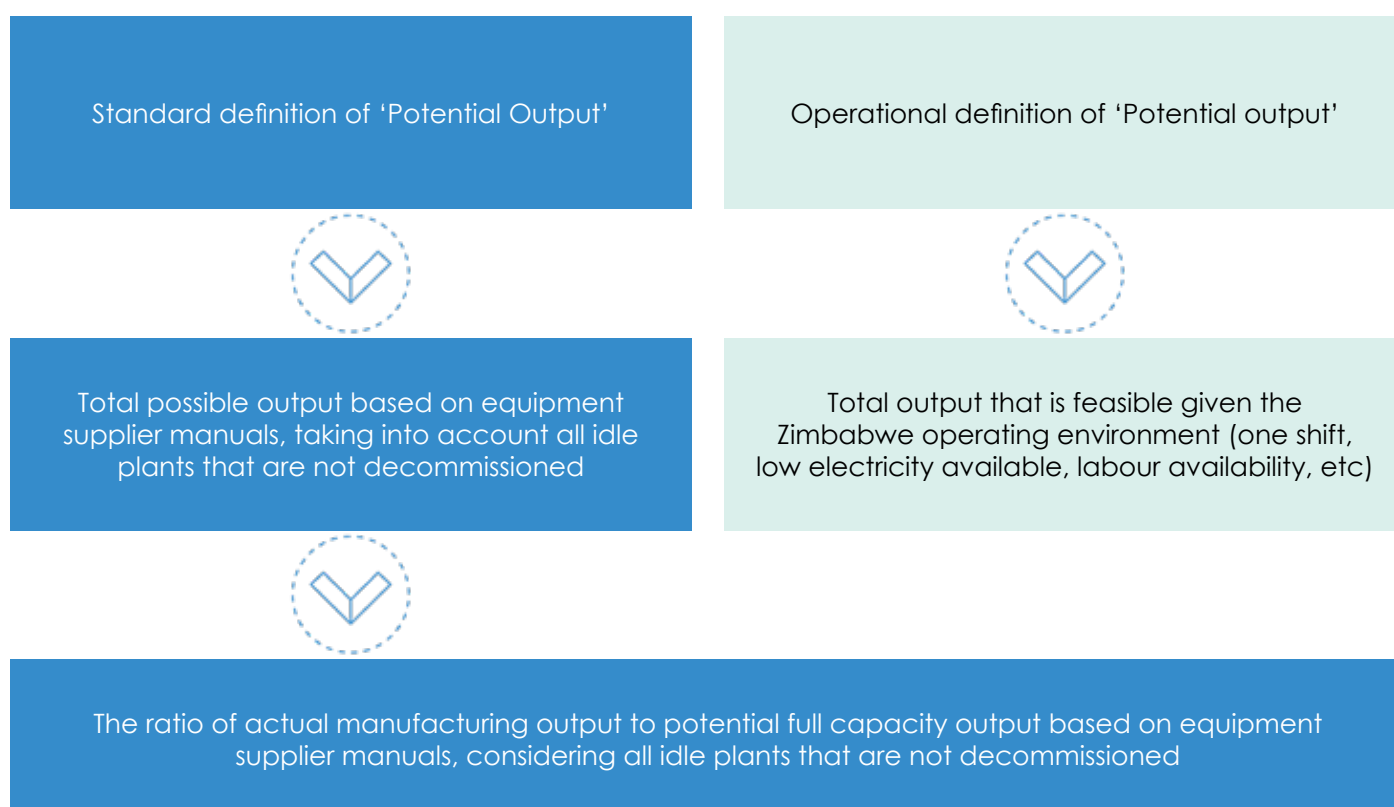
CZI has been running a survey to establish the state of manufacturing sector performance since 1994. One of the parameters measured is capacity utilisation, which has become an area requiring clarity and definition consensus in light of de-industrialisation over the past years which came with company closures, some plant de-commissioning in some cases and in other cases plant lying idle but not de-commissioned.

CZI has since established that the capacity utilisation figure from members over the years did not have a common foundation as respondents were calculating it in two main ways:

- Capacity utilisation as the ratio of actual manufacturing output to potential full capacity output based on equipment supplier manuals, taking into account all idle plants that are not decommissioned. Thus, if they were working on one shift while the plant could accommodate two shifts, they would take the potential output that would have arisen from the second shift into account.
- Capacity utilization as the ratio of actual manufacturing output to budgeted capacity output, where budgeted output would be the total output that they consider feasible given the Zimbabwe operating environment (one shift, low electricity available, labour availability etc).

What this means is that reported capacity utilisation has been a blend of two methodologies. CZI recently undertook a quick survey and the general feeling among members is that capacity utilisation has to be defined as the ratio of actual manufacturing output to potential full capacity output based on equipment supplier manuals, taking into account all idle plants that are not decommissioned. This will be the standard definition going forward. Thus in this survey, capacity utilisation is defined as **the ratio of actual manufacturing output to potential full capacity output based on equipment supplier manuals, taking into account all idle plants that are not decommissioned (Figure 5).**

Figure 5: A standard definition of capacity utilisation to be adopted going forward



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2. PERFORMANCE INDICATORS

2.1 Majority of companies realised growth in output in 2021 compared to 2020

About 56% of the manufacturing sector firms increased their output in 2021 (Figure 6). On average, firms that registered output growth realized an increase of 30% compared to the prior year. However, 26% of the companies experienced a decline in output produced in 2021 and for these firms, output shrunk by 32% on average. It is therefore encouraging that these firms that registered a decline are less than a third of the total number of firms and the net effect remains positive.

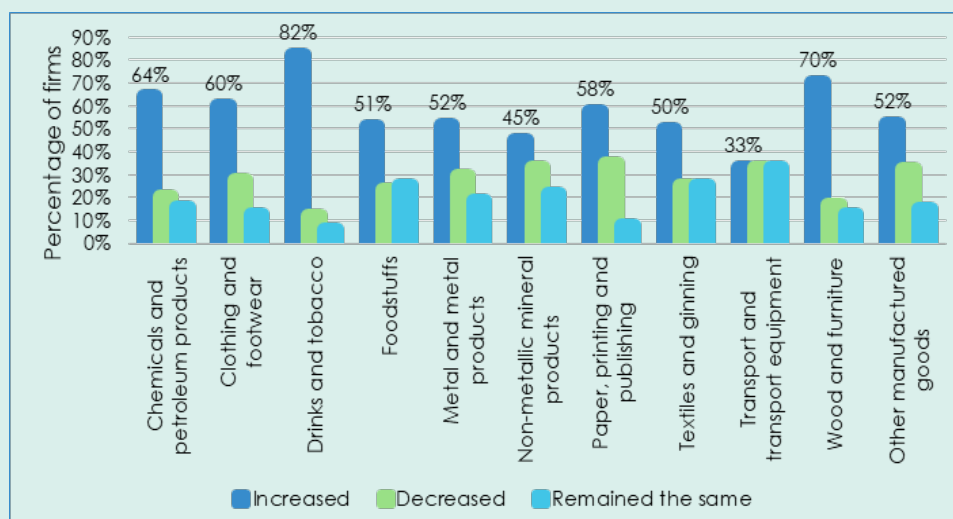
Figure 6: Output produced in 2021 increased compared to 2020



Source: Survey results

A look at the manner in which the increase in output is distributed (Figure 7) shows that the drinks and tobacco sector had the highest percentage of companies that increased output. About 82% of companies in the sector increased production. However, the transport & transport equipment subsector had an even distribution across the three categories, with an equal number registering an increase, a decrease or constant output between 2020 and 2021.

Figure 7: A general increase in output is apparent across subsectors (averages)

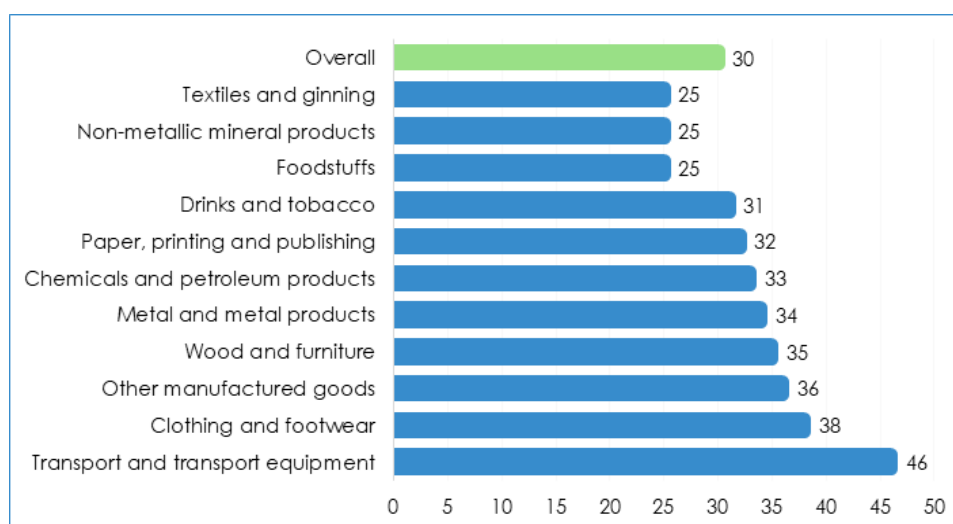


Source: Survey results

Actual sizes of output increase across subsectors

A look at the distribution in terms of the actual size of the registered increase in output (Figure 8) shows that firms in subsectors such as the clothing and footwear and the transport and transport equipment subsectors registered increases of levels well above the average of 30%. Only three subsectors; textile and ginning, non-metallic products and foodstuff had average increases below the overall average.

Figure 8: The actual size of increase in output (%) varies across subsectors (averages)

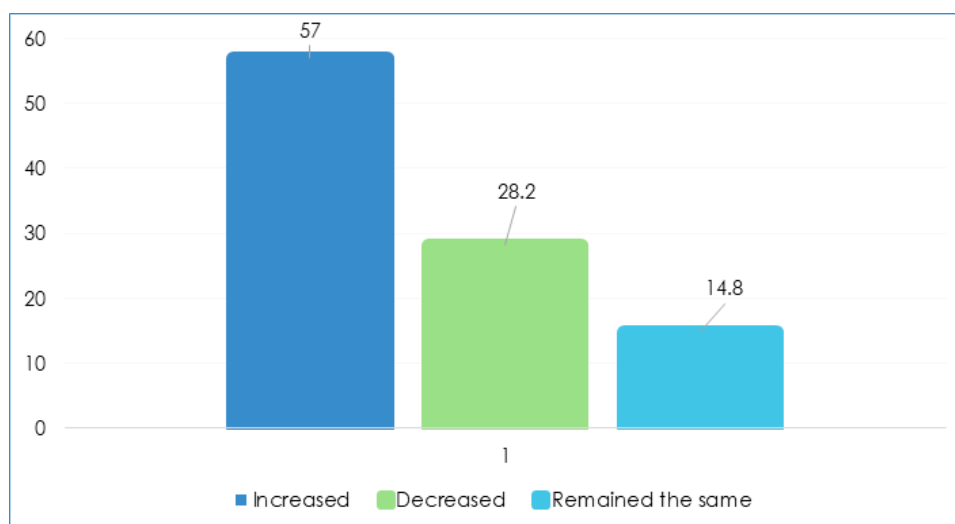


Source: Survey results

2.2 Units sold also generally increased across all subsectors

The increase in output is also comparable to increase in units sold in 2021 in comparison to 2020. About 57% of the manufacturing sector firms registered a growth in sales, with only about 15% maintaining the level of their sales in 2021 (Figure 9). Sales declined for the remaining 28%. The increase in units sold generally reflects that the generally positive manufacturing sector performance was also being matched by demand availability, as firms were able to sell the additional increase in output.

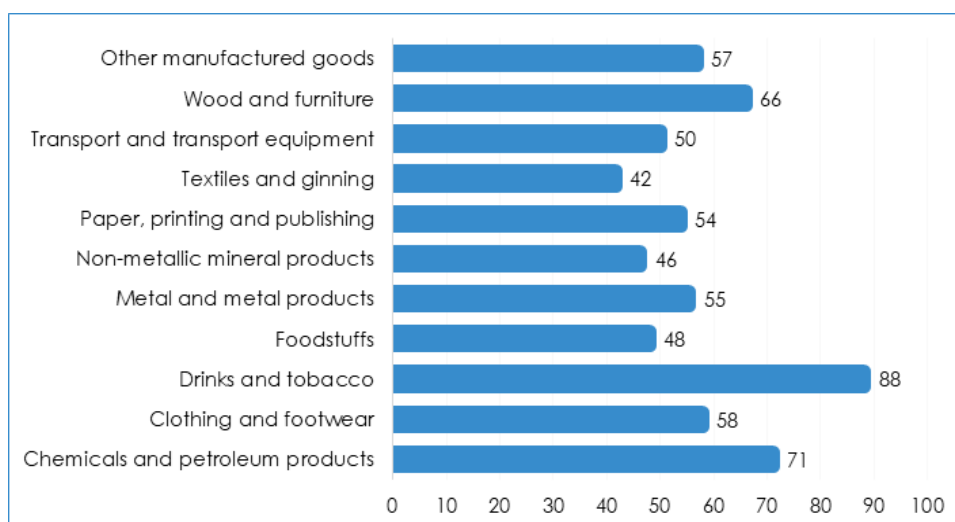
Figure 9: About 57% of the manufacturing sector firms registered an increase in sales



Source: Survey results

A look at the distribution across subsectors shows that the increase in units sold was felt more in the drinks and tobacco subsector, as 88% of firms in the sector registered an increase in sales (Figure 10). High rates of increases well above the average rate of 57% were also recognized in the chemicals and petroleum products and wood & furniture subsectors where about 71% and 66% of the firms registered an increase in sales.

Figure 10: The drinks and tobacco subsector had the highest percentage of firms registering an increase in sales

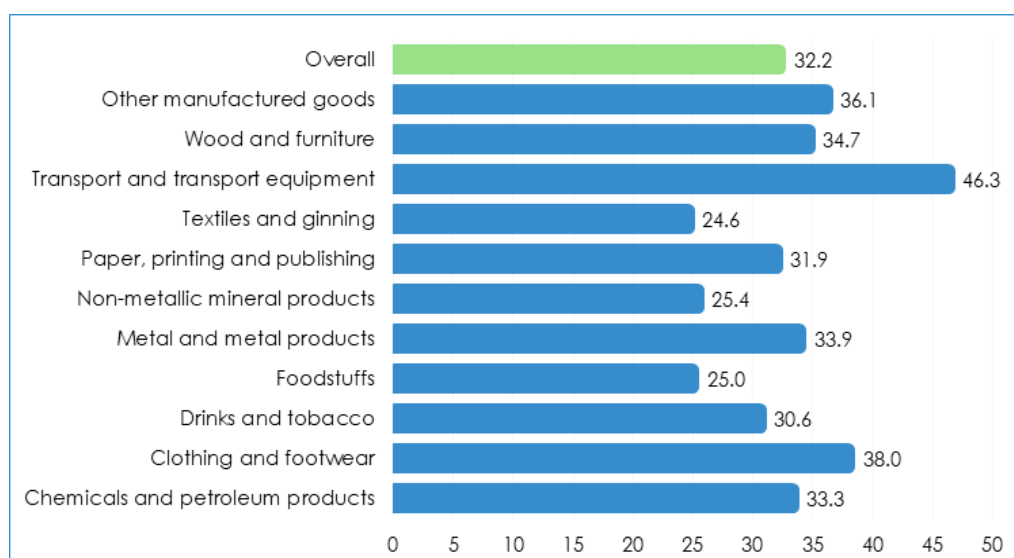


Source: Survey results

Actual levels of increase in units sold in 2021 compared to 2020

The average increase in units sold for all the firms that registered an increase stood at about 32% (Figure 11). However, generally all subsectors recorded significant increases in units sold in 2021.

Figure 11: The actual increase in units sold (average %) is high across all manufacturing subsectors

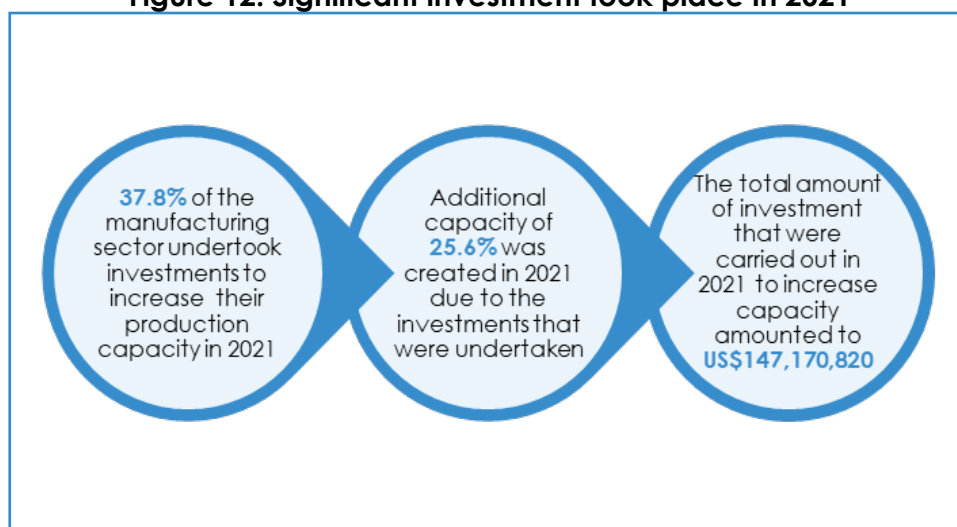


Source: Survey results

2.3. There was significant investment in 2021

Companies have been ramping up production by investing in additional capacity. About 38% of the manufacturing sector invested to increase their production in 2021 (Figure 12). This resulted in additional capacity of 25.6% being created and a total of US 147,170,820 being invested towards this capacity expansion. The expansion of capacity can be attributed to access to foreign currency at the auction, as RBZ data shows that 23% of the US1,971,446,836 allotted in 2021 went towards machinery and equipment². In general, the expansion of capacity has an effect of lowering capacity utilization, unless it is accompanied by significant increases in output produced. This means that capacity utilization must be understood from this context where additional capacity of about a quarter was added to existing capacity.

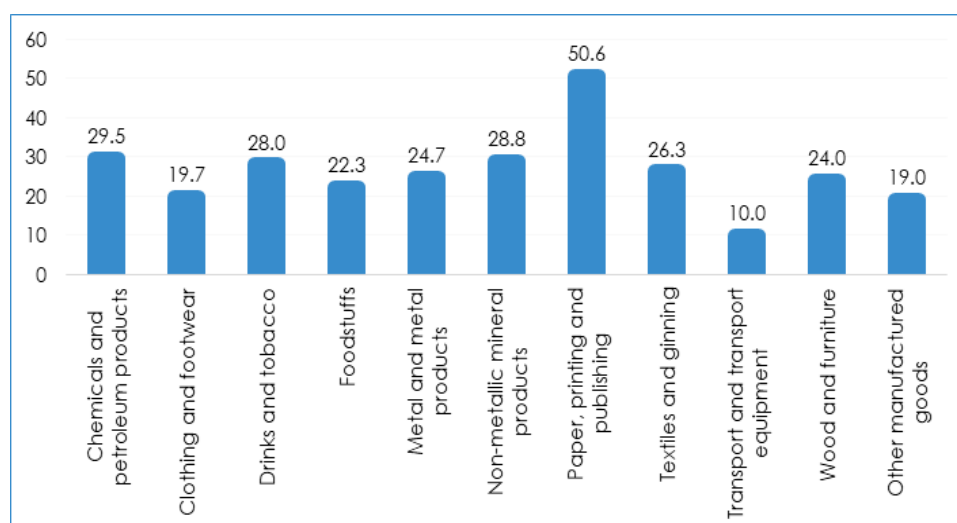
Figure 12: Significant investment took place in 2021



Source: Survey results

A look across subsectors reveals that there was additional capacity created across all of them due to additional investments that were done in 2021 (Figure 15). The paper, printing and publishing subsector created an additional 50% capacity from its investments in 2021. This means that the slowdown in capacity utilization momentum relative to what had been observed in 2020 is true across all sectors.

Figure 13: Additional capacity was created across all manufacturing subsectors



Source: Survey results

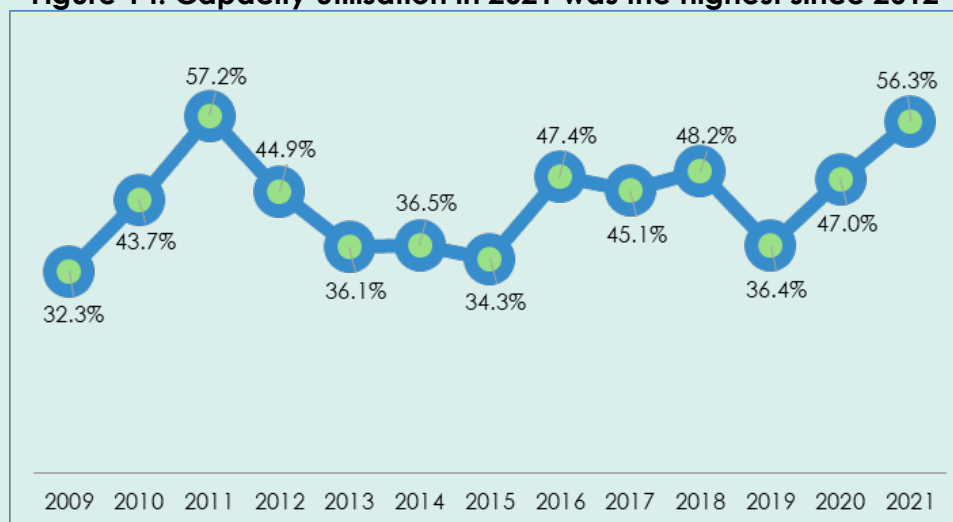
2 Reserve Bank of Zimbabwe (2021). Foreign Exchange Allotments Under the Foreign Exchange Auction System and Foreign Exchange Payments For The Period January 2021 To December 2021. Harare, December 2021

2.4 Performance based on capacity utilization

Capacity utilization has generally improved in 2021

In 2020 CZI measured capacity utilization at 47%, which was an improvement from the 2019 capacity utilization of 36%. In 2021, capacity utilization increased to 56.3%, which was slightly below the initial projection of 61% from the 2020 Manufacturing Survey report. However, given the significant increase in output, the failure to reach the 61% projection can be attributed to the further expansion in installed capacity in 2021 from investment in plants and equipment by about a quarter. However, capacity utilization of 56.3% for 2021 was the highest capacity utilization level since 2012 (Figure 14), which can be attributed to access to foreign currency at the auction. Thus, the manufacturing sector has generally been on a recovery path.

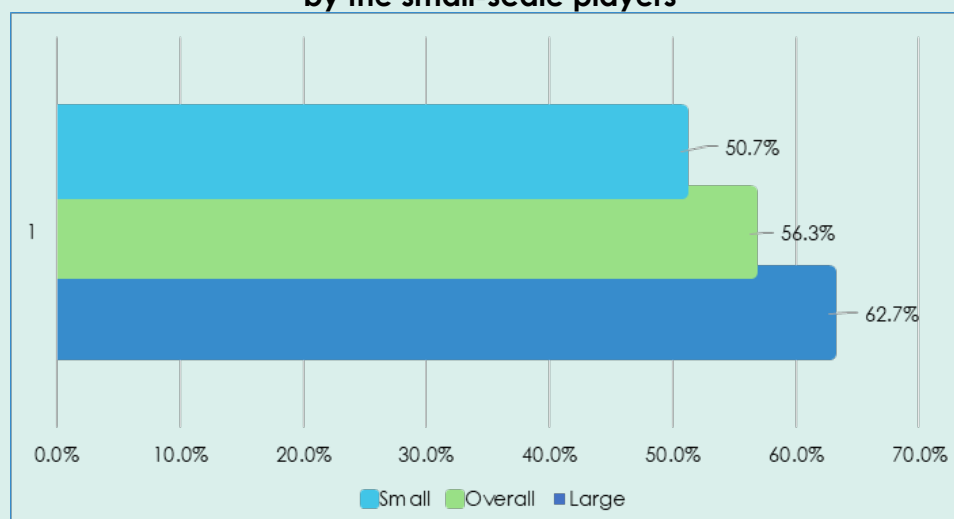
Figure 14: Capacity utilisation in 2021 was the highest since 2012



Capacity utilization was also weighed down by the inclusion of small manufacturing sector firms

In addition to expansion of capacity, the inclusion of small-scale players into the survey also weighed down the overall average capacity utilization. For example, capacity utilization for small scale players (employee size of up to 40) was 50.7% at a time when the capacity utilization for large players was 62.7% (Figure 15). This means that there is still lot more scope for performance improvement on the small-scale side compared to the large-scale firms. This also means that policies meant to boost the manufacturing sector should be deliberately structured to have different provisions for small scale players and larger players.

Figure 15: Average capacity utilisation was generally weighed down by the small-scale players

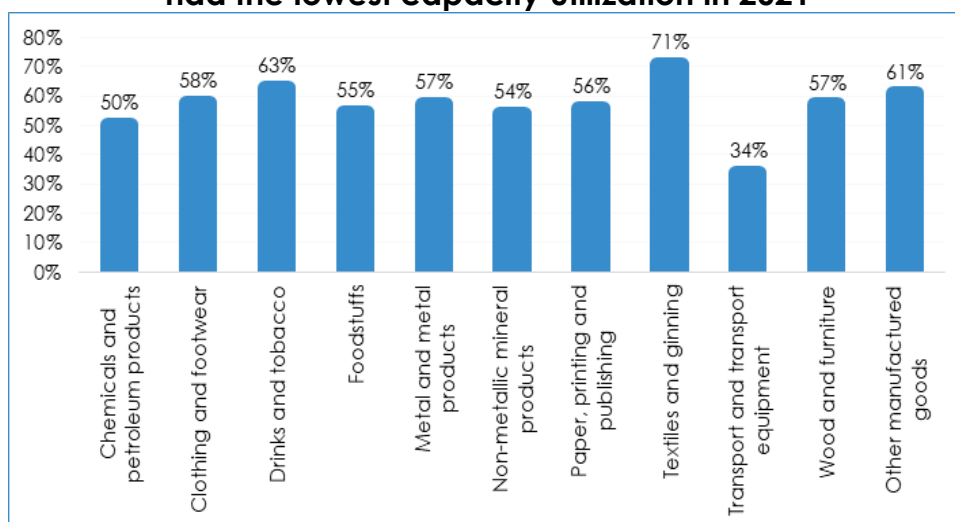


Source: Survey results

Capacity utilization also varies across subsectors

The textiles & ginning subsector had the highest capacity utilization levels at about 71% (Figure 16). The drinks & tobacco comes second at 63%, while the transport & transport equipment subsector is the only subsector whose capacity utilization is still below 50%.

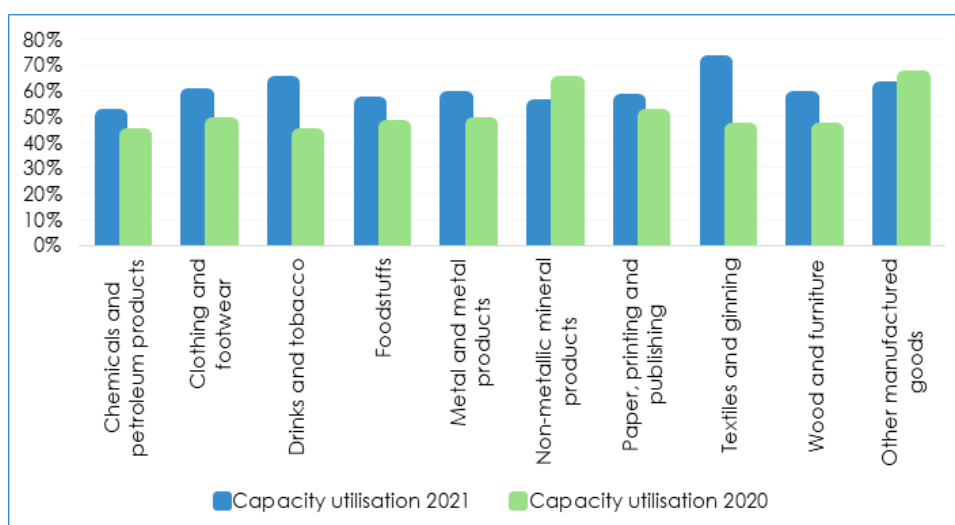
Figure 16: The transport and transport equipment subsector had the lowest capacity utilization in 2021



Compared to 2020, capacity utilization has generally increased across all sub sectors

In 2021 all subsectors increased their 2020 capacity utilization except for the Non-metallic mineral products and the 'others' category (Figure 17). Thus, the general improved sector performance is quite apparent.

Figure 17: Capacity utilisation generally improved in 2021 across subsectors

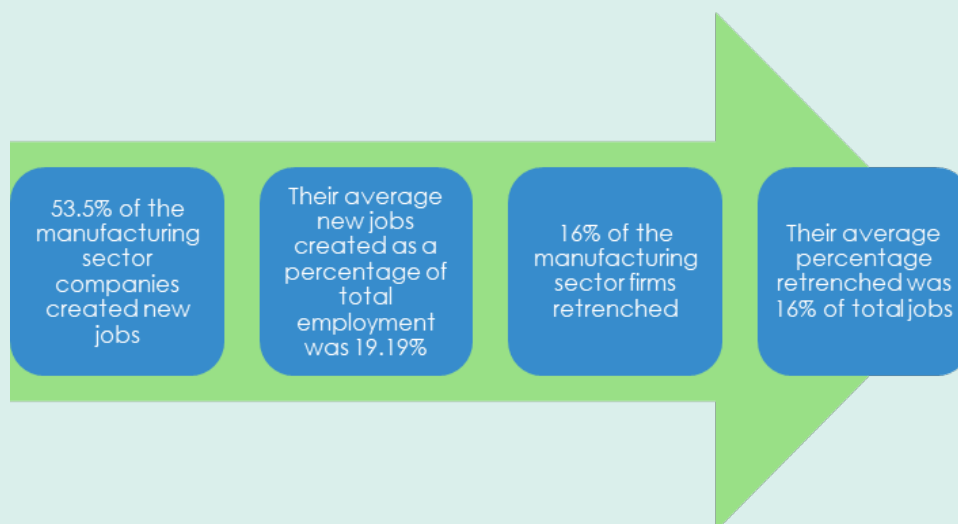


Source: Survey results

The majority of the firms created new jobs in 2021

In 2021 the majority of firms in the manufacturing sector created employment in line with expanded production and capacity (Figure 18). As a percentage of total employment, 19.9% of the employed were due to new jobs created in 2021.

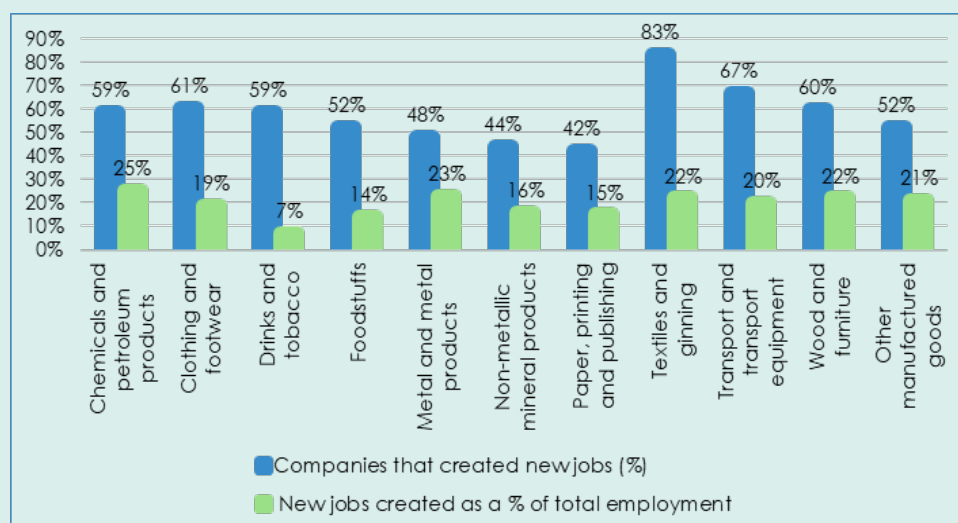
Figure 18: Employment creation rate for the manufacturing sector was 19% in 2021



Source: Survey results

The textiles and ginning had the highest percentage of companies that were able to create jobs in 2021 (Figure 19). However, the chemicals and chemical products sector created the highest number of jobs as a percentage of total employment in 2021.

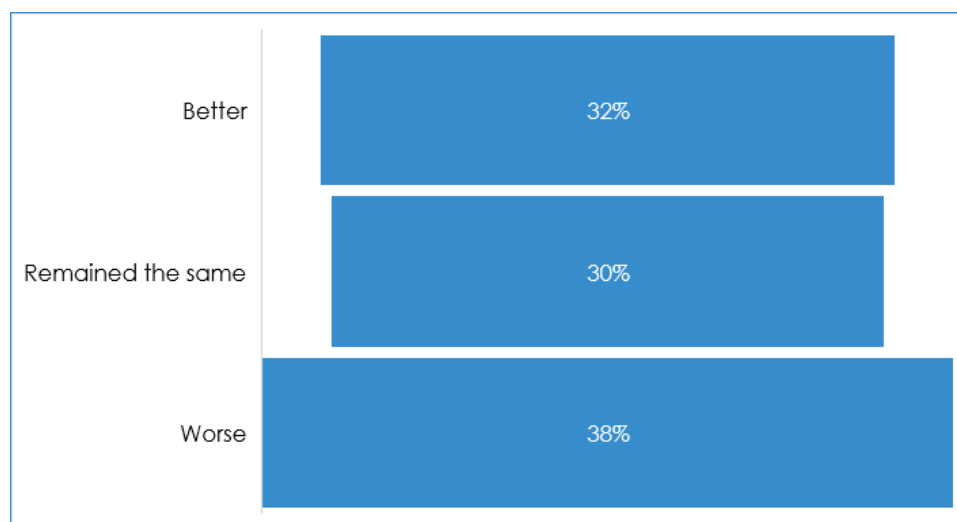
Figure 19: Job creation was highest in the chemicals and chemical products sector



2.5 A perception that the economic situation worsened in 2021 also present

Despite a strong manufacturing sector performance, the perception that the economic situation was actually worsening in 2021 compared to 2020 is also notable. About 38% of the manufacturing sector firms believed that the economic situation worsened in 2021 compared to 2020. However, this view is not shared by the majority, as about 32% believe that the economic situation increased while about 30% believe that the economic situation for the country had remained the same (Figure 20). Given the exchange rate distortions and increased auction backlog which were reflected in a worsening parallel market premium towards the end of 2021, it is not surprising that more than a third believe that the economic situation was worsening.

Figure 20: The economic situation in 2021 is generally believed to be worse



Source: Survey results

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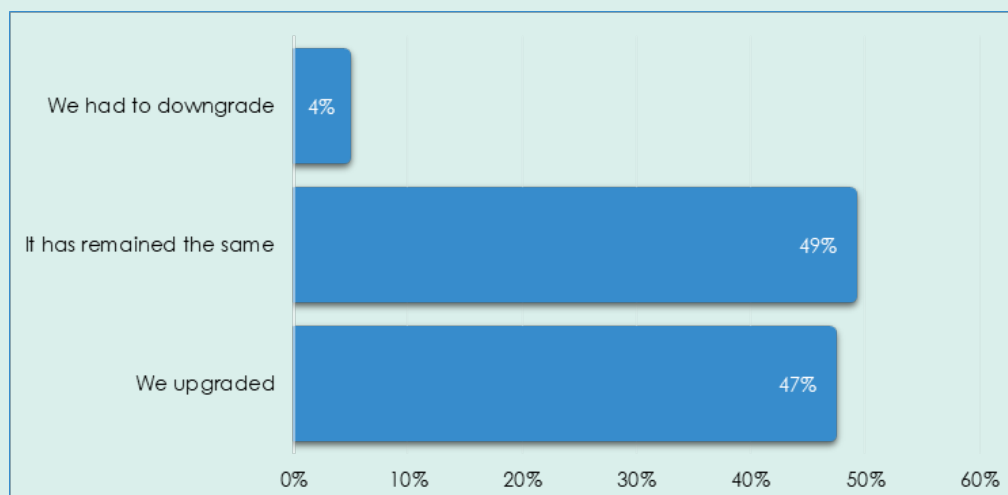
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3. TECHNOLOGY UPGRADING AND ADVANCEMENT

3.1 Companies have been upgrading their technology

Upgrading technology is important in improving efficiency as well as enhancing competitiveness. However, it is worrying that almost half of the manufacturing sector firms maintained the same level of technology that they had in 2020, even though 47% of the firms rightfully upgraded to remain competitive (Figure 21). However, it is also worrying that 4% of the firms ended up downgrading their technology after failing to sustain the migration into more advanced technology.

Figure 21: Close to half of the firms maintained their technology at the 2020 levels



Source: Survey results

A look across the subsectors shows that the highest proportion of firms engaged in technology upgrading occurred in the foodstuffs subsector, where about 54% of the firms upgraded, while it is in the non-metallic mineral products where the highest proportion of firms downgraded at about 12% of all the firms (Figure 22). All the firms in the transport and transport equipment subsectors maintained the same level of technology that they had in 2020.

Figure 22: The foodstuffs subsector had the majority of firms involved in technology upgrading

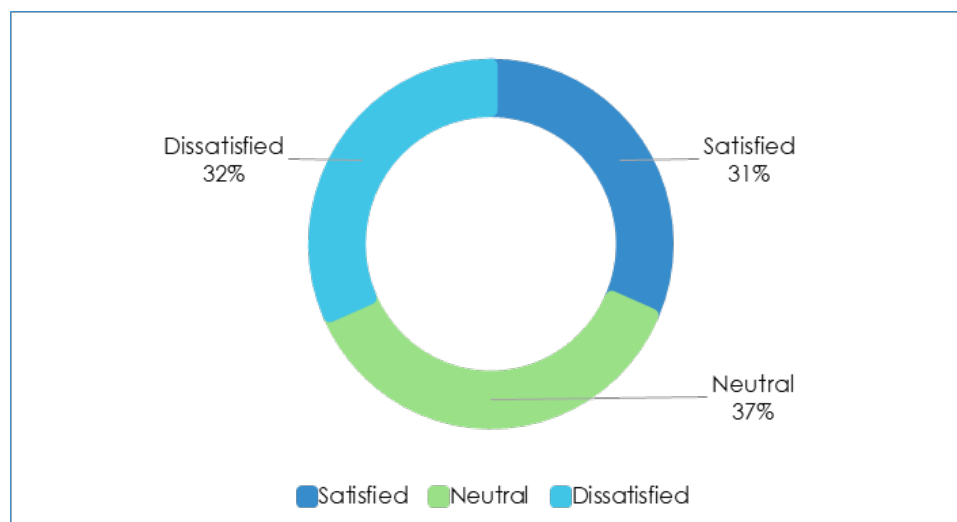


Source: Survey results

3.2 Level of satisfaction with current state of technology

Given the importance of technology in enhancing competitiveness, the level of satisfaction with the current state of technology is reflective of the ability of the manufacturing firms to effectively compete in the global market. The results show that less than a third of the firms are currently satisfied with the level of technology that they possess (Figure 23). Almost an equal number believe that the current level of technology is not sufficient to remain competitive, although the majority group is the one that is just neutral. This means that technology upgrading is an outstanding issue for a significant proportion of manufacturing sector firms.

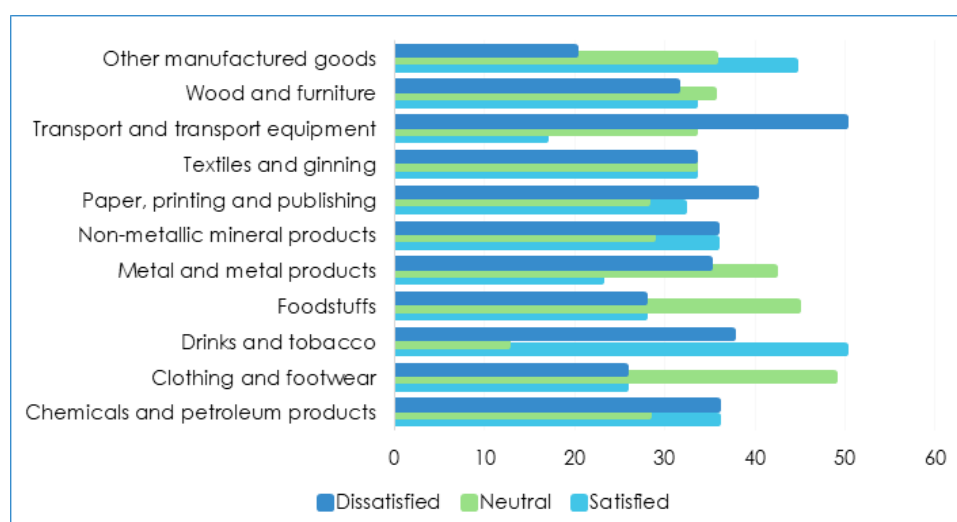
Figure 23: Only about a third of the firms are satisfied with their technology level



Source: Survey results

A disaggregation of satisfaction levels by subsector shows that the transport and transport equipment subsector has the highest proportion of firms that are less satisfied by their level of technology (Figure 24). Given that all firms in the sector maintained their technology level in 2021 without upgrading, the high level of dissatisfaction demonstrates that they would prefer to upgrade but have challenges in doing so. The drinks and tobacco subsector has the highest that are satisfied. Technology upgrade, as reflected in the low level of satisfaction, is also needed in the paper, printing and publishing subsector. Subsectors such as the non-metallic mineral products, chemicals and petroleum products and the textiles and ginning also have an equal proportion of satisfied and non-satisfied firms with respect to the current state of technology.

Figure 24: The transport and transport equipment subsector is the most dissatisfied by technology status



Source: Survey results

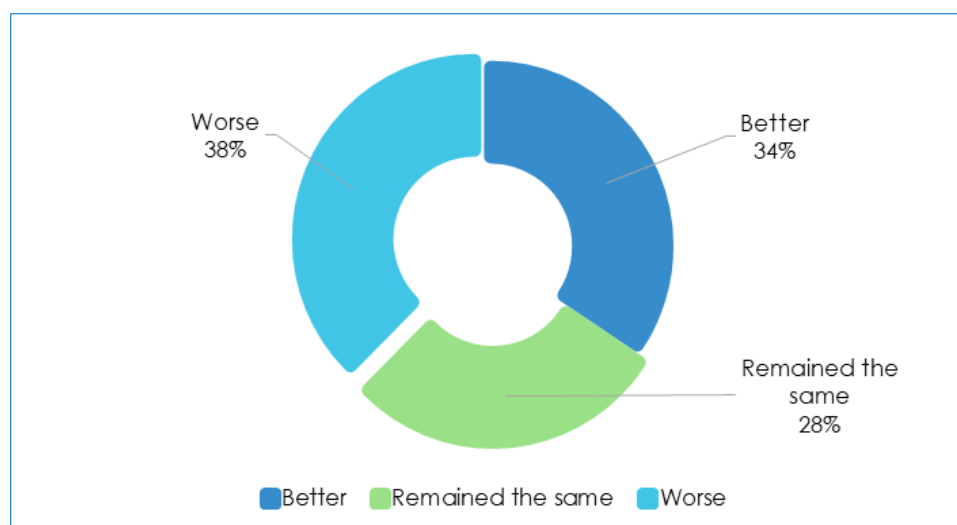
4. PERCEPTIONS AND FORECASTS INTO 2022

4.1 Companies less confident about 2022 economic outlook

The highest proportion of the manufacturing sector companies are not overly positive about the economic situation in 2022. About 38% of the firms believe that the economic situation of the country will worsen in 2022. Inflation is a major threat to the economy in 2022 (Figure 25). Thirty four percent of the companies were optimistic that the economic prospects of the country will be positive.



Figure 25: Only a third of the manufacturing sector firms are positive about 2022 economic outlook

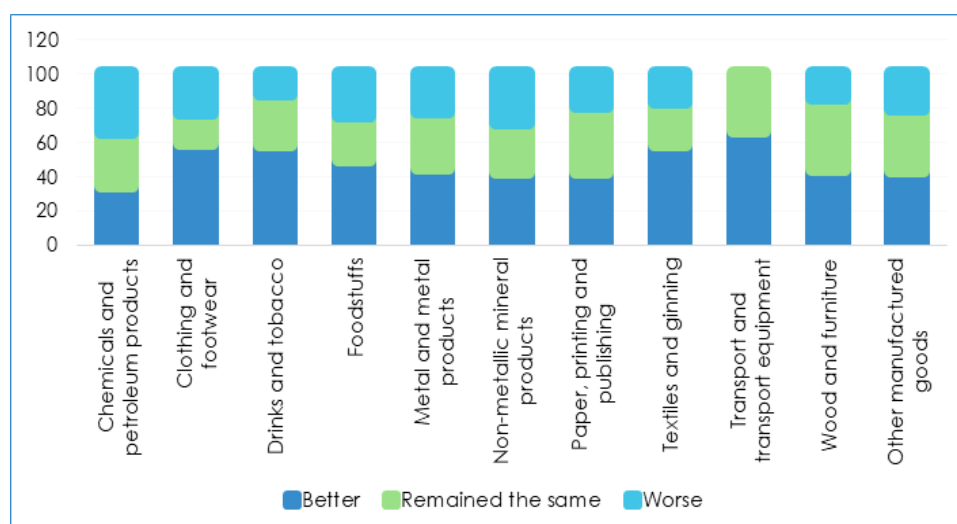


Source: Survey results

4.2 Positive but subdued prospects about subsector outlook

Only five sectors; the clothing and footwear, drinks and tobacco, foodstuffs, textiles and ginning, and transport and transport equipment subsectors have the majority believing that their subsectors have better prospects for 2022 (Figure 26). However, more than a third of the firms in the chemicals and petroleum products and about a third of the firms in the non-metallic mineral products subsectors actually believe that the performance for 2022 will be worse than 2021 for their subsectors. Thus, there is a noticeable not-so-positive feeling about the year 2022.

Figure 26: Mixed views concerning subsector outlook in 2022



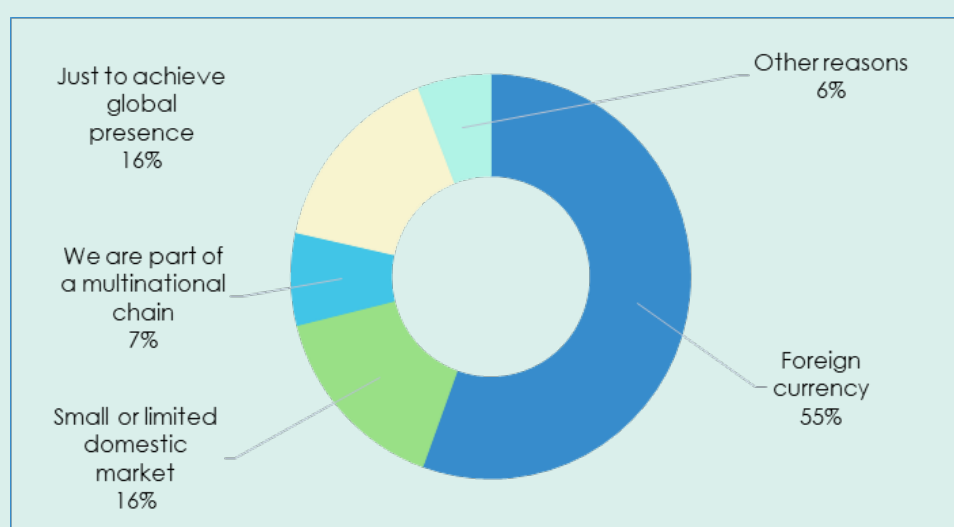
Source: Survey results

5. EXPORTS, IMPORTS AND COMPETITIVENESS

5.1 Access to foreign currency is the primary reason for exporting

There are many reasons for venturing into the export market. However, the quest for foreign currency is the reason driving the majority (55%) into the export market (Figure 27). This could also mean that the availability of foreign currency in the domestic market under the dual currency regime has an impact of reducing this incentive for exporting. However, the need to achieving global presence as well as a small domestic market also pushes a significant number of firms to export.

Figure 27: The main motivation in exporting is access to foreign currency



Source: Survey results

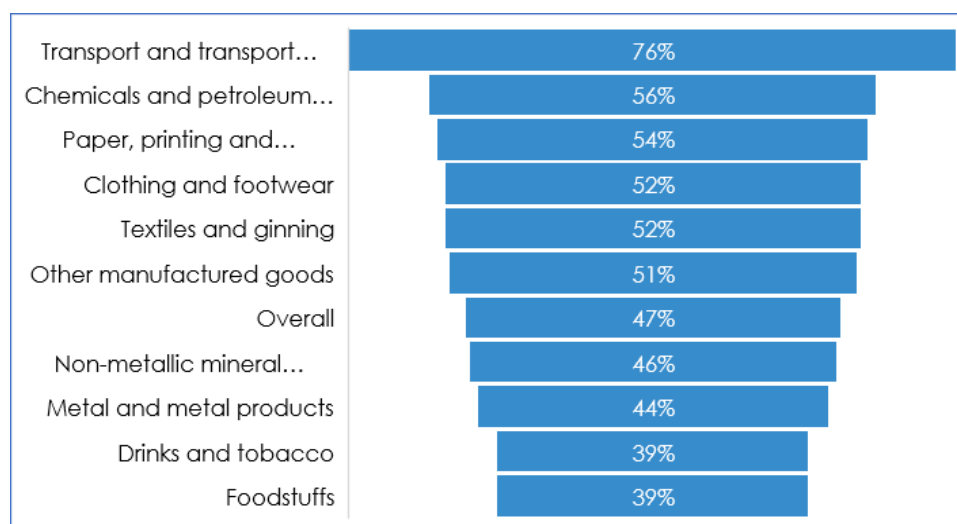
There are a number of issues that need to be addressed for exports to increase, as many firms are discouraged by a number of export barriers. These include the following:

- Failure to compete effectively in the export market as the targeted export markets are subjected to lower prices
- The RBZ 40% surrender requirement renders manufacturing sector exporting business less rewarding, as the conversion of the export proceeds at an overvalued official exchange rate erodes the profit margins.
- The overvalued official exchange rate generally makes exports expensive
- Multiplicity of taxes which erodes profits which are also paid through a cumbersome bureaucratic process with red tape and too many certifications and export licences make it difficult to export
- Border inefficiencies which makes movements across borders too slow
- Fragmented regulatory requirements for each SADC country which is too complex to master
- Prohibitive transport and logistics cost due to infrastructure bottlenecks makes raw materials costly
- Access to finance is difficult which would have facilitated increased production to facilitate exports
- Unavailability of locally produced raw materials resulting in increased costs in importing due to logistics costs.

5.2 Imports of raw materials, rationale and import share

On average, imports constitute about 47% of the manufacturing sector firms' total procurement (Figure 28). This generally reflects that on the main, the manufacturing sector procures locally. However, a look across the subsectors reveals that the transport and transport equipment sub-sector procures more than three quarters of raw materials through imports. Only the wood and furniture, foodstuffs and the drinks and tobacco subsectors import the lowest proportion of their total raw material procurement, although this is still well over a third of their total procurement.

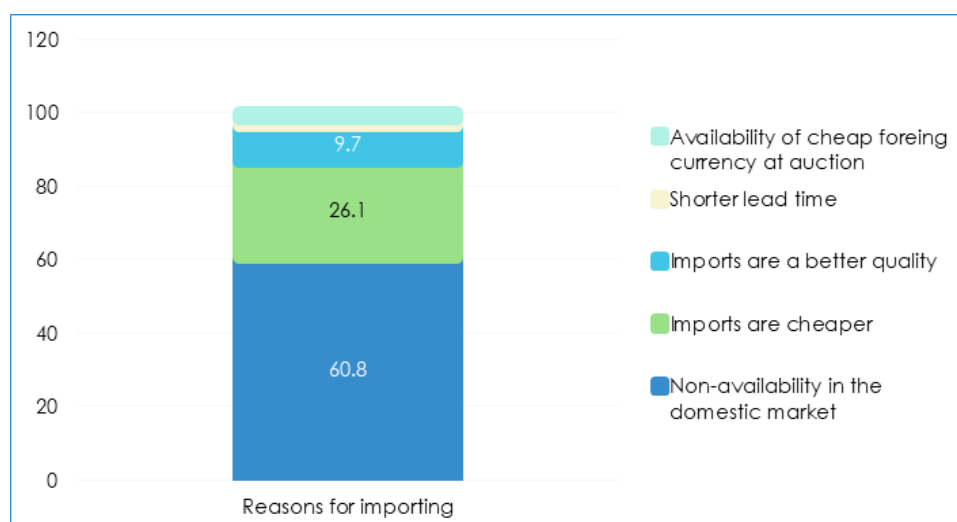
Figure 28: The transport and transport equipment sub-sector is more import dependent



Source: Survey results

Given that NDS1 envisaged economic transformation anchored on local value chains, it is also important to understand the main motivations for importing raw materials. About 61% of the manufacturing sector firms resort to imports due to non-availability of the raw materials in the local market (Figure 29). However, cost advantages also matter, as about 26% import raw materials because they are cheaper. This means that cost management remains one of the most critical strategies in unlocking local value addition. However, quality is also an issue that enters the decision matrix, as about 10% of the firms consider it as a basis for opting for imports rather than locally produced products.

Figure 29: Non-availability of raw materials locally the main import driver



Source: Survey results



5.3 Prospects for imports in 2022

In 2022 the percentage of imports in total procurement is expected to increase to 49% from 47% in 2021 (Figure 30). This is not in line with the increased thrust towards localized value chains.

Figure 30: Share of imports in total procurement to increase in 2022

46.64% of total procurement
in 2021 was imported

Percentage of imports in total procurement
expected to increase to 49.39%

Source: Survey results

CZI ANNUAL CONGRESS 2022

The new
dates are:

**7 - 9
September 2022**

Venue:
Manna Resorts

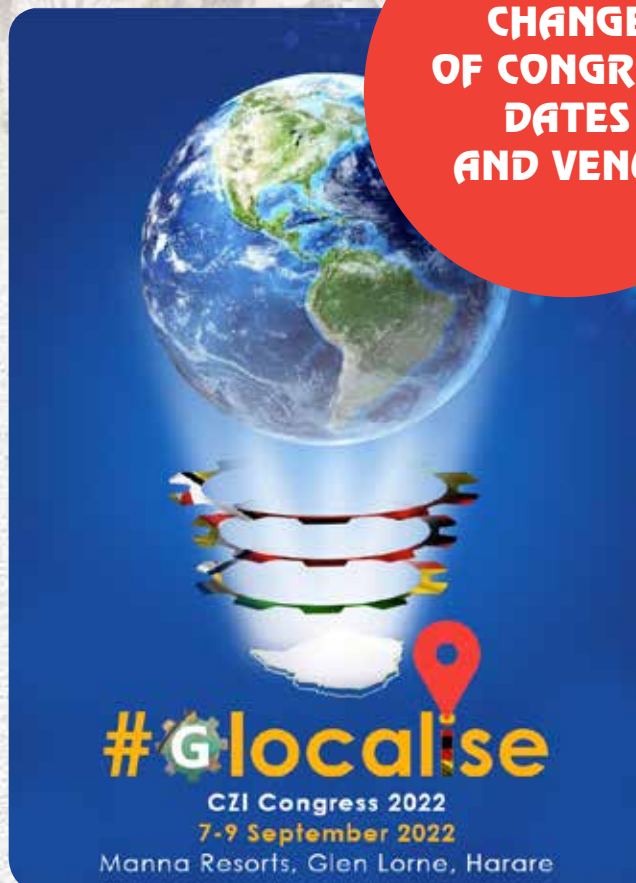


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**CHANGE
OF CONGRESS
DATES
AND VENUE**



We received feedback from members on the congress venue relating to costs and the general environment we are operating in. This has meant we move the congress to a Harare venue. However the venue change has necessitated a change to our dates due to venue availability.

Our sincere apologies to the inconvenience this may cause members in reorganising their plans for congress.

Registration terms have also changed to
members: **ZWL 350 000**
non members: **ZWL 480 000**

These fees are valid till 31st of July 2022



6. ACCESS TO FOREIGN CURRENCY

6.1 Not all manufacturers access foreign currency at the auction

About 42.7% of the manufacturing sector were able to access the auction market in 2021 (Figure 31). Those companies that managed to access the auction market only got 39.5% of their foreign currency requirement. That 39.5% they obtained from the auction took an average of 50 days to be settled, which was a major drawback for business.

Figure 31: The foreign currency auction backlog was an average of 50 days

42.7%
of the manufacturing
sector are accessing
the Foreign exchange
auction market

Companies are
obtaining
39.5%
of their foreign currency
requirement from the
auction market

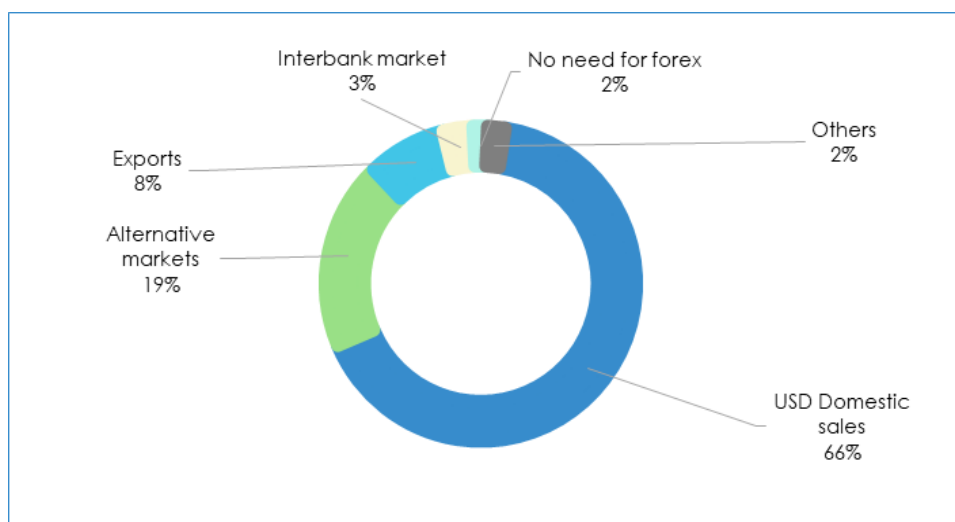
It takes up to
50 days
for a company account
to be settled after their
bid has been accepted

Source: Survey results

6.2 USD domestic sales remains the main alternative to the auction

Given that the auction market only caters for a limited number of players, the survey also sought to establish alternative sources of foreign currency besides the auction. The results (Figure 32) shows that about two thirds of the firms rely on USD domestic sales as an avenue to get foreign currency. This means that exchange control restrictions that enforce unrealistic exchange rates would see many firms struggling to get foreign currency. Participation in the alternative (parallel) market is also high at about 19%. USD sales and the parallel market are the two main sources of foreign currency for manufacturing sector firms, with only 8% of the firms relying on exports as a source of foreign currency.

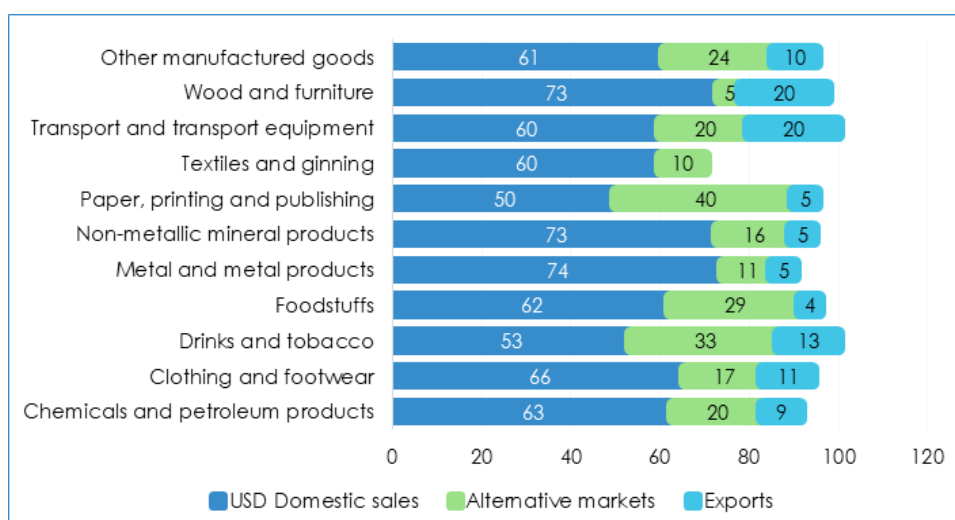
Figure 32: USD sales the main alternative to the auction



Source: Survey results

By considering the three main sources of foreign currency, it is quite apparent that the parallel market as a source of foreign currency is most significant in the paper, printing & publishing and the drinks & tobacco subsectors, while almost three quarters of the firms in the metal & metal products, wood & furniture, and the non-metallic mineral products are able to sell their products in USD to augment any foreign currency from the auction (Figure 33). Exports are significant in the wood & furniture and the transport & transport equipment subsectors.

Figure 33: The alternative market is an important source of foreign currency for some subsectors



7. POLICY AND REGULATORY ISSUES AFFECTING PERFORMANCE

There are a number of policy and regulatory challenges raised during the survey which prevent the manufacturing sector from fully unleashing its potential. The following are some of the measures raised by the manufacturing sector players concerning the policy and regulatory environment:

- a. The long time it has taken to remove all operation and access hurdles at the foreign currency auction, reflected in backlogs and failure to get funding in full;
- b. Frequency of policy shifts through statutory instruments which make it difficult to predict the operating environment;
- c. The surrender requirements (both 20% and 40%) which is rendering manufacturing sector exporters unviable;
- d. Access to basic utilities is a challenge resulting in costly alternatives which render manufacturing uncompetitive;
- e. Scrap metal exports result in limited access to raw materials by industry at a time when local steel production has not yet resumed;
- f. The intermediated money transfer tax is now a burden to industry as it is not tax deductible just like any other transaction taxes;
- g. Rates by the city councils are prohibitive for profitable production;
- h. Services should be decentralised to reduce travel costs and time in compliance;
- i. All duties for raw materials should be scrapped as this makes production costly;
- j. Too much inefficiencies at the border result in unnecessary delays for raw materials and export products;
- k. Licence fees from the Environment Management Agency are too high and not commensurate with the services that members get from the institution;
- l. The bureaucracy at the Ministry of Industry and Commerce result in the time it takes to get licences and import permits being too long;
- m. Requiring permits for exports reduces export incentives as the process is also involving;
- n. Having a local orientation is threatened by high costs of local inputs, hence the introduction of tax rebates on companies who process 70-80% of a product locally should help promote local value chains;
- o. Cumbersome export and production processes, with too many regulators collecting fees in the value chain does not promote competitiveness.



8.CONCLUSION

The survey results generally reflect that the manufacturing sector is on the rebound. This momentum is expected to be carried forward into 2022 provided there are not further shocks and disruptions to the operating environment. It is critical that government help sustain this positive momentum by ensuring that barriers are addressed, especially addressing the ease of doing business, which remains an issue. Key enablers, including utilities and infrastructure need to be prioritized in 2022 to ensure that the momentum is sustained. Compliance challenges, including multiplicity of compliance institutions and bureaucracy need to be attended to ensure that the environment is smooth. More importantly, 2022 offers an opportunity to address the currency challenge and the associated inflationary pressure to ensure that benefits enjoyed so far are fully harnessed.



Who Are We

Enterprise Leadership Service

The Confederation of Zimbabwe Industries (CZI) is Zimbabwe's largest business membership organization with members from the Manufacturing as well as Trade, Transport, IT, Education and Professional Services, making up 36 sub-sectors of the Zimbabwean economy.

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