MANUFACTURING SECTOR REPORT

2020 SURVEY

CZI
CONFEDERATION OF ZIMBABWE INDUSTRIES
Enterprise Leadership Service

GREEN SHOOTS OF CAPACITY PERFORMANCE RECOVERY IN A LOW OUTPUT MEDIUM

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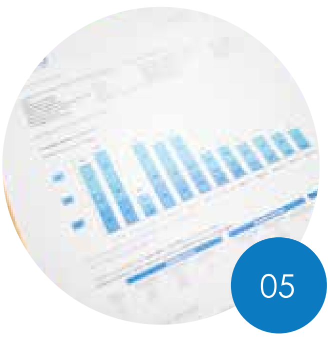

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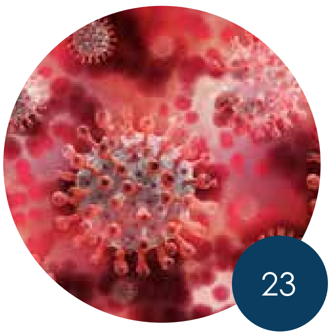
LIST OF FIGURES



LIST OF ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
CKD	Completely Knocked Down
Covid19	Corona Virus Disease of 2019
CZI	Confederation of Zimbabwe Industries
FCA	Foreign Currency Account
GDP	Gross Domestic Product
GNI	Gross National Income
HCF	High Carbon Ferrochrome
IMTT	Intermediated Money Transfer Tax
MoFED	Ministry of Finance and Economic Development
NDS1	National Development Strategy 1
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
SKD	Semi Knocked Down
SME	Small to Medium Enterprise
UNECA	United Nations Economic Commission for Africa
USD	United States Dollar
VFEX	Victoria Falls Securities Exchange
Zimstat	Zimbabwe National Statistics Agency
ZNCC	Zimbabwe National Chamber of Commerce
ZUPCO	Zimbabwe United Passenger Company
ZW$	Zimbabwe Dollar

CZI PRESIDENT
HENRY RUZVIDZO

FOREWORD BY THE PRESIDENT

2020 was a year of mixed fortunes for industry, the first half of the year was fraught with difficulties on all fronts, the second half of the year however proved to be a welcome contrast with many of the first half impediments dealt with. The positive response of industry to the much-improved situation was testimony to its underlying capability. The momentum that has been building around a collective appreciation of the value of the productive sectors and the key levers that need to be pulled for enhanced performance give us hope for continued recovery. The second half of the year saw a much more improved power supply situation, foreign currency was more readily accessible through the auction system, manufacturers enjoyed improved market access as covid imposed supply chain disruptions slowed down imports, priority was also given to the manufacturing sector with respect to the COVID 19 lock down measures. Indications on the policy front are that local production will continue to receive support. The COVID vaccine roll out plan that is underway is expected to ensure further business disruptions are avoided.

Whilst much work remains to build industrialization momentum the trajectory is positive and consistency in policy direction will ensure progress continues. Industry will play its part to support progressive policies and rally to build a business ecosystem that sustains industrial development and output growth. The under-utilized capacity in the manufacturing sector points to potential for very rapid recovery and growth in output. The projected rapid growth in the mining sector will bring with it opportunities for the manufacturing sector to process some of the mining output and to also supply into the sector. Similar signs of revival are evident in the agriculture sector on the back of the improved rainfall season and a number of policy changes, the sector is an import market for industry's output and is also a key source of inputs.

Dialogue through the NECF and TNF platforms as transformation continues will ensure onboarding of key stakeholders and lead to improved policy consistency. Industry is therefore hopeful of sustained recovery and is bullish about performance in the near term.

CZI CHIEF ECONOMIST
TAFADZWA BANDAMA

EXECUTIVE SUMMARY

The 2020 State of the Manufacturing Sector Survey has shown that companies' operations respond to stimuli whether positive or negative and the policy environment generates these stimuli. Results show that the manufacturing sector capacity performance increased from 36.4% in 2019 to 47% in 2020.

It is important to note that the 2020 State of the Manufacturing Sector Survey happened in a unique year, in that the country together with the whole world experienced a pandemic, covid19. The year 2020, was also unique in the sense that the performance of companies was divided into two phases, the first half of the year characterised by very difficult doing business conditions in form of the following:

- *Covid19 and its challenges on capacity utilisation, domestic and international supply chain disruptions, logistical challenges, morbidity and mortality in the country.*
- *Absence of a formal foreign exchange platform*
- *A fixed exchange rate regime, which necessitated a fast depreciating exchange rate.*
- *High inflation rates in the three digit levels as the parallel market rate had become the reference rate in price formation.*

However, during the second half of the year, capacity performance improved on the back of improved foreign currency availability following the introduction of the Foreign Exchange Auction Market in June 2020 and the dual currency system. The introduction of a formal foreign exchange platform happened at a time when companies had consistently complained about shortage of foreign currency as a major constraint to capacity utilisation. Firm operations were constrained by shortage of foreign currency to:

- *Import raw materials and intermediate inputs.*
- *Procure new technology.*
- *Procure machinery spare parts.*

Before the introduction of the Foreign Exchange Auction Market, the economy was operating on a fixed exchange rate regime and there was no official platform for foreign exchange, which left business with no option but to access foreign exchange on the parallel market.

The second half of the year was characterised by the following conditions:

- *Improved availability of foreign currency on the Foreign Exchange Auction Market.*
- *Stable exchange rate, which tamed inflation.*
- *Declining trends in the inflation rate.*

The survey results showed that companies also increased capacity because of covid19 import restrictions as international lockdowns meant that source markets were closed. Due to the disruption of supply chains, the manufacturing sector enjoyed demand from the mining and agriculture sectors for products that were previously imported. Some firms took advantage of the availability of foreign currency to retool and modernize their factories thereby enhancing capacity utilisation.

The green shoots in manufacturing sector capacity performance in 2020 have happened albeit in a low output medium. The sector is still trapped in a low output equilibrium because 47% is way below potential capacity utilisation. The low output medium is explained by the following factors;

- *Although the availability of foreign currency improved during the second half of 2020, the foreign exchange volumes were not adequate to meet the full import requirements for companies. Besides, during the first half of 2020, companies accessed foreign currency from the parallel market as there was no official foreign exchange platform, which weighed down operations.*
- *Firms also experienced transport shortage for their workers as they found it difficult to commute to work during lockdowns.*
- *Firms had water challenges, as borehole water is not suitable for use in most industrial processes.*

The survey has revealed the need to consolidate on the gains made on improved capacity performance by continually fine tuning economic policies. This calls for a friendly doing business environment especially in the currency market. The policy process needs to implement measures that mitigate against domestic and international shocks.

The survey was carried out at a time when companies complained of frequent machinery breakdown due to use of antiquated equipment. In order to complement the policy process, companies need to adopt and adapt to new technology as well as invest in Research and Development to boost productivity so that they emerge out of this low output medium. Technology absorption and innovation enables local firms to compete on the international markets in view of the AfCFTA.

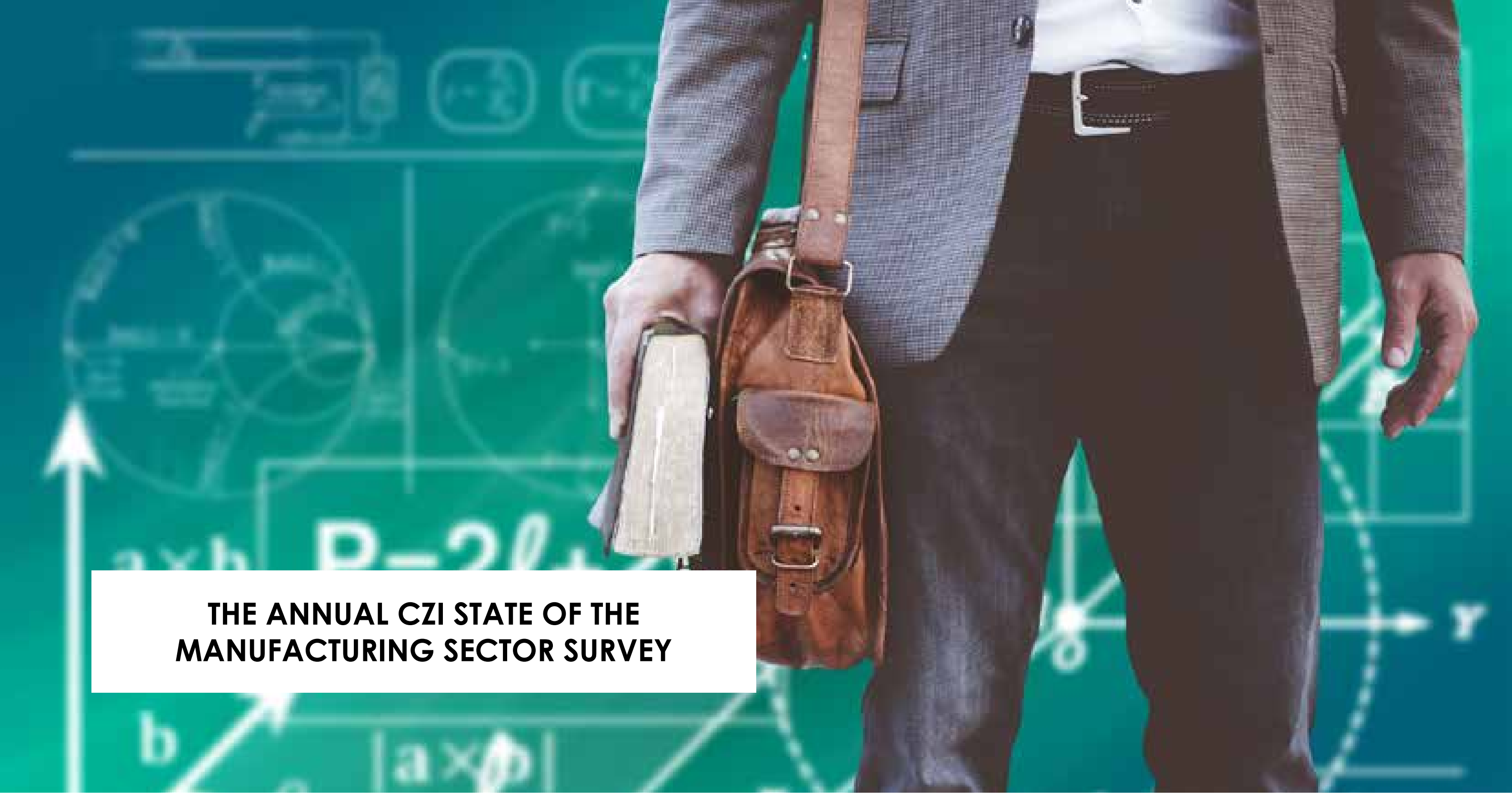
Sixty one percent of surveyed companies is exporting although export volumes are still very low. Most exports were absorbed by the Zambian market followed by Botswana, South Africa and Mozambique. More volumes at 81% were sold on the local market due to the dual currency system. Companies highlighted that it was more viable for them to sell on the domestic market in foreign currency and evade the constraining export rules *and regulations that make them uncompetitive on the international market.*

The majority of the surveyed companies at 86% did not retrench their employees. During covid19 lockdown most companies were designated as providing essential services thus, the companies were able to operate. The few companies that retrenched did so due to low capacity utilisation, low demand and covid19 induced challenges. Technological improvements also meant that less labour was required in the production process.

Going forward, a well communicated systematic implementation of national lockdown, an aggressive covid19 vaccination program, investment in social infrastructure especially in the health sector and provision of a business support facility for working capital purposes should drive growth in the manufacturing sector.

Export promotion, Import substitution through development of local value chains and implementation of Local Content Policy should spur growth in the value-adding sector. Consistent provision of key economic enablers in form of transport, electricity, fuel, and water is key for industrial operations.

INTRODUCTION



THE ANNUAL CZI STATE OF THE MANUFACTURING SECTOR SURVEY

The Confederation of Zimbabwe Industries (CZI) State of the Manufacturing Sector Survey is widely recognized as Zimbabwe's leading analysis of the factors affecting business operations and growth, with a particular focus on the manufacturing sector. 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 survey aims to provide information to a wide range of stakeholders as enunciated below:

- *Government and international cooperating partners with information on obstacles to economic growth and to provide an outline on general business direction allowing stakeholders to anticipate problems and ultimately, craft well thought out solutions.*
- *Academia with information on analyzing the current business environment and emerging trends for further research.*
- *Empirical and objective public private dialogue tool that informs industry policy opinion and reference point when engaging policy makers, so that challenges are discussed and solutions recommended based on empirical evidence.*

The survey is conducted on an annual basis and provides insight into the state of the economy from business perspective. The survey documentation is available annually on the CZI website

www.czi.co.zw

METHODOLOGY

- *Data collection was done by CZI*
- *The Questionnaire was sent to 450 companies*
- *Response rate was 35%.*
- *Data Analysis was done by the Economics Department at CZI*
- *Survey covers the year 2020 from January to November.*

SECTIONS COVERED IN THIS SURVEY

1. *Company Information*
2. *Company Operations*
3. *Covid19 Challenges*
4. *Foreign Trade*
5. *Human Capital*
6. *The Policy Environment*

ECONOMIC DEVELOPMENTS
IN 2020

THE BUSINESS ENVIRONMENT

The 2020 operating environment was divided in two, the first half and the second half. The first half of 2020 was heavily weighed down by a once in a century pandemic, Covid19, which originated in China during the last quarter of 2019. The public health response measures that were implemented by international economies across the globe to combat the pandemic had implications on the local macroeconomic environment. The Covid19 pandemic hit at a time when the local economy was suffering from pre-existing macroeconomic challenges as highlighted below;

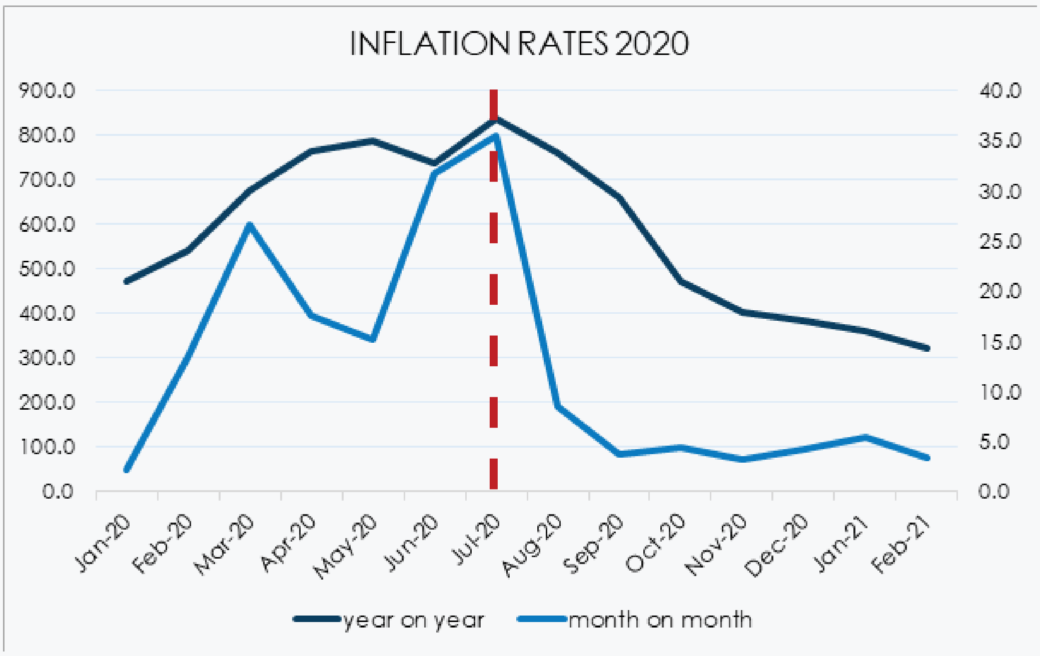
- *Stagflation as the economy was experiencing 3-digit year on year inflation levels and a negative GDP growth of 4.1% in 2020.*
- *Shortage of foreign currency, which was worsened by the absence of a formal foreign exchange trading platform during the first half of 2020. The economy was on a fixed exchange rate mode.*
- *During the second quarter of 2020, economic agents could transact in US$ by drawing down on their free funds.*
- *A restive labour force as exchange rate depreciation and inflation eroded disposable incomes.*
- *Legacy debt obligations for companies as they found it increasingly difficult to access lines of credit from traditional suppliers.*
- *Low domestic savings due to high insecurity levels in the economy as larger proportions of incomes were spent on basic commodities and services due to inflation.*
- *Market distortions creating arbitrage opportunities.*
- *Low domestic and foreign investment in the economy.*
- *Policy inconsistencies that only helped create a difficult doing business environment especially in the currency market.*
- *Lack of progress in the reengagement process, which is key to unlocking financing.*
- *Political discord undermining the development agenda.*

THE SECOND HALF OF 2020

- *During the second half of 2020, Monetary Authorities introduced the Foreign Exchange Auction System in June 2020. The shortage of foreign currency to procure raw materials had persisted before the introduction of the Foreign Exchange Auction System in June 2020.*
- *Companies could now access foreign exchange on the Foreign Exchange Auction System.*
- *The currency auction introduced some measure of stability in the exchange rate, which in turn tamed inflation as shown by the figure below.*
- *The official exchange rate became the major determinant in the pricing equation.*
- *Certainty and predictability was introduced in the economy.*

The figure below shows inflation developments in the first half of 2020 and the second half of 2020. The latter part shows inflation deceleration although the economy is still experiencing three digit inflation levels.

Figure 1: Inflation Developments in 2020



» *The availability of fuel and electricity improved.*
» *The easing of lockdown measures gave relief to business to continue operations.*
» *Firms deployed measures to mitigate the impact of covid19.*
» *Companies embraced e-transactions to minimize face-to-face service provision.*

REAL SECTOR DEVELOPMENTS

The 2021 National Budget revised GDP figures as the economy was projected to contract by 4.1% in 2020. The following factors necessitated the revision of GDP numbers;

» *Currency volatility, which resulted in 3-digit inflation levels.*
» *Reduced aggregate demand due to exchange rate depreciation and inflation.*
» *Debt overhang, which closes lines of credit.*
» *Exogenous factors in form of climatic shocks which resulted in 2019/20 drought thus affecting agriculture which supplies raw materials to the manufacturing sector.*
» *Another exogenous factor – the Covid19 pandemic which originated in China in 2019 and spread to all countries globally, affected economic activity through Public Health response measures as authorities battled to contain the pandemic which is highly contagious.*
» *Energy challenges due to poor rainfall patterns.*

THE 2021 BUDGET HIGHLIGHTS

Figure 2: The 2021 Budget Summary

Total bids submitted	1.1 trillion
Total Budget	421.6 billion
Total Projected Revenue	390.8 billion
Budget Deficit	30.8 billion
Percent of GDP	-1.3%
Average Inflation	135% year on year
GDP Growth	7.4%

Figure 3: The Budget in USD Terms (million)

	2020 Nominal Value	2020 USD Value	2021 Nominal Value	2021 Real Value	Percentage Change
Total Budget	**Z$65,655**	**US$4,068**	**Z$421,617**	**US$5,153**	**26.66%**

NB: The budget figures were converted using the official exchange rate of 16.138 for 2020 Budget and 81.82 for the 2021 Budget

Compared to the 2020 Budget, the 2021 Budget increased by 27% in USD terms.

GROSS DOMESTIC PRODUCT AND INFLATION

The Budget projected GDP to grow by 7.4% in 2021 and average inflation for 2021 was projected at 135%. National development prospects and the disinflation prospects will be influenced by the following factors:

» *Ironclad Fiscal and Monetary Policies to achieve macroeconomic stability.*
» *The sustainability of the currency auction to stabilise the currency and prices given the unitary transmission of exchange rate depreciation to inflation.*
» *Uncertainty surrounding covid19 and the pandemic's carry over effects.*
» *The good rainfall season requires more top dressing fertilizers to ensure higher yields otherwise the good rains leach soil nutrients resulting in poor yields.*
» *The implementation of infrastructure development to ensure the efficient and timely*

availability of key economic enablers especially a good road network, water, electricity and fuel.

- *The need to spell out strategies and incentives for value chain development to guide investment decisions by industry.*

The positive economic growth projection was underpinned by the following assumptions:

- *A good agricultural season due to a better rainfall season and reduced reliance on rain fed agriculture by increasing irrigation.*
- *A conducive doing business environment;*
- *Fiscal incentives to various sectors of the economy to boost production.*
- *Improved investments by both public and private sector.*
- *Strong recovery in agriculture, mining, electricity, construction, transport & communication and finance & insurance are expected to spur economic growth.*
- *Expected rise in incomes as GNI per capita income is projected to rise from US$1156 to US$1835.*
- *Growth in formal employment by 150 000 jobs.*
- *Reduced severity of the Covid19 pandemic.*

Figure 4: Sectoral GDP Growth Rates (%)

	2019	2020	2021
Overall GDP	**-6.0**	**-4.1**	**7.4**
Agriculture and forestry	-17.8	-0.2	11.3
Mining and quarrying	-12.4	-4.7	11.0
Manufacturing	-8.7	-9.6	6.5
Electricity and water	-19.2	-7.9	18.8
Construction	-13.9	-11.4	7.2
Distribution	-8.2	-7.5	5.7
Transport and Communication	12.9	3.2	7.1
Finance and Insurance	-6.1	-7.1	7.2
Government Services	1.4	-2.1	6.2
Other Services	-2.6	-2.1	4.3

Source: MoFED and RBZ

PRICES AND INFLATION

Zimbabwe's annual inflation rate declined from **401.7%** in November 2020 to 384.59% in December 2020. This signifies a reduction in the rate of price increases in the economy. The month-on-month inflation rate for December 2020 stood at 4.22%, gaining 1.07 percentage points on the November 2020 rate of 3.15%.

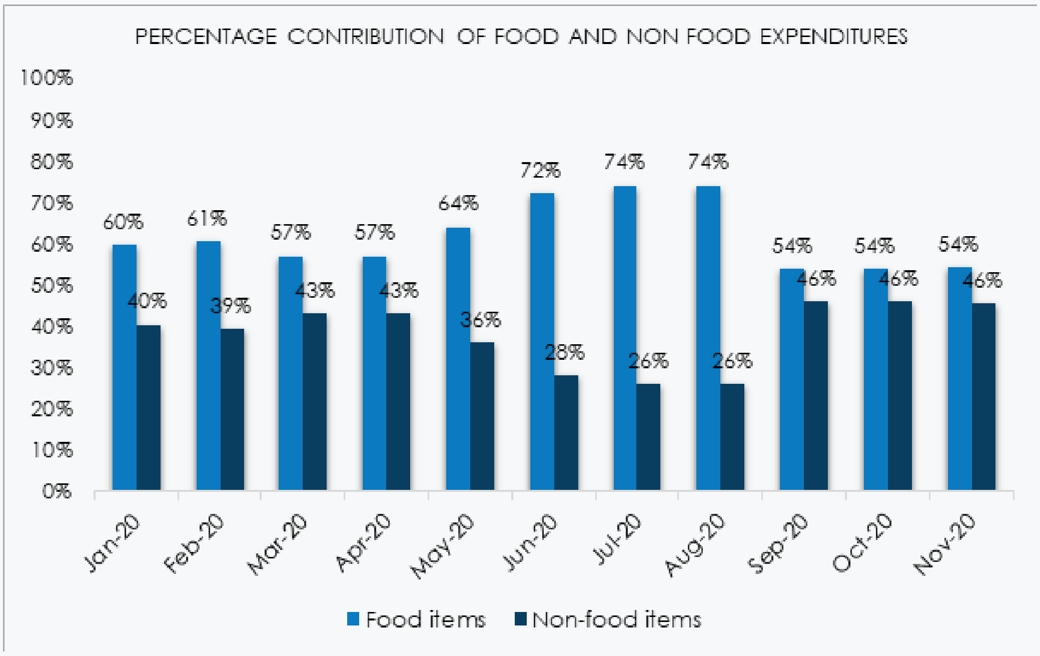
Owing to the obtaining dual currency regime in the economy, ZimStat is now publishing a blended inflation rate which combines RTGS$ and USD prices. The blended month on month inflation rate for December 2020 was 2.75% gaining 0.50 percentage points on the November 2020 rate of 2.25%.

Major reasons contributing to high inflation levels in the economy include:

- *Foreign currency shortages in the economy before the introduction of the Foreign Currency Auction Trading System towards the end of June 2020. However, companies have indicated that it is taking a bit longer for them to access official foreign exchange. Besides the foreign exchange volumes*
- *are not adequate to meet the full import bill.*
- *Drought conditions in the 2019/20 agricultural season causing shortages of raw materials to agro-processors, food products and imported inflation.*
- *Low capacity utilisation, which causes shortages and higher prices. The manufacturing sector has been operating in a low output medium for the greater part of the last decade.*

COMPOSITION OF THE CONSUMER BASKET

Figure 5: Percentage contribution of food and non-food expenditures



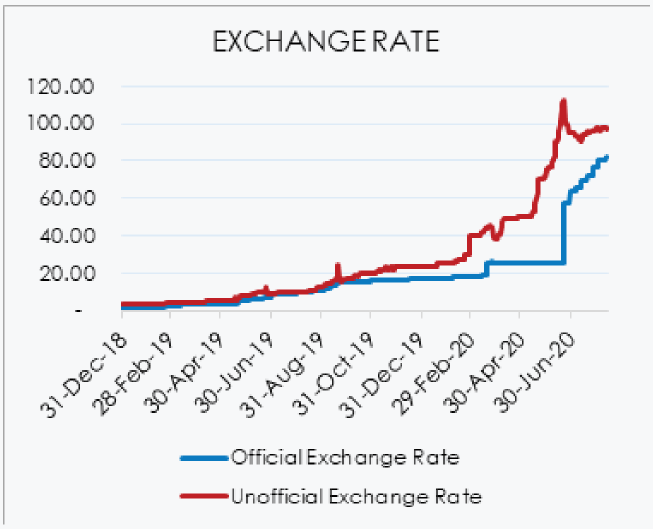
Source : Consumer Council of Zimbabwe

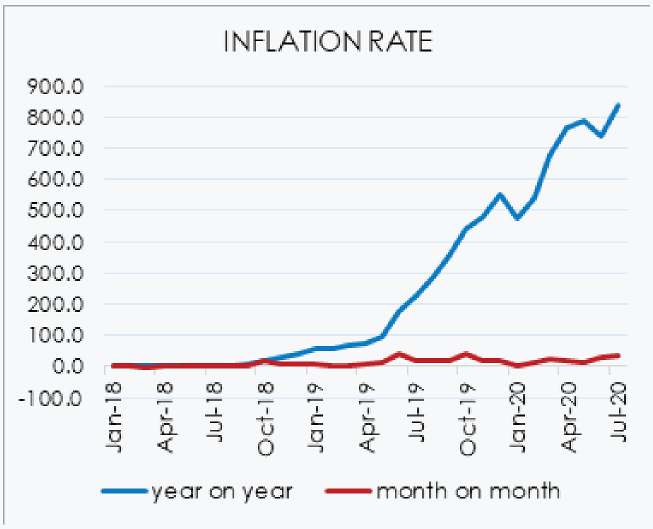
The large proportion of income spent on food signifies a high marginal propensity to consume and high poverty levels for households.

EXCHANGE RATE AND INFLATION DYNAMICS

The figure below shows that the exchange rate developments influence the prices of goods and services in the economy. The widening parallel market premium plays a role in price determination as it is now taking longer to access official foreign exchange.

Figure 6: Exchange rate and inflation dynamics





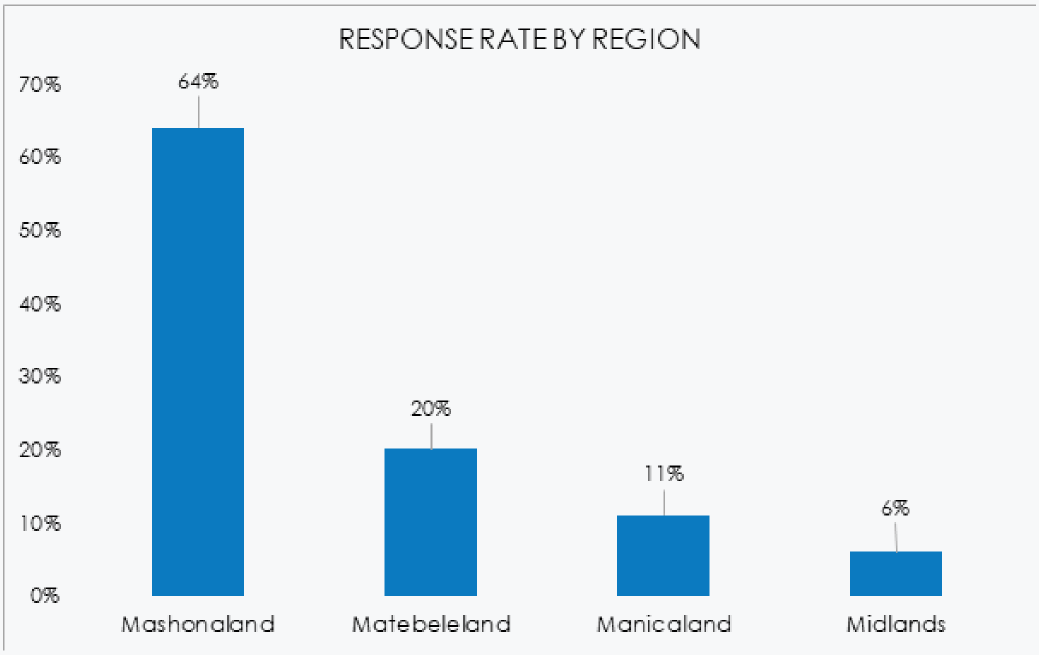
Source : ZimStat, RBZ, CZI

SURVEY RESULTS

RESPONSE RATE

The 2020 State of Manufacturing Sector Survey response rate was 35%. This was mainly a result of covid19 as some employees are working from home and some companies are closed. Due to covid19 containment measures, it was not possible to carry out field work, which CZI normally does to boost response rate.

Response Rate by Region

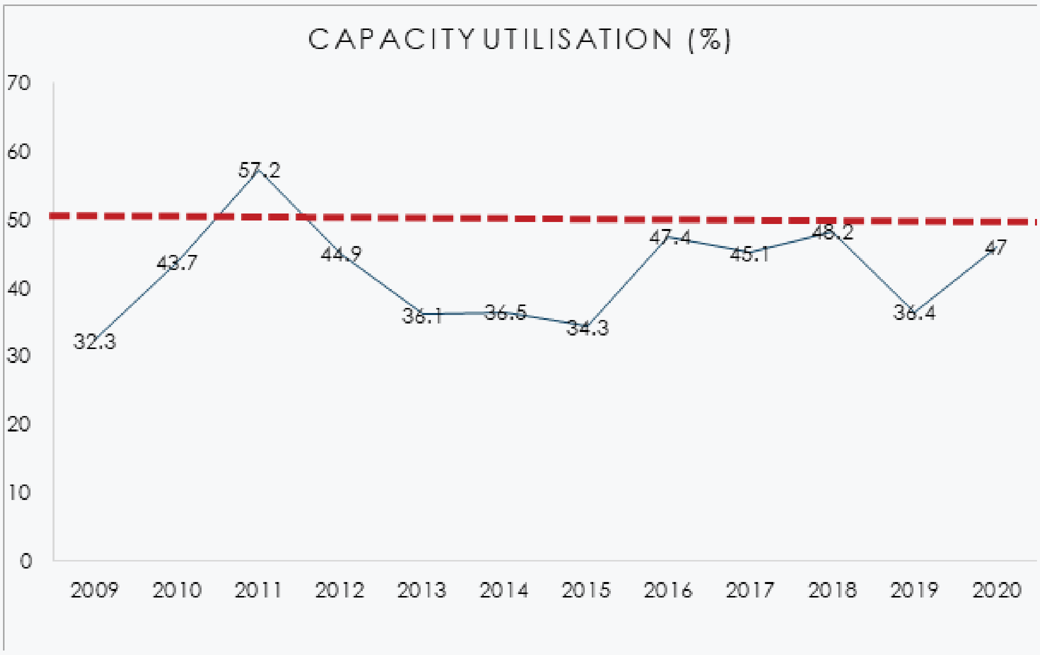


CAPACITY UTILISATION

Capacity utilization measures the proportion of potential output versus actual output and it is usually measured as a percentage. Capacity utilisation is a very important statistic because it gives insight into the overall slack that is in the economy or a firm at a given period. Capacity utilisation is used as a measure of productive efficiency. Higher capacity utilisation levels make the business more competitive by reducing unit costs.

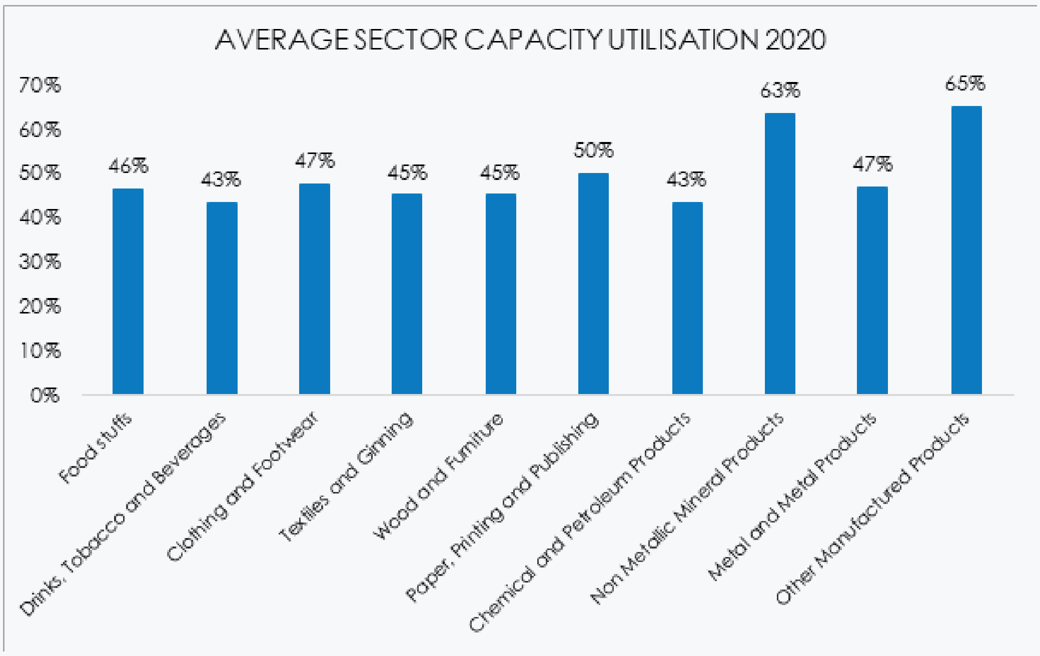
Capacity utilization rose by 10.6 percentage points from 36.4% in 2019 to 47% in 2020. This is against a projected capacity utilisation of 27% in 2020 that industrialists had predicted in 2019.

Figure 7: Capacity Utilisation from 2009 to 2020 (%)



The above figure shows that the manufacturing sector has been operating in low output levels since 2009 when the country adopted a multi-currency regime to tame hyperinflation. The sector achieved a peak capacity utilisation level surpassing the 50% mark only in 2011 at 57.2%. The year 2019 showed an economy in recession at 36.4% capacity utilisation level. The year 2020 represents a recovery in average capacity utilisation at 47% amid the covid19 pandemic. Industrialists attributed this scenario to availability of foreign currency, the decline in volume of imports and high local demand. The above figure also illustrates that the manufacturing sector is characterized by booms and troughs in alternating periods, which mimics business cycles. These business cycles show variations in production, investment, employment, prices and wages with higher statistics during boom periods and lower statistics during troughs. It is important to note that the booms in capacity utilisation levels are happening at very low levels, implying the existence of a low output equilibrium.

Figure 8: Average Capacity Utilisation in 2020

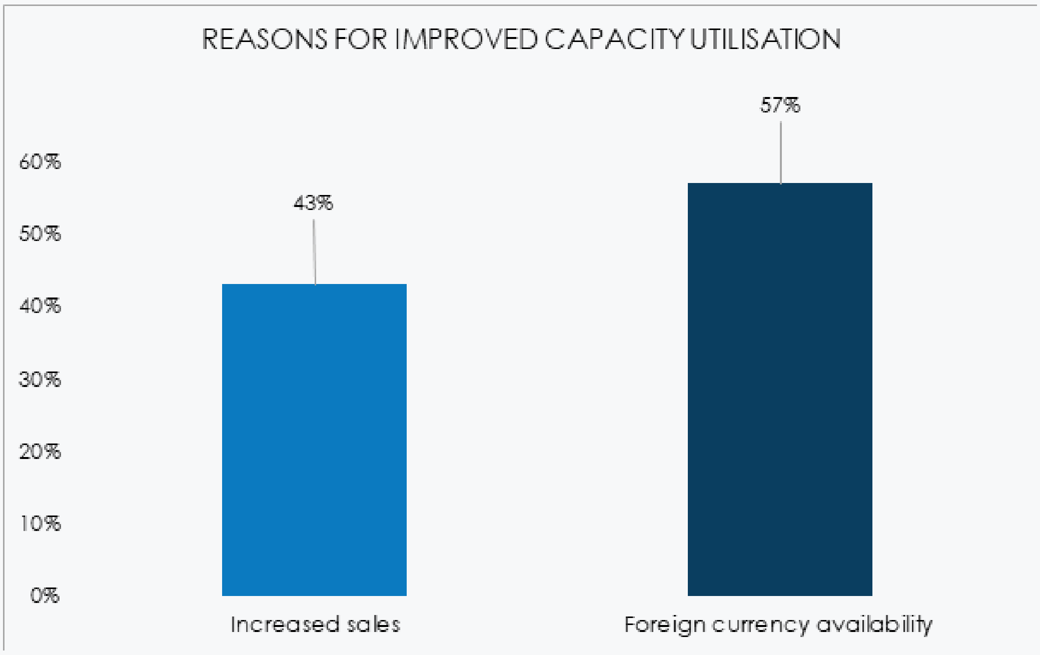


The best performing sub sectors in 2020 were the Non-Metallic Mineral Products and the Other Manufactured products. The Non-Metallic Mineral Products produce products such as bricks and cement. The Other Manufactured Products sub-group at 65% capacity utilisation highlighted that they benefited from high local demand as order books improved.

REASONS FOR IMPROVED CAPACITY UTILISATION IN 2020

Companies that reported high capacity utilisation levels in 2020 indicated that capacity performance improved due to increased sales, foreign currency availability and re-tooling as illustrated by the figure below.

Figure 9: Reasons for Improved Capacity Utilisation in 2020



In 2020, capacity utilisation increased because of the following factors:

Improved Foreign Currency Availability

Capacity utilisation improved due to foreign currency availability following the introduction of the Foreign Exchange Auction Market in June 2020.

Before the introduction of the Foreign Exchange Auction Market, the economy was operating on a fixed exchange rate regime and there was no official platform for foreign exchange, which forced the business community to access foreign exchange on the parallel market. The availability of an official foreign exchange platform implied that companies were able to source foreign exchange for the importation of raw materials, equipment and spare parts.

Increased Sales

Although covid19 presented challenges to the business community, the international lockdown which limited imports meant that products that were previously imported were sourced locally, thereby necessitating firms to increase capacity utilisation.

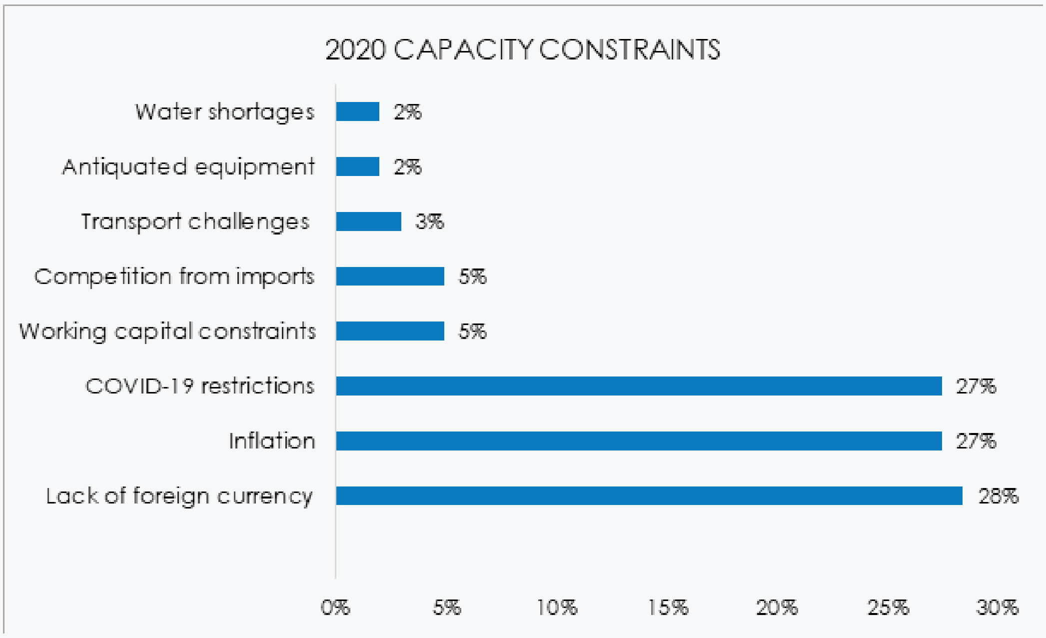
Retooling

Some companies took advantage of the availability of foreign currency to retool their factories and this enhanced capacity utilisation.

Capacity Constraints In 2020

Although capacity utilisation increased to 47% in 2020 compared to 36.4% in 2019, the business environment still faced some challenges as illustrated by the figure below.

Figure 10 : Capacity Constraints in 2020



The following capacity challenges were experienced in 2020:

Lack of access to foreign exchange

Companies highlighted lack of access to foreign exchange due to an inefficient interbank market during the first half of 2020 as a capacity constraint. High costs and shortage of raw materials were mainly affected by foreign currency shortages in the economy as producers relied on the parallel market for foreign exchange before the introduction of the Foreign Currency Auction Market.

High inflation environment

High inflation and exchange rate depreciation eroded household incomes and this translated in low demand for some products. Manufacturers also incurred high cost of raw materials due to indexation of prices to USD as the formal sector was experiencing implied dollarisation. End period annual inflation for 2020 was 384.59% in December 2020.

Antiquated equipment and shortage of spare parts

Antiquated machinery and frequent equipment breakdowns, results of shortage of foreign currency to import spare parts were experienced in 2020.

Transport Challenges

Workers found it difficult to commute to and fro workstations due to covid19 restrictions. Firms reported that sometimes workers failed to turn up for work or even arrived late due to transport challenges.

Shortage of Water Suitable for Industrial Processes

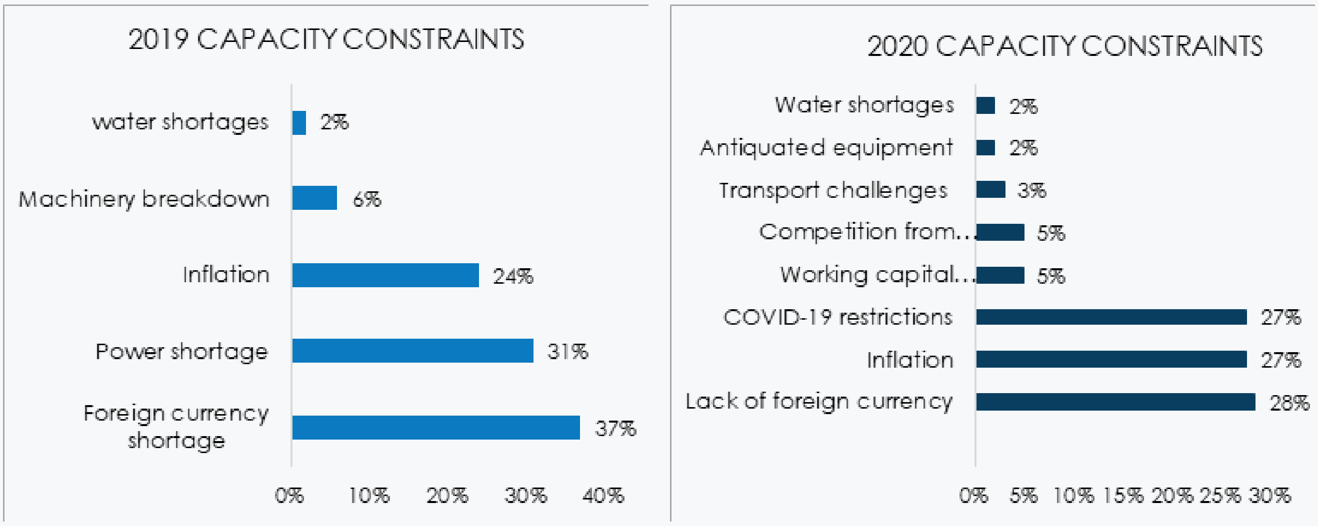
Water shortages was a constraint in 2020 as Local Authorities could not provide water for industrial processes. This challenge was faced by many companies in the food sector and those with industrial processes that cannot use borehole water in their factories.

Covid19 Pandemic

The occurrence of the pandemic and public health response measures have created capacity constraints to industry.

A COMPARISON OF CAPACITY CONSTRAINTS IN 2019 AND 2020

Figure 11: Comparison of Capacity Constraints in 2019 and 2020



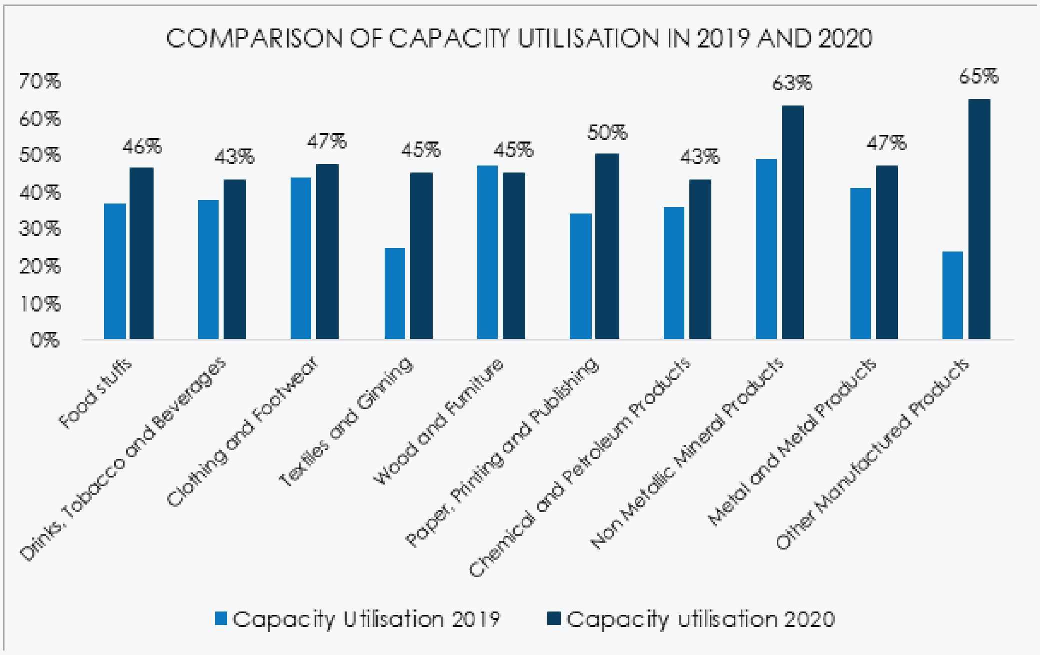
Industrialists have faced some of the capacity constraints that were experienced in 2019 in 2020. However, in 2020, additional constraints were experienced and these include working capital challenges, covid19 restrictions and transport challenges for workers. Working capital constraints were a result of cash flow difficulties and liquidity challenges on the financial market.

COMPARISON OF CAPACITY UTILISATION IN 2019 AND 2020

Average capacity utilisation in 2020 improved compared to 2019 levels though the figure still illustrates the existence of excess capacity in the manufacturing sector. Companies attributed this to improvementin foreign currency availability to import raw materials and other intermediate inputs, inflation deceleration due to stability in the exchange rate and high local demand as imports were curtailed by international lockdown due to covid19.

In 2019, average capacity utilisation levels in almost all manufacturing sub sectors were very low due to shortage of foreign currency to import critical raw materials, intermediate inputs and absence key economic enablers in form of electricity and fuel.

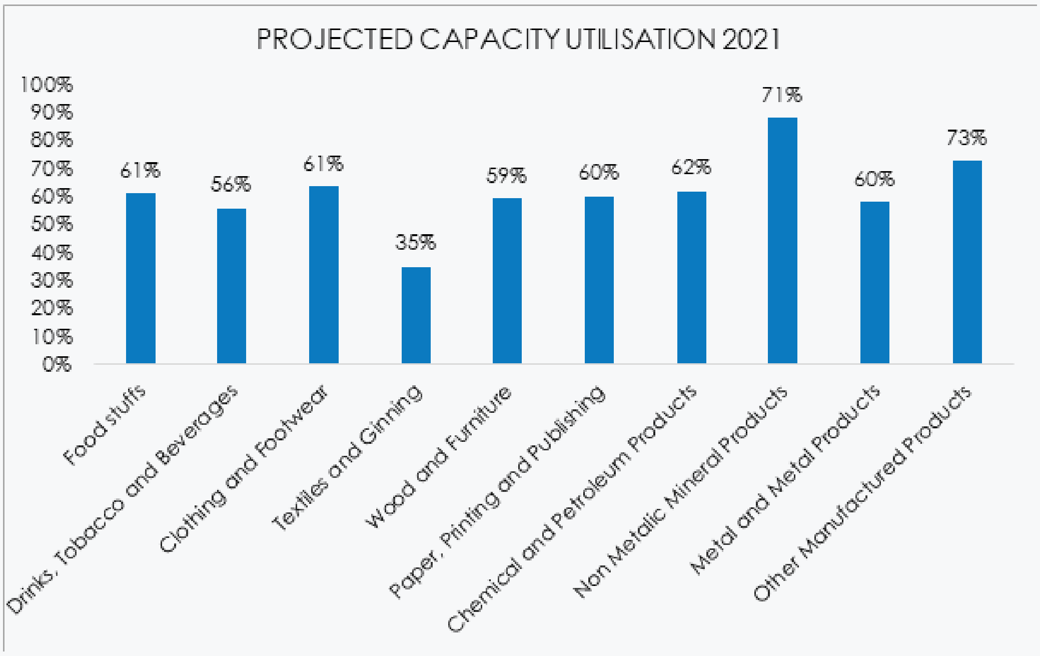
Figure 12: Comparison of Capacity Utilisation in 2019 and 2020



CAPACITY UTILISATION IN THE SHORT TERM OUTLOOK

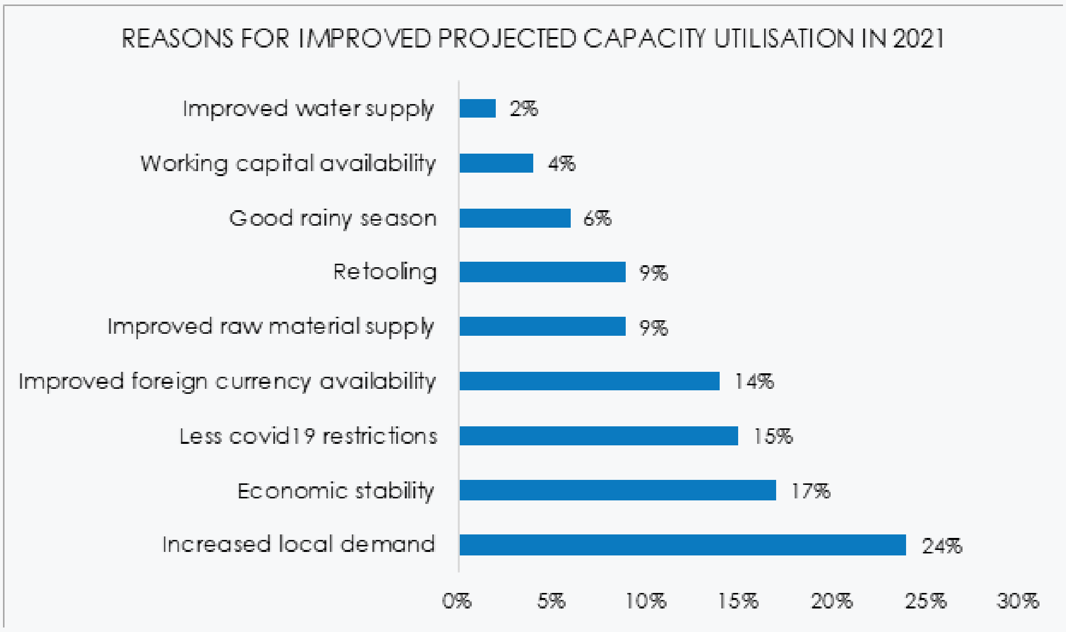
Industry captains are projecting an increasing capacity utilisation trend in 2021 at 61%.

Figure 13: Projected Capacity Utilisation in 2021



Most sub sectors projected capacity utilisation to continue rising if there is stability in the foreign exchange market and prices. Producers are also hoping that consumers will continue to consume locally produced goods. Companies are also projecting a positive outlook in 2021 relying on a good agricultural season for raw material provision.

Figure 14: Reasons for Positive Outlook in Capacity Utilisation in 2021



Companies indicated a positive outlook for capacity utilisation in 2021. The factors that companies highlighted in support of a positive outlook include:

- *Increased local demand due to economic stability. Industry captains indicated that they hope that local demand will increase due to inflation deceleration, import restrictions, new supply chains with local industries especially in the mining sector and they expect to sustain the industrial linkages going forward.*
- *Improved access to foreign currency and exchange rate stabilisation will improve industry operations. Improved foreign currency availability will positively influence raw material supply and re-tooling of industry operations, as machinery breakdown is a major constraint to industry operations.*
- *Industry captains also hoped there would be less restrictions associated with covid19 hence firms will revert to*
  normal operations. The expectation is that a covid19 vaccine would reduce infections, morbidity and mortality. Covid19 should also deal with anxiety of workers so that labour productivity improves. The associated costs of combating civid19 would also fall away.
- *Companies with backward and forward linkages with the agriculture sector expected that a good rainfall season would improve their operations, as there would be a sure source of local raw materials.*

It is important to note that the manufacturing sector had predicted a decline in manufacturing industry performance in 2020 at 27% capacity utilisation, yet the sector managed to achieve 47% for the same statistic. The prediction was based on a difficult policy and doing business environment. A bleak short-term outlook was based on the following factors:

- *Currency instability, which caused exchange rate volatility and high inflation levels.*
- *Lack of foreign currency on the official market to ensure uninterrupted supply of raw materials, electricity, fuel and intermediate inputs.*
- *Frequent machinery breakdown.*
- *Lack of implementation of the Local Content Policy in the economy.*

COMPARISON OF CAPACITY UTILISATION IN 2020 AND PROJECTED CAPACITY UTILISATION IN 2021

Almost all sectors projected a rise in capacity utilisation in 2021 to illustrate expectations of an improvement in the doing business environment.

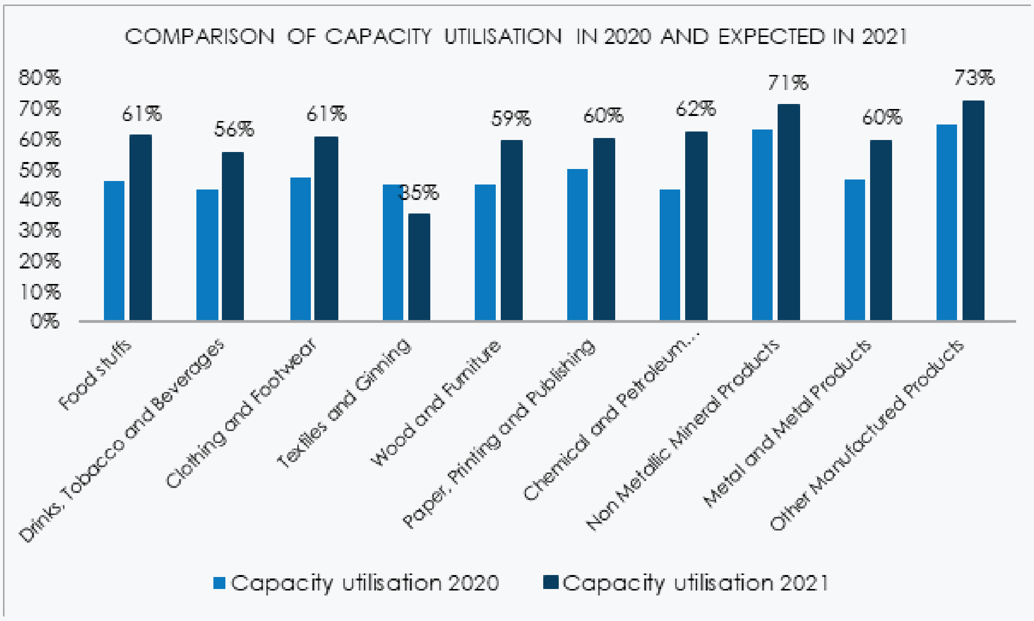
It is important to note that the manufacturing sector had predicted a decline in manufacturing industry performance in 2020 at 27% capacity utilisation, yet the sector managed to achieve 47% for the same statistic. The prediction was based on a difficult policy and doing business environment. A bleak short-term outlook was based on the following factors:

» *Currency instability, which caused exchange rate volatility and high inflation levels.*
» *Lack of foreign currency on the official market to ensure uninterrupted supply of raw materials, electricity, fuel and intermediate inputs.*
» *Frequent machinery breakdown.*
» *Lack of implementation of the Local Content Policy in the economy.*

Comparison of Capacity Utilisation in 2020 and Projected Capacity Utilisation in 2021

Almost all sectors projected a rise in capacity utilisation in 2021 to illustrate expectations of an improvement in the doing business environment.

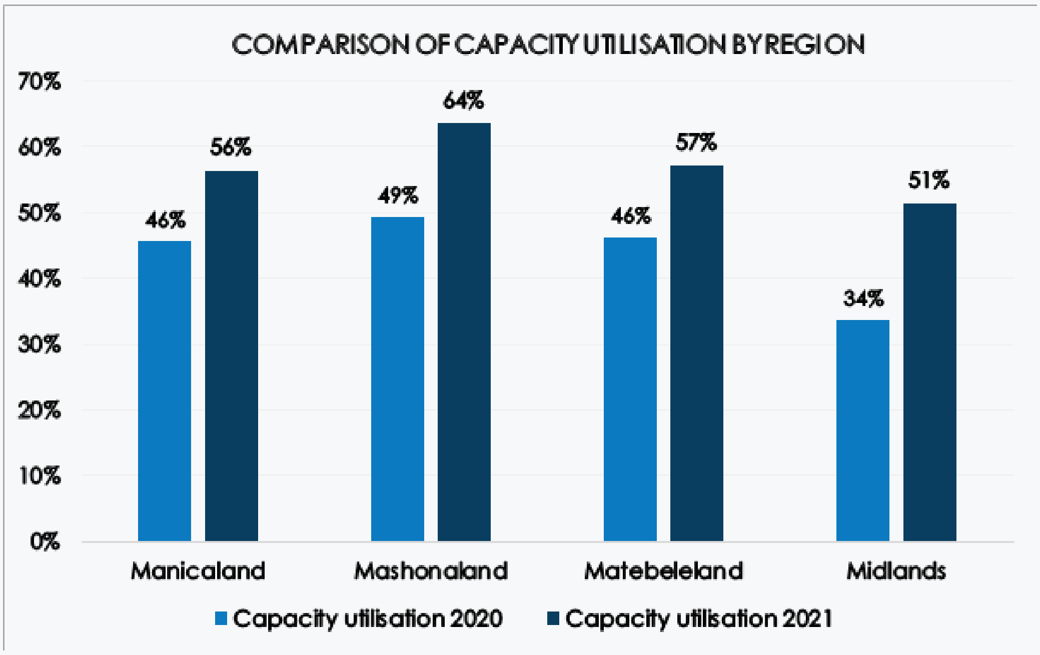
Figure 15: Comparison of Capacity Utilisation in 2020 and Projected Capacity Utilisation 2021



COMPARISON OF CAPACITY UTILISATION BY REGION

The figure below illustrates that all Chambers are projecting capacity utilisation to increase in 2021 as industry captains expect the doing business environment to improve.

Figure 16: Comparison of Capacity Utilisation by Region

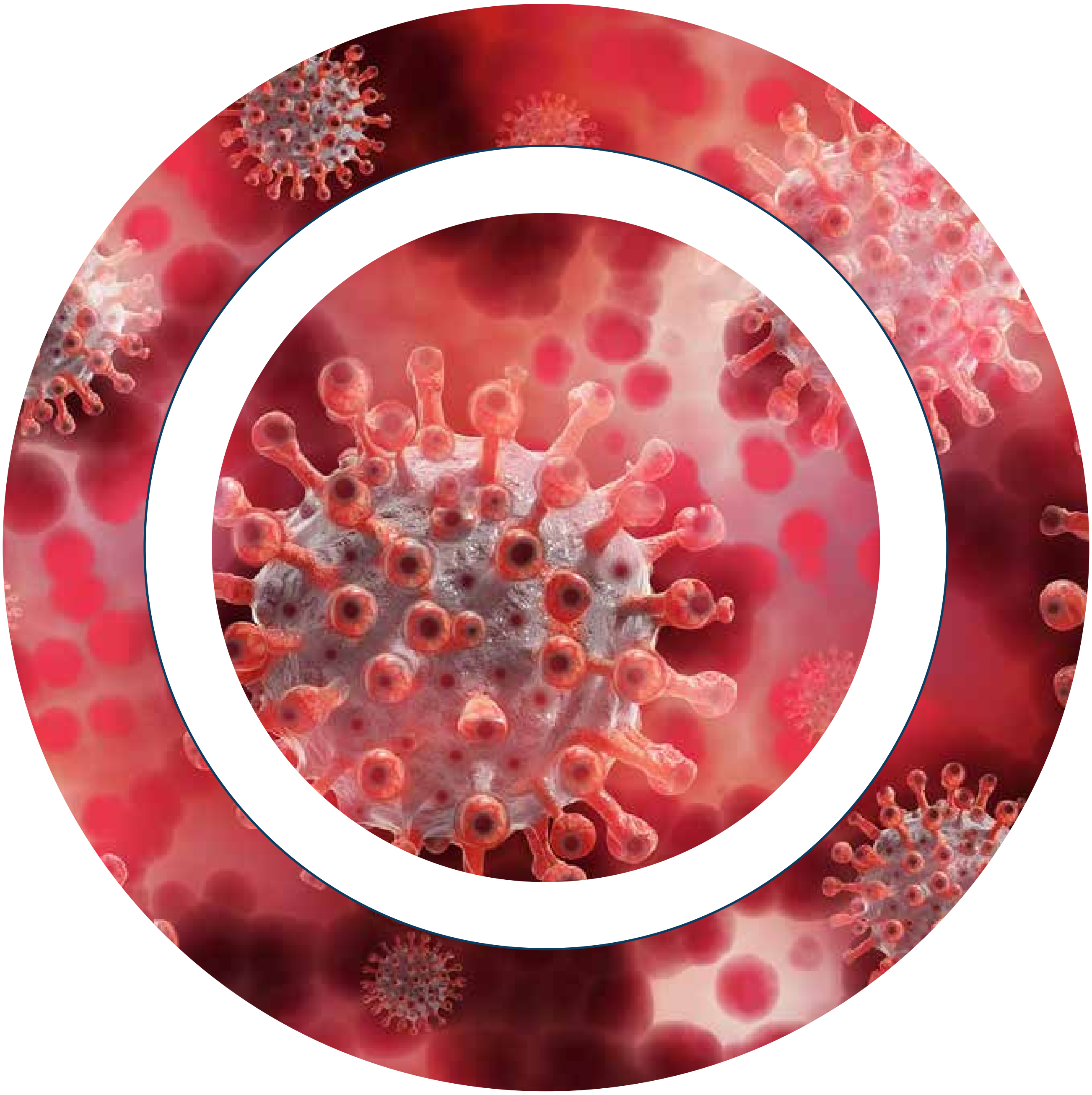


TRENDS IN AVERAGE CAPACITY UTILISATION BY SECTOR

Figure 16: Trends in Capacity by Sector

	2016	2017	2018	2019	2020	2021*
Non-metallic mineral products	57.5	33.2	35%	49.0%	63%	71%
Wood and furniture	57.8	45.2	50%	47.2%	45%	59%
Clothing and footwear	46	50	44%	44.1%	47%	61%
Metal and metal products	37.5	37.1	41%	41.4%	47%	60%
Drinks, tobacco and beverage	52.4	51.2	60%	37.6%	43%	56%
Food stuffs	56.1	56.3	58%	37.1%	46%	61%
Chemicals and petroleum products	43.6	36.1	33%	35.5%	43%	62%
Paper, printing and publishing	52.9	52.2	50%	34.0%	50%	60%
Textiles and ginning	-	-	50%	25.0%	45%	35%
Other manufactured goods	43	45.8	51%	24%	65%	73%

*Projection

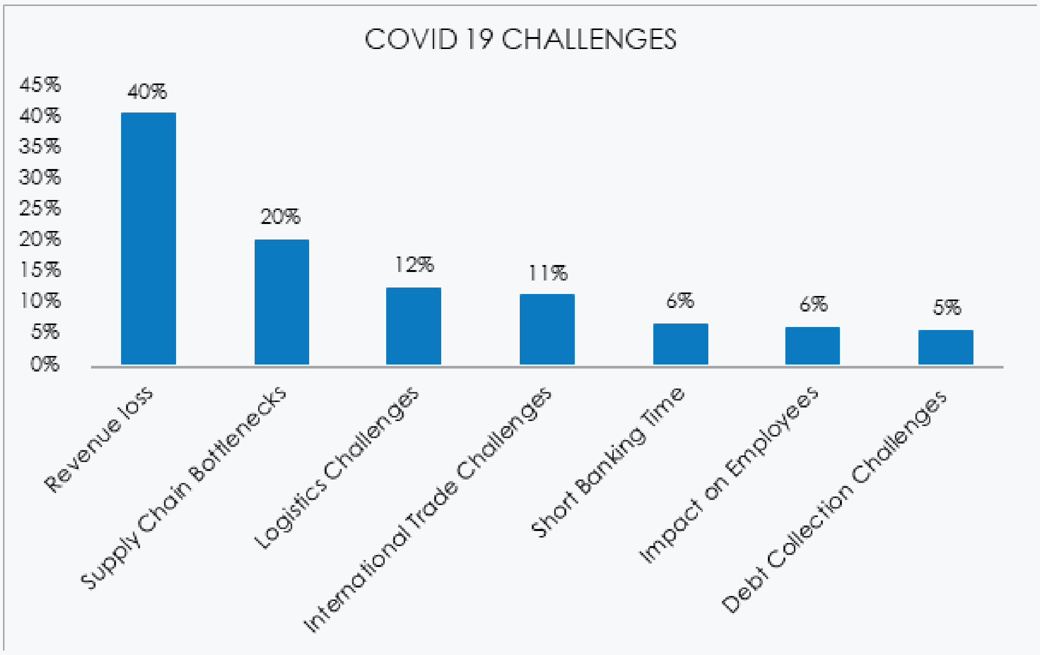


AN ANALYSIS OF THE IMPACT OF COVID19
ON THE OPERATING ENVIRONMENT

During the year 2020, Covid19, a pandemic which originated in China in 2019, affected industry operations. Covid19 hit the local economy at a time when the country was suffering from pre-existing instabilities and the occurrence of the pandemic ushered in unprecedented levels of uncertainty.

In 2020, developments in the economy evolved around Covid19, a highly contagious disease and the subsequent containment measures aimed at minimising the impact of the pandemic on mortality and morbidity. The containment measures which were implemented to contain covid19 affected operations in the productive sector as shown below:

Figure 17: Challenges Experienced By Firms Because of Covid19



In analyzing the impact of covid19 on the manufacturing sector, it is important to note that the disastrous effects of containment measures were particularly felt during the first lockdown period that was effected on 30 March 2020. This is because it was a first experience for all economic agents and the learning curve was still very steep.

Besides, companies had not yet implemented measures to cope with the emerging pandemic conditions. The following are challenges that were experienced by the sector due to covid19 and the public health containment measures that were implemented to combat it during the first half of 2020.

LOGISTICS CHALLENGES

The grounding of transportation systems during the lockdown period negatively affected efficient logistics within the country and across borders. This affected the transportation of critical workers to and from workplaces and the uninterrupted supply of raw materials to producers. Firms also experienced challenges supplying finished products to final consumers due to the national lockdown.

Road and air transport users felt the negative impact of the lockdown as the aviation industry was ground to a halt. For road users, ZUPCO service schedules were not adequate causing delays in staff arrival at work thereby resulting in loss of person-hours. Companies had to organize own transport to ferry workers to and from work.

SUPPLY CHAIN BOTTLENECKS

Disruption of supply chains as source and destination markets were closed affected company operations. Supply chains were affected in both domestic and international markets. Lockdown in international markets affected the supply of imported raw materials for the productive sector and access to export markets. Delays were experienced at borders because of the lockdown especially at Beitbridge Border post. Cargo carriers spent many days at the border post, which created bottlenecks along the supply chain. Companies indicated that they will experience increase search costs for re-establishment of supply chains.

IMPACT ON DOMESTIC DEMAND

The impact of covid19 on domestic demand was double pronged as some sectors suffered decline in demand while other experienced higher local demand. Local firms have highlighted that the informal sector is a big market for their products and closure of informal activities during lockdown reduced demand.

However, companies also indicated that due to closure of source markets as a result of covid19 public health response measures internationally, local sales increased especially from the mining and agricultural sectors. Products that were traditionally sourced from international markets had to be sourced locally, hence the increase in demand.

BANKING SERVICES CHALLENGES

Banking hours were too short and firms were not able to do international payments at financial institutions. This led to delays in fulfilling companies' foreign obligations. The following matters of policy affected companies:

» *The fixed exchange rate policy during the first half of 2020.*
» *Lack of access to foreign currency and companies got a reprieve in the second half of the year when the Foreign Currency Auction Trading System was introduced towards the end of June 2020.*
» *Liquidity challenges.*
» *Demand by some suppliers to be paid in US$ even when the consumer was not a holder of free funds.*

IMPACT ON WORKFORCE AND EMPLOYEE WELFARE

Covid19 has brought about a lot of employee anxiety and low morale due to fear of contracting the disease. The pandemic resulted in low morale at the work place, as workers feared losing their jobs in view of unfolding events since the outbreak of the pandemic. This is because some companies especially SMEs and even some large corporates indicated that they could only sustain payment of wages for a short time, some employees were receiving a fraction of their normal salaries while others were not receiving their wages at all with negative households' welfare effect. Hardest hit were employees on seasonal contracts as companies were laying them off.

However, companies indicated that they protected employees by providing protective equipment, which they used at work and for some at home. In order to ensure that social distancing was adhered to, a few workers were allowed to come to work at a time, which resulted in reduced man-hours.

Some companies had to close factories due to workplace Covid19 infections. Companies were also not spared from the effects of mortality due to covid19, which implies loss of skills and talent.

DEBT COLLECTION CHALLENGES

Creditors lamented the fact that because of the lockdown they were not able to follow up debtors for payments. This had negative downstream effects on their cash flows and operations. Secondary data showed that 35% of firms expect to accumulate arrears on outstanding liabilities (World Bank, 2020).
New Ways of Doing Business – E-transactions

In order to survive companies had to adopt and adapt to new ways of doing business. Due to the need for social distancing some employees had to work from home and companies also had to embrace online business for some operations to minimize face to face interactions.

CHALLENGES OF BUSINESS RESUMPTION

The following are business resumption challenges that companies face due to covid19:

Re- establishments of Supply Chains

The occurrence of the pandemic in waves in the international economy created difficulties for firms to re-establish supply chains that previously existed. The re-establishments of supply chains will be costly to companies over and above other covid19-associated costs.

Lack of Working Capital

When business resumed, some companies experienced lack of working capital due to suspension of operations and lower capacity utilisation. Because of working capital shortages some establishments struggled to resume operations thereby disrupting the supply chain.

Loss of Export Markets

Loss of export markets to competition were some of the emerging challenges after business resumption as the degree of impact of the pandemic across countries varied and as countries suffered contagion effects of the pandemic at different periods.

Overall, the impact of covid19 on the manufacturing sector varied across sectors. There were losers and winners. The pharmaceutical, protective clothing, metal and metal products and chemical products saw a positive aspect amidst the covid19 dark cloud.

FOREIGN
TRADE

THE AFRICAN CONTINENTAL FREE TRADE AREA (AFCFTA)

Implementation of the Africa Continental Free Trade Area (AfCFTA) began on 1 January 2021. The AfCFTA will bring together 55 member states of the African Union covering a market of more than 1.2 billion people and a combined gross domestic product (GDP) of more than US$3.4 trillion. Estimates from the Economic Commission for Africa (UNECA) suggest that the AfCFTA has the potential to **boost intra-African trade by 52.3%** through elimination of import duties.

Statistics show that intra-Africa aggregate trade and share in total African trade is low when compared to other parts of the world and relative to Africa's trade potential. For example, the average share of intra-regional exports in total exports is about 50% in Asia and 70% in Europe, compared to about 14% in Africa. Even trade among Latin America is higher than in Africa, at about 20%.

According to estimates, the opening of the regional market to African goods and services will increase intra-African trade significantly. It is estimated, that the removal of tariffs on intra-African trade could raise the share in total African trade from about 10.2% to 15.5% from year 2010 to year 2022. With enhanced trade facilitation measures, the gains would double to reach 21.9%.

ZIMBABWE PREPAREDNESS IN PARTICIPATING IN AFCFTA

Given years of economic challenges that the country has been facing, the economy and the local industry are currently limited to take advantage of the AfCFTA. Luckily, the implementation of the Agreement is a gradual process, as there is need for more time to allow the local industry to retool and upgrade its production processes to be able to compete with the rest of the continent.

For instance, current capacity utilisation in industry is low, meaning that firms are not even enjoying economies of scale which reduces per unit cost of production to make prices competitive. The high cost of doing business environment due to over regulation, utility and infrastructure deficiencies make local firms uncompetitive.

The country also needs to develop its local value chains to ensure that most of the raw materials needed for industry are sourced locally and not rely on importation from countries whose firms are competitors. There is need to create mutually reinforcing value chain linkages between agricultural and non-agricultural sectors of the economy. Thus, agriculture development must be strengthened.

This therefore, calls for robust actions, programmes and policy implementation by both the Government and the private sector in order to ensure that within the short to medium term, the country is ready to take advantage of the AfCFTA. The industrialisation agenda that the country has embarked on becomes more imperative and must be prioritised.

TRADE DEVELOPMENTS IN 2020

According to recent trade data published by ZimStats, Zimbabwe's exports grew by 2.7 percent between January-December 2020 compared to 2019. Exports increased to US$4.39 billion compared to US$4.28 billion that was realized in 2019.

In 2020, major exports were from the mining sector as follows:

At US$3,210 billion, mineral exports contributed 73 percent to total exports and mineral export data is disaggregated as follows:

At US$3,210 billion, mineral exports contributed 73 percent to total exports and mineral export data is disaggregated as follows:

» *nickel mattes (US$985 million),*
» *gold (US$982 million),*
» *nickel ores and concentrates (US$612 million),*
» *diamonds (US$141 million),*
» *ferro alloys (US$140 million)*
» *platinum (US$134 million).*

Manufactured food exports increased by 18% to US$115 million from US$98 million in 2019. Major food products exports included the following:

» *sugar (US$76 million),*
» *fruit juices (US$5.6 million)*
» *pastry products (US$3.7 million).*

In the Drinks, Tobacco and Beverages sub sector, manufactured tobacco exports increased from US$45 million in 2019 to US$54 million in 2020. This growth can be mainly attributed to the increase in the export of cigars and cigarettes which grew by 71 percent from US$15 million in 2019 to US$26 million in 2020.

The table below shows the increases that were recorded under various manufactured exports.

Figure 18: Value of Manufactured Exports that Increased in 2020

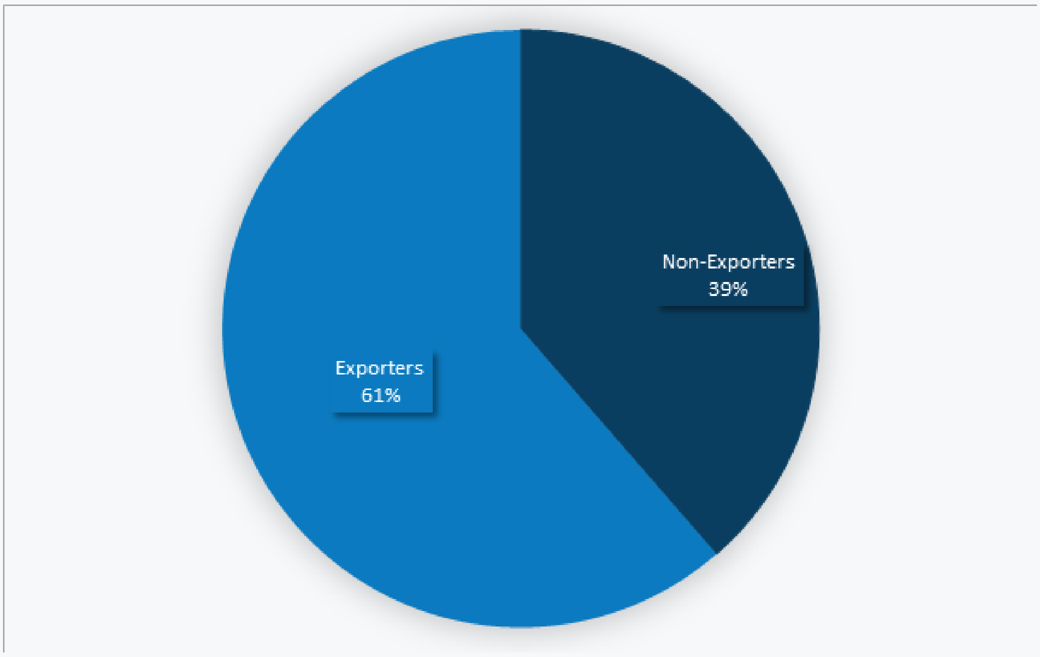
PRODUCTS	2019	2020	% CHANGE
Milk and milk products	1,434,370	1,995,732	39%
Spices, pepper	2,762,875	3,701,522	34%
maize seed	2,470,404	5,932,255	140%
Roasted malt and not roasted malt	360,174	1,676,364	365%
Soya and sunflower seeds	246,507	316,737	28%
Cooking oil, castor oil, margarine, other oils	437,878	1,099,603	151%
Juices (fruit, tomato)	4,580,034	5,606,638	22%
Sauces, yeast	820,919	1,773,701	116%
Portland cement, plasters, gypsum	3,900,533	4,136,886	6%
Tar, residues containing zinc	215,725	536,813	149%
Essential oils, cosmetics, hair products	585,645	1,166,731	99%
Washing preparations, soaps, polishes	1,770,456	2,229,521	26%
Plastic and plastic products	7,203,026	8,798,037	22%
Twine and synthetic fabric products	1,720,353	1,918,645	12%
Ceramic products, bricks	2,399,308	4,969,473	107%
Aluminium products	864,396	1,987,203	130%
Refined lead	309,037	725,821	135%
Generators, electrical gadgets	11,851,456	12,061,753	2%
Furniture, mattress, seats	2,898,355	4,985,451	72%
Video games, golf balls, accessories of billiards	652,043	905,684	39%

Source: ZimStat

The Clothing and textile sector registered 29 percent decline from US$61.9 million in 2019 to US$44 million in 2020.

PROPORTION OF EXPORTERS TO NON- EXPORTERS

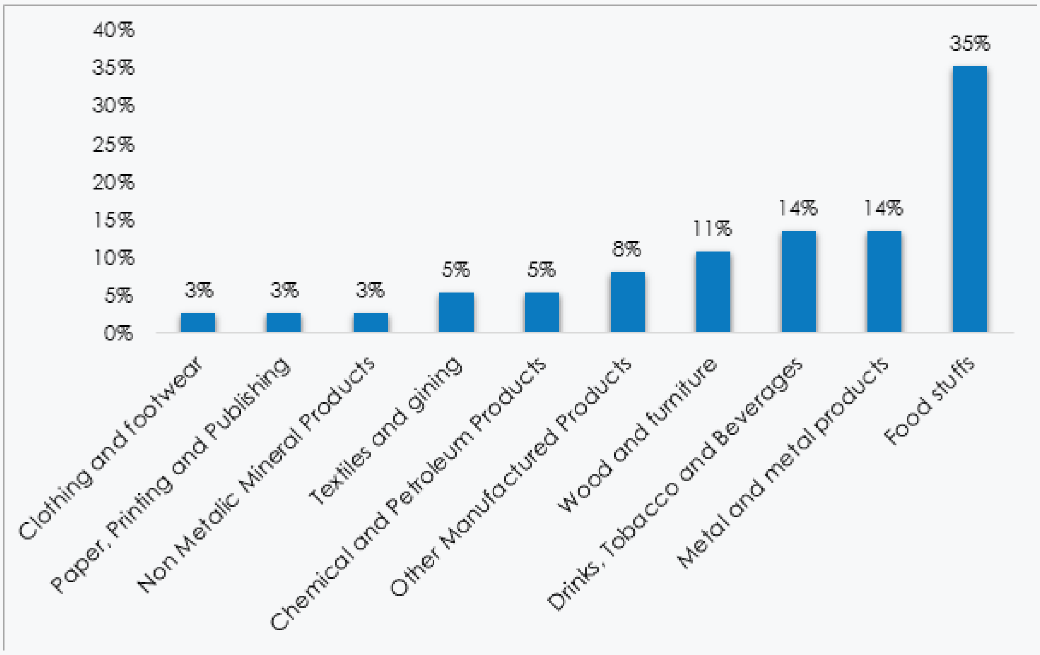
Figure 19: Proportion of Exporters to Non- Exporters



The survey indicated that 61 percent of the surveyed companies were exporting and only 39% were not. Many companies are targeting the export market in a bid to generate foreign currency.

PROPORTION OF EXPORTING COMPANIES BY SECTOR

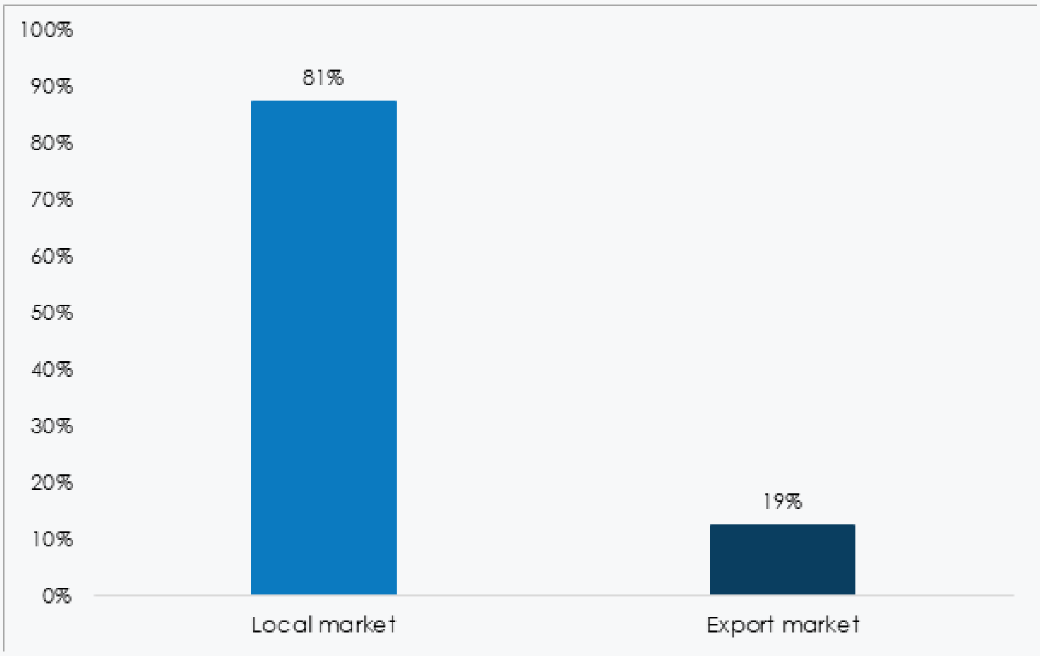
Figure 20: Proportion of Exporting Companies by Sector



According to this study, the Foodstuffs sub sector had the biggest number of companies that exported.

PROPORTION OF LOCAL MARKET AND EXPORT MARKET

Figure 21: Proportion of local market and export market (percentage)



Firms are selling 81 percent of their products locally according to this study. Although many firms are exporting, the volumes that they are exporting are still low. There is need for an aggressive export strategy, to generate more foreign currency. With the commencement of trade under the African Continental Free Trade Area this year, local companies will need to take advantage of improved access to regional markets. Some companies indicated that they focused on the local market due to lack of competitiveness to participate on the international market owing to over regulation of exporters.

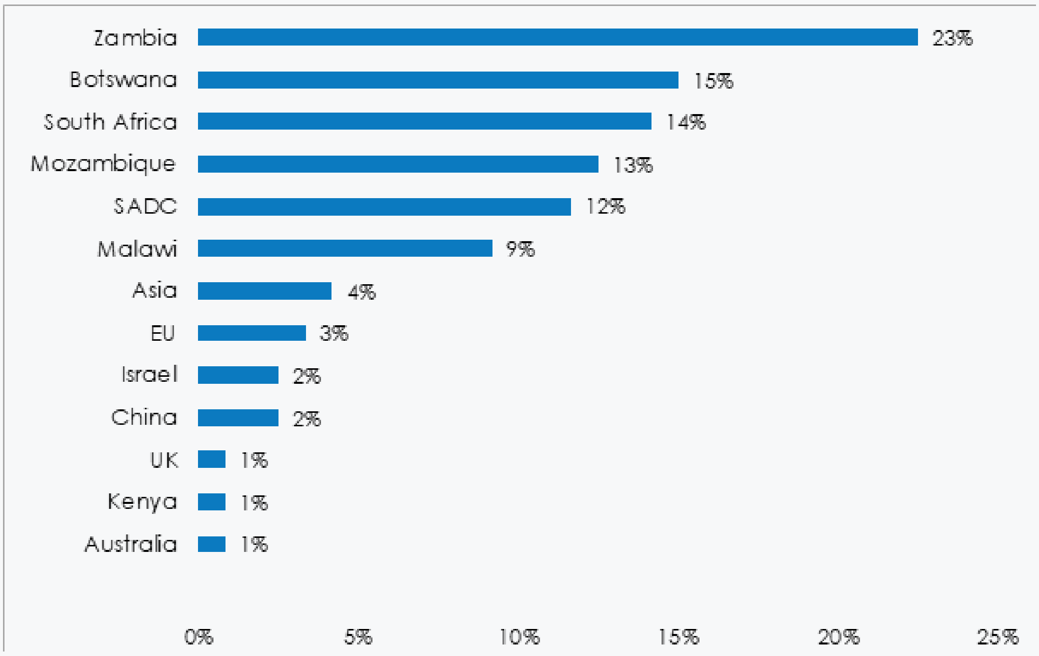
The dual currency regime have tempted some companies to sell on the domestic market because it is easier to do business on the domestic market than exporting.

The covid19 pandemic has necessitated reliance on the local market due to;

» *Closure of destination markets due to international lockdowns.*
» *Supply chain disruptions.*
» *Logistics difficulties especially at borders.*

MAJOR EXPORT DESTINATIONS

Figure 22: Export Destinations



Zambia was the favourite export destination for companies with 23%, followed by Botswana with 15%, South Africa with 14% and Mozambique 13%. Zambia is a favourite export destination for manufactured products because of the following factors:

» *USD invoicing of goods.*
» *Geographical proximity.*
» *A big market*

Major exports to Zambia include foodstuffs, beverages, spirits, machinery, plastics, iron and steel products, cement, articles of pulp, paper, and board, wood and furniture.

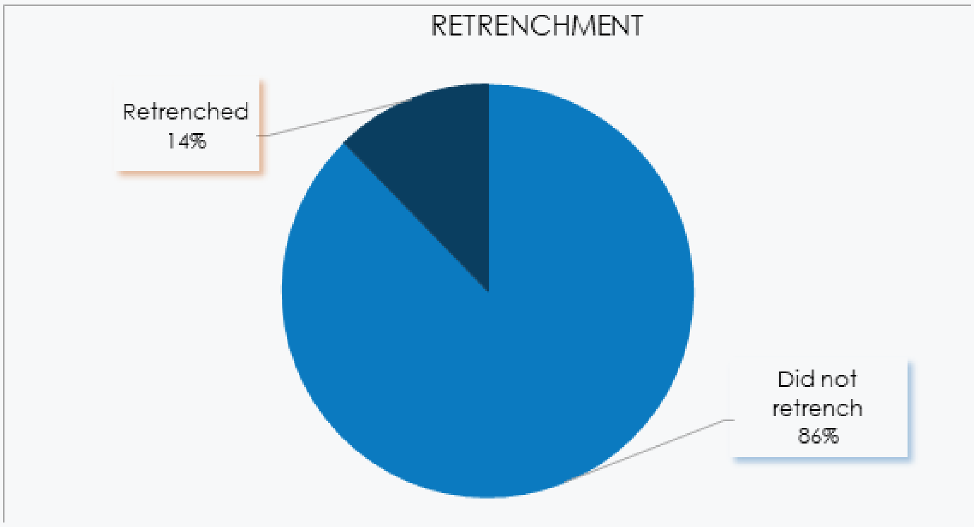
HUMAN
CAPITAL

Human capital is considered as one of the most important elements required for company success. The process of developing human capital requires creating conducive environments in which employees can learn better and apply innovative ideas, acquire new competencies and develop skills, behaviours and attitudes. In 2020, labour was affected by covid19 as some had to work from home while others took turns to go to work. Covid19 also caused many anxieties at the workplace. Workers were anxious about the following covid19 related issues:

» *The possibility of corona virus infection.*
» *Illness due to covid19.*
» *Death of co-workers.*
» *The possibility of losing jobs as companies were placed on lockdown because of covid19 public health response measures.*
» *Retrenchment.*
» *Adjustment of employment benefits.*

LABOUR RETRENCHMENT

Figure 23: Proportion of Companies that Retrenched



The majority of the surveyed companies retained their staff. During lockdown most companies were designated as providing essential services thus, the companies were able to operate.

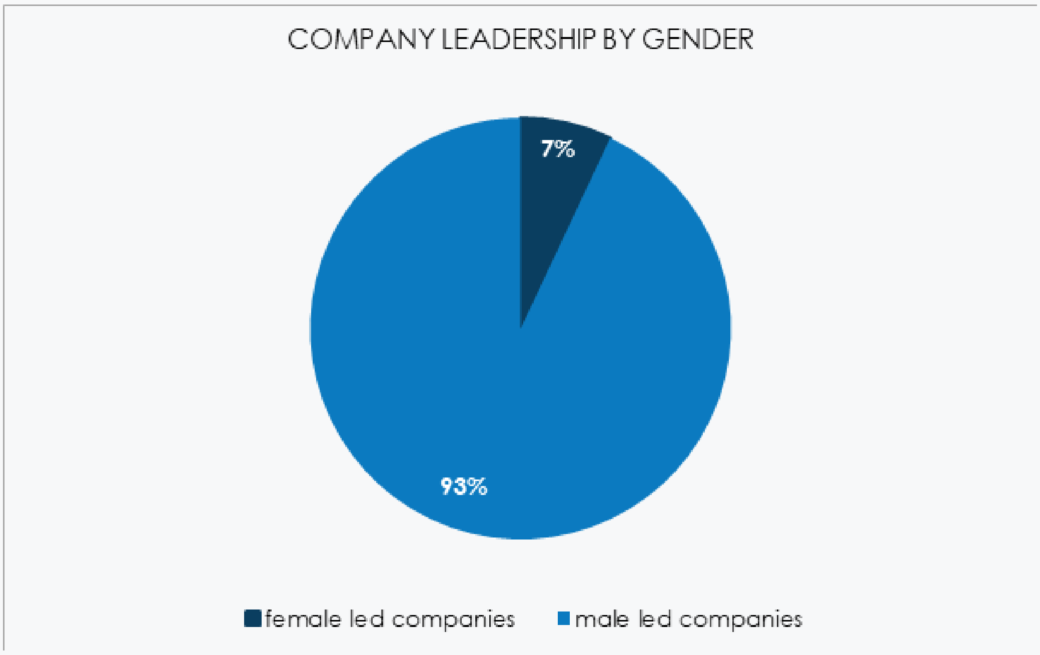
Reasons for retrenchment:

» *Low capacity utilisation.*
» *Low demand.*
» *Coping with Covid-19 induced challenges.*
» *Technological improvements, which meant that physical capital replaced human capital.*

Coping mechanisms for companies that did not retrench include

» *The deployment of shifts.*
» *Salary reduction.*
» *Adjusting other employment benefits to avoid retrenchment.*

Company Leadership by Gender

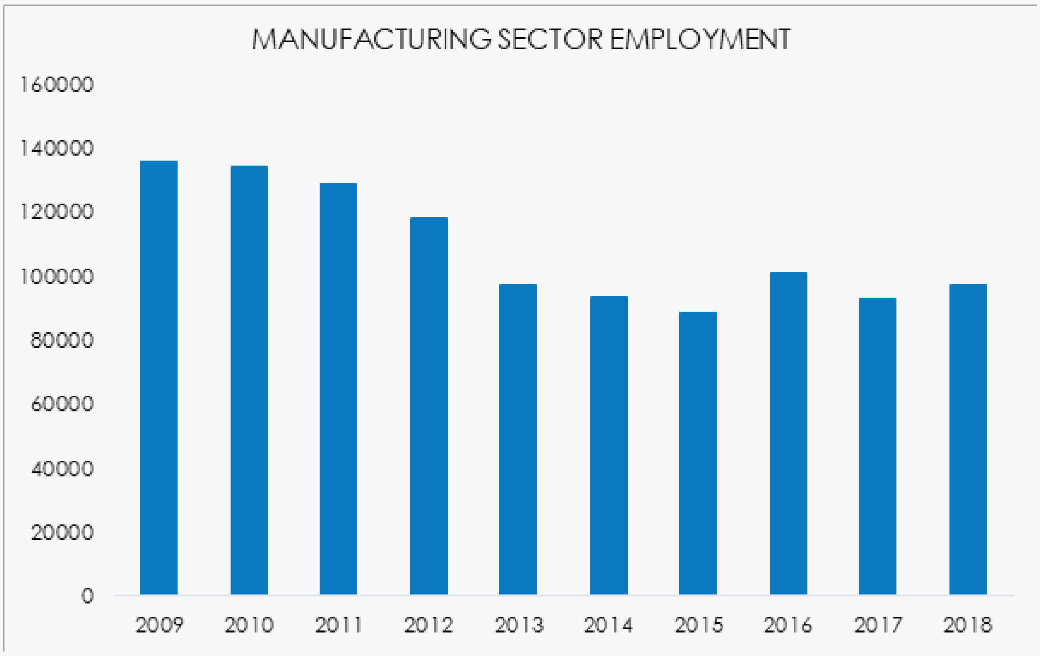


Data shows that males compared to females dominate leadership of companies in the country. The gender dimensions of the Zimbabwean society probably explain this, which is predominantly patriarchal.

EMPLOYMENT LEVELS IN 2018

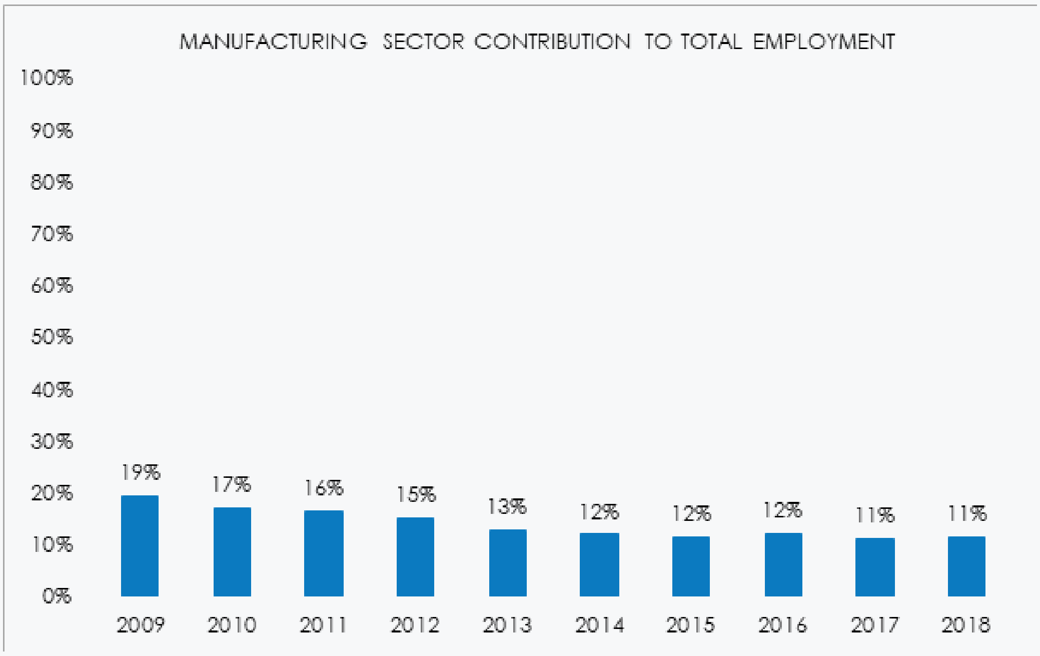
This section covers secondary data from ZimStat.

Figure 24: Manufacturing Sector Employment



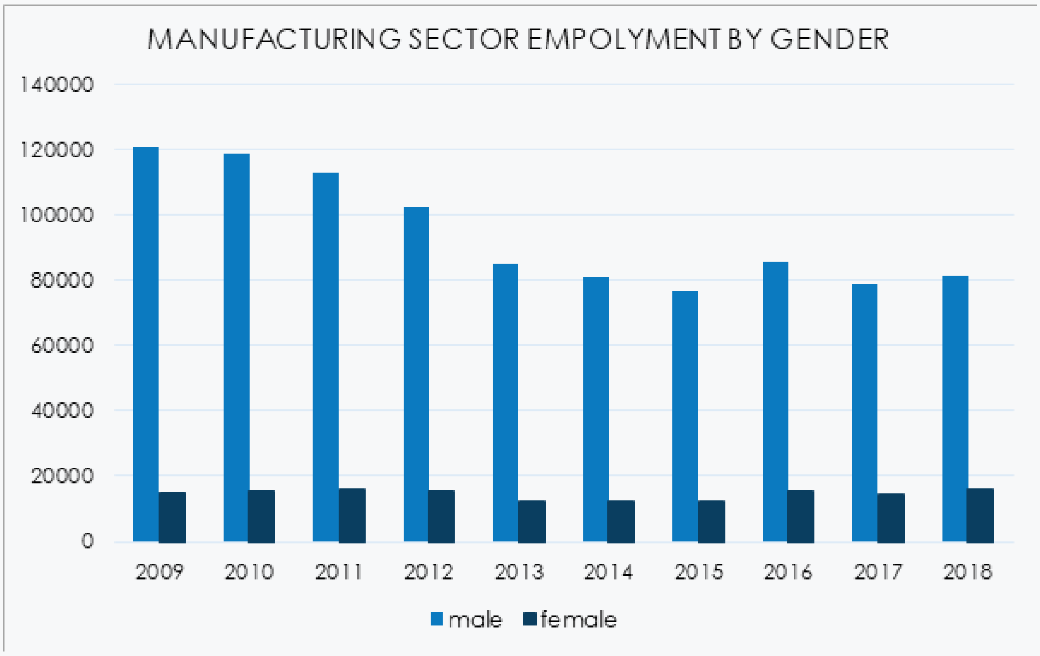
Source: ZimStat

Figure 25: Manufacturing Sector Contribution to Total Employment



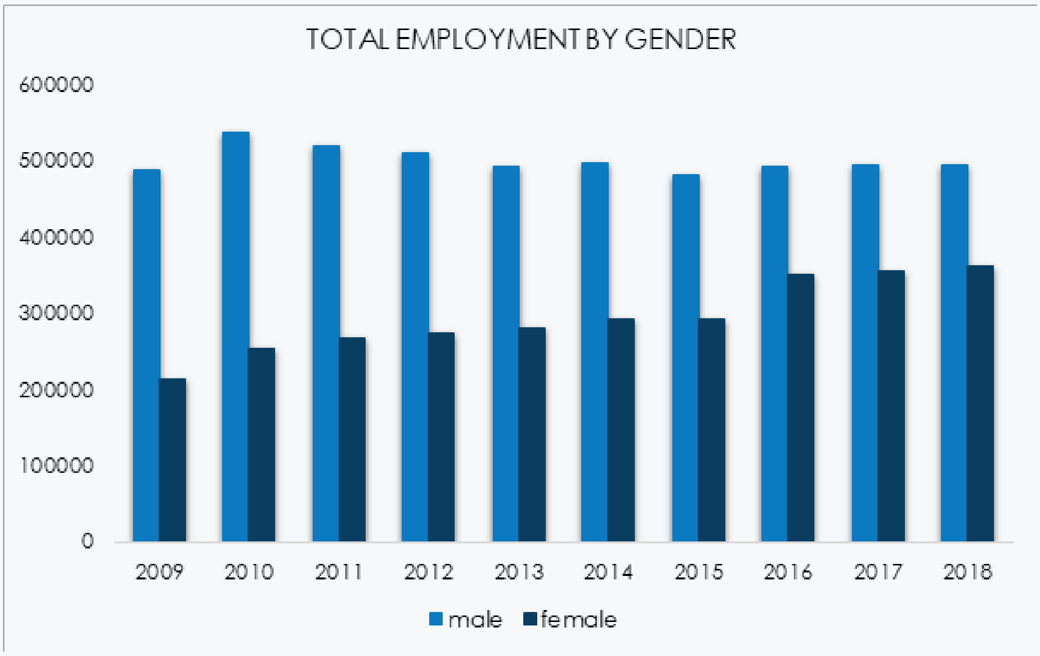
Source: ZimStat

Figure 26: Manufacturing Sector Employment By Gender



Source: ZimStat

Figure 27: Total Employment By Gender



Source: ZimStat

Figure 28: Total Employment Excluding Agriculture Sector

Source: ZimStat

THE 2020 POLICY ENVIRONMENT

In March 2020, monetary measures were implemented in the economy in an effort to ease the doing business environment with the advent of covid19.

MONETARY MEASURES IMPLEMENTED BY RBZ TO MITIGATE THE IMPACT OF COVID19

FIXED EXCHANGE RATE REGIME

The RBZ implemented a fixed exchange rate system at a rate of ZW$25 to the US$. The efficacy of this policy was affected by speculative behavior in the economy as the gap between the official and the parallel market exchange rate continued to widen. The situation was worsened by the absence of an official foreign exchange trading platform. This fueled inflation in the economy as prices were determined by the parallel market exchange rate.

DUAL CURRENCY REGIME

In March 2020, economic agents were allowed to transact in foreign currency to pay for goods and services chargeable in local currency by drawing down on their free funds.

MEDIUM TERM BANK ACCOMMODATION FACILITY AND REDUCING THE STATUTORY RESERVE RATIO

The increase the Medium Term Bank Accommodation was meant to support productive sector activities by an additional ZW$1 billion to ZW$2.5 billion. The additional amount was targeted at financing the 2020 winter wheat planting program. The Statutory Reserve Ratio was reduced from 5% to 4.5% in order to free some funds for on-lending activities by the banks. The Bank's Policy rate was reduced from 35% to 25% with the expectation that banks will also follow suit and adjust their lending rates to meet the requirements of their customers that were being adversely affected by the pandemic.

Further reduction to the Statutory Reserve Ratio from 4.5% to 2.5% was made in order to free some funds to the banks to enhance their lending activities. Companies however, still experienced working capital challenges.

The Foreign Exchange Auction System

The Confederation of Zimbabwe Industries recommended the implementation of a Currency Auction to Monetary Authorities with the aim of achieving the following objectives:

- *Allow market mechanisms to determine the exchange rate.*
- *Boost confidence in the economy by ensuring transparency in the allocation of scarce foreign currency resources.*
- *Achieve stability in the foreign exchange market and eliminating the parallel market for foreign exchange.*
- *Stabilise prices as inflation was operating in the three-digit levels.*
- *Ensure that business accesses foreign exchange for legitimate approved transactions through formal channels.*
- *Deal with the speculative tendencies in the foreign exchange market.*

Monetary Authorities responded by implementing the Foreign Exchange Auction Market in June 2020. For the second half of 2020, the implementation of the Foreign Exchange Auction Market resulted in the following:

- ***Stability in the exchange rate,*** *which in turn* ***tamed inflation.***
- *The official exchange rate became the* ***major determinant in the pricing equation.***
- *The gap between the* ***parallel market and the formal exchange rates had narrowed but it is concerning that the parallel market premium is beginning to widen again.***
- *It is encouraging to note that business can now* ***access foreign currency through the formal channels although towards the end of the year it took a longer period for business to access foreign exchange.***
- *Some measure of* ***certainty and predictability*** *has been introduced in the economy.*
- *The Foreign Exchange Auction Market is fostering* ***confidence and trust*** *in the policy making and implementation process.*

RISK FACTORS TO THE FOREIGN EXCHANGE AUCTION MARKET

Going forward the Central Bank should keep the following factors in close check to avoid derailing the fragile stability that the economy is currently experiencing.

- *The widening gap between the parallel market exchange rate and the official exchange rate poses a risk to stability.*
- *The Central Bank should ensure that companies access foreign exchange at the Foreign Exchange Auction Market in a timely manner. Real time foreign exchange settlement boost confidence in the policy implementation process.*

- *The collection of taxes, rates and fees in foreign currency by government dents confidence in the local currency. The collection of taxes in local currency creates demand for the RTGS dollar and boosts confidence in the local unit.*
- *Transactions in the economy are largely dollarized and this is supported by the fact that the banking system deposits ratio is 55 to 45 in favour of Nostro. Local currency transactions are done in large supermarkets otherwise the economy is in a redollarisation tide.*
- *High foreign debt may affect exchange rate stability.*

The economy is still operating in 3-digit inflation levels, hence there is still more work to be done to consolidate on the gains accruing from the implementation of the Foreign Exchange Auction Market.

Real time settlements of bids should help boost confidence with the policy process. The Foreign Exchange Auction Market also needs unrelenting support from policy makers through continuous realignment of fiscal and monetary policies.

FISCAL MEASURES IMPLEMENTED BY THE GOVERNMENT TO MITIGATE THE IMPACT OF COVID19

ZWL18 BILLION ECONOMIC RECOVERY AND STIMULUS PACKAGE - MAY 2020

Government instituted a ZWL$18 billion Economic Recovery and Stimulus Package aimed at reviving the economy and providing relief to individuals, households, small businesses and industries affected by the economic slowdown worsened by the coronavirus pandemic. The allocations of the fund by sector are indicated in the table below although it is not certain how many firms benefitted from the facility.

Summary of the Covid19 Economic Recovery Stimulus Package in ZWL$ Billion

SECTOR	ALLOCATION (ZW$)
Agriculture Support	6.08
Working Capital Fund	3.02
Mining Sector Fund	1.0
SME Support Fund	0.5
Tourism Support Fund	0.5
Arts Sector Fund	0.02
Liquidity from Statutory Reserves	2.0
Health Sector Support Fund	1.0
Broad Relief Measures	1.5
Food Grant	2.4
Total	18.0

OTHER FISCAL MEASURES

- *Import duty waived on selected raw materials imports up to the end of 2020.*
- *A 50% corporate tax credit for covid19 donations was extended to firms to enable them to raise working capital.*
- *Productive sector lending rates were lowered to not more than 20% to allow business to access working capital at affordable rates.*
- *Provision of income support for all vulnerable groups and individuals through food grants.*
- *Ring fencing of 2% Intermediated Money Transfer Tax (IMMT) and the proceeds directed towards Covid19 related migratory expenses.*
- *Victoria Falls Securities Exchange (VFEX) launched in Victoria Falls to attract critical offshore capital into the economy in order buttress local resources*

OPPORTUNITIES FROM THE POLICY PROCESS IN 2021

PROMOTION OF LOCAL CONTENT POLICY

Government as the biggest consumer in the economy has taken steps to procure vehicles that are locally assembled and it will create employment and save on foreign currency. This was done through:

- *Banning of second-hand cars which are 10 years and older to help the local motor sector industry, since second hand vehicles were crippling the industry.*
- *Consistent with the NDS1, Government will prioritise procurement of locally manufactured buses.*
- *In line with the NDS1 thrust on value addition, the budget proposed that motor vehicles for use by Line Ministries and Government Departments be purchased from local assembly plants.*

However, the **Buy Zimbabwe** campaign needs legislative support to ensure implementation of the **Local Content Policy.**

SUSPENSION OF DUTY ON SOME RAW MATERIALS

- *The National Budget proposed to extend duty suspension on milk powder for the year 2021 to augment local production. The local livestock sub sector should ensure that in the medium to long term requisite amounts of milk are produced locally.*
- *Suspension of duty on raw cheese*
- *Shoe Manufacturers' Rebate to support value addition of leather.*
- *In order to resuscitate idle capacity within the motor vehicle industry, Government introduced duty free importation of Completely Knocked Down (CKD) and Semi-Knocked Down (SKD) bus kits for approved assemblers.*
- *Government compelled all Line Ministries and Departments to purchase locally assembled motor vehicles.*
- *In order to complement the thrust of the National Development Strategy 1 which includes recapitalisation of fertilizer manufacturing companies and investment in new technology, the budget proposed to introduce a Fertilizer Manufacturers' Rebate, whereby raw materials used in the production process will be imported tax and duty free by approved manufacturers.*

A SUSTAINED INTERNATIONAL RE-ENGAGEMENT PROCESS

The re-engagement process is geared towards achieving the following:

- *Establishing new relationships*
- *Rebuilding and strengthening broken ties*
- *Promoting the country as a reliable trading partner*
- *Safe investment and tourism destination*
- *Diaspora engagement so that they contribute through skills transfer, investments back home and remittances.*
- *External arrears clearance.*
- *Private sector should benefit from new lines of credit.*

CONCLUSION

KEY FINDINGS FROM THE SURVEY

1. Capacity utilization increased by 10.6 percentage points from 36.4% in 2019 to 47% in 2020.
2. In 2020, capacity utilisation increased because of increased domestic sales, increased foreign currency availability to import raw materials and other intermediate inputs and retooling.
3. Local demand increased for some sub sectors because of covid19 induced international lockdowns, which limited imports as source markets were closed.
4. The value-adding sector is still operating in a low output medium because of high inflation, foreign currency shortages especially in the first half of 2020 and covid19 restrictions.
5. Covid19 and the subsequent public health response measures affected companies through revenue loss, supply chain bottlenecks, logistical and working capital challenges especially during the second quarter of the year.
6. Industry captains are projecting average capacity utilisation to increase to 61% in 2021.
7. Capacity utilisation is expected to increase if there is stability in prices and the foreign exchange market as well as robust local demand.
8. Eighty one percent of output is sold on the local market, which means there is still opportunity to increase export volumes.
9. The survey indicated that 61 percent of the surveyed companies were exporting. Many companies are targeting the export market in a bid to generate foreign currency.
10. Sectors with many companies that exported include the Foodstuffs, Metal and Metal products, Drinks, Tobacco and Beverages and the Wood and Furniture.
11. Zambia was the major export destination for local products in 2020, followed by Botswana, South Africa, and Mozambique.
12. Most companies at 86% did not retrench their workers in 2020.
13. Coping mechanisms for companies that did not retrench include salary reduction and adjustment of employment benefits to avoid retrenchment of labour.
14. Companies that retrenched did so because of low capacity utilisation, low demand, covid19 induced challenges and adoption of new technology.

RECOMMENDATIONS

RECOMMENDATIONS TO GOVERNMENT

Manufacturing sector recommended the following measures to Government in order to achieve macroeconomic stability to improve the doing business environment, which boosts business confidence:

Policy Consistency

Policy consistency and harmonization is key to boost confidence with the policy formulation and implementation process.
Macroeconomic Stability
The government should implement policies that achieve the stability of inflation, exchange rate and financial markets to boost confidence in domestic currency.

Policy tools include:

a. Maintain Fiscal Discipline

» *This calls for tight reserve money control.*
» *Financing of Government expenditures must be met from the Fiscus so that there is no recourse to RBZ Overdraft Facility.*
» *Subsidies – Government must reduce subsidies in the agriculture sector and the procurement of raw materials should be left to industry.*

b. Deepening the operation of the Foreign Exchange Auction Market

There is need to make the Foreign Exchange Auction Market more market based to attract other foreign currency holders and deepening it to improve efficiency. The huge disparate between auction rate and parallel market rate now undermining confidence in the auction system.

c. Build international reserves to comfortable import cover levels.

Improve the doing business environment in order to:

» *Support the industrialisation drive*
» *Promote domestic and foreign investment*
» *Improve the efficiency of public transport system*
» *Promote exports*

Government should endeavor to make it easy to export. Currently, the business regulatory environment puts obstacles on exporting yet other countries may not require the same licensing. Duplication of licensing by various regulatory authorities is hampering export business. Some of the regulatory measures add costs of exporting
» *There is need to improve Zimbabwe Revenue Authority (ZIMRA) efficiencies.*

Establish a Business Support Facility

The Business Support Facility should help business expand production and boost productivity after the ravages of covid19. Working capital would help some businesses to resume operations after national lockdown as some companies may experience cash flow difficulties.

Promote Local Content Policy

There is need to support industry through promotion of Local Content Policy especially government procurement. Government should also put in place a Legislative Framework to support **Local Content Policy.**

Covid19 and Public Health Response Measures

Industry is recommending the following to Government in the fight against covd19.
» *Ample notice period before the implementation of national lockdown.*
» *Guidelines on exemptions and non-exemptions to avoid confusion.*
» *The implementation of a well-communicated covid19 vaccination strategy*

Investment in Social Infrastructure

Public policy should prioritise investing in social infrastructure especially in health and education, electricity and water provision.

Resuscitate Zimbabwe Iron and Steel Company (ZISCO)

It makes a strong business case to resuscitate ZISCO since the country is importing close to US$1 billion worth of steel.

Formalise the Informal Sector

Government should put measures in place to support the informal sector so that it the sector formalises. The informal sector cannot be ignored due to its strong linkages with the formal sector.

Debt Overhang

The debt overhang should be addressed in order to achieve the following,
» *Improve the negative country perception and risk.*
» *Unlock lines of credit.*
» *Attract investment.*

RECOMMENDATIONS TO MANUFACTURERS

Roundtable

A Roundtable of players from Ministry of Agriculture, Ministry of Finance, Ministry of Industry and Commerce and Industry needed to discuss policy issues.

RECOMMENDATIONS TO MANUFACTURERS

Import Substitution and Export Promotion

The development of strong industrial linkages and value chain to foster import substitution and export promotion is key to grow the manufacturing sector. This ensures that the bulky of raw material requirements are sourced locally thereby saving foreign currency and over and above creating employment. Export promotion will ensure the generation of foreign currency liquidity into the country.

Strong linkages should be developed with others in the economy especially the mining sector as output from the Clothing and Footwear, Chemical and Chemical products and Engineering subsectors are consumed in the mining sector.

Adopting and adapting to new technology

There is need for retooling factory operations to embrace industry 4.0 and improve total factor productivity. Mechanisation and Automation of factories is important to achieve new levels of competitiveness by embracing modern technology will boost output and produce goods that can compete on the international market in view of the AfCFTA. This requires Research and Development in international standards.

Improve energy efficiency and energy mix in view of climate change

Embrace e-commerce in order to minimize face to face service provision to reduce the transmission of the highly contagious corona virus. This calls for better connectivity and reasonable costs by service providers.


99.68
19.50
34.88
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crisis, warns IMF