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THE CZI ANNUAL MANUFACTURING SECTOR REPORT

2022 SURVEY

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Contents

Foreword	5
Executive Summary	6
Acknowledgements	9
1. Survey Methodology	10
2. Economic context for the 2022	12
3. Performance indicators	15
4. Perceptions and forecasts	22
5. Technology upgrading and advancement	26
6. Employment creation	30
7. Investment	32
8. AfCFTA perceptions and preparedness	33
9. Exports and performance	36
10. Raw materials importation and reasons	37
11. Policy and regulatory issues affecting manufacturing sector performance	39
12. Conclusion	40

Foreword

Year 2022 was characterised by a tough operational and economic environment which is a great concern because the pace, scope and scale of policy are not equal to the National Vision of becoming an upper middle-income economy by 2030. A stable macroeconomic environment remains the main driver of the manufacturing sector performance. It is, therefore, important to ensure that the policy prescriptions remain in control to usher in a conducive macroeconomic environment for business. Key economic enablers such as energy and water remained a challenge the whole of 2022.The industry experienced prolonged hours of power outages which hindered the optimal level of production, and some firms were forced to opt for other costly sources of energy in order to remain in business.

Pricing of goods was also a major challenge due to volatility of the exchange rate, currency instability and tripling inflation. Lack of a market determined exchange rate led to distorted pricing in formal retail and low pricing in the informal sector in USD which led to consumers offloading ZWL onto the compliant formal businesses. To stabilise the exchange rate, in the 2nd half of 2022, there was a hike of interest rates to 200%, which made it difficult for the productive sector to borrow at such a high rates.

Despite all the economic hardships the manufacturing sector remained resilient as shown by the new and improved products in the market due to increase technology and upgrading by the manufacturing firms. The increase in technology was also supported by polices such as Statutory Instrument 121 of 2022 which states that all importation of capital goods will be duty free to promote retooling. Manufacturing firms invested US$101 million in 2022 to increase production. The investments to expand capacity might have been aided by the availability of USD loans at banks and increased USD sales by firms.

This resulted in all the manufacturing subsectors managing to create additional production capacity in 2022.

In the third quarter of 2022 there was stability in terms of the exchange rate due to policy interventions by the government which made the industry to have positive sentiments about year 2023. Some of the factors that have played a critical role in stabilizing the parallel market rate, which was causing distortions and instability in the economy, include:

- Introduction of Gold coins
- Increased due diligence on payment of government suppliers.
- Hiking of interest rates
- Slowdown in money supply

The extent to which these measures will be sustained into 2023 will generally define the resilience of the sector.

Kurai Matsheza
CZI President

Kurai M. Matsheza

Executive Summary

The doing business environment in the year 2022 was challenging for the manufacturing sector. Despite the mammoth challenges the year 2022 presented for the manufacturing sector, the 2022 Manufacturing Sector Survey demonstrated the resilience of the manufacturing sector. Key findings from the survey are as follows:

Output

Close to half of the manufacturing firms (45%) registered an increase in output produced in 2022 compared to 2021, with the average increase in output being 25%. However, about (34%) registered a decrease in output, with an average decline in output of 29%. About 17% of the firms maintained the same level of output. Considering the decrease and increase in output by all the surveyed firms, the net effect in terms of output was a growth of about 1.2% in 2022 compared to 2021.

Capacity utilization

Capacity utilization for the manufacturing sector took a slight knock of about 0.2 percentage points from 56.3% in 2021 to 56.1% in 2022. A disaggregation of capacity utilisation by size shows that the overall average capacity utilisation level was lowered by small scale players (53%), as the large-scale players had an average capacity utilisation level of 63%. The manufacturing sector also created an additional capacity of about 29%, which also weighed down the average capacity utilisation numbers.

Perceptions and forecasts

The sentiments on the economic environment were almost evenly distributed. About 36% of the manufacturing sector perceived the economic environment to be better in 2022 compared to the previous year. However, 34% believe the economic environment of the country worsened, with the remaining 30% highlighting that it remained the same.

The manufacturing sector had a general sense of optimism about the future, as about 44% of the respondents envisaged a better economic environment in 2023, despite it being an election year. Manufacturing firms were also upbeat about the prospects of 2023 as reflected by a very optimistic average forecast capacity utilisation level of about 70.9% in 2023.

Technology upgrading and advancement.

Companies have been replacing antiquated machinery and upgrading their technologies. About 47% of the manufacturing firms upgraded their technology to stay competitive. However, there are about 50% of firms that have been using the same type of technology over the past five years. In addition, about 3% of the companies failed to maintain the migration to more advanced technology and ultimately had to downgrade their technology.

About 36% of the firms are currently satisfied with the level of technology that they possess. However, only 29% of the firms that believe that their technology is not sufficient to remain competitive, with the remainder being neutral. This shows that while there are some limiting factors towards migration to advanced technologies, the current level of technology is fairly competitive.

Employment

Less than half of the firms in the manufacturing sector (40.2%) created new permanent jobs in 2022. This resulted in a new permanent jobs creation ratio of 23% as a percentage of total employment. On the other hand, about 16.8% of the firms retrenched their workforce, with the retrenchment to total employment ratio being 13%. Given that both employment and retrenchment were significant, the net effect in terms of employment in the manufacturing sector was an increase of about 13%, which was an improvement compared to 5% in 2021.

Exports and performance

Most of the manufacturing sector firms indicated that their products are produced for the domestic market as only about 19% export their products. On average, about a quarter of the output that is produced by the exporting firms is destined for international markets and the main reason for participating in the international market is to earn foreign currency.

Raw materials importation and reasons

The manufacturing sector sources almost half of its raw materials from external markets. On average, imported raw materials constituted about 48% of the firm's total raw material procurement. The major reason for importing raw materials was non-availability of the raw materials in the local market.

Conclusion

The 2022 Manufacturing Sector Survey generally shows that the Zimbabwe manufacturing sector is very resilient. However, it is also quite apparent that a conducive macroeconomic environment remains the main driver of manufacturing sector performance. It is of paramount importance to ensure that the policy prescriptions foster a conducive macroeconomic environment for business.

We are bringing it **home**

Innocent Zulu Chikwata
Acting Chief Executive Officer

Since 1956, we have been a part of Zimbabwe's story of infrastructure development and economic growth. From individual home builders to large-scale construction works, we have been there. Tried and trusted for quality, strength and durability, we have remained consistent in sharing the ambitions of our customers to build for generations.

We have remained resolute in our value offer even through seasons of significant corporate changes that have been triggered by mergers and acquisitions over these many decades. This is growth, and now we are embarking on a new journey, a new era, and a landmark event in our business as we are bringing it home – from Lafarge Cement Zimbabwe Limited to becoming Khayah Cement Limited.

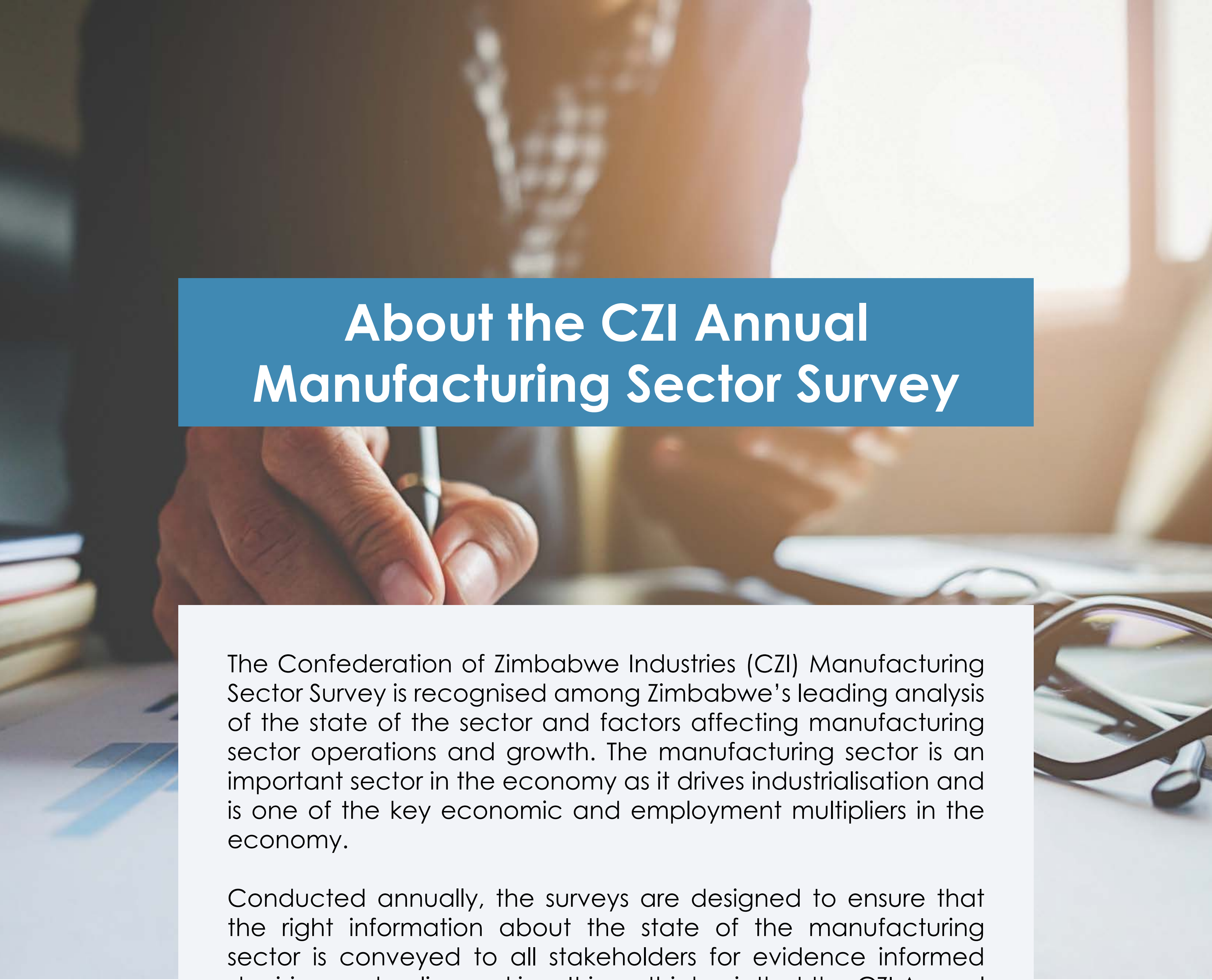
Khayah is derived from the vernacular Ndebele word 'khaya', which means home. Our business is deeply rooted in Zimbabwe, our home. It is our conviction that our business exists to build this home for generations to come through quality products that have guaranteed strength and that warrant durability of any structure. We are the home of world-class building solutions and our full operation is designed to offer innovative products through unmatched customer experience while protecting the environment we operate in.

Because we are Khayah, the home for everyone, we go the extra mile to ensure that our value chain partners, both upstream and downstream, enjoy a mutually beneficial relationship that transcends generations. As we grow, we grow together and at the centre of it all is the homegrown talent embodied in our highly competent employees. These are men and women who diligently dedicate themselves to delivering the best quality products, innovative solutions and an awesome customer experience. Join us as we begin this journey to building our Zimbabwe together. It is our home and we are proud to be part of the cause for its development. We are excited to be turning this new leaf and we are even more excited to be making history together with you as our valued stakeholders.

Welcome to Khayah,
Welcome home.

KHAYAH
Formerly Lafarge Cement Zimbabwe

Quality through generations



About the CZI Annual Manufacturing Sector Survey

The Confederation of Zimbabwe Industries (CZI) Manufacturing Sector Survey is recognised among Zimbabwe's leading analysis of the state of the sector and factors affecting manufacturing sector operations and growth. 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.

Conducted annually, the surveys are designed to ensure that the right information about the state of the manufacturing sector is conveyed to all stakeholders for evidence informed decision and policy making. 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 is produced by the CZI Industrial and Economic Research Unit. The first publication was in 2009 and with CZI being a knowledge and information driven organisation, continuous improvement in quality and coverage has characterised the subsequent volumes.

Acknowledgements

CZI would like to acknowledge the members of the CZI reference group that gave guidance to the methodology in undertaking this survey. Special mention goes to Dr Joseph Kanyekanye for his assistance in designing the survey methodology. 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:

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Manicaland	Thomas Masese, Lecturer, Africa University	Tripod Musamba Takudzwa Musamba
Masvingo	Regret Sunge, Lecturer, Great Zimbabwe University	Sibongile Makasi

CZI Research Team

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- Macdonald Mutengo, Economic Research Officer
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1. Survey Methodology

Sample size

The survey was conducted over the period February-March 2023. CZI estimates that there are about 4,500 manufacturing sector firms with at least 10 employees across Zimbabwe, based on a 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 one to 32,000, with an average of 40 workers. However, since some firms are too small and might have been registered for speculative purposes, a minimum of 10 employees per firm 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. Thus, the list with 4,552 firms can be considered as the target for sampling.

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 409 manufacturing sector firms, which falls well within the targeted threshold, specifically corresponding to a confidence interval of 96.6%.

5%

Of the sample are listed companies

Representing 80% of listed manufacturing sector firms

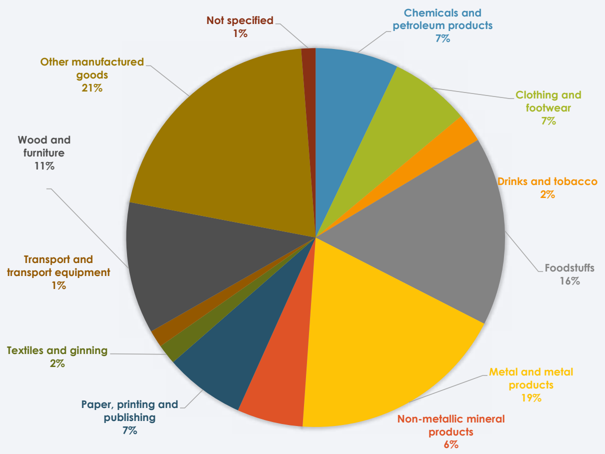
21%

Are members of CZI

Subsector representation

All the 11 subsectors which are used in national accounts are represented in the sample. 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 'other manufactured goods' category, which constituted about 21% of the firms, while 'transport and equipment' had the lowest number at only 1%. This is in line with the industry realities, as there is not much activity in that subsector.

Figure 1: The 'transport and transport equipment' manufacturing subsector has the lowest number in the sample

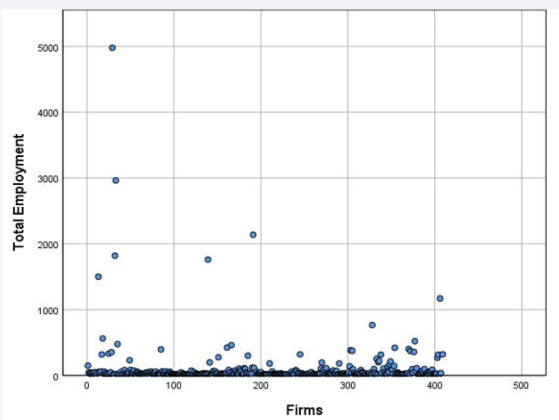


Source: Interview results

Sample by size

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, only enterprises with employees of more than 75 are considered large, while only those with employees exceeding 40 are considered not small. Despite the average employment size in the sample being about 98 (which would fall under a large firm), a scatterplot of the total employment patterns for the firms in the sample (Figure 2) reveals that as the number of firms increase towards 409, there is still a very high concentration towards very low employment numbers.

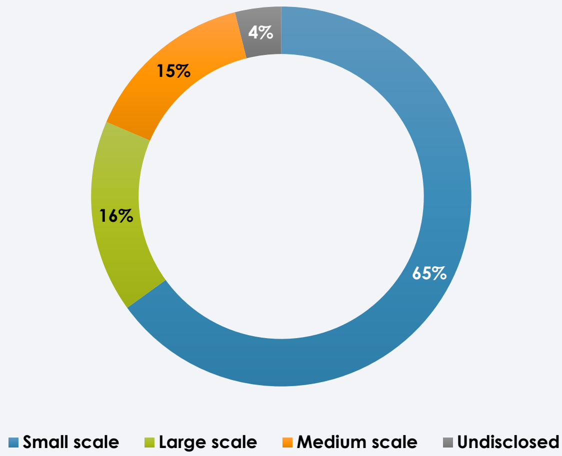
Figure 2: Employment sizes are mainly concentrated on the lower levels for the firms



Source: Interview results

As a result, the bulk of manufacturing firms actually fall within the 'small' category as many manufacturing sector firms do not employ more than 40 people (Figure 3).

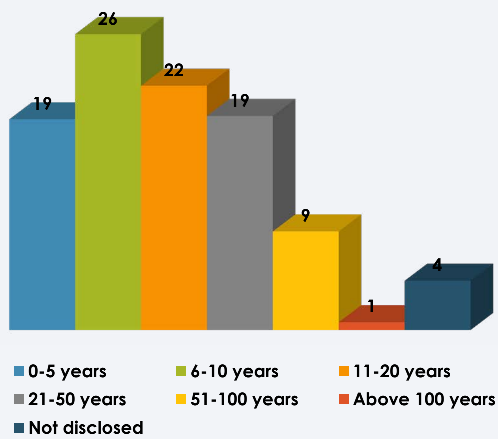
Figure 3: The sample managed to include both large and small manufacturing sector firms



Source: Survey results

A look at the sample in terms of experience (Figure 4) shows that all the major categories are fairly represented, although only 1% have been in business for more than 100 years. The fact that about 51% of the firms have been in business for at least 11 years but they are still dominated by the small-scale players show that employment size might not be the best measure to reflect the operation scale of the firm.

Figure 4:Those that have been operating for 6-10 years were the majority at 26%



2. Economic context for the 2022 Manufacturing Sector Survey

Statistics show that in 2019, the manufacturing sector was second only to the Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles subsector in terms of real GDP contribution at 14.2%. In 2020, it became third, after the mining sector overtook it, with its share falling to 12.6%. In 2021, it became fourth, as agriculture also overtook it, with the manufacturing sector contribution to GDP falling to 11.7%. This generally shows that over the past three years, the macroeconomic environment was not so favorable to the manufacturing sector relative to mining and agriculture.

CZI conducted a survey for the third quarter of 2022, which is the CZI Third Quarter Business and Economic Intelligence report. The survey also included the manufacturing sector. The main findings from the report shows that:

The number of manufacturing firms that had registered increases and decreases in output during the nine months to September 2022 compared to the same period in 2021 were both high. This generally underlines that the year 2022 was a volatile year for the manufacturing sector.

There was only a 0.5 percentage point increase in average capacity utilization by September 2022 compared to the 2021 end of period value of 56.3%. This sluggish performance was reflective of the economic instability challenges associated with the first half of 2022, reflected in high inflation and a rapidly depreciating exchange rate.

The main implication from the CZI Third Quarter Business and Economic Intelligence report is that only if the last quarter of 2022 was free of any shocks would the overall manufacturing sector performance for 2022 be better compared to 2021.

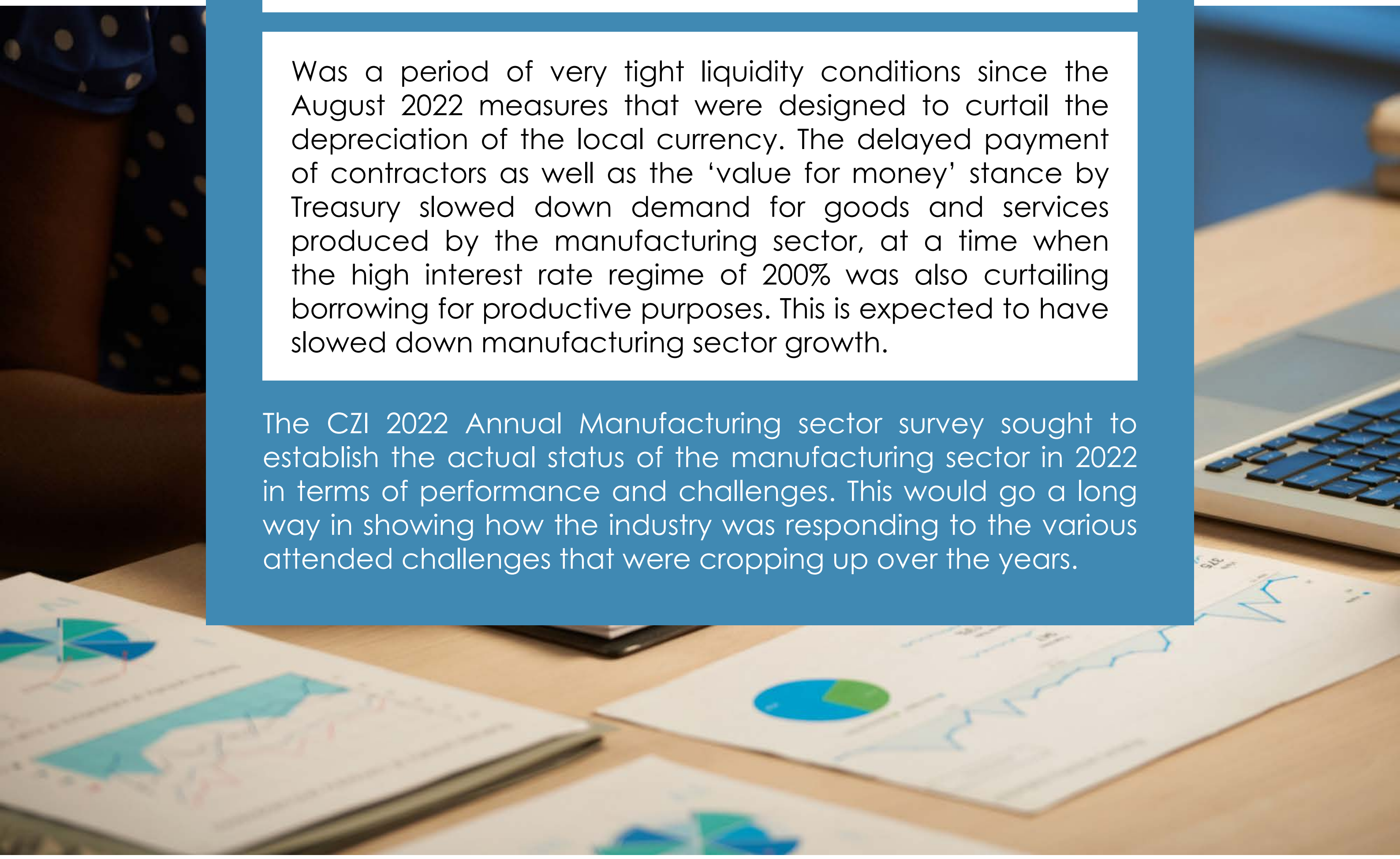
However, the third quarter of 2022 was also a mixture of positive and negative developments with respect to facilitating manufacturing sector performance. Notable developments include that the third quarter of 2022:

Was a relative period of stability in terms of the parallel market exchange and inflation rate. This facilitated some positive performance for the manufacturing sector, as it allowed access of the elusive USD as the parallel market premium narrowed.

Was characterized by an intensification of load shedding as power challenges became worse. This reversed some of the gains that would have emanated from the relative stability of the economy.

Was a period of very tight liquidity conditions since the August 2022 measures that were designed to curtail the depreciation of the local currency. The delayed payment of contractors as well as the 'value for money' stance by Treasury slowed down demand for goods and services produced by the manufacturing sector, at a time when the high interest rate regime of 200% was also curtailing borrowing for productive purposes. This is expected to have slowed down manufacturing sector growth.

The CZI 2022 Annual Manufacturing sector survey sought to establish the actual status of the manufacturing sector in 2022 in terms of performance and challenges. This would go a long way in showing how the industry was responding to the various attended challenges that were cropping up over the years.



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Standard	31	14	25	37	Access to General ward in private hospitals grade B to D
Classic	45	23	36	54	Access to General ward in private hospitals grade A to D
Active	63	42	50	79	Access to 2 bedded ward in private hospitals grade A to D
Vitality	95	67	76	115	Access to private ward in private hospitals grade A to D

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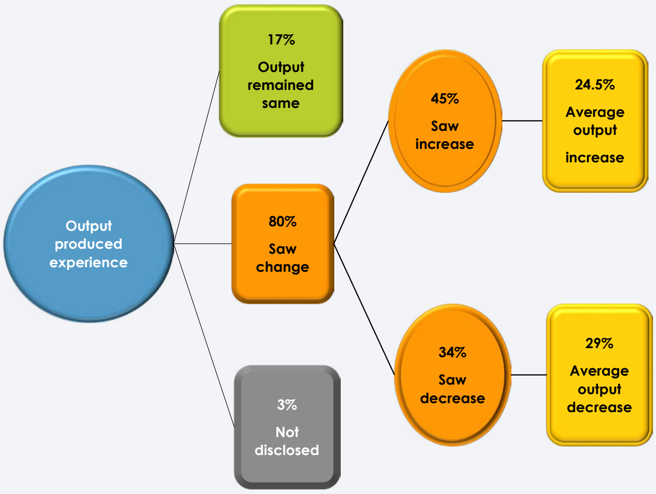
3. Performance indicators

There are a number of measures that can be sued to reflect the performance of the manufacturing sector, and these include:

- Changes in output produced, as this reflects productive capacity;
- Changes in units sold, as this reflects motivation for increasing output;
- Capacity utilization, as this reflects a measure of competitiveness relative to imports;
- New investments, as this reveals confidence in the business as a going concern.

Figure 5: Most firms still saw an increase in output, but declines were also heavy

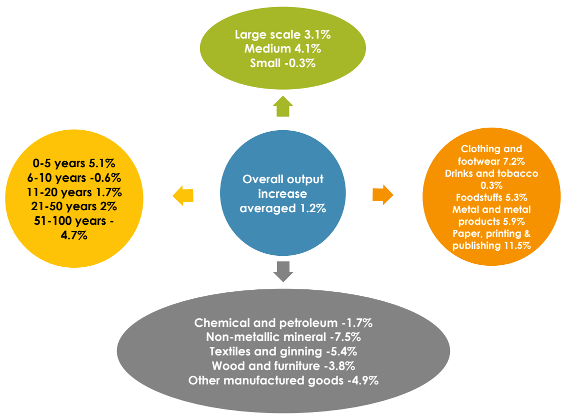


3.1 Output

Close to half (46%) of the manufacturing sector firms indicated that they registered some increase in output produced in 2022 when compared to 2021 (Figure 5). On average, such firms increased the level of their output produced by about a quarter. However, about a third (34%) also registered a decrease in output produced. This is in line with expectations given the difficulties that characterized the 2022 operating environment, as some firms are bound to find the going tough. Firms registering a decrease in output saw about 29% decline. About 17% of the firms managed to maintain their output levels at their 2021 levels in 2022.

Given that both increases and decreases are significant, it is also critical to consider the net effect in terms of output growth. Overall output for all the firms in the sample increased by 1.2% in 2022 compared to 2021 (Figure 6). While both medium and large scale firms registered an increase in output of about 4% and 3% respectively, the small scale firms, who constitute the majority in the sample, registered a decrease in output. The disaggregation by age shows that those that have been operating for more than 50 years registered the largest decrease in output at about 5%. There is also a mixture in terms of subsector performance, with about five subsectors each registering an overall decrease and increase in output.

Figure 6: Manufacturing sector output increased by 1.2% in 2022 compared to 2021



However, given that the firms in the sample are of different sizes, it is possible that size might have played a role in determining who successfully adapts to the difficult operating environment. A look at the disaggregation (Figure 7) shows that the medium sized firms have the largest proportion of firms that registered an increase in output, as about 60% of medium-sized firms registered an increase in output. Large firms have the highest proportion of firms that registered a decline in output, while small firms have the largest proportion of those that saw their output remaining the same. However, there are more firms registering an increase in output than a decrease across all the three categories.

However, in terms of the actual change in output, the high average percentage of decrease relative to increase is evident across all the three categories (Figure 8), and there is potential that this could offset the high number of firms registering increases than decreases. For example, while there are some medium-sized firms that registered on average a 22% increase in output produced, there are also those in the same size that registered a decrease of an average of 32% over the same period. Across all the three categories, those firms that registered a decrease in output recorded higher values of decline than their compatriots that registered an increase. This has the potential to offset the increase when it comes to the net effect, hence the need to use other performance measurement categories.

Figure 7: Medium sized firms registered a higher percentage with increased output

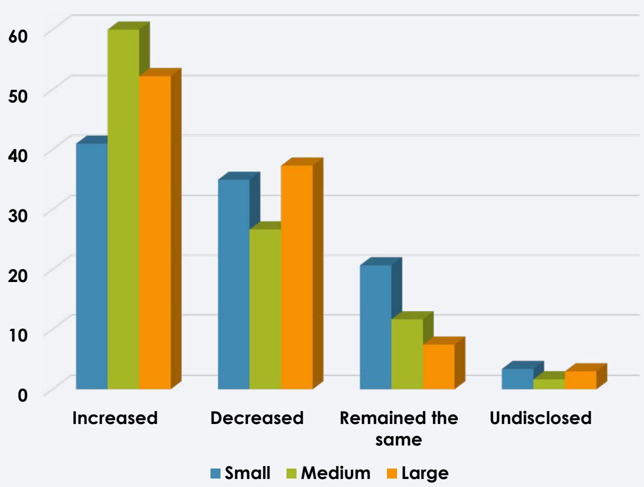
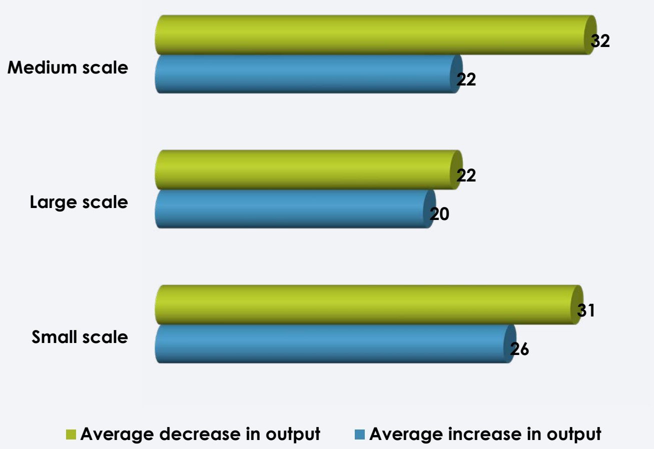
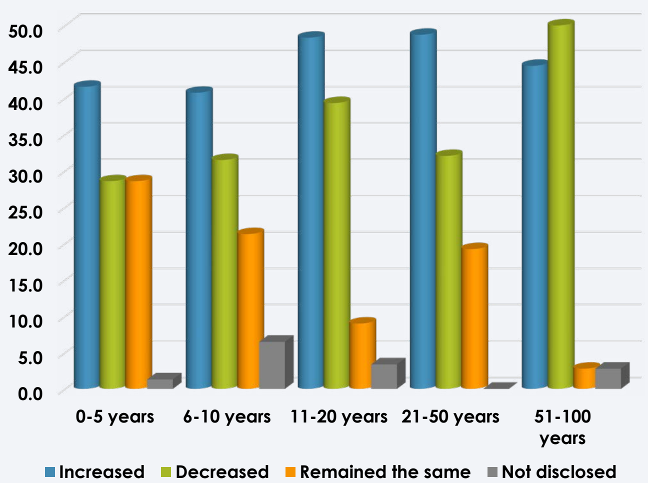


Figure 8: Higher average percentage decrease in output produced (%) across all sizes



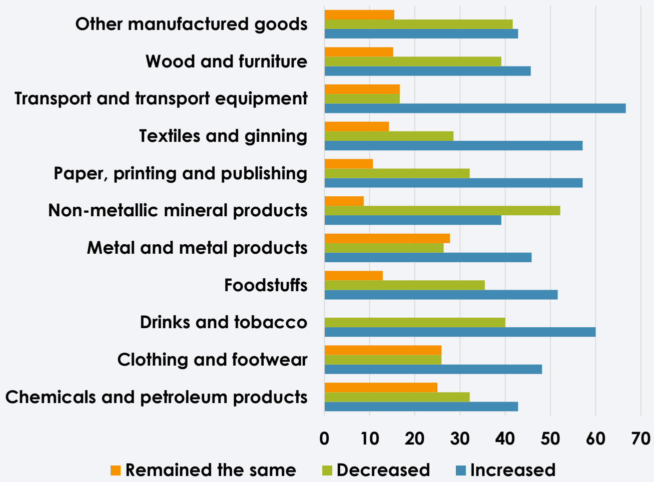
The results also reflect that experience might also play a role in determining performance. Both output increase and decrease appears to increase with age (Figure 9). However, those that have been in business for more than 50 years happen to have the largest proportion registering a decrease in performance.

Figure 9: The average increase or decrease in output (%) increases with age



A look at the distribution by manufacturing subsector shows that the transport and transport equipment subsector had the highest proportion of firms registering an increase in output (67%), followed by the drinks and tobacco subsector at about 60% (Figure 10). On the other hand, the non-metallic mineral products had the largest proportion of firms registering a decrease in output at 52%. It also happens to be the only subsector where the majority of the firms registered decreases compared to increases.

Figure 10: The non-metallic mineral products had the largest ratio (%) of firms registering a decrease in output



3.2 Units sold

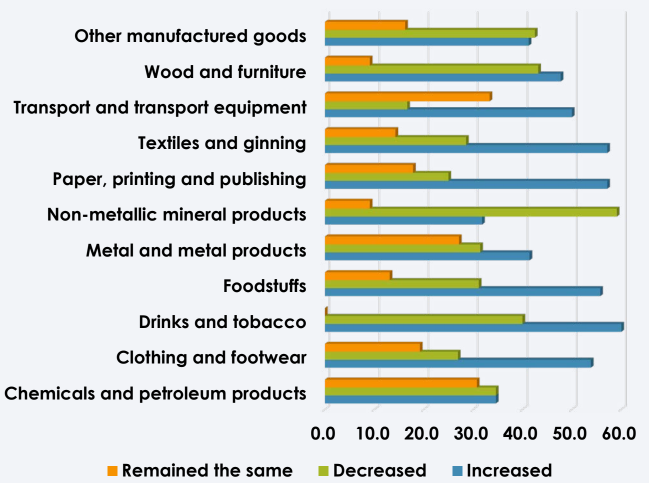
In general, units sold would be closely following the production patterns, unless there are some specific challenges that are affecting the selling environment. However, a quick comparison between the output production patterns already discussed and the units sold shows that they are closely related (Table 1). Thus, it is not expected that there will be many changes in terms of distribution compared to the patterns already described.

Table 1: Units sold patterns closely related to the output patterns

	Output produced	Units sold
Percentage registering increase	45.7	43.3
Percentage registering a decrease	34.2	34.7
Percentage remaining the same	17.1	16.6
Average percentage increase	24.5	24.6
Average percentage decrease	29	29.2

A look at the distribution in terms of subsector shows that although the non-metallic mineral products subsector registered the largest percentage of firms registering a decrease in units sold, it is the drinks and tobacco subsector that registered the largest proportion rather than the transport and transport equipment subsector (Figure 11). The slight differences in terms of the distribution underlines that there are some products that take time to sell even if they are produced.

Figure 11: The drinks & tobacco had the largest ratio (%) of firms with an increase in units sold



3.3 Capacity utilization

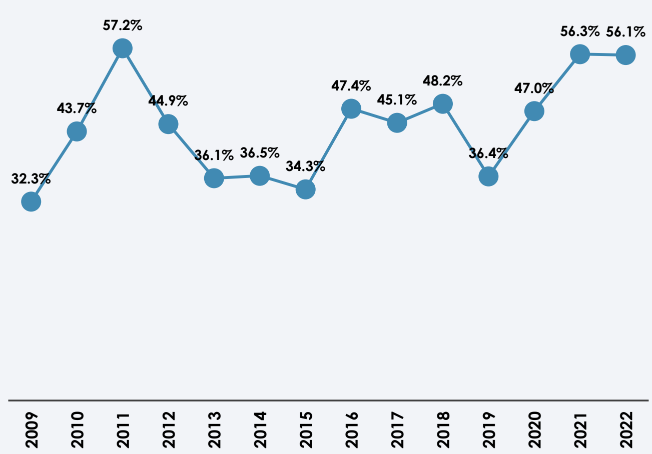
CZI has been estimating capacity utilisation of the state of manufacturing sector since 1994. Capacity utilisation generally is a measure of whether existing assets are sweating; the measure reflects whether there is need for new investment to expand output or the existing assets are still able to create additional output. This means that there are generally two variables that affect the movement of capacity utilisation levels from one period to another:

- The level of output produced in a given period.
- Additional capacity that was created through new investments that extended production capacity.

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. Thus, respondents give an estimate about the possible output that they can produce if they had operated their plants as described in their supplier manuals, while also being asked about the level of output that they ended up producing. This becomes the basis for calculating capacity utilisation.

The CZI 2021 Manufacturing Sector Survey had revealed that there was a general upward trend in capacity utilization. This upward trend was taking place despite significant investment into the sector, which expanded capacity. A look at the trends for 2022 show that the additional capacity invested into the sector of about 29% by about 40% of the firms (see section 7) which expanded capacity together with the mixed fortunes on output production caused a disturbance on the upward trend that had emerged. The average capacity utilization for the manufacturing sector took a slight knock of about 0.2 percentage points to 56.1% in 2022 (Figure 12).

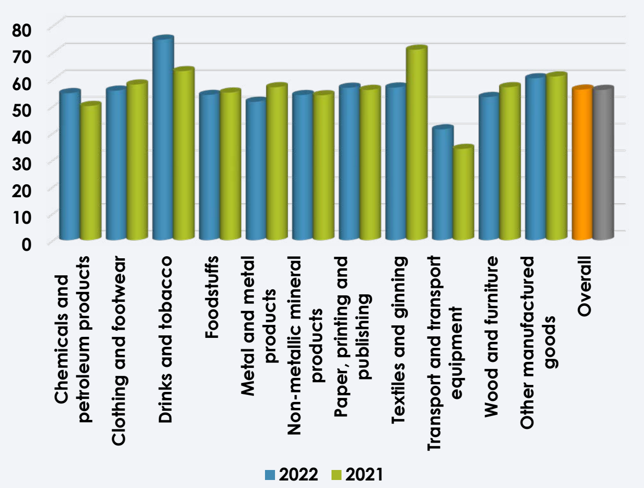
Figure 12: There was not much change in capacity utilisation in 2022



The results basically shows that the existing manufacturing plants still have the scope to accommodate more output, as more than 40% of the plant capacities are still idle.

A look at capacity utilisation by sub-sector shows that the drinks and tobacco sub-sector had the highest capacity utilisation for 2022 at about 75%, while the transport and transport equipment subsector had the lowest at about 41% (Figure 13).

Figure 13: The drinks and tobacco sub-sector had the highest capacity utilization (%) for 2022



In comparison to 2021, subsectors which recorded an increase in capacity utilisation include:

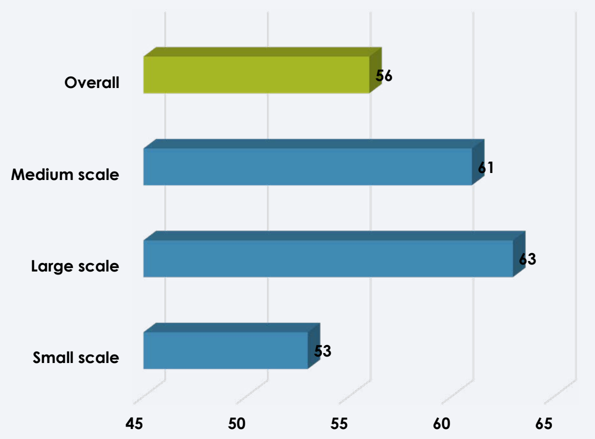
- Drinks and tobacco (which increased by 12 percentage points)
- Transport and transport equipment (7 percentage points)
- Chemicals and petroleum products (5 percentage points)
- Paper, printing and publishing (1 percentage point).

On the other hand, overall capacity utilisation declined for the following subsectors:

- Textiles and ginning (which declined by 14 percentage points)
- Metal and metal products (5 percentage points)
- Wood and furniture (4 percentage points)
- Clothing and footwear (2 percentage points)
- Foodstuffs (1 percentage point)
- Other manufactured goods (1 percentage point)

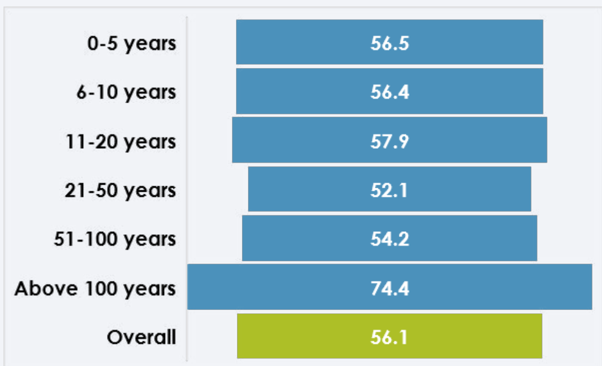
A disaggregation of capacity utilisation by size shows that the overall average capacity utilisation level was lowered by small scale players, as both large and medium sized firms have higher values. While capacity utilisation was only 53% for the small scale players, the large scale players had an average capacity utilisation level of 63% (Figure 14). This means that policies to boost capacity utilisation should also be sensitive to the challenges that affect small scale players.

Figure 14: Small firms lowered the average capacity utilisation (%)



Although small scale players have a lower capacity utilization, the age of business venture is not correlated with capacity utilization. Only those that have been in business for between 21 and 100 years have an average capacity utilization level that is below the national average (Figure 15). This shows that a significant proportion of those that are in this age group are actually small-scale players.

Figure 15: The oldest firms have higher capacity utilization values (%)



Proplastics Limited: Capacity Build-up

Proplastics Zimbabwe successfully commissioned its state-of-the-art automated mixing plant and the new 500 mm PVC plant at its manufacturing facilities in Harare.

The Automated Mixing Plant

The automated mixing plant is housed in the new factory complex spanning over 5,600 square meters of PVC & HDPE pipe manufacturing factories. The plant automatically draws recipe portions from the storage silos to the hot & cold mixers, and transfers to secondary storage before issuing the compounds to all the production lines for final processing.

The state-of-the-art mixing facility is an engineering marvel and is based on “Industry 4.0 Smart Manufacturing” approach and is one of its own kind in Africa.

The cutting-edge ingenious improvements spearheaded by Proplastics are beneficial to all stakeholders. Plant automation lowers production costs, increases throughput, and significantly reduces unit cost and lead-times. Improved material handling facilitates consistent production quality. Mechanisation of processes enhances employee safety by reducing human error and lost time injuries.

Smarter plastic pipe production is a complete game changer for the industry as they promote cost competitiveness. The benefits of lower cost of production costs are being passed on to the final consumer. Over the years plastic pipes have become the sustainable product of choice for sewer and water reticulation systems.

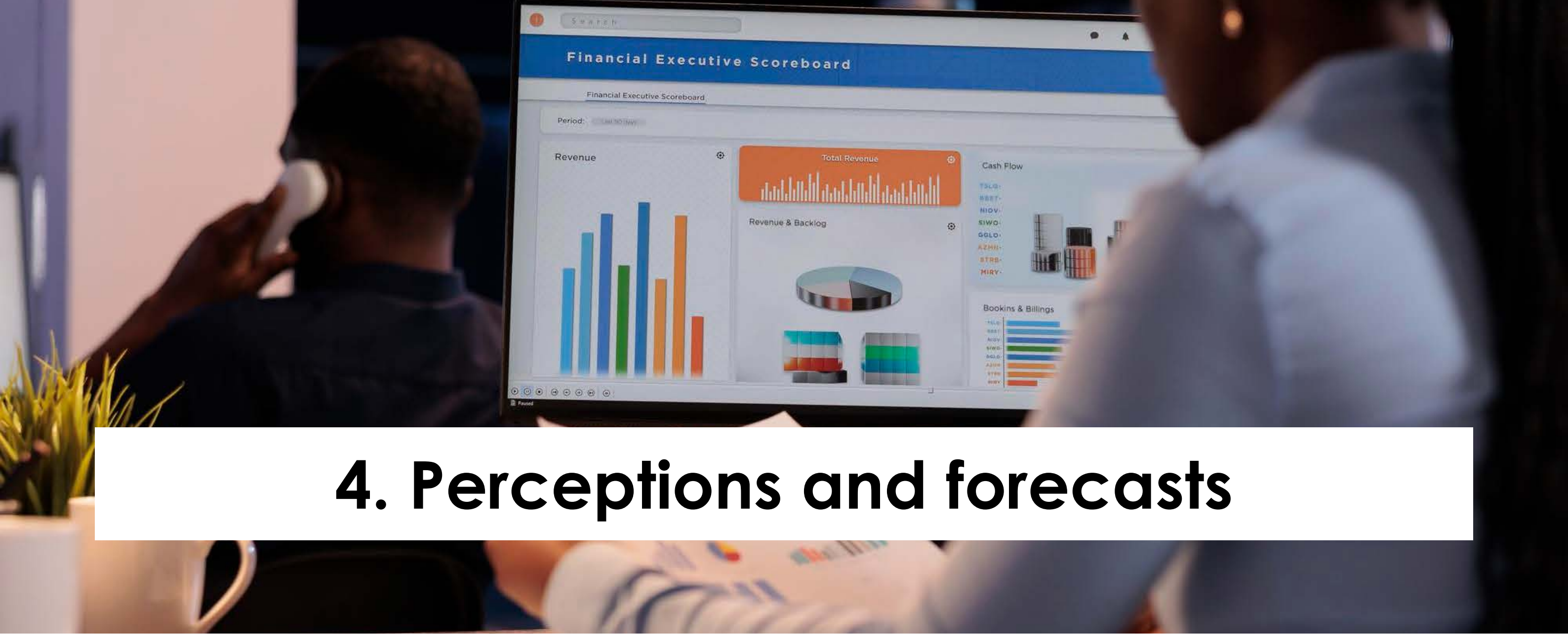
Proplastics New Mixing Plant Silos

The New 500 mm PVC Pipe Plant

The year 2022 saw Proplastics increase its installed PVC pipe production capacity by over 30%. On the 14th of April 2022, the new 500mm PVC extrusion plant was commissioned at our state-of-the-art manufacturing facilities in Ardbennie, Harare deploying European technology. Prior to this development, the largest diameter size of PVC pipes produced was up to 400mm. The introduction of the larger bore technology has broadened the scope of PVC pipes that can be produced locally. The new plant can produce both rigid and modified PVC pipes for potable water and sewer applications.

Our Quality Promise

To maintain consistency of high-quality products and a guaranteed design life of a minimum of 50 years, our products are manufactured in an ISO certified factory according to world-class standards. Proplastics products are made to last for generations, riding on the backbone of innovation and continuous improvement.



4. Perceptions and forecasts

Mixed sentiments on the 2022 economic environment compared to 2021

The sentiments on the economic environment were almost evenly distributed. About 36% of the manufacturing sector perceived the economic environment to be better in 2022 compared to the previous year (Figure 16). However, 34% believe the economic environment of the country worsened and 30% highlighted that it remained the same.

Dissecting the sentiments of manufacturing firms by sizes, shows that it is only the large firms which had a distinct majority perceiving that the economic environment in year 2022 was better compared to 2021 (Figure 17). Medium sized firms had a similar proportion of firms that experienced a better and worse environment, while there is only a one percentage point variation with respect to small scale players.

Figure 16: Over 60% of the firms believe the economic environment did not improve

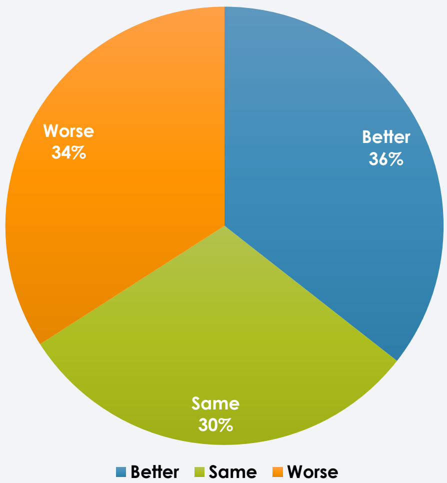
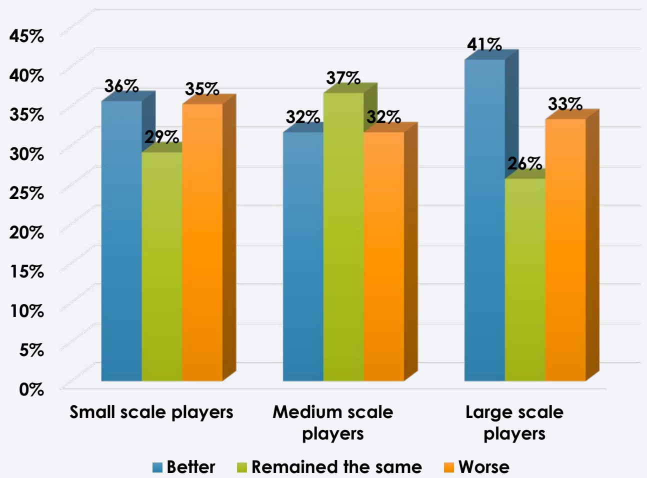


Figure 17: Medium sized firms indifferent about the economic environment

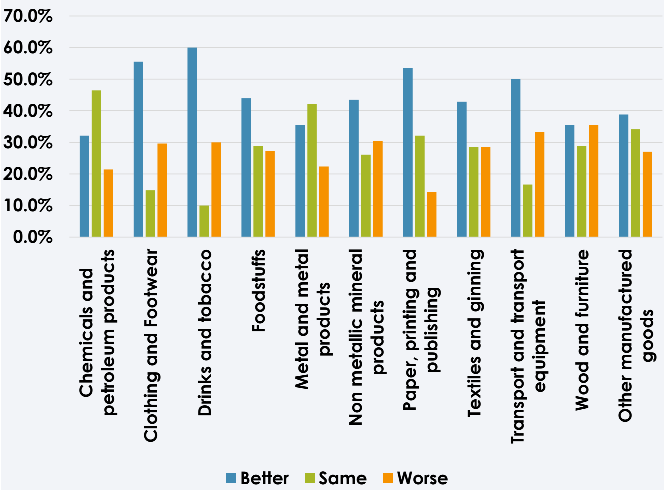


This generally underlines that the 2022 economic environment was generally not good for business.

However, some subsectors were perceived to have performed better in 2022

Here are some subsectors where the majority view is that their subsectors performed better in 2022 compared to year 2021. The drinks and tobacco sector had the largest proportion of firms (60%), who perceived year 2022 to be better (Figure 18). The wood and furniture sector had mixed signals, with a similar proportion of firms stating that 2022 was better and worse.

Figure 18: The drinks and tobacco subsector is perceived to have been better in 2022

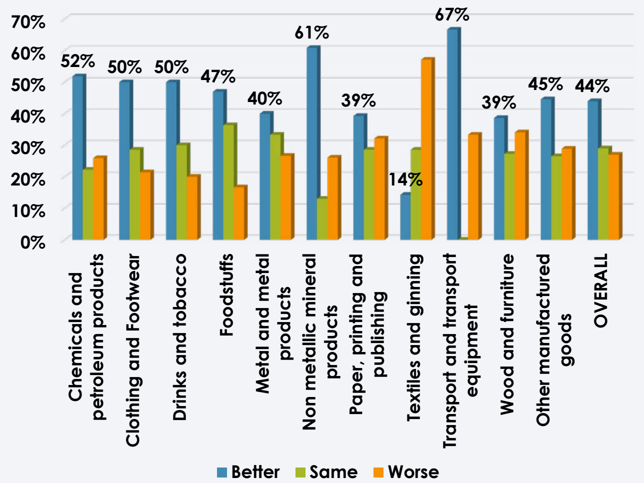


Source: Survey results

A general sense of optimism about the future.

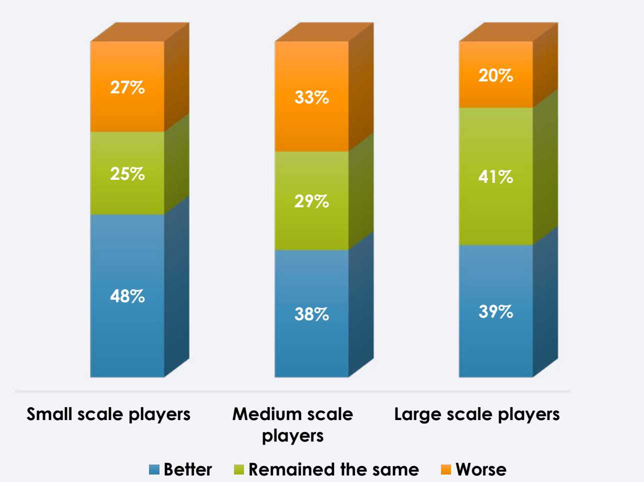
About 44% of the respondents envisage a better economic environment in 2023, despite it being an election year (Figure 19). The transport sector had the largest proportion of firms that predicts a better economic environment. On the contrary, the textiles and ginning sector foresee a bleak 2023, with 57% of the firms believing that the economic environment in 2023 will deteriorate.

Figure 19: Textile and ginning is the only sector that is predicting a worse 2023



Small scale firms had the largest proportion of firms 48% (Figure 20), that are predicting a better economic environment in 2023. About 41% of large-scale firms, believe that the economic environment will not change in 2023.

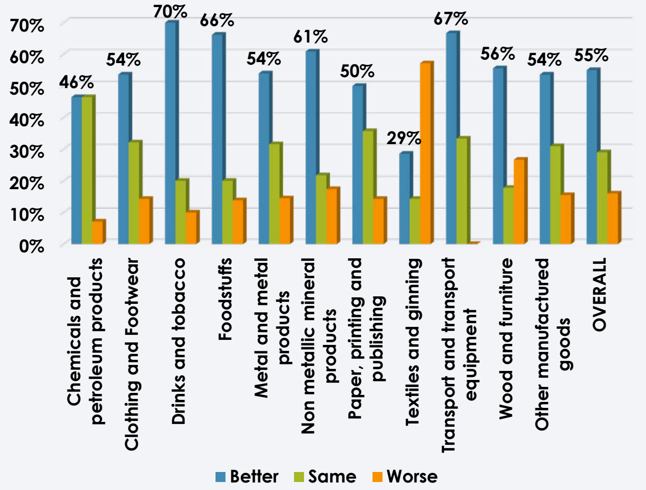
Figure 20: Small scale players are more optimistic about year 2023



Subsector performance is expected to be better in 2023 compared to 2022

The sentiments about the overall economic environment for 2023 also filters through to the forecasted subsector performance. Most firms (55%) are anticipating a better subsector performance in 2023 (Figure 21). The Drinks and Tobacco subsector is more optimistic about the future; about 70% of the firms in that sector predicts better subsector performance in 2023. However, on the extreme end, textile and ginning sector predicts a worse 2023 performance with 57% of the respondents in that sector supporting that notion.

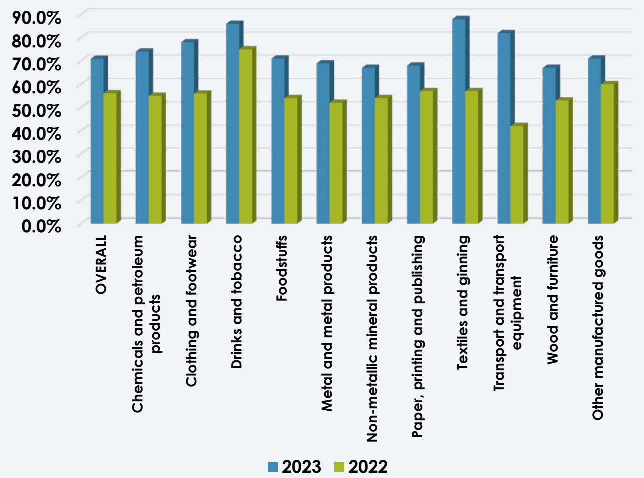
Figure 21: Drinks and Tobacco sector oozing with confidence.



Capacity utilisation is expected to increase in 2023.

Manufacturing firms are upbeat about the prospects of 2023. Capacity utilisation is projected to increase to 70.9% in 2023 from 56.1% in 2022 (Figure 22). All subsectors are anticipating an increase in capacity utilisation in 2023. The increase in capacity utilisation is in line with the expectations that the economic environment and subsector performance will be better in 2023.

Figure 22: Firms expect capacity utilisation to increase in 2023



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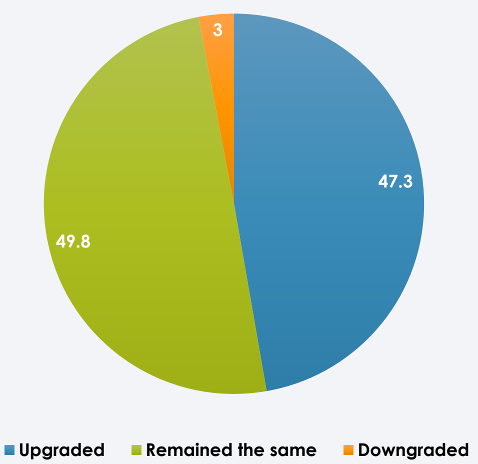
5. Technology upgrading and advancement

5.1 Firms are upgrading their technology to remain competitive

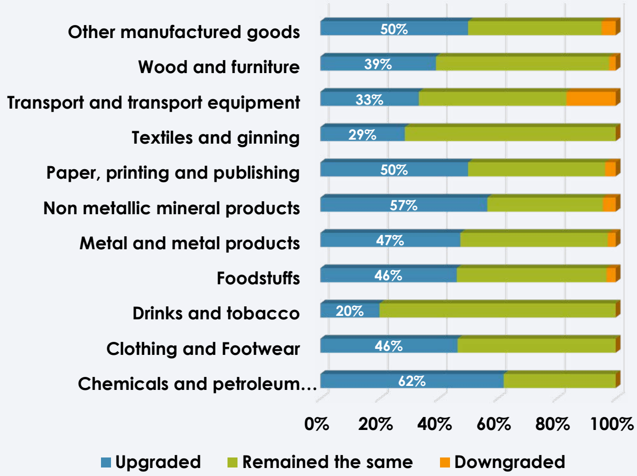
Modernizing technology is crucial for increasing both efficiency and competitiveness. About 47% of the manufacturing firms upgraded their technology to stay competitive. However, it is more concerning that half of manufacturing sector businesses have continued to use the same degree of technology as they had for the past five years (Figure 23). About 3% of the companies failed to maintain the migration to more advanced technology and ultimately had to downgrade their technology which is worrisome.

Figure 23: Technology upgrading was very high in 2022



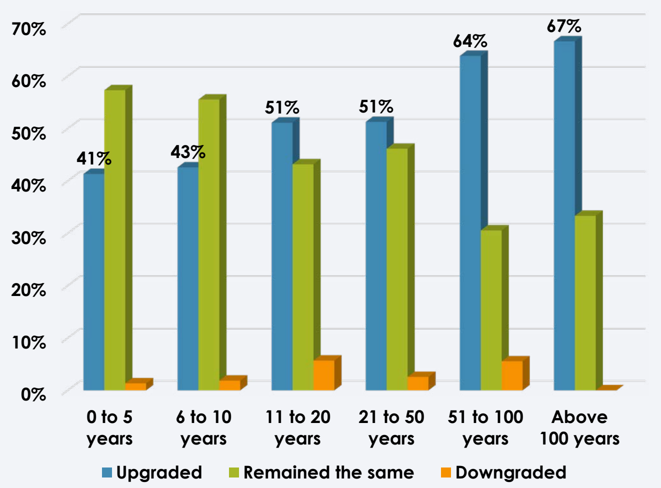
A look across the subsectors shows that the highest proportion of firms engaged in technology upgrading were in the chemicals and petroleum products, where about 62% of the firms upgraded, while the transport and transport equipment had the highest proportion of firms downgrading at about 17% (Figure 24).

Figure 24 : All subsectors had significant proportion of firms upgrading their technology in 2022



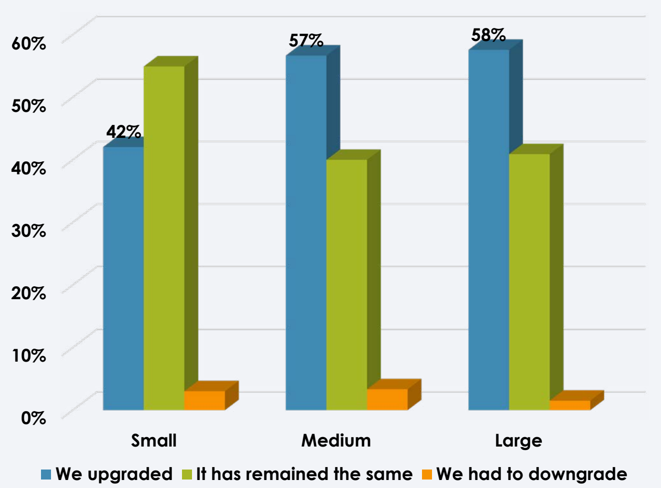
A disaggregation by age shows that over half of businesses that have been in business for at least ten years improved their technology, with businesses older than one hundred years having the greatest percentage of 67% (Figure 25). Compared to companies that are 10 years old or younger, more than half of their businesses reported that their technology remained the same for the past five years.

Figure 25: The oldest firms in the industry are also still upgrading technology



A look at the technology state of companies by size (Figure 26) reveals that large and medium-sized businesses improved their technology more frequently than small businesses.

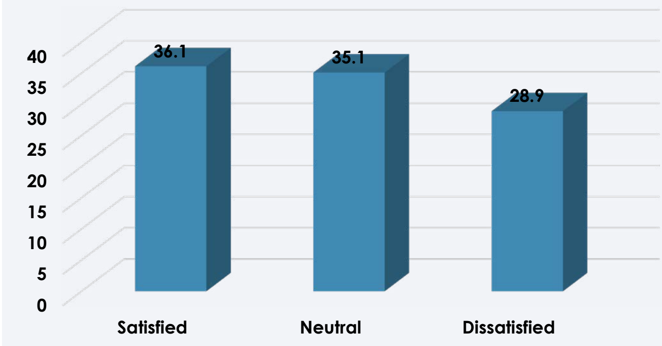
Figure 26:Larger firms in the manufacturing sector also upgraded their technology



5.2 The level of satisfaction with current state of technology is high

The degree of satisfaction with the current state of technology with respect to manufacturing sector's capacity to successfully compete with other countries in the region or globally is not too high. The results show that only 36% of the firms are currently satisfied with the level of technology that they possess (Figure 27). There are about 29% of firms that believe that their technology is not sufficient to remain competitive.

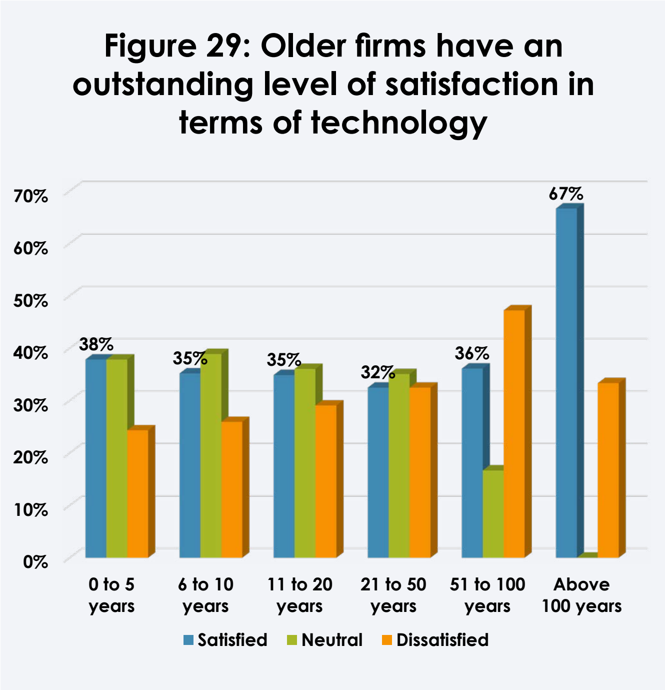
Figure 27: Technology upgrading was very high in 2022



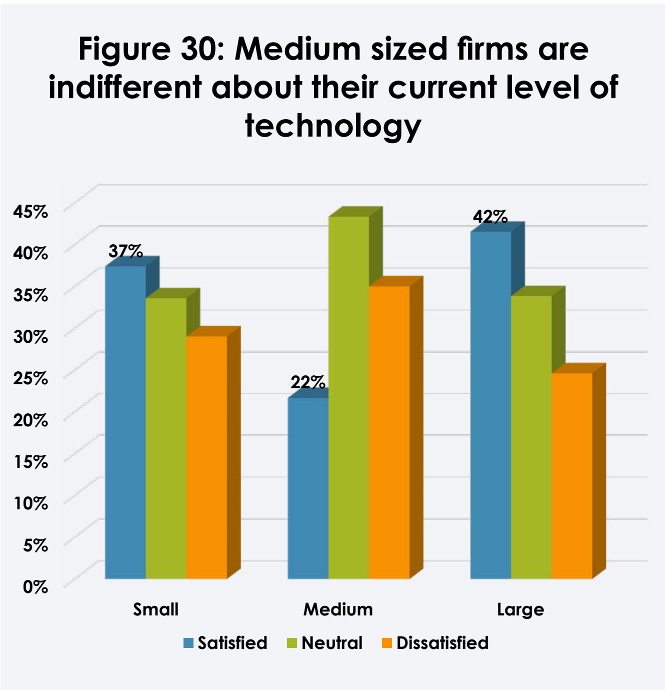
A disaggregation of satisfaction levels by subsector shows the highest level of satisfaction is in the textiles and ginning subsector, where about 86% of the firms are satisfied by their level of technology for the past five years (Figure 28). The high level of discontent is in the transport and transport equipment manufacturing subsector, where 67% are not satisfied.

Figure 28:The textiles and ginning subsector well satisfied with level of technology

Firms above the age of 100 years are the ones who mostly upgraded their technology (Figure 29). Old firms of between 51 and 100 years have the highest level of dissatisfaction with their current technologies, which indicates that the technology is probably getting antiquated.



A disaggregation by size shows that medium-sized enterprises are the least satisfied with their current level of technology (Figure 30). Large scale firms are fairly satisfied, as only 25% are not happy.



Reasons for dissatisfaction in terms of technology when compared to their regional competitors include the following:

- Challenges in sourcing capital for upgrading.
- Government regulations which discourage investments
- Limited Research and Development in the organisations.

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6. Employment creation

Some employment opportunities were availed in 2022

Less than 50% of the firms in the manufacturing sector (Figure 31) created new permanent jobs in 2022, which is a slight decrease from 2021 level of 53.3%. This resulted in new permanent jobs creation ratio of 23% as a percentage of total employment. This is an improvement in employment creation ratio as compared to 2021 which had 19.19%.

Given that both employment and retrenchment were significant, it is also important to take a look at the net effect in terms of employment. In 2022, employment in the manufacturing sector increased by 13%, which was an improvement compared to 5% in 2021 (Figure 32). The foodstuffs subsector had the highest net job creation rate at about 32%.

Figure 31: New permanent job creation ratio was significant

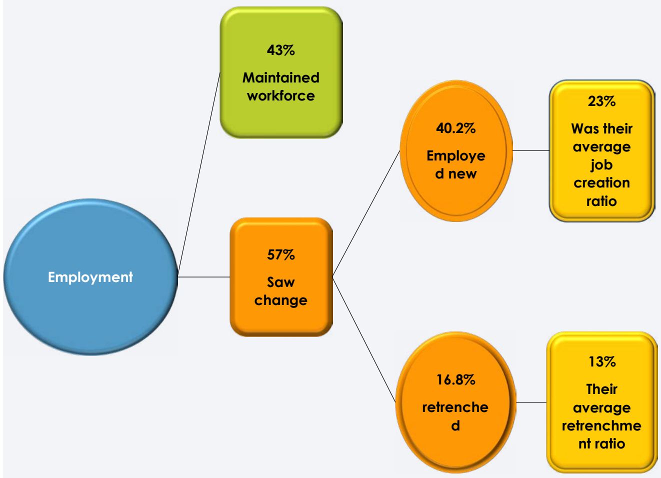
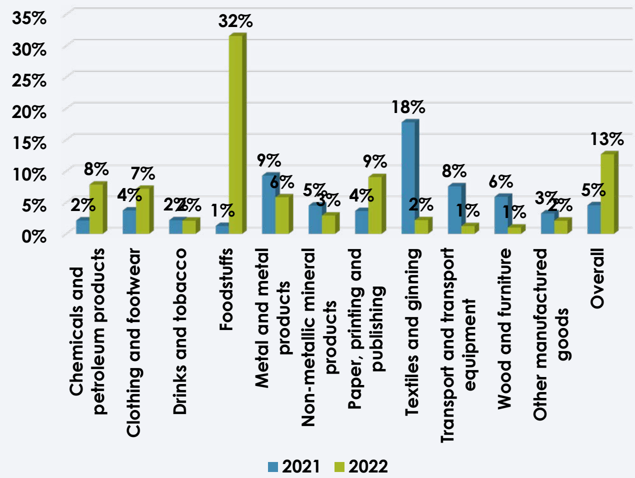


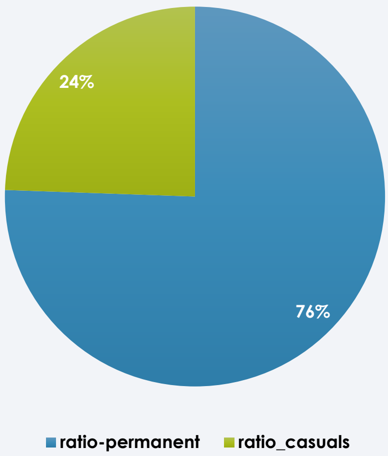
Figure 32: The 'net' employment creation ratio was positive for all the subsectors



Despite difficult environment, casualization still fairly low

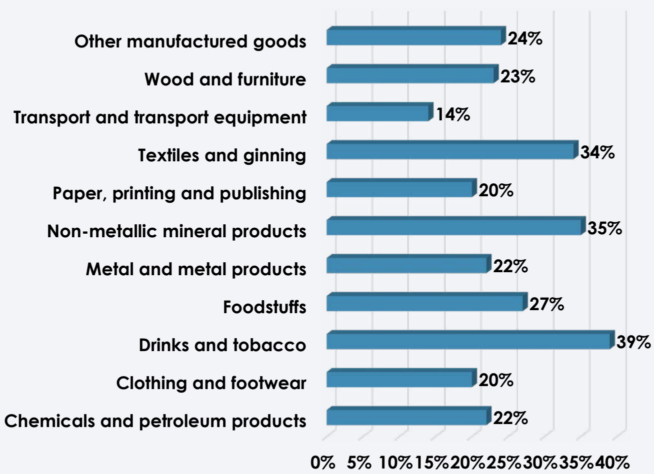
The structure of the proportion of permanent to casual employes shows that 76% (Figure 33) of total employment within the manufacturing sector are permanent employees while 24% are casuals. The labour laws in Zimbabwe are often cited as the reason for increased casualization of labour.

Figure 33: Proportion of permanent to casual employees



A look at the distribution by sector shows that firms in the drinks and tobacco sector had the highest ratio of casual workers at 39% (Figure 34).

Figure 34 : The drinks and tobacco sector had the highest ratio of casual employees

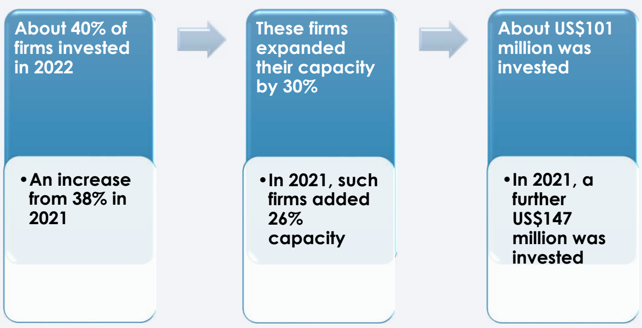


7. Investment

Manufacturing companies are steadily investing

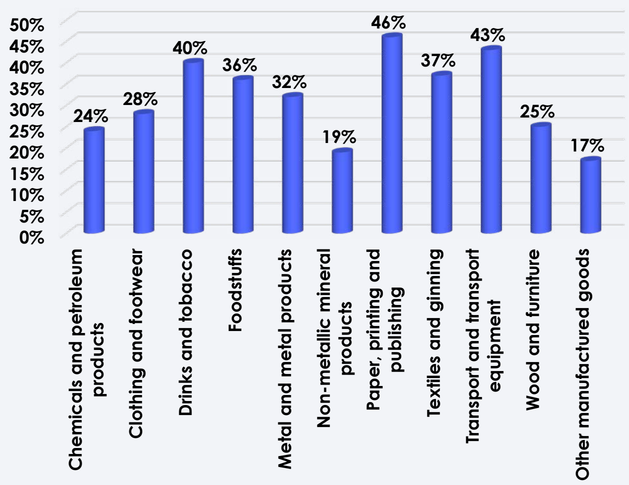
Companies have been replacing antiquated machinery and upgrading their technologies. About 39.8% of the manufacturing sector invested a total of US$101,171,994 to increase their production in 2022 (Figure 35). This resulted in additional capacity of 29.46% being created. The investments to expand capacity might have been aided by the availability of USD loans at banks and increased USD sales by firms.

Figure 35: Significant investments have been carried out in 2022



A glance across subsectors shows that there was additional capacity created across all of them due to additional investments that were done in 2022 (Figure 36). The paper, printing and publishing subsector created an additional 46% capacity from its investments in 2022. This means that the slowdown in capacity utilization momentum relative to what had been observed in 2021 may be due to the increased additional capacity created.

Figure 36: All subsectors manged to create additional production capacity



8. AfCFTA perceptions and preparedness

The coming in of the AfCFTA is expected to have implications on the manufacturing sector, including both opportunities and threats. However, the majority of the firms do not feel threatened, with only 22% feeling that there is a high risk on their business prospects (Figure 37). Although the majority appreciates that there might be some risk, they generally classify the risk as low.

The situation cross subsectors shows that it is mainly in the chemicals and petroleum products subsector where the AfCFTA is expected to impose high risk to their operations (Figure 38). The textiles and ginning as well as the non-metallic and mineral products subsectors feel no major threats at all from the advent of the AfCFTA into the Zimbabwe economy.

Figure 37: Low fears from the coming in of AfCFTA

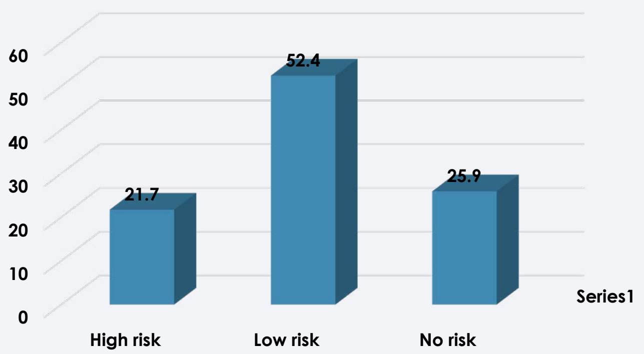
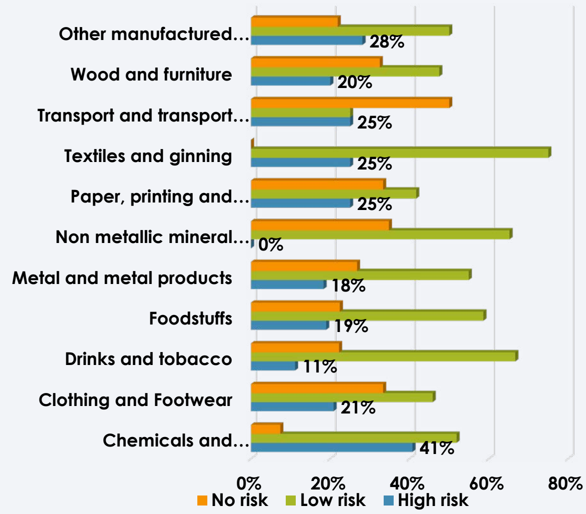


Figure 38: The Chemical and Petroleum Products Sector facing high risk of AfCFTA



Export Credit Insurance

Export Credit Insurance protects an exporter of products and services against the risk of non-payment by a foreign buyer.

In other words, export credit insurance significantly reduces the payment risks associated with doing business internationally by giving the exporter conditional assurance that payment will be made if the foreign buyer is unable to pay. Simply put, exporters can protect their foreign receivables against a variety of risks that could result in non-payment by foreign buyers. Export credit insurance generally covers commercial risks (such as insolvency of the buyer, bankruptcy, or protracted defaults/ slow payment) and certain political risks (such as war, terrorism, riots, and revolution) that could result in non-payment. The policy also covers currency in-convertibility, expropriation, and changes in import or export regulations. Cover is offered either on a single-buyer basis or on a portfolio multi-buyer basis for short-term (up to one year) and medium-term (one to five years) repayment periods.

Important features of the Export Credit Insurance policy:

- The policy allows exporters to offer competitive open account terms to foreign buyers while minimizing the risk of non-payment.
- When foreign accounts receivables are insured, lenders (Banks, MFIs) are more willing to increase the exporter's borrowing capacity and offer more attractive financing terms; thereby boosting working capital.
- Even creditworthy buyers could default on payment due to circumstances beyond their control.
- With reduced non-payment risk, exporters can increase export sales, establish market share in emerging and developing countries, and compete more vigorously in the global market.
- However, it should be noted that the policy does not cover physical loss or damage to the goods shipped to the buyer, or any of the risks for which coverage is available through marine, fire, casualty or other forms of insurance.

In addition to Export Credit Insurance, Domestic Credit Insurance is cover taken by local companies against the risk of non-payment by local buyers. The standard percentage of cover is up to 80%. The Domestic Credit Insurance Policy covers losses arising from commercial risks only.

Export Credit Guarantee Corporation of Zimbabwe (Private) Limited (ECGCZ) is an Export Credit Agency (ECA) whose core mandate is to provide credit insurance to exporters. ECGCZ has for the past two decades been offering a wide variety of financial solutions for businesses, some of these which include:

- Advance payments Insurance Policy
- MSME Credit Guarantee Scheme and Financial Guarantees
- Bonds and Guarantees
- General Insurance

For more information visit www.ecgc.co.zw .

Export Credit Guarantee
Corporation of Zimbabwe

9. Exports and performance

The majority of the manufacturing sector players indicated that they are mainly locally oriented, as only about 19% export their products. On average, about a quarter of the output that is produced by the exporting firms is destined for the international market.

19%

Are into exports

24.5%

Of output is exported

The firms that participate in the international market do so for a number of reasons, the dominant of which is to earn foreign currency (Figure 39). This means that the availability of foreign currency in the domestic market which can be mopped up through domestic sales has not eliminated the need for looking for it in the international market. About 40% of the exporting firms also do that because the capacity of the domestic market is not huge enough to absorb their output.

In terms of export performance relative to 2021, although the majority of the exporting firms registered an increase, close to a third also registered a decrease in the output exported in 2022 (Figure 40). The sluggish performance can be related to the challenges which manufacturing sector firms had with the export surrender requirements. In 2023, more than 59% of the exporting firms believe that they will register an increase in exports. This is not surprising given a more favourable surrender regime that was announced for 2023.

Figure 39: Earning foreign currency is the primary reason for exporting

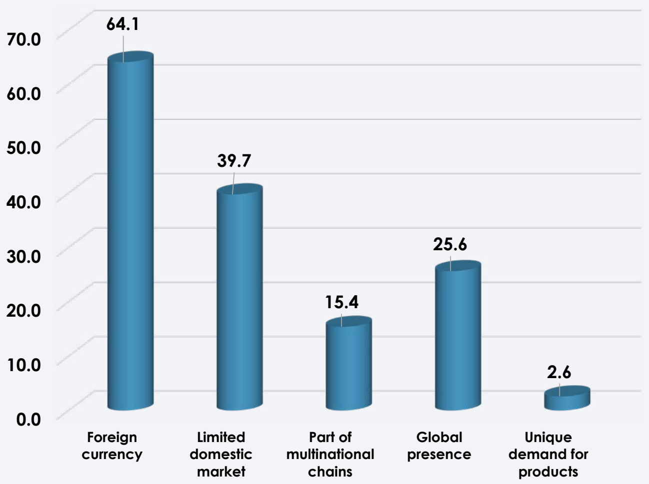
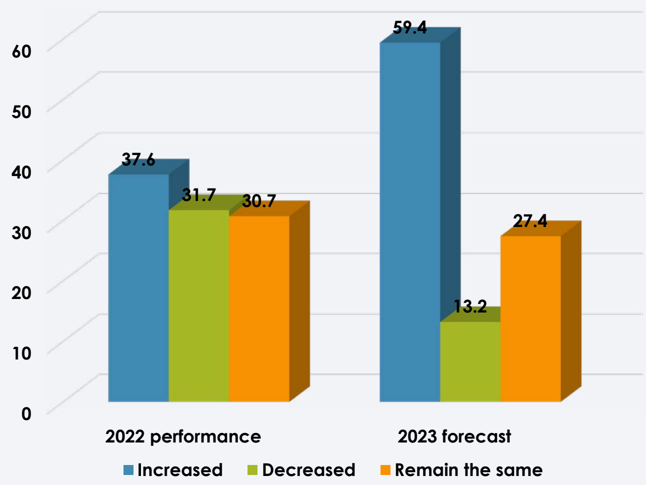


Figure 40: Close to a third registered a decrease in the output exported in 2022

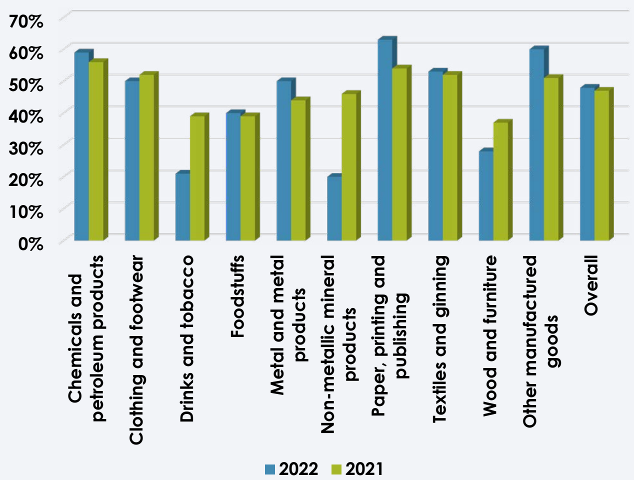


10. Raw materials importation and reasons

Import dependency a challenge for manufacturing firms.

In 2022 imported raw materials constituted about 48% of the manufacturing sector firms total procurement (Figure 41). Thus, on average, the manufacturing sector source almost half of its raw materials from external markets, which is not an ideal situation for the inclusive growth prospects of Zimbabwe.

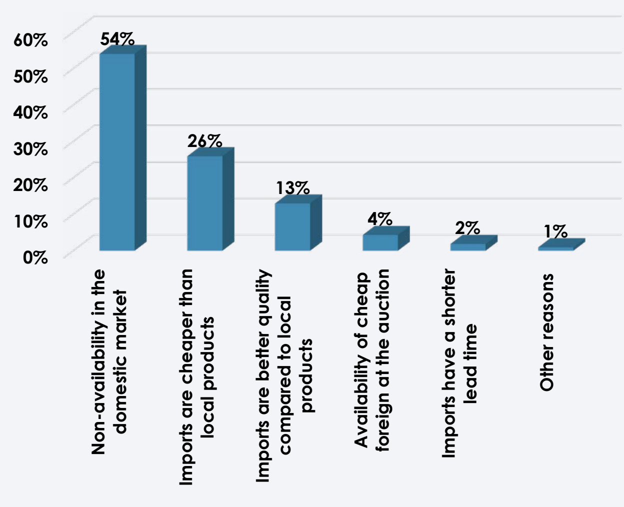
Figure 41: The manufacturing sector import dependence slightly increased in 2022



A closer look at different sub sectors shows varying degrees of import dependency. The paper, printing and publishing subsector procures over 60% of its raw materials outside the country. The drinks and tobacco sector has the lowest import dependency as it only imports 21% of its raw materials. This is commendable, since, the sector managed to reduce its imports of raw materials from 39% in 2021 to 21% in 2022.

It is of paramount importance to understand the reasons why the manufacturing sector has such high import dependence. Understanding the reasons is the first step in addressing the status quo. About 54% of the manufacturing sector firms resort to imports due to non-availability of the raw materials in the local market (Figure 42). Cost of raw materials is also a major determinant; about 26% import raw materials because they are cheaper outside the country. Thus, addressing Zimbabwe's cost structure will go a long way in localising value chains.

Figure 42: non-availability of raw materials locally is the main driver of importation.

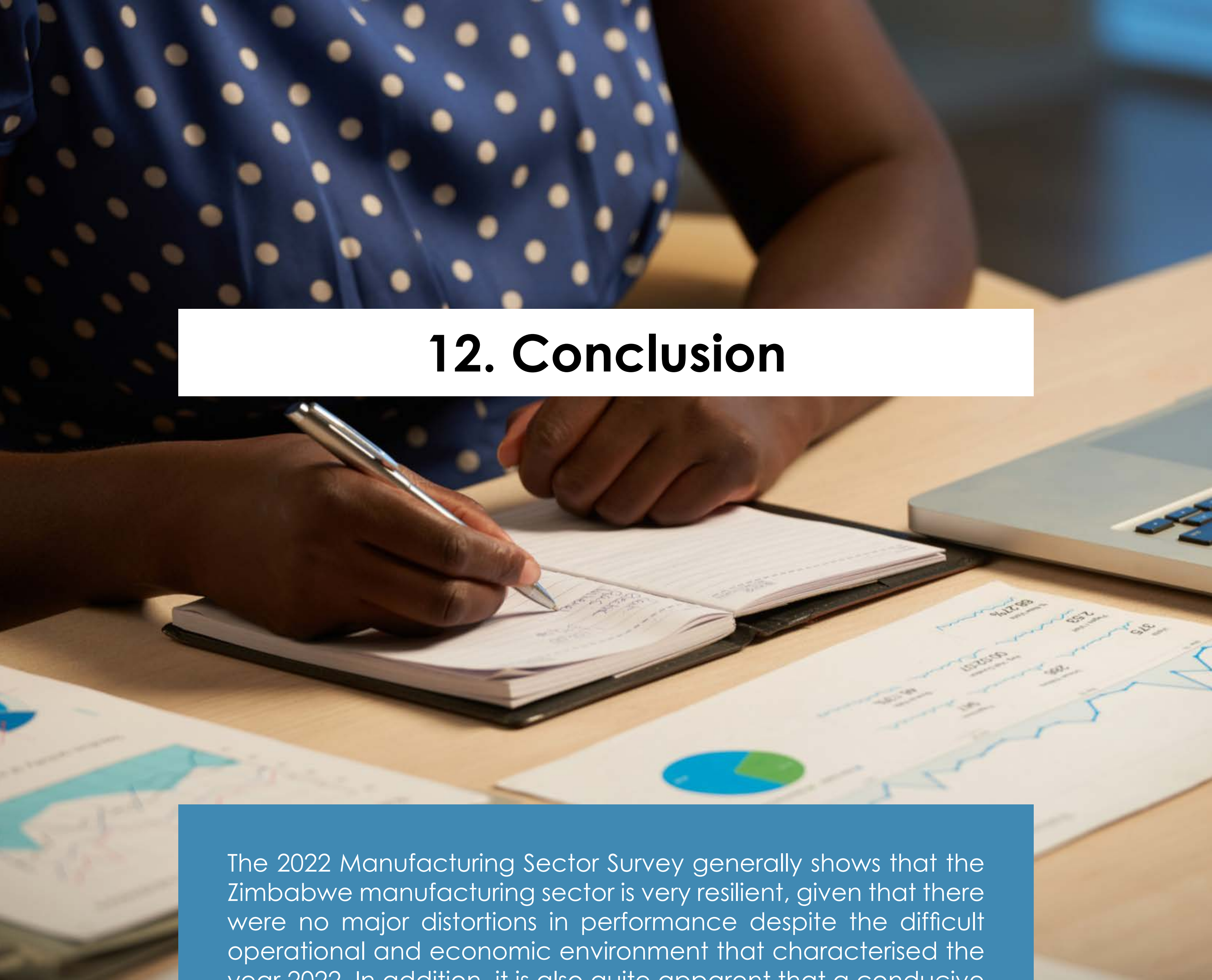


11. Policy and regulatory issues affecting manufacturing sector performance

The survey revealed a variety of policies and regulatory issues that hinders the manufacturing sector from reaching its full potential. Some of the issues regarding the policies and regulatory environment include the following:

Table 2: Cost of doing business issues from regulation

REGULATOR	COST OF DOING BUSINESS ISSUES
a) Local Authority	• High licence and parking fees • Poor service delivery, including road quality • Bureaucracy in licencing • Backlog in licencing • Corruption
b) Environmental Management Authority	• Licence fees too high • Too many fines being charged
c) Radiation Protection Authority	• No clear benefits about the value to business. • Compliance perceived largely as an unnecessary cost
d) Grain Marketing Board	• Erratic supply of commodities serving as raw materials • Too much time to do local currency payments when exchange rate is depreciating
e) ZINWA	• High rates for water • Erratic water supply • Contaminated water • Poor pipe maintenance which burst frequently
f) ZERA	• Use of USD exclusively in a dual currency economy • Fuel price instability
g) ZESA	• Frequent power cuts • Slow response to faults
h) Consignment Based Conformity Assessment	• Delays on licence issue and on inspection • No clear benefit to business from the services rendered • Aids costs to the business



12. Conclusion

The 2022 Manufacturing Sector Survey generally shows that the Zimbabwe manufacturing sector is very resilient, given that there were no major distortions in performance despite the difficult operational and economic environment that characterised the year 2022. In addition, it is also quite apparent that a conducive macroeconomic environment remains the main driver of manufacturing sector performance. It is, therefore, important to ensure that the policy prescriptions remain in control so as to usher in a conducive macroeconomic environment for business.

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

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