

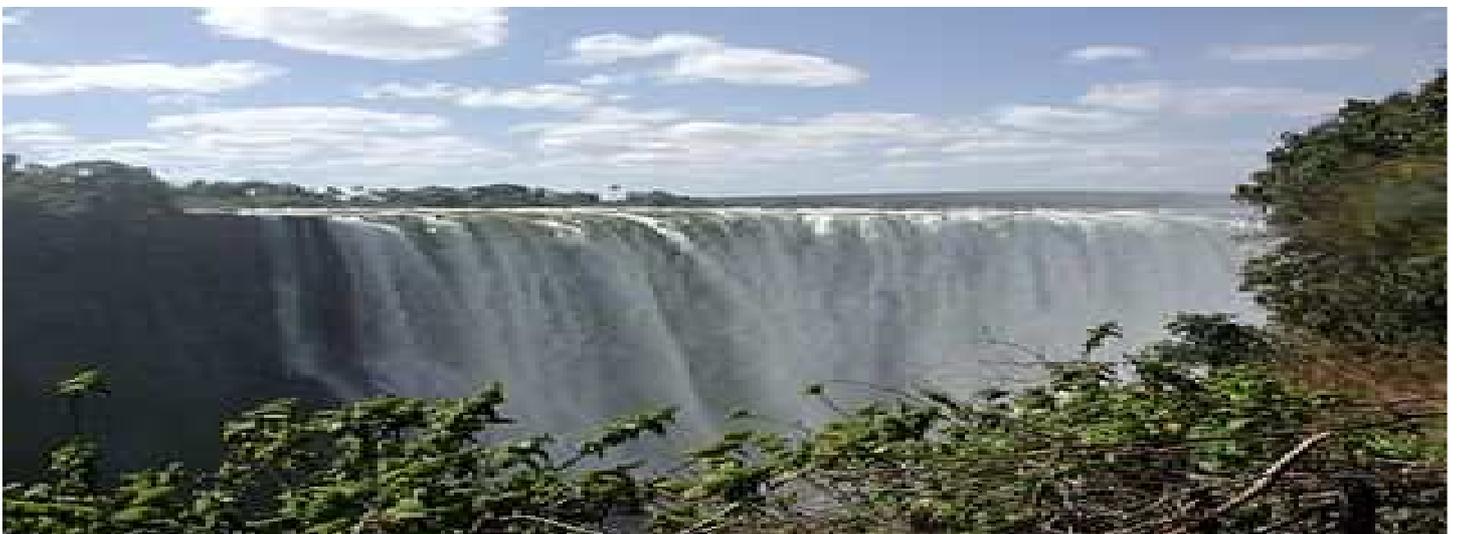
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The Future of the
Manufacturing Sector in
Zimbabwe

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Presentation Overview

- **Overview of Manufacturing Sector**
- **Funding Constraints**
- **Policy Coordination & Implementation**
- **Manufacturing Sectors**
- **Proposed Solutions**
- **Conclusion**

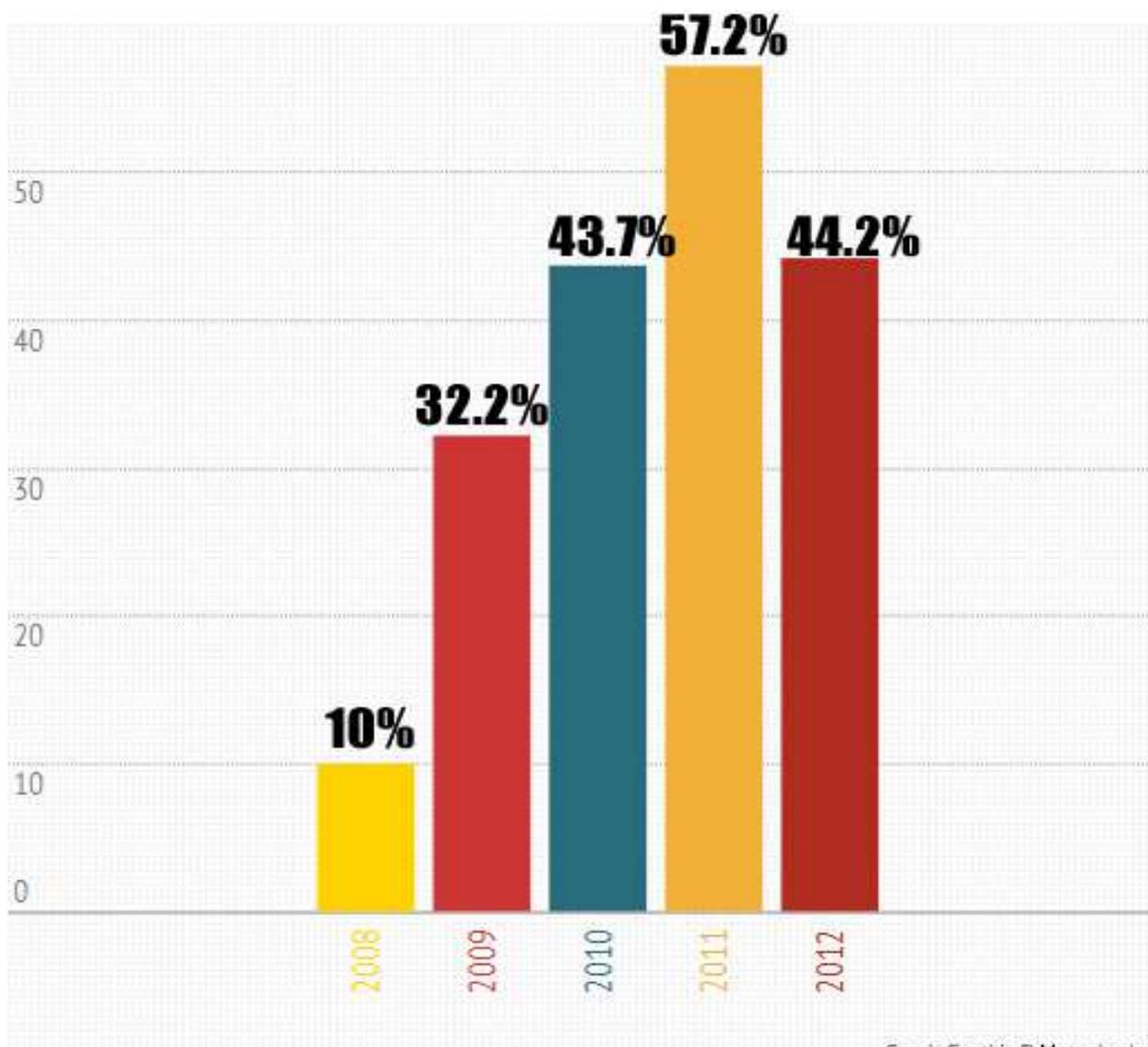


Overview of Manufacturing Sector

- **Formal sector unemployment is 90%**
- **Effective demand has dropped**
- **There seem to be no deliberate, focused, appropriate plan of action towards addressing the crisis that is upon the economy**
- **Current account deficit is continuously increasing**
- **There is an uneven level playing field for local businesses across the value chain**
- **Informalisation of the economy**
- **Loss of revenue to government**
- **Zimbabwe's economy is in a crisis.**

Capacity Utilisation

Capacity Utilisation 2008-2012



What is the problem?

- **The de-industrialization of the Zimbabwean economy is leading to closures of companies that produce secondary goods**
- **This is due to imports from low priced imports some of which are subsidized and some which should not qualify under the certificates of origin and the fact that the Zimbabwean companies are operating in a high cost environment**

Impact of economic crisis to Manufacturing sector

- **For manufacturing industry**-local industry has to compete with goods from countries with low cost bases.
- The issues in the local market are the high costs of funds , high cost of power , high costs of urban council charges, poor infrastructure low demand and low capacity utilisation
- **For the retail sector** problems to low of demand due to reduced employment and thus low disposable income, resulting in viability challenges
- **Employees** due to low employment and unavailability of jobs and increased retrenchments
- **Banks** due have low liquidity and balances due to very low deposits as a few people are employed thus few accounts and low savings for individuals
- **Few companies** are operating thus very little in deposits. Bank loans are not being repaid by individuals and corporate bodies

Problemcontinued

- **No funds to use for repairing national infrastructure.**
- **The Government cannot generate enough taxes to pay for national and foreign obligations.**
- **There is a huge trade deficit due to one way trade as local industry cannot compete due to local high costs which the industry is unable to add into the price ,where as imports come into the country duty free.**
- **ZESA and Urban councils are not getting paid for services rendered by domestic consumers as unemployment is too high**

“The Big 5 unsustainables”

- The National Budget
- The Balance of Payments
- External debt
- The Consumption-Savings-Investment imbalance
- The infrastructure deficit



Market Cap of Regional Exchanges as at Dec 2012

Name of Bourse	Number of Listings	Market Cap (US\$)
Malawi Stock Exchange	14	\$10.5 b
The Stock Exchange of Mauritius	88	\$7 b
Namibia Stock Exchange	26	\$136 b
Swaziland Stock Exchange	26	\$136 m
Dar es Salaam Stock Exchange	17	\$8.4 b
Lusaka	20	\$9.3 b
Zimbabwe	79 74	\$3.9 b \$5.51 b
Mozambique Stock Exchange	3	\$ 1.01 b
Botswana Stock Exchange	37	\$4.57 b

Industrial Development Policy

- **The IDP's overall objective is to restore the manufacturing sector's contribution to GDP of Zimbabwe to about 30% as well as increasing capacity utilization from the current levels of around 43% to 100% by the 2015.**
- **This objective will be achieved if the right fundamentals are put in place**

Policy Framework

- In his 2012 mid-term fiscal policy review, the Minister of Finance, Hon. Tendai Biti pointed out that “although the volume of imports continues to rise, recording US\$2 billion by April 2012, customs duty collection remained low at about US\$112.8 million during the same period.”
- This translates to an average actual customs duty collection rate of 5% compared to legislated duty rates which range from 5-40% and, hence, is not commensurate with the actual trade volumes.’

Imports vs Local Manufacturing and the Role of ZIMRA

- **There has been an outcry from local manufacturers that traders who are importing mostly finished products are unfairly muscling out local manufacturers in the local market.**
- **The unfairness is obtained from the weak border controls by the Zimbabwe Revenue Authority (ZIMRA) and other government agencies involved at the ports of entry.**
- **Besides revenue collection for the fiscus, ZIMRA also plays an important role in facilitating trade and industrial growth.**
- **This important role helps stimulate further economic growth and sustainable source of revenue for the nation in the long run.**

Influx of Sub Standard Goods

- **SAZ has been lobbying since way back in 2009, for the establishment of a legal framework to support an import /export Pre Shipment (PVoc) scheme in order to control the influx of sub-standard products.**
- **SAZ visited the inland port of Nairobi-Kenya, SA, Malawi, Zambia for the purpose of benchmarking as part of our Feasibility Study commissioned by SAZ Board.**
- **The purpose of the study was to eventually establish our own PVoC in Zimbabwe.**
- **The study which was largely supported by industry including CZI members who contributed large sums of money has made little progress to date due to a frustrating administration which is dragging its feet.**
- **Government has been painfully slow in realising what sub -standard goods are doing to the local industry and the safety of our communities.**

Violation of Rules of Origin

- **Local industry has raised concerns over rampant violation of rules of origin, misclassification of goods when charging duty by customs officials, smuggling of goods into the country, under-invoicing on imported products, out dated duty schedules and duty regimes as well as general corruption**
- **An examination of some of the imported products indicated that there are goods that are benefiting from the SADC and COMESA preferential arrangements when they are not supposed to be**
- **These goods are manufactured outside the region and packed or repacked in the region in order to benefit from trade arrangements within the region**
- **An example is product whose carton allegedly indicated that it originated from a SADC member state, but upon opening the carton, the smaller packets in the carton indicated that it originated somewhere else-faraway from SADC!**
- **How these products qualify to use SADC/COMESA certificate of origin is another question.....**

Sectors

- **Leather, Clothing, Dairy & Battery Sector**
- **Meat and Livestock**
- **Pharmaceutical**
- **Paints**

Clothing sector



Leather, Clothing and Battery Sectors

- **Leather and Allied Industry**
Federation of Zimbabwe noted that an estimated 3.4 million pairs of shoes is imported mainly from Far East. The duty is 40%, plus \$5 per pair plus 15% VAT thus minimum retail price should be \$7 per pair.
- **However shoes are being sold for as little as \$1.50 per pair. How is it possible?**
- **This has been the complaint from other sectors including clothing and batteries.**

Meat products



Meat and Livestock Sector

- In the meat and livestock industry there are reports of illegal meat and dairy products such as fresh milk, poultry offals among other products from unapproved plants in Europe and South America.**
- The products are being marketed below legal landed costs. For example poultry being wholesaled for \$2.50/kg whereas legal landed cost is in the region of \$2.80 to \$3.00/kg.**

Chirundu, Beitbridge & Nyamapanda, Forbes



Leaky Borders

- **Government must improve border management and deal with loopholes causing the borders to be porous.**
- **While policies and measures have been formulated to ensure support to local industry revival and growth, these measures are failing to breed the desired results due to lack of or poor implementation.**
- **The measures which include the tariff regimes are supposed to be an instrument of industrial competitiveness hence the need for simplifying tariff headings and rationalizing the tariffs to ensure that industry gets the necessary protection.**
- **The measures are being circumvented.**

Dumping and Violation of Rules of Origin

- **There is also need for constant post shipment inspection in accordance with WTO provisions and to check on the authenticity of certificates of origin and other standards.**
- **Government has to lead the fight to eradicate dumping, rampant violation of Rules of Origin as well as eliminating other activities leading to leaky borders.**

Pharmaceuticals



Pharmaceuticals

- **By far the greatest problem confronting the industry is that imported drugs are exempted from duty and VAT through Statutory Instrument (SI) 220 of 2000 (Cap. 23:02)**
- **However, raw materials and packaging materials imported by local manufacturing companies attract duties of up to 40% and VAT of 15%. The high import tariffs on pharmaceutical raw materials and packaging materials increases the cost of drugs thus making it cheaper to import than to produce locally.**
- **is therefore urgent need to remove these duties to at least level the playing field. The current tariff structure promotes de-industrialisation and dumping of foreign products on the Zimbabwean market.**

Paints



Paints industry

- It is cheaper to buy an imported Plascon product from Zimbabwe**
- This clearly illustrates that foreign manufacturers, especially South African based manufacturers are pricing at levels which constitute a clear “unfair competitive practice” and essentially are guilty of “dumping” into our Zimbabwean market.**
- The local paint industry thus faces total collapse if the above scenario continues to prevail.**

CLARION CALL

Short term-Incubation Period

- **Short term solution and creation of a window period (3-5 years) to allow Zimbabwe's manufacturing industry to address macroeconomic issues as well as the recovery of industries that have the potential.**
- **Such a window will give Zimbabwean business the ability and opportunity to recover and perform at same level as their foreign competitors, while at the same time addressing some of the infrastructure issues that will increase the level of competitiveness.**

.....continued

- **The trade deficit will result in the Government failing to take care of its population, failing to pay key obligations and civil servants salaries**
- **The closure of the companies will be irreversible.**
- **This is a crisis and demands that we act now as the country will be in worse trouble in the next three months.**



Proposed solutions

- We need to make it viable for the manufacturing sector to operate within the framework of the high local costs which have to do with the incorrect fundamentals.
- This has to be until these fundamentals are corrected. E.g high cost of funds, poor and expensive electrical power, high perceived country risk.
- Subsidized imports which should not qualify for certificates of origin should not enter
- Import/Export Scheme to curb Dumping
- We need to reduce the trade deficit
- We need to make it viable for positive returns at current cost of capital to stop loss of bank capital and to attract high risk capital.
- We need to ensure there is disposable income so that the retail sector remains viable.
- COMPETITIVENESS

Proposed Solutions

- **How: Levy surcharges on Import/full implementation of tariff regimes**
- **Increase and ensure public expenditure promotes local companies**
- **Value chains/clusters**
- **Temporary ban on specific products:**
Need for a temporary ban on specific products that are locally manufactured but the price of locally produced should remain as competitive as possible in view of the cost of producing in Zimbabwe

Putting Shots

- **Pharmaceutical sector- duty and VAT should be removed on all imported pharmaceutical raw materials and packaging materials as is the case with imported drugs to at least level the playing field.**
- **The leather industry-the introduction of a tax levy on the exports of raw hides as is the case in Ethiopia and South Sudan. These countries levy 150% and 60% on exports of raw hides respectively. Effectively it's not economical to export raw hides from those countries.**
- **The emphasis is value addition on the raw hides.**

Conclusion

- **With the myriad of problems in the manufacturing sector, it is doubtful that Zimbabwe can achieve the overall objective of restoring the manufacturing sectors to GDP to 30% without concerted efforts from government, policy makers, industry and other interested holders.**
- **All sectors of the economy including the manufacturing sector must redefine the key economic drivers which will be necessary to take Zimbabwe to the next level of economic growth.**
- **The limited resources available should be carefully channeled towards those sector with potential to compete on the international market.**

Triumph of Hope over experience

**While 2013 maybe a decisive year
politically with the elections,
economically it is likely to be another
tumultuous year for manufacturing.**

Acknowledgements

- CZI
- SAZ
- ZSE

