BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

AN INVESTIGATION INTO THE FACTORS AFFECTING EXPORT PROCESSING ZONES COMPANIES IN ZIMBABWE (1998-2011)

Submitted by

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE BACHELOR OF SCIENCE (HONOURS) DEGREE IN ECONOMICS OF BINDURA UNIVERSITY OF SCIENCE EDUCATION.

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RELEASE FORM

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APPROVAL FORM

The undersigned certify that they have supervised, read and recommend to the Bindura University of Science Education for acceptance a research project entitled: An investigation into the factors affecting Export Processing Zones Companies in Zimbabwe (1998-2011). Submitted by Chikwindi Matthew in partial fulfilment of the requirements for the Bachelor of Science (Honors) Degree in Economics.

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DECLARATION

I, Matthew Chikwindi, declare this research project herein is my own work and have not been copied or lifted from any source without the acknowledgement of the source.

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DEDICATION

I dedicate this dissertation to my mum and dad who have stood with me everywhere
ABSTRACT

The research sought to investigate the factors affecting Export Processing Zones companies (EPZ) in Zimbabwe from the period (1998-2011). The research employed descriptive survey design. The primary data was collected from a sample of 50 EPZ companies using questionnaires and interviews. Secondary data was obtained from UNCTAD, EPZA publications and internal journals. Although EPZ companies are given incentives, their performance was disgusting. The research revealed that in order for EPZ companies in Zimbabwe to be competitive, the environment must be friendly and Government should put policies which attract investors rather than the policies which turn investors away. Also economic governance is of importance, this is because after dollarization of the economy anticipated investors did not come as expected though inflation and exchange rates were issues of the past. The researcher therefore recommends that macro economic stability should prevail in the economy so that potential investors will be certain of security on their investments. There must be policy coordination between government departments. This ensures predictable set of laws, rules and regulations which should be clearly stipulated in agreement with investors, customs authorities and government departments. This works towards promoting EPZs in the country. In view of the competitive global investment environment, the government should undertake a complete overhaul of investment incentive packages taking into account the experiences of other developing regions and the country itself. Periodic revisions of EPZ laws must be done in order to accommodate changing national economic conditions. Also when the government recommend returning to local currency, exchange rate must be revised in order for companies to remain competitive.
ACKNOWLEDGEMENTS

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To my supervisor Mr Muchingami thank you for dedicating your limited time in the supervision of this project.
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CHAPTER 1
INTRODUCTION

1.0 Introduction

According to Henry J. Bruton (1998), two broad industrial strategies have been used by developing countries to achieve economic growth and development. At first, many developing countries attempted inwardly focused industrial strategies such as import substitution and infant industry protection programmes. These early development strategies often created severe market distortions because of their reliance on overvalued exchange rates, strict import controls and large bureaucracies to manage international trade. Additionally, the economies of many newly independent developing countries were increasingly more centralised as various forms of state led and socialist systems were embraced.

EPZs are self-contained industrial sites which are established for the export of manufacturers and the processing of offshore services (Dorsati Madani 1999). The governments of many developing countries set up these zones by offering attractive incentives to investors including: lower levels of import restrictions, less restrictive labour requirements, liberal tax, ownership and foreign exchange regulations and access to superior infrastructure, transport and communication technologies compared with the rest of the economy. In return, these countries hoped to receive new and expanded employment opportunities for their populations, to attract much needed foreign direct investment (FDI) and foreign currency and to encourage technology transfers and much needed human capital development.

1.1 Background to the study

Export processing zones (EPZs) have been established around the world in order to stimulate economic growth by attracting foreign direct investment (FDI). Export Processing Zones are special regulatory areas within countries to promote export led growth. The International Labour Organization has defined EPZs as industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again.
EPZs have been called the vehicles of globalisation by Van Heerden 1998. While nation states have developed exceptional spaces of economic activity for over a century, the recent phenomenon and proliferation of EPZs refers to a period beginning in the late 1960s, when developing countries sought to attract investment by exploiting a comparative advantage through concessionary incentives which include; exemption from some or all export taxes, exemption from some or all duties on imports of raw materials or intermediate goods, exemption from direct taxes such as profit taxes, municipal and property taxes, exemption from national foreign exchange controls, free profit repatriation for foreign companies, provision of streamlined administrative especially to facilitate imports and exports, and free provision of enhanced physical infrastructure for production, transport and logistics that is according to International Labour Organization 2008.

Because of new opportunities for capital and new conditions for developing economies, the growth of EPZs has been substantial in the last two decades as they have expanded in terms of the absolute number of countries using them, the scope of industrial diversity they cover and their size. The World Bank (2008) estimates that today there are 3000 zones in 135 countries, accounting for over 68 million jobs and over $500 billion of direct trade related value added within zones.

The growth of EPZ is on the rise globally and regionally. For example EPZs have played a central role in the growth and liberalisation of her economy. Due to the operations of EPZ companies, employment easing unemployment challenges. While regionally Mauritius EPZ experience is considered a success as goals of employment and export diversification was met.

**EPZ in Zimbabwe**

In order to promote exports and create employment, the government of Zimbabwe adopted the strategy of promoting Export Processing Zones (EPZs) through the EPZ Act of 1994. EPZ companies were established countrywide and not confined to industrial parks. According to Godfrey Kanyenze (2006), the government offer incentives to qualifying firms for an EPZ status and these include: corporate tax holiday of 5 years and a low flat rate of 15 percent thereafter, duty free importation of capital equipment and machinery for EPZ operations, duty free importation of all raw
materials and intermediate goods required in the production process and in construction exemption from withholding tax on individuals, exemption from fringe benefits tax on EPZ employees, exemption from withholding taxes on interest earned, fees, remittances and royalties, exemption from profit tax for a branch of a foreign registered company operating in EPZ and exemption from capital gains tax.

To be an EPZ company, the following criteria have to be met, these are as follows: the EPZ company must be a new investment (Greenfield investment), export at least 80 percent of annual sales/turnover, create employment opportunities and undertake human resource development, undertake value addition activities, provide adequate environmental safeguards, strive to achieve significant technical knowhow and technological transfer and be approved by the Export Processing Zones Authority (EPZA).

EPZ companies are classified into eight different sectors namely agro-processing, horticulture, mineral processing, food processing, services, furniture and timber processing, clothing and footwear and manufacturing. Of the total investment made, 30% was by foreign investors, 30% by joint ventures between Zimbabwean and foreign companies and 40% by Zimbabwean investors. By March 2001, EPZs had generated only US$246 million in foreign currency. Of this total, agro-processing, textiles, clothing and furniture manufacturing have accounted for US$114, US$59, US$29 and US$20 million respectively.

As other countries globally and regionally enjoyed from the increase in export earnings and employment creation. The same cannot be said of Zimbabwe, although they are favourable incentives on paper. EPZ companies continue to perform dismally and many of them have shut down operations creating unemployment. This prompted the researcher to go on a mission to find out those factors which are affecting EPZ companies in Zimbabwe. This is because close to 7000 jobs were lost and EPZ companies shut down thereby leading to a fall in export earnings beginning in 2005. The researcher found it worth to look for those factors affecting EPZ companies for the period 1998-2011.
1.2 Statement of the problem
According to Export Processing Zone Authority (2005), 23% of EPZ companies ceased operations and this resulted in a loss of export revenue totalling about $17.6 million in the cash strapped country of Zimbabwe. Close to 7000 jobs were lost due to the closures in the export sector which employs 26000 people. There were 183 companies licensed for export in Zimbabwe at the start of the year 2003, but by the end of 2005 the companies had dropped to 150 companies. Earnings from these firms totalled $220 million in 2003, but in 2005 earnings totalled $202.4 million. This continued up to 2008 as companies shut down operations leading to a decline in export earnings despite the incentives being provided. The research therefore seeks to investigate the factors affecting EPZ companies in Zimbabwe for the period 1998-2011.

1.3 Objectives of the study
The main objective of the study was to investigate the factors affecting the of EPZ companies in Zimbabwe from 1998-2011. This was done through the following sub-objectives

i) To establish reactions of EPZ companies against factors affecting them.
ii) To establish the perception by the EPZ companies on the incentives offered.
iii) To suggest recommendations that may be adopted by responsible authorities.

1.4 Research questions
i) What are the major factors affecting the operations of export processing zones companies?

ii) How did the EPZ companies react to the challenges they are facing?

iii) What perception did investors have on the incentives that are being offered?

iv) What recommendations could be given to responsible authorities?
1.5 Assumptions
i) The use of interviews and questionnaires as research instruments were the most appropriate method to gather information.
ii) The secondary data available is accurate and fits the researcher’s objectives to enhance the findings from the primary research.

1.6 Significance of study
The research would benefit the Zimbabwe Investment Authority (ZIA) in identifying appropriate incentives and promotional needs for companies. The EPZ companies would then benefit in getting appropriate help as their challenges are addressed. The economy would benefit in foreign currency through increased exports. The research would also benefit the scholars by the review of literature and identifying areas for further study.

This research will enable the researcher to increase his skills and develop them so that he will have more knowledge to tackle more researches that will emanate in the future. The study will add literature or secondary source for the library and help the other students to have an insight on how to write a better dissertation.

The research will enable the ZIA under government to find better ways to attract investment. Therefore favourable policies would be put in place to lure investors. Also the government will notice and rectify where it could have been going wrong. The research will also help the community not to be overly dependent upon investors for job creation but to be empowered through participating in government sponsored programmes such as indigenisation. This will empower the public and thereby producing surplus that can be exported to other countries resulting in an increase in national income via the multiplier process. The purpose of choosing the period between (1998-2011) was to find the reasons for a downfall performance of EPZ companies.
1.7 Delimitations of the study
The study focused on the factors affecting Export Processing Zones companies in Zimbabwe for the period 1998-2011. The study focused on the EPZ companies who are under the agro-processing, horticulture, manufacturing, food processing, clothing and footwear, services mineral processing and Furniture and timber. Data was collected through the use of interviews, questionnaires and secondary data such as UNCTAD and magazines.

1.8 Limitations of the study
Zimbabwean data continues to suffer from incomplete coverage and this may mean a loss of some of the key observations. However, the researcher collected data from different sources such as United Nations Conference on Trade (UNCTAD) and journals in order to overcome this challenge.

In some instances price controls suppressed the true behaviour of prices leading to false short term inflation rates. However, the researcher collected data that is adjusted to current inflation rates.

Some of the data was difficult to access due to the issue of confidentiality as some managers feared their privacy to be interrupted with. To overcome this problem the researcher used Official Development Assistance as a proxy.

1.9 Definition of Terms
1. EPZ - Export processing Zones, these are defined as fenced-in industrial estates specialising in manufacturing for exports that offer firms free trade conditions and a liberal regulator environment.
3. FDI- Net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor.

1.10 Abbreviations
1. EPZ – Export Processing Zones
2. EPZA – Export Processing Zones Authority
3. FDI – Foreign Direct Investment
4. ILO – International Labour Organization
5. UNCTAD- United Nations Conference on Trade and Development
6. ZIA – Zimbabwe Investment Authority

1.11 Chapter Summary
This chapter looked at the general statement of the problem, aim and highlighting the specific objectives after which delimitations of the study and definitions among others were made. The second chapter looks at the review of literature where theoretical underpinnings used in the research will be given and clearly explained. The third chapter comprises of the methodology which was used to collect data. Data presentations and research findings are carried out in chapter four while chapter five looks at the conclusions and recommendations.
CHAPTER II

LITERATURE REVIEW

2.0 Introduction

Although most countries offered a large number of incentives to attract and promote EPZs, experience shows that they have been successful. According to Dorsati Madani (1999), in China EPZs have managed to create employment, and enhance technology transfer. The same can be said of Mauritius where EPZs managed to create employment and her economy was boosted through export diversification. However the same cannot be said of Zimbabwe, though necessary incentives have been put in place little progress has been made. This chapter aims at reviewing existing literature that is related Export Processing Zones companies. It will also seek to establish the. It has to be noted that this chapter provides a synopsis of both the theoretical and empirical literature concerning issues related to EPZs in Zimbabwe.

2.1 Background to EPZs

Export processing zones offer investors who agree to export the whole of their output access to duty free import of capital and immediate goods, abundant supply of low labour costs and a wide variety of tax incentives. They thereby reconcile the other conflicting interest of developing countries officials who need to generate jobs and foreign currency revenue and support local manufacturers who are unable to compete in world market, (Schrank 2001). This is almost similar with the Zimbabwean EPZs where incentives are used as a catalytic tool. However, this description differs slightly with the Zimbabwean case where at least 80 percent of output is for export market.

2.1.1 Theoretical Framework

2.1.2 Export processing zones

By the 1980s, with the failure of import substitution programs and in the face of looming financial crisis, many countries turned to EPZs, a form of export promotion,
to liberalise and jumpstart their economies and as away to enter the global economy through international trade. An EPZ can be defined as an industrial enclave that engages in export manufacturing with the assistance of foreign investment and enjoys preferential treatment that is not generally available in rest of the country (Jamie K. McCallum 2011). Salinger et al (1998) offer that EPZs are typically established where reforms have been either partial or ineffective. EPZs were first used in Ireland in the 1950s. However, the model soon spread to East Asia and later to Latin America and the Caribbean and then to Africa and the Middle East.

According to Dorsati Madani (1999), EPZs can be differentiated by their ability to sell their output in (part or whole) in the market of the host country. Those which are not permitted such a transaction fit the more traditional definition of EPZ. Some countries have adopted a more flexible stance with regards to such sales and allow some percentage of the EPZ production to be sold in the domestic market after appropriate import tariffs on the final goods are paid. For instance, Dominican Republic allows up 20 percent of the EPZ products into its domestic market while Mexico allows 20-40 percent in. A final category of EPZs permits the free sale of its products on the domestic market. Manaus (Brazil) is one such zone (Manuel-Rodriguez 1996)

EPZs can also be divided into public and private zones. The older zones in Ireland were typically set up and run by the host government. In the past 10-15 years however, an increasing number of zones have been developed and are being managed by private entities. Finally zones can be categorized as high end or low end. This distinction refers to the wide range of services provided by the zone (quality of management and facilities) and therefore, the type of firms populating a zone.

2.1.3 Why do countries use EPZ Companies

According to Dorsati Madani (1999), EPZs is one of the many trade policy tools at the disposal of a developing country government. Typically, they are created as open market oases within an economy that is dominated by macro and exchange rate regulations, and other regulatory governmental controls.

Traditionally, there are four competing, but not exclusive views on the role of EPZs in an economy. One considers it as an integral part to further economy wide reforms. In
this light EPZs are to have a specific life span, losing their significance as countries implement systemic trade, macro economic and exchange rate reforms. As the economy opens up and a country develops its capacity for competitive industrial exports, EPZs exports and employment share in total export and employment falls. Both Taiwan and S. Korea EPZs fit into this category.

A second view sees EPZs in-terms of a safety value. They provide much needed foreign currency to accommodate import needs for the host nation and create jobs to alleviate some of the national unemployment or underemployment. However, with the country not liberalizing the rest of the economy, the EPZs remain enclave production areas with limited economic contributions.

A third view is that EPZs be used as laboratories to experiment with market economy, outward oriented policies. China’s early special economic zones have been seen as embodying this third view (World Bank, 1994). Here, new production, labour and financial relationships and dynamics were introduced and evaluated, before introduction into the larger Chinese economy.

A final, less orthodox, and much more recent, take on the role of EPZs comes from some developing countries in which the level of Foreign Direct Investment (FDI) following trade and macro-policy reforms has been disappointing. Some are considering establishing (or have established) EPZs to enhance the incentives to attract FDI, matching or surpassing the incentives provided by their neighbouring (and potentially competitor) countries for these investments.

All four views still consider the EPZs as source of technological transfers and human capital development. There is no doubt a certain level of catalytic and demonstration effect (Rhee, 1990; Rhee and Belot, 1990) on the domestic private enterprises. The zone may also be providing a well managed and efficient industrial structure in a nation that may not possess one. The labourforce also benefits from technical training and learning by doing in the zones, although according to literature, most of the zone firms use low technology, labour intensive production processes. It appears the most valuable training for the labourforce may be the work discipline they acquire for industrial production.
2.1.4 High dependence on primary products
Countries which generally rely on exporting primary goods for foreign exchange earnings are at risk as prices of these commodities are highly volatile and highly vulnerable to terms of trade shocks thereby discouraging investments (Dupasquier and Osakwe 2005). Export diversification is another potential advantage of EPZs and this ensures that risk is reduced thereby if one product fails the other product will not fail also. Many developing countries suffer from a monoculture economy and rely on the exports of a limited number of commodities in the primary sector.

2.1.5 Role of incentives
Incentives are offered in EPZs to make up for the host economy’s inherent inefficiencies, be it the protected domestic market, regulatory barriers or poor infrastructure. An EPZ in an economy with high inherent inefficiencies may allow it to attract investors while maintaining some of these inefficiencies by providing incentives compensating for the lower returns an investor may expect compared to other locations. Other incentives are intended to create a more business environment (Engman et al 2007). In Zimbabwe tax incentives are mainly offered and these may cover the high taxation rates in Zimbabwe.

Rolfe et al (2004) the main objective of EPZ is export promotion and stimulation FDI. In order to promote investment, investors conferred with the EPZ status are granted incentives by the government which are as follows.

Duty free importation of capital equipment and machinery associated with the EPZ promotion, duty free importation of all raw materials and all intermediate goods required in the production process and in the construction of EPZ facilities, a corporate tax holiday of five years and a low flat rate of 15 percent thereafter, exemption from fringe benefits tax EPZ employees and refund of sales tax paid on goods and services purchased from the customs territory (EPZA Act 1994)

2.1.6 Reaction to challenges
According to Tekere (2000), investors attracted by EPZs are not the traditional ones and they have been characterised as foot loose, fly by night investors who relocate easily. Oh W.S (1993), gives examples from the South Korea where some investors in the Masan EPZ relocated once their tax holidays and benefits expired. ICFTU (1998), reports that some EPZ firms have relocated once labour standards enforced.

### 2.1.7 Perceptions on incentives offered

According to Tekere (2000), the general macro economic environment and socio-political situation in the domestic economy has a strong bearing on investor decision making in relation to EPZs. Irrespective of the availability of all incentives and facilities in the EPZs a violent socio-political and economic situations chases investors away from export processing enclaves.

### 2.2.0 Empirical Evidence

#### 2.2.1 Factors affecting EPZ

According to Tekere (2005) macroeconomic stability is a key to an enabling environment. Exports processing zones are sensitive to the national economic environment and perform better when the host country pursues sound macroeconomic policies. Macroeconomic stability in domestic economy has a strong bearing on investor decisions in relation to export processing zones. Irrespective of all incentives and facilities in the EPZs macroeconomic instability chases investors away from export processing zones enclave.

Romer, (1993) and Alter, (1991) echoed the same sentiment with Tekere arguing that EPZs are sensitive to the national economic environment. They go on to say that EPZs companies perform better when the country pursues sound macroeconomic and realistic exchange policies. Thomas (1999) sights that economic instability represents a major disincentive to investment as it increase uncertainty. Since 2000, Zimbabwe was characterised by various macroeconomic problems which may have contributed to challenges faced by these companies.

Overall stability of business, friendly economic environment and political atmosphere are a necessary first step and long term component for the success of EPZ. Aside from
including the basic incentives, this stability includes political continuity and sound macroeconomic and exchange rate policies. Where there is divergence from this basic principle, the performance record of EPZs has suffered. Sound and stable monetary and fiscal policies, clear private property laws and economic governance provide a general environment propitious for EPZ success (Madani 1999). Continuous changes in monetary policy which is unveiled after every three months can have a negative impact on EPZ operations since they are mainly concerned with the exchange rate. This may cause greater uncertainty which affects operations of company.

2.2.2 Economic governance and Macroeconomic instability

According to Bartlomiej Kaminski and Francis Ng (2011), the Global Political Agreement (GPA), signed on September 15, 2008, and the introduction of multi-currency regime in April 2009 have provided a modicum of political certainty and restored macro economic stability. The latter put an end to hyper-inflation and removed some of the most damaging measures introduced during the economic chaos in 2000-2009.

Another cause of the country’s poor record is that Zimbabwe has not had institutions and structures supporting protection of property and contract rights combined with a low cost of doing a business that is, easiness to enter and exit business activities, low taxation and regulatory compliance cost, high flexibility of labour markets and a reasonably well functioning financial system. Only under these conditions could firms have had incentives to expand and cut costs in order to stay competitive.

Indeed, all success stories of economic development over the last two decades have been based on export-oriented policies combined with business friendly environment, political and macro economic stability and low or declining barriers to imports of goods and services and openness to Foreign Direct Investment inflows. Successful countries have also developed infrastructure commensurate with growth in internal demand for inputs and for expanding transportation of goods, storage facilities and ports. Zimbabwe appears to score satisfactorily in terms of physical access to external markets. Its major urban and industrial centres are linked with paved roads and rail roads both tied into an extensive central African transportation networks with all its neighbours.
According to D. Kauffman (1998), the government has so far failed to follow up on opportunities stemming from restoring macro economic stability. It has been acting as though macro-economic stability by default would end under utilisation of capacities and restore employment. The problem is that some human capital might have been lost as a result long term unemployment. More importantly, as our analysis of Zimbabwe’s exports performance suggests, these production capacities may no longer exist. The scope of firms engaged in export activities significantly declined in the 2000s. Some survived by selling in domestic markets, but even those that did now badly need new capital investment to stay competitive. High real interest rates combined with an unfriendly investment environment do not make these investments possible. Except for the removal of some restraints on current business activities (example the foreign currency surrender requirement, foreign exchange control), there has been no improvement in the investment climate. Put differently, the quality of Zimbabwe’s business environment has improved but only marginally as other barriers that put Zimbabwe at the bottom of several international rankings have remained in place.

2.2.3 Quality of economic governance in a comparative statistics
The following table presents values of the single aggregate index of economic governance (SAG) for each dimension of governance so that the best performer is 100 and the worst performer is zero. Thus, the scores for other countries will show the distance separating them from the best and the worst performer in terms of the quality of governance. In general, three groups of countries can be identified: decent performers with the value of SAG above 60 percent, average performers with the values of SAG between 40 percent and 60 percent, and dismal performers with the value of SAG below 40 percent. South Africa (since 2000), Botswana, Mauritius, and Namibia (since 2004), have decent levels of economic governance. The remaining countries were within world median except for Zimbabwe, which slipped from this group beginning in 2000. Zimbabwe’s quality of governance was already below the region’s average in 1998.
Table 1: The values of aggregate quality of governance (SAG) indices for Zimbabwe and selected SADC countries.

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<td>71.8</td>
<td>69.0</td>
<td>69.5</td>
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<tr>
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<td>45.8</td>
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<td>62.7</td>
<td>64.6</td>
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<td>64.3</td>
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</tr>
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<td>46.3</td>
<td>43.3</td>
<td>44.8</td>
<td>42.5</td>
<td>46.9</td>
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<td>49.7</td>
<td>49.9</td>
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<tr>
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<td><strong>29.0</strong></td>
<td><strong>20.0</strong></td>
<td><strong>20.4</strong></td>
<td><strong>15.1</strong></td>
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<td><strong>15.7</strong></td>
<td><strong>14.4</strong></td>
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<td>49.2</td>
<td>46.1</td>
<td>46.0</td>
<td>45.8</td>
<td>43.9</td>
<td>47.5</td>
<td>45.7</td>
<td>46.2</td>
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<td>70.4</td>
<td>71.3</td>
<td>69.4</td>
<td>69.2</td>
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<td>71.0</td>
<td>73.7</td>
<td>70.6</td>
</tr>
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<td>58.6</td>
<td>59.9</td>
<td>60.4</td>
<td>59.6</td>
<td>62.1</td>
<td>62.8</td>
<td>66.1</td>
<td>62.4</td>
</tr>
<tr>
<td>Tanzania</td>
<td>50.5</td>
<td>49.8</td>
<td>48.7</td>
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<td>45.1</td>
<td>45.5</td>
<td>47.9</td>
<td>48.4</td>
<td>48.2</td>
<td>49.2</td>
</tr>
<tr>
<td>Memorandum</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Rwanda</td>
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<td>24.6</td>
<td>30.3</td>
<td>34.5</td>
<td>38.0</td>
<td>34.5</td>
<td>43.0</td>
<td>45.7</td>
<td>47.9</td>
<td>48.2</td>
</tr>
</tbody>
</table>


The ground lost against the other countries has been outstanding. While Rwanda moved from the value of SAG of seven percent in 1998 to every respectable 48 percent in 2010-2011, Zimbabwe moved in the opposite direction with the value of SAG falling from 45 percent to 14 percent over the same time span. In order to appreciate the distance lost, comparing Zimbabwe with its Eastern neighbour, Mozambique, which scored on a par with Zimbabwe in 1996 and stayed in an average grouping the 2005. It can be seen in table 1, that Mozambique stayed the course making significant strides in building policy and institutional foundations of competitive markets.

Although Zimbabwe has a very long way to go in order to establish policies and institutions capable of reversing the trend of economic decline, political and economic
changes that took place in 2008-2009 have already improved the quality of economic
governance, which is yet to be captured in most international assessments. Except for
the Transparency International ranking which duly registered improvement in its
measure of Corruption Perception Index, the verdict of other organisations on
Zimbabwe has remained unchanged.

2.2.4 Exchange rate volatility on the performance of EPZ companies.

Exchange rate volatility will have adverse effects on the volume of international trade.
Jenkins and Thomas (2002) states that the variability of both exchange rates and the
rate of inflation cause investors to hesitate to commit significant resources. For this
reason, challenges encountered by EPZ companies may be attributed to variability of
exchange rates and inflation which cause investors to be uncertain about the future.

According to UNCTAD (2000), for the past several years, Zimbabwe has experienced
an acute foreign currency deficit that has caused crippling shortages of fuel, electric
power and other imported goods and components, defaults on public and private
sector debt service payments and a sharp decline in industrial, agricultural and mining
operations. Foreign currency was highly difficult to obtain through licit channels due
to the Reserve Bank of Zimbabwe’s exchange controls, the country’s poor export
performance, and the lack of balance of payments support. The foreign Exchange
Control Act regulated currency conversions and transfers. It did not prohibit foreign
investors from moving assets between Zimbabwean and foreign accounts, but lack of
foreign exchange and constraints of the foreign exchange regime impeded the
remittance of investment returns. Some local businesses have credibly charged that the
government raided their foreign currency accounts to meet certain foreign obligations
falling due.

Exporters retained 85 percent of their foreign currency account balance for their own
use within 30 days while 15 percent was sold to the Reserve Bank at the highly
disadvantageous inter-bank exchange rate rather than the market determined parallel
rate. Uncertainties associated with retention requirements and retention period, which
have been adjusted frequently and without notice, constrained business planning and
operations. The retention requirement and unfavourable exchange rate acted as an
effective tax on exports.
The Foreign Exchange Control Act extends to prospective outward investment as well as dividend remittances. Traditionally, the government has discouraged investment by Zimbabweans outside the country, and relatively few Zimbabwean firms made such investments.

According to Madani (1999), foreign exchange restrictions or multiple exchange rates cause distortion of incentives and misallocation of resources in an economy. EPZs incentives provide for unrestricted flow of firms earnings at market exchange rates.

Krakoff (1994), exchange controls can have important adverse effects on exporters, particularly those which depend on imported inputs. Thus, companies with high inventory turnover such as manufacturing and food processing which constantly order new raw materials may find it difficult if they must apply each time for the necessary foreign exchange. This process is also subject to delays and arbitrary control which affects the operations of those companies. Krakoff (1994) goes on to say that exporters supplying major markets are often subject to stringent delivery deadlines. Even small delays in them obtaining the foreign exchange needed to buy inputs may cause their entire order to be rejected by the customer as the production and shipment schedules slip. Collier and Gunning (1997) finds that unreliability of supplies is an important cause of low utilisation rates. This is another factor that may have contributed to low capacity utilisation.

Munoz (2006) the growth rate of total exports was high in the second half of the 1990s, but then turned negative since the early 2000s although the EPZ was in place. Zimbabwe’s export performance was well above the average of African countries in the 1990s due to its comparative advantage in agriculture which was dominated by large commercial farms, and manufacturing. However due to the increasing overvaluation of the currency from 2007 to 2008, export perform once dropped off which is another factor that may attribute to challenges faced by companies. But due to the introduction of multi currency that is dollarization in April 2009 shows a sign of improvement in exports although much has not been done.
The exchange rate alone however cannot be cited as a major factor of poor export performance.

2.2.5 Openness to Foreign Investment

According to ZIA (2007), the government’s command and control tendencies and its intervention in many sectors makes Zimbabwe generally unwelcoming to foreign direct investment, particularly from western countries. Furthermore, the erosion of the rule of law and sanctity of contracts has had a chilling effect on business and on foreign direct investment.

The government’s priority sectors for foreign investment are manufacturing, mining and infrastructure development for tourism. In these sectors foreign investor have been permitted to own up to 100 percent of business enterprise, although in 2008 the government introduced an Indigenisation Act that mandates, overtime, 51 percent indigenous ownership of businesses. It also introduced an Amendment to the Mines and Minerals Act that has onerous indigenisation requirements. The government reserves several sectors for local investors. Under current laws, foreign investors wishing to participate in these sectors may only do so by entering into joint venture arrangements with local partners. The foreign investors are restricted from owning more than 35 percent of the operation. The following industries face these restrictions: Agriculture/forestry, Transportation and Retail/wholesale trade, including distribution.

Zimbabwe’s mounting economic problems have driven FDI inflows from US$103 million in 2005 to US$40 million in 2006 before rising slightly to US$69 million in 2007, according to the World Investment Report compiled by (UNCTAD).

According to the World Bank (2007), once relatively robust by regional standards, Zimbabwe’s financial sector has contracted greatly in recent years as business and demand for sophisticated transactions evaporates. Two major international commercial banks and a number of regional and domestic banks operate with over 200 branches total following the well publicised failure of a number of financial institutions in 2003, primarily due to fraud and inept management. Reserve Bank regulations have been tightened greatly. Nonetheless, financial institutions have an uncertain future due to ever dwindling demand for credit from business clients and inconsistent policies on interest rates, and statutory reserves. Moreover, as the
economy dollarizes, demand for local currency denominated accounts is falling, further impairing local banks.

The Foreign Direct Investment effect goes beyond that of receiving needed infusion of capital (financial as well as machinery) from developed countries. Johansson (1994) frames these contributions in terms of positive spill-overs. Successful FDIs in a zone represent a showcase for domestic firms and potential entrepreneurs to learn from and copy. Rhee, et. al. (1990) refer to them as the catalysts for they initiate and nurse non traditional export oriented production into maturity by combining their technical, marketing and managerial know how and their access to world markets with the domestic endowments.

Both the literature and eyewitness accounts confirm the foreign catalyst impact on the domestic entrepreneurial pool. Two prime cases are Mauritius and Dominican Republic however it is difficult to capture the catalyst effect. In a detailed study of eleven export catalyst in low income countries, Rhee and Belot (1990) suggest that this “catalytic” and demonstrative aspect of EPZs renders them quite valuable to developing countries. They Rhee and Bhelot (1990) trace out the dynamic learning and application of foreign knowledge that took place, creating successful business ventures. 6 out of the 11 success stories were sparked by the cooperation of foreign and domestic catalysts. The foreign involvement was not limited to partaking. There was also investment of capital and technology.

2.2.6 FDI Effects: Technology Transfer, knowledge spill over and Backward Linkages

In developing countries in the early stages of development, linkage has occurred when the firms in the zones used basic production processes, where domestic raw materials and intermediate inputs could be used. A great success story in this regard is the experience of the Indonesian zones, where the dominant garment industry uses domestic cloth and other raw intermediate inputs for its production. Amirahmadi and Wei (1995) put the domestic share of total raw materials used in the zones at 15 percent.

Linkages also occur in advanced developing countries like S. Korea and Taiwan, where a large industrial base already existed and could provide electronics firms in
their zones with high quality, internationally competitive components. For instance Wang (1990) reports that in 1988, 1000 Taiwanese firms were sub contracted by EPZ firms carried out partial processing. On average the domestic suppliers provided some 25 percent of all EPZ inputs.

However, linkages have not been across the board and wide spread for several reasons. First, in many countries backward linkages are not very strong because of weak or non existent physical and business infrastructure. Second, in many cases, the poor quality, issues of supply reliability and non competitive pricing of domestic raw or intermediate goods hampers the creation of such linkages.

### 2.2.7 Employment Effect on Local/ National Economy

Job creation is considered one of the primary goals and one of the most important contributions of an EPZ to the economy. This goal is based on two assumptions. The first one is that the country has high unemployment. This is a reasonable assumption and the argument would work only until the excess labour is absorbed. Then the host nation faces a tight labour market and rising labour costs.

According to Alter (1991), the unemployment rate in Mauritius fell from 14 percent in 1985 to less than 3 percent in 1989. The Island nation has since experienced very tight labour markets and increasing wages. The second assumption equates creating jobs with alleviating unemployment. EPZs have created jobs, and where successfully managed and developed, a remarkably higher number of them. For instance, the zones in the Dominican Republic employed 504 workers in 1970, by the end of 1988; this number had reached some 865468 or 4 percent of the total employment in the economy Douhjre, et. al, (1989). International Labour Organisation (1998) estimated the 1996 employment numbers to be 164634.

### 2.2.8 Education/ Training Benefits (Human Capital Development)

There has no doubt been a great deal of knowledge spill-over effect from the creation of EPZs in developing countries. Anecdotal support abounds about how a previously unskilled labourforce has become semi-skilled and skilled production workers through training and learning by doing on the job. Rhee’s (1990) survey of Dominican Republic zones provides more concrete evidence. He reports a very steep labour
productivity learning curve for the first three years of a firm’s operation, followed by a noticeable flattening out of the curve. By extension these improved skills and productivity increase the workers’ income earning capacity. Given the high labour turnover rate in the EPZs, domestic firms get the opportunity to benefit from this training and skills by hiring workers previously employed in the zone firms.

Some employees also receive training at the managerial or supervisory level, thus, enriching the entrepreneurial capital of the country. Also the presence of EPZs allows domestic entrepreneurs and workers to benefit from observing and copying the traits that make the zone firms successful exporters. These traits may include managerial and production organizational skills, negotiations and marketing skills in dealing with foreign contractors, general business know-how and foreign contracts.

2.9 Chapter Summary

This chapter looked at the review of literature. The chapter gave basis for comparison of the previous findings on related studies from the current study. This chapter paves way for chapter three which looks at research methodology and instruments.

2.10 Recommendations

In order for EPZ companies to perform well there is need to improve economic governance. Economic governance is enhanced when there are institutions and structures supporting protection of property and contract rights. Exchange rate must be stable to induce investor confidence and laws which support foreign investment must be enacted in order to attract investment such as tax holidays and favourable laws.
CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction
This chapter looked at research methodology of the study. It highlights the research design adopted and it gives a detailed explanation of the sampling techniques and research instruments used to gather data. The sources of data and types of data used in this research are also explained. It goes further to explain the reasons for the research itself.

3.1.0 Research design
According to Arker, et al (1997), a research design is a detailed blueprint used to guide a research study towards its objectives. Best and Khan (1993), define a research design as a systematic and orderly approach taken towards the collection of data so that information can be obtained from those data. The main objective of the research design is to provide results which are judged to be credible and resemble reality and are taken to be true and reasonable. Research design can be exploratory or descriptive. Exploratory research design can be defined as the emphasis on the studying of a situation or a problem in order to explain the relationship between variables.

The research design used in this research is a descriptive survey. Descriptive survey is useful in exploring relationships and permitting description of phenomenon and events Wegner (2003). The researcher adopted the descriptive survey based strategy over other designs in order to minimise non sampling errors and to allow the collection of a large amount of data in a highly economical way.

3.2 Population
A population is a group of individual persons, objects, or terms from which samples are taken for measurement Wegner (2003). For the purpose of this study, the population comprised of 50 EPZ companies as at 31 January 1998 to December 2011. The period of study was chosen because in 1998 there was a boom in EPZ companies but as from 2000 onwards there was a major decline in EPZ companies thus leading
the researcher to find out the cause of downward performance in EPZ companies. ERPZ companies comprised of four sectors namely Agro-processing, manufacturing, clothing and footwear and mineral processing. In Agro-processing there were 11 companies, while in manufacturing, clothing and footwear and mineral processing there were 13 companies each.

3.3 Sampling procedure
Koosis (2000) defines sampling as a process of selecting a representative subset of observations from a population to determine the characteristics of the random variable under study. Items selected should be a full representation of the entire population Trochim (2006). According to Saunders et al (2003) sampling is important because it is impractical to survey the entire population and it allows one to get relevant data and results quickly. The advantage of using this method was that it was cheap, less time consuming and very easy for the researcher to obtain information quickly. Further justification of sampling comes from Panneersekam (2004) who argues that sampling makes possible a higher overall degree of accuracy than a census.

3.4 Stratified purposeful sampling
For the purpose of this study stratified purposeful sampling was used to select the representative sample. Stratified sampling was used because the population (EPZ companies) was divided into two representative groups of EPZ companies according to their ownership, that is, pure indigenously owned and those with purely foreign ownership and foreign and local ownership. Purposeful sampling is the selection of a sample with the required characteristics from a population Treece and Treece (1986). Purposeful sampling was then used to select a sample from the strata. Purposeful sampling has an advantage that the sample is picked conveniently. It also enabled the researcher to select individuals he perceived to lead necessary views and had adequate experience in the operations of the EPZ companies. The major disadvantage of stratified purposeful sampling is that bias might arise selecting a representative sample. However to overcome this, the researcher applied principles of professionalism and objectivity by minimising external and internal influences.

3.4.1 Sample size
The sample comprised of employees selected from EPZ companies. Fifty (50) EPZ companies were picked using stratified purposeful sampling of which a questionnaire was sent to each company. A total of 50 subjects were used in sampling. The researcher restricted to this small sample size because it was considered to be a representative of the population of the research. Also given the time and resources available to conduct the research, the sample size was considered ideal and practical.

3.5.0 Data collection procedures

3.5.1 Primary data
The researcher used interviews as a primary data instrument. Primary data was employed in order to have an in-depth understanding of the challenges faced by companies.

3.5.2 Secondary Data
According to Wegner (2003), secondary data is historical, already assembled and do not require access to respondents. Secondary data comprises of information that is already available and has been collected for other purposes other than the current research. Most of the data employed in the research was obtained through business letters/ magazines, monthly, quarterly and annual reports and through the internet. This data was analysed and interpreted to suit the purpose of the research.

3.6.0 Data Collection Instruments

3.6.1 Interviews
An interview is a purposeful discussion between two or more people Kahn and Cannell, (1957). The research comprises of semi- structured interviews. Semi-structured interview have a list of themes and questions to be covered, although these may vary from interview to interview. This means that some questions in particular interviews and the order of questions may also vary depending on the flow of conversation.

The researcher conducted interviews with various managing directors from different sectors. The interviews consisted of different questions about the factors that were
affecting the operations of EPZ companies. The interviews consisted of different questions attached on an interview guide on page 57. Both qualitative and quantitative data were obtained from the interviews. The results were then used to interpret data on the next chapter. This interview guide was used in order to get instant feedback that allows clarity of issues and probe further so as to come up with more detailed data. It allowed the researcher with an opportunity to probe answers where there was need for interviews to explain or build on their responses.

3.6.2 Questionnaire
Bogdan and Biklen (2003) regarded a questionnaire as the most widely used technique for collecting primary data. This technique consists of a series of questions each providing a number of alternative answers from which the respondents can choose. From the sample size of 50, fifty questionnaires were sent to each EPZ companies making a total of 50 questionnaires. Both structured and unstructured questions were used in this research. The questionnaire was made short enough to retain the interest of the respondents yet long enough to cover the basics. It was presented in written form to the respondents in order to obtain views of the participant on the research problem. A formal survey questionnaire was chosen because, first, it involved the description, recording, analysis and interpretation of conditions that existed. Secondly a large amount of data was collected immediately with greater accuracy (Saunders et al 2009). Questionnaires were given to the managing directors and the sample of the questionnaire is on page 54. The other advantage of using a questionnaire was that it eliminated interviewer bias. In addition respondents had more time to respond. Confidentiality was assured since respondents were not asked to disclose their names. In a few instances however, respondents were unable to recall information about themselves or their activities and others were not willing to admit that they lacked adequate knowledge about capital adequacy and often gave false responses for saving their prestigious ego. In order to overcome this, the researcher used simple English. Questionnaires are also restrictive as they provide little space for respondents’ answers. To avert this limitation, researcher gave allowance to respondents to attach additional information if space provided was not enough to express their opinion.

3.6.3 Reliability and validity on instruments used
The use of internal sources of data increased the validity of data. According to Trochim (2006), Validity refers to the accuracy or truthfulness of a measurement. A valid measure is necessary for reliability of data. Reliability is synonymous with repeatability and validity of data collected and used. The use of different data collection method within one study ensures that the data collected is consistent and true.

3.7 Data analysis and presentation
Data obtained from the interviews conducted was analysed into both quantitative data through simple statistical methods. Qualitative data was used in descriptive statistics while quantitative data was inputted into Microsoft excel for analysis and presentation. Tables, pie-charts and graphs were used to present data obtained.

3.8 Chapter summary
This chapter highlighted the research design, research instruments, sampling procedures and types of data used in the research. The researcher used questionnaires and interviews to collect primary data. Secondary data was also obtained from the data gathered; it enabled the researcher to present the collected data in form of texts, tables, graphs and pie charts. The following chapter is data presentation, analysis and interpretation.
CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction
The main focus of this research was to investigate the factors affecting EPZ companies in Zimbabwe. This chapter seeks to consolidate the research objectives and the findings made from various data collection methods. It focused on data presentation, analysis and interpretation. The research employed descriptive statistics in order to achieve the set objectives. These findings are presented either in the form of tables, graphs, texts or charts. Of the 50 questionnaires distributed only 44 questionnaires were responded to. The questionnaires returned were made up of EPZ companies from four sectors which are agro-processing, manufacturing, mineral processing and clothing and footwear.

The results from the survey research are discussed below.

4.1 An analysis of responses
The following table shows an analysis of response for questionnaires and interviews.

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Total Applied</th>
<th>Responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires</td>
<td>50</td>
<td>44</td>
<td>88%</td>
</tr>
<tr>
<td>Interviews</td>
<td>20</td>
<td>20</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>64</strong></td>
<td><strong>91%</strong></td>
</tr>
</tbody>
</table>

Source: primary data 2011

The following is a graphical presentation of the analysis on response for questionnaires and interviews.
Figure 4.1 and Table 4.1, shows the combined rate from both questionnaires and interviews. The researcher achieved 88% response rate from questionnaires. One hundred percent (100%) response rate was not achievable because 12% of the questionnaires were not returned. However the researcher achieved 100% response rate from interviews because all scheduled interviews were conducted. This high response rate means that the data fell within the range to give solid conclusions and also error of misspecification was minimised.

Source: Primary data 2011
4.1.2 Demographics of Respondents

The table below shows the positions held by respondents

**Table 4.2 Positions held by respondents**

<table>
<thead>
<tr>
<th>Position</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>22</td>
<td>50%</td>
</tr>
<tr>
<td>Production Manager</td>
<td>13</td>
<td>30%</td>
</tr>
<tr>
<td>Foreman</td>
<td>9</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Primary Data 2011

The table shows that 50% of the respondents were Managing Directors, 30% were Production Managers and 20% were Foreman. This implies that the information collected was valid and relevant since all respondents were in the management team rather than the general employees at the EPZ companies. This can be represented on a graph below.

**Fig 4.2 Positions held by respondents**

The graph shows that most of the information was obtained from the managing Director who was equipped with all the information as he or she is at the top of a company thereby making the data collected reliable.
4.1.3 Respondents’ Work Experience

The table below shows responses of work experience of the respondents.

**Table 4.3 Work Experience**

<table>
<thead>
<tr>
<th>Years of experience</th>
<th>Less than 5 years</th>
<th>Greater than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondents</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Percentage</td>
<td>9%</td>
<td>91%</td>
</tr>
</tbody>
</table>

Source: Primary Data 2011

The table shows that 91% of the respondents had more than 5 years of experience in their respective areas of specialisation while only 9% have 5 years of work experience. Table 4.2 and 4.3 not only shows that the respondents were senior managers but also had vast years experience. This among other factors enhanced the credibility of the findings.

4.2.0 Major factors affecting EPZ companies

4.2.1 Inflation

Hyper-inflation in Zimbabwe began shortly after the destruction of productive capacity in Zimbabwe’s civil war and confiscation of white owned farmland. Of the confiscated farms five companies were EPZ companies leading to a fall in production this is because new resettled farmers had no experience or training in farming. As a result the country experienced a sharp drop in food production and in all other sectors. This can be illustrated by a table on the next page.

Fig 4.3 Effects of Inflation on EPZ Companies
The figure above shows the rate at which inflation affected EPZ companies in agro sector, manufacturing, clothing and footwear and mining processing. Agro-processing companies affected were 64%, manufacturing were 45%, clothing and footwear companies were 36% and mining companies were 55%.

### 4.2.2 Shortage of Foreign exchange

Shortage of foreign exchange affected EPZ companies to supply adequate basic goods and services particularly the companies which were in the manufacturing sector, agro-sector and mining sector. These EPZ companies required imported inputs to produce and also new machinery to replace the obsolete equipment which was no longer efficient. Due to the shortage of foreign currency, these EPZ companies operated below capacity and this led to lower levels of productivity. Foreign currency deficit caused crippling shortages fuel, electricity power and other imported goods and components, defaults on public and private sector debt service payments and a sharp decline in industrial, agricultural and mining operations. This can be illustrated by a table below showing the EPZ companies affected by the shortage of foreign currency.

<table>
<thead>
<tr>
<th>agric, manufacturing, clothing, mining</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>agric</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>manufacturing</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>clothing</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
<tr>
<td>mining</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 4.5 Effects of a shortage in foreign currency
<table>
<thead>
<tr>
<th>SECTOR</th>
<th>RESPONSES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8</td>
<td>73%</td>
</tr>
<tr>
<td>Mineral processing</td>
<td>7</td>
<td>64%</td>
</tr>
<tr>
<td>Clothing and Footwear</td>
<td>5</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: Primary Data 2011.

The information on the table can be illustrated on a graph below.

Fig 4.4 Effects of a shortage in foreign currency

![Graph showing foreign currency deficit]  
Source: Primary Data 2011

Foreign currency shortages in Zimbabwe created the existence of an unofficial illegal parallel market for foreign currency in Zimbabwe. This created an anomaly between the official exchange rates and the illegal parallel market rates. As of September 2007, the unofficial rate was 600,000 Zimbabwean dollars for one US dollar, while the official exchange rate, for the same period was 30000 Zimbabwean dollars for one US dollar. On 18 October 2007, the International Herald Tribune reported that the illegal parallel market was asking for 1000,000 Zimbabwean dollars for one US dollar. Any
conversion of the Zimbabwean currency by the company was done in accordance with accounting standards that call for the true and fair position of assets and liabilities to be reflected. As a result of the disparity between the official exchange rate and the parallel market, profits received by EPZ companies were exchanged at a rate not fully considerate to the hyper-inflationary environment. This caused adverse effects on EPZ companies’ financial results and investment performance.

4.2.3 Economic governance

Political instability and economic mismanagement have extracted a heavy toll on Zimbabwe’s economy. Over the last decade traditional surpluses in agricultural products and industrial raw materials have either diminished or disappeared turning Zimbabwe into a net importer of agricultural products. The volume of exports has been in decline each year since 1998. Following the restoration of macro-economic stability in 2009 after more than a decade of inflation and hyper-inflation, the major barrier to economic activity has been removed. Yet, macro-economic stability alone will not put the economy on the path of sustained growth unless weaknesses in the country’s investment climate are addressed. The damage inflicted by a decade of ill conceived economic policies has been huge; it can be reversed once policies conducive to the revival of specialisation in line with Zimbabwe’s endowments in natural resources, relatively high quality of human capital and attractive natural environment are in place. The extent to which economic governance affected EPZ companies can be illustrated on a pie-chart next page.
As the pie-chart shows, EPZ companies in the Agro-processing sector were the worst affected by economic governance followed by manufacturing, mining, and clothing and textiles.

4.2.4 Infrastructure problems

From the interviews, the researcher carried out, EPZ companies were encountering difficulties in getting a constant supply of water and electricity. EPZ companies were facing several interruptions without any advice given to them by water and electricity authorities. As a consequence, companies faced several challenges to operate more efficiently as attributed by these problems. EPZ companies were not able to make constant supplies in international markets and as a result, this affected their operations. Because of the lack of adequate infrastructure, companies stated that they were incurring additional costs as they were forced to provide their own back-up generators and boreholes. This can be illustrated by a table below on the next page.
Table 4.7 Infrastructure problems

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>RESPONSES</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8</td>
<td>73%</td>
</tr>
<tr>
<td>Mining</td>
<td>7</td>
<td>64%</td>
</tr>
<tr>
<td>Clothing and Textile</td>
<td>7</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: Primary Data 2011

The information on the table can be presented graphically.

Fig 4.6 Infrastructure problems

The diagram shows that the EPZ companies in the Manufacturing sector were affected because more than other EPZ companies in different sectors. This is because the manufacturing sector requires electricity for production this can be witnessed in the industrial sector.

4.2.5 Foreign Direct Investment

EPZ companies enjoyed FDI previously from 1994-1998. Particularly in the mining industry where obsolete equipment was replaced by modern machineries due to capital inject through Foreign Direct Investment.
FDI has declined because there was no investment attraction due to equity restrictions. While there is need for our government to promote indigenisation, only a few players benefited from the exercise. Some projects are capital intensive and indigenous investors might not have the capacity to undertake such investments. There is need to revise the indigenisation bill and all the policies concerning equity restrictions. Zimbabwe’s mounting economic problems have driven foreign Direct Investment (FDI) inflows from US$ 103 million in 2005 to US$40 million in 2006 before rising slightly to US$69 million in 2007 and reading US$20 million in 2008. To show the performance of FDI in agro-processing sector, manufacturing sector, mining sector and cloth and footwear, the data is represented on a table below.

Table 4.8 FDI Statistics

<table>
<thead>
<tr>
<th>YEAR</th>
<th>VALUE ($ MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>444300000</td>
</tr>
<tr>
<td>1999</td>
<td>59000000</td>
</tr>
<tr>
<td>2000</td>
<td>23200000</td>
</tr>
<tr>
<td>2001</td>
<td>38000000</td>
</tr>
<tr>
<td>2002</td>
<td>25900000</td>
</tr>
<tr>
<td>2003</td>
<td>38000000</td>
</tr>
<tr>
<td>2004</td>
<td>87000000</td>
</tr>
<tr>
<td>2005</td>
<td>10280000</td>
</tr>
<tr>
<td>2006</td>
<td>40000000</td>
</tr>
<tr>
<td>2007</td>
<td>68900000</td>
</tr>
<tr>
<td>2008</td>
<td>51600000</td>
</tr>
<tr>
<td>2009</td>
<td>105000000</td>
</tr>
<tr>
<td>2010</td>
<td>105400000</td>
</tr>
</tbody>
</table>

Source: UNCTAD 2011

NOTE: The data stretches to 2010 as statistics for 2011 were not immediately available. The information on the table can be illustrated graphically on the next page.
In 1998 there were high net inflows of FDI, but beginning in 2000 going onwards there was a decline in FDI. This is because the country was promoting disinvestment as there was no equity restriction, property rights and exchange rate policy was a disaster. The discrepancy between the official exchange rate policy and the parallel exchange rate affected miners, manufacturers and investors in EPZ companies. Low inflows deprived domestic industries of access to modern technologies and by the same token, kept labour productivity from growing.

However thanks to the Government of National Unity (GNU) which have tried to address some of the issues and there was a slight improvement in 2009 after dollarization of the economy and the formation of (GNU) that FDI started coming in thereby boosting EPZ companies performance. But a lot needs to be done so that we can return to the 1998 levels; the government must impose policies that attract investment rather than those which turns FDI away.
4.2.6 Property Rights

One of the main drivers of investment is a sound and clear policy on property rights. It is clear that the country does not have a clear and sound policy on property rights. That’s why the Agro-sector had been underperforming. Besides the droughts there is no investment in the sector due to lack of respect of property rights and those who benefited from the land redistribution do not have the property rights to the land they occupy. The problem will also aggravate when lines of credit open up they will have nothing to offer as collateral. Although the RBZ Governor did a supplement to the January 2009 Monetary Policy statement on the role of Property Rights in Investment Promotion, most of his ideas were worth noting and require action. The point is that there is need to respect property rights to the EPZ companies.

4.2.7 Labour

Zimbabwe’s interconnected economic and political crises prompted many of the country’s most skilled and well educated citizens to emigrate, leading to widespread labour shortages for managerial and technical jobs in EPZ companies especially in the agro processing sector, manufacturing sector and mining sector. Also the country’s HIV and AIDS epidemic took a heavy toll on the workforce.

4.3.0 Reaction by EPZ companies to factors affecting them

The data was gathered from questionnaires and interviews carried out by the researcher. It was established that EPZ companies took different steps to remain operating. The reactions gathered are illustrated in a table below.

Table 4.9 Reactions by EPZ companies to factors affecting them

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>REACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing</td>
<td>Temporal suspension of operations</td>
</tr>
<tr>
<td>Manufacturing sector</td>
<td>Providing own back up equipment</td>
</tr>
<tr>
<td>Mining</td>
<td>Downsizing of operations</td>
</tr>
<tr>
<td>Clothing and Footwear</td>
<td>Laying off some workers.</td>
</tr>
</tbody>
</table>

Source: Primary Data 2011
4.3.1 Downsizing of operations
EPZ companies in the Mining sector downsized their operation as mainly in 2008, companies were operating at 20% level capacity due to shortages of the basic raw materials and erratic power supply. About 80% of Manufacturing companies indicated that they only had the option of downsizing operations as the equipment was obsolete and some machinery needed repair of which the parts relevant for the repair needed foreign currency to be imported, however this was difficult as there was a shortage of foreign currency in the economy.

4.3.2 Temporal suspension of operations
EPZ companies in the agro-processing sector suspended operations after the rainy season. This is because of power supply interruptions in irrigation particularly for wheat which strives well as a winter crop.

4.3.3 Laying off some workers
As EPZ companies in the manufacturing sector downsized operations to 20% capacity utilisation, it means more workers were laid off especially in 2008 thereby creating unemployment. This proved that EPZ companies were severely affected because one of the main reasons in which EPZ companies were set up was for employment creation.

4.3.4 Providing own back up material
EPZ companies in agro-processing sector, manufacturing sector and mining sector were forced to provide their own back up boreholes and generators for the smooth flow of the operations. They were providing these facilities in order to overcome the problems of unreliable supplies of utilities such as water and electricity.

4.3.5 Entering into joint venture
EPZ companies have entered into joint ventures with foreign companies in order to boost production and compete in regional markets. This is so because many local companies do not have the necessary infrastructure to compete internationally. For example ZESA Enterprise, a subsidiary of ZESA Holdings entered into a venture with an Indian company called PME Solutions in the production of power and distribution transformers. PME Solutions will provide the design of transformers and ZESA
Enterprises then manufactures and they will share the profits. This has helped ZESA Enterprises to producers’ transformers to local customers, to ZESCO of Zambia and ESKOM of South Africa. This has managed to create employment and also raise Government revenue.

4.4.0 Companies’ perceptions on incentives offered against the challenges
Companies had the perception that incentives offered were not addressing the challenges. They reported that the instability of exchange rates and the rapid depreciation of local currencies were continuously eroding their foreign currency value of both profits and equity. Most companies reported that they were operating between the ranges of 20-80 percent level of capacity.

They have the perception that the profitability of their operations is static or declining because most foreign investors were necessarily concerned with hard currency profitability in the long term. Furthermore stringiest exchange controls and the unavailability of foreign exchange were perceived as barriers to expansion and as a result companies were unable to enjoy economies of scale.

Companies sight that in order for them to produce at full capacity there was need for incentives to be revised. Companies wee suggesting that they were to perform better if government was to intervene and subsidise some basic requirements such as fuel or if the current foreign currency retention levels were relaxed. They had the perception that they were able to source their requirements if they were to retain all their foreign currency they generate. They believe that official and interbank exchange rates which were used to liquidate their foreign currency were far below the parallel market rates.

Investors were having the perception that some laws imposed by the government were not favourable, for example the indigenisation clause which stipulates that 51 percent is to be given to local people while the investors remained with 49 percent stake. As a result foreign investors saw this as a high risk to invest in Zimbabwe as they could not forecast what will transpire in the long term and this led to the contraction of EPZ companies operations in Zimbabwe.
4.5.0 Strategies that Government should put in place to promote EPZ companies
The government must focus on the contracting supply base of EPZ companies. This is because EPZ companies’ performances have been surpassed by our neighbouring countries and we have lost in foreign markets. Contracting supply has been caused by ill designed policies and political instabilities. Foreign trade policies and institutions have been largely irrelevant to the outcome. Even the best policies would have failed to elicit a supply response in the absence of a friendlier business climate and political instabilities. International experience demonstrates that improvements in trade policy are only effective when supplemented by improvements in the business environment. This should not suggest that barriers to foreign trade as exemplified by very high transaction costs of conducting foreign trade operations in Zimbabwe should not be addressed and removed but indicates that their impact on foreign trade would be limited unless other barriers restraining supply response are also removed.

4.6.0 Concluding Observation
The weakened state and collapsing regulatory quality led to a rapidly shrinking economy, as the cost of conducting business operations skyrocketed and the competitiveness of EPZ companies in global markets was greatly eroded despite constant devaluations. According to most international assessments comparing the quality of economic governance and competitiveness, Zimbabwe was consistently ranked at the bottom with the worst investment climate and highest incidence of corruption.

While the restoration of macro economic and financial stability has been achieved thanks to replacing the domestic currency with the US dollar and South African rand, other barriers such as low government effectiveness and poor quality of regulations are still in place. The discussion of the quality of economic governance points to a significant challenge facing the government in overhauling the existing economic regime. This calls for deep structural reforms. Without them, economic performance will remain wanting, albeit likely superior to that experienced in 2000-2008.
4.7.0 Summary
The chapter looked at data presentation, interpretation and analysis. The data was presented in form of text, graphs, tables and charts. The next chapter looks at the summary findings, conclusions and recommendations of this paper.
5.0 Introduction
This chapter gives the summary, conclusions drawn from the research as well as the recommendations on the factors affecting Export processing zones companies in Zimbabwe. It first gives highlights of major findings, then conclusions that address the research objectives and finally the recommendations on how to overcome these challenges and find a way to improve the operations of EPZ companies.

5.1 Summary
Interview guides and questionnaires were used as instruments to gather primary data, as business letters and annual reports were used to gather secondary data. Tables and graphs were used were also used for the presentation of data. It can be established that poor economic governance, foreign currency restrictions and overvalued currency and shortages of basic raw materials were the major factors affecting the operations of EPZ companies. Several companies reacted by downsizing their operations, temporal suspension of operations, importing capital equipment for non EPZ companies, laying off some workers, entering into joint ventures and exporting raw or semi finished goods as a strategy to overcome their challenges. Companies had the perception that incentives offered had become ineffective as they were not able to address the major challenges they were facing. As a result it can be established that other factors other than tax incentives offered are considered by companies.

5.2 Conclusions
From the research carried out it can be conducted that EPZs companies were facing various problems in their operations. Common problems which were identified were poor economic governance, exchange rate problem, shortages of raw materials and electricity cut offs. Lack of policy coordination between government departments which were causing difficulties in accessing incentives caused uncertainty within the
EPZ programme which discourages the expansion and continuity of operations. The shortages of foreign currency, restrictions on foreign currency transfers forced companies to resort on parallel markets in order to meet local requirements. Quality of exports was compromised due to shortages of relevant equipment and raw materials. As a result some companies were importing capital equipment for non EPZ companies in exchange for assistance in cash or kind. Absence of adequate power was discouraging the smooth operation of business as they increased operation costs. This reduced the productivity of these companies and some companies were forced to provide their own generators as their own back ups in order to remain operational. Companies had the perception that although they were given incentives, the incentives were failing to address the major challenges. Most companies were unable to enjoy economies of scale as they had no capacity to expand their business in face of several challenges.

5.3 Recommendations

- There must be policy coordination between government departments. This ensures predictable set of laws, rules and regulations which should be clearly stipulated in agreement with investors, customs authorities and government departments. This works towards promoting EPZs in the country.

- In view of the competitive global investment environment, the government should undertake a complete overhaul of investment incentive packages, taking into account the experiences of other developing regions of other developing regions and the country itself. Periodic revisions of EPZ laws must be done in order to accommodate changing national economic conditions.

- When the government recommend returning to local currency, exchange rate must be revised in order for companies to remain competitive.

5.4 Concluding Remarks

EPZs can play an important role in the development of Zimbabwe if properly administered. The programme has not been very successful as witnessed by closure of companies, downsizing of operations and temporal suspension of operations. In order to ensure success, concentrated effort is required at national level. An enabling
operational environment from all stakeholders must be made first to restore the programmes’ image. EPZ promotes domestic investment, increase export potential, as well as enhancing technology transfer if a favourable environment is created.
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REF: Request for collecting information for a Questionnaire

I am a student at Bindura University studying for a Bachelor of Science (Honours) Degree in Economics and undertaking a research project entitled an investigation on the factors affecting Export Processing Zones Companies in Zimbabwe (1998-2011).

I kindly request you to assist by completing the attached questionnaire and may you please give honest answers to the best of your knowledge.

Please note that this questionnaire is designed purely for academic purposes only and the information provided shall be treated as confidential.

Your co-operation is greatly sought

Yours faithfully

Matthew Chikwindi
QUESTIONNAIRE

Instructions
Indicate by way of a tick ( √) the relevant answers and give additional information in the space provided.

SECTION A
1.0 Years of experience in the Export Processing Zone industry

Less than 5 years □ more than 5 years □

1.1 Which sector do you belong?

<table>
<thead>
<tr>
<th>Sector</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro processing</td>
<td></td>
</tr>
<tr>
<td>Horticulture</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Food processing</td>
<td></td>
</tr>
<tr>
<td>Clothing and Footwear</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Mineral processing</td>
<td></td>
</tr>
<tr>
<td>Furniture and timber processing</td>
<td></td>
</tr>
</tbody>
</table>

1.2 Current Position held

- □ Managing Director
- □ Production Manager
- □ Foreman

□
SECTION B

1. What are the major challenges facing EPZ companies in Zimbabwe?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   …………………

2. What are the reactions your company has made to these challenges?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

3. Are you given any incentives?
   ……………………………………………………………………………………………

4. Do you think the incentives are enough?
   Yes ☐  No ☐

   If your response is no, please explain?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

5. What is the role played by Financial Institutions in promoting EPZ companies?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
6. What strategies do you think the government should put in place to promote EPZ companies?

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Thank you for your assistance.
APPENDIX 2

INTERVIEW GUIDE

I would like you to assist me with some answers and comments to the following questions on the factors affecting Export Processing Zones companies in Zimbabwe (1998-2011)

1. What are the major factors affecting your company?
2. What reactions did you adopt in face of these challenges?
3. What are your views or perceptions on the role played by incentives?
4. What strategies can be adopted to ensure a smooth flow of operations?
5. What is the government doing to improve exports?
6. What are your suggestions concerning the EPZ programme?