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CZI INDUSTRIAL & ECONOMIC RESEARCH

We have a team of competent specialists who drive the research and advisory work that we do. We have the advantage of being at the intersection of business and policy giving us unparalled grasp of the business and policy ecosystem in Zimbabwe including the value chains and sectors.

CZI Industrial and Economic Research offers a wide range of products and services to help our members not only to navigate but also to shape the business environment in which they operate.

Business Regulatory Environment Accompaniment
We help members make the business and economic case for presentation to policy makers on issues affecting their business

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Private Sector Development and Business Environment Projects Implementation: We have expertise to implement policy projects at macro, sectoral and value chain levels.

Contents

1.

Synopsis

This report gives some insights about some of the developments that could help inform Zimbabwe business in navigating through the operating environment. Key issues in this report include the following:

- The need to prepare for the African Continental Free Trade Area (AfCFTA) following the AfCFTA Guided Trade Initiative (GTI) launch on 7 October 2022. The GTI takes practical steps towards the facilitation of trade under the AfCFTA through direct engagement with key stakeholders both in the public and private sectors of State Parties. State Parties that have technically verified Provisional Schedules of Tariff Concessions in accordance with the agreed tariff modalities were granted permission to trade among themselves. Although the technical verification process is still ongoing for the tariff schedule of Zimbabwe and hence the country is not yet ready to start trading under the AfCFTA through the GTI process, there are a number of products that have already been engaged under the GTI 2023 initiative and trade for these products can take place across verified countries. The products are discussed in the report and firms in these sectors should be getting ready.

- Given the country's active involvement in exporting primary products on the international market, the extent to which the country was vulnerable to commodity price movement over the first half of 2023 is assessed. In addition, the manner in which the country was affected in terms of pricing of key primary commodity import products where Zimbabwe is a price taker is also assessed. Tobacco, gold, platinum, and nickel, which are Zimbabwe's top exports, as well as soybean oil, maize, and wheat, which are among the imports, are used in the assessment.

- National statistics have also shown that the manufacturing sector has been going down in terms of contribution to GDP. This report takes a deeper dive into the sector and look at how the various have contributed to the overall decline in performance over the past five years.

- One of the measures of economic expansion is tax collection capacity. The study also assessed the extent to which tax collection in real terms improved over the first half of 2023 compared to the same period in 2023. This also reflects the extent to which the policy environment would have facilitated more income generation opportunities.

- The monetary and fiscal policy measures that were announced in May and June 2023 had also helped enhance stability on both inflation and the exchange rate. However, the report also identifies other unintended consequences of the measures, which happened in the form of entrenched dollarisation of the economy.
  The report also takes a closer look at the recent amendments to the Labour Acts and highlights key changes which business need to take note of.

- Using the recent statistics on employment, the report also discusses the employment status and distribution across the various sectors in Zimbabwe.

2.

Continental and regional developments set to unleash business opportunities

2.1 Time for business to get ready for the African Continental Free Trade Area

The CZI Manufacturing Sector Survey Report of 2022 revealed that the coming in of the African Continental Free Trade Area (AfCFTA) is expected to have implications on the manufacturing sector. About 52% of manufacturers classified the risk to operations due to AfCFTA as generally low, although about 22% felt that there will be high risk on their business prospects. There is a strong feeling that the AfCFTA will see cheaper and quality products from other countries coming in, considering that Zimbabwe has a high cost of doing business environment due to over regulation, utility and infrastructure deficiencies and a strong currency, which make local firms uncompetitive.

In order to embrace the AfCFTA, Zimbabwe needs to calibrate policies and measures that will enable the industry to drive the industrialisation through developing its local value chains to ensure that most of the raw materials needed for industry are sourced locally and not rely on importation from countries whose firms are competitors. However, the implementation of the AfCFTA is now gathering momentum and industry needs to be prepared.

The AfCFTA Guided Trade Initiative (GTI) was launched on 7 October 2022 as a solution-based approach to kickstarting commercially meaningful trade under the AfCFTA preferences. In accordance with the 2023 African Union Theme of the year "Acceleration of Implementation of the AfCFTA", the scope of the GTI has been expanded in both product and country coverage across the five African regions to twenty-nine (29) State Parties including Zimbabwe. Its main objective is to:

a. Demonstrate the efficiency of the legal framework of the AfCFTA instruments
b. Obtain feedback on the effectiveness of the legal and institutional national systems in the participating countries.
c. Test the readiness of the private sector to participate in trade under the AfCFTA.
d. Identify possible future interventions to increase intra-African trade and maximize the benefits of the AfCFTA.

The GTI takes practical steps towards the facilitation of trade under the AfCFTA through direct engagement with key stakeholders both in the public and private sectors of State Parties. This is achieved through fast tracking the establishment of National AfCFTA Implementation Committees or ad hoc Committees as a focal point for any activities or concerns related to the implementation of the AfCFTA such as facilitating the ease of communication and fast-tracking the resolution of any challenges faced by traders in both the importing and exporting countries.

State Parties that have technically verified Provisional Schedules of Tariff Concessions (PSTC's) in accordance with the agreed tariff modalities were granted permission to trade among themselves. The technical verification process is still ongoing for the tariff schedule of Zimbabwe. This means that Zimbabwe is not yet ready to start trading under the AfCFTA through the GTI process. However, there are some products that have already been engaged under the GTI 2023 initiative which are now ready for trade to take place across countries. This means that while the technical verification process for Zimbabwe is being concluded, firms in these sectors should be getting ready. These products include the following:

2.2 The COMESA Common Investment Area not being prioritised by Member States

The COMESA Common Investment Area (CCIA) was formed for the purposes of initiating a joint promotion framework to support showcasing investment opportunities of the region as a single investment destination. The CCIA was formed 25 years ago with the goals of:

- Promoting industrial development
- Promotion of sustainable investment in member state
- Investor/member state balance of rights and obligations
- Promote harmonised investment
- Gradual elimination of investment restrictions
- Establishing standards on investor protection (equal treatment)
- Promoting COMESA investment destination

Figure 1: The journey of the COMESA Common Investment Area

1998	2007	2014	2017
Summit • Policies and strategies aimed at transforming the COMESA region into a Common Investment Area	**Kenya Summit** • The 2007 COMESA Heads of States in Nairobi, Kenya adopted the initial CCIA	**Councils of Ministers** • CCIA review to adopt to emerging issues in new generation of international investment regimes	**Councils of Minsters** • Reviewed version of CCIA adopted by the 27th council of ministries held in Lusaka, Zambia

However, since then, no member state has ratified and implemented the CCIA instruments to make the CCIA a reality. This raises questions on whether the common investment area will become a reality, or it will remain a blueprint. On the 27th of July 2023 the COMESA Secretariat hosted a physical public awareness campaign in Zimbabwe to create awareness by bringing more clarity on expected benefits and increased ownership on the CCIA. It was also intended to increase knowledge and ownership of the CCIA by stakeholders including the public and private sector, to help fast track its national ratification and domestication.

It is important to recognise the emerging factors of competitiveness and the reality that all businesses, no-matter where they are located, are global players as they are expected to meet global standards. The businesses and the economies in which they operate are not exempted from global rankings which inherently are based on norms that are globally accepted and agreed. This can be facilitated through establishing a regional framework and system for mutual recognition of companies' incorporation or investment registration. This serves as the basis for the establishment of the CCIA.

The CCIA seeks to promote a peer-to-peer framework for an improving regional ease of doing business climate, which will enable significant cross border private investment and FDI flows. CCIA hopes that by promoting uniformity and structured investment in COMESA would be particularly useful, as national markets in most Member States are too small to attract investment on their own. Furthermore, multi-nationals, fund managers and other investors now give preference to regional, rather than national markets in making decisions on where to invest.

Elimination of investment restrictions will promote the much-needed private sector investments which will help to create a platform for private investment for regional projects.

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2.3 One Stop Border Posts (OSBP) under scrutiny: Can efficiencies be enhanced?

The objective of the OSBP concept is to reduce barriers to trade by eliminating the need for travellers and goods to stop twice to undertake border crossing formalities and to minimize routine activities and duplications. However, a recent report by the Zimbabwe Border Efficiency Management System (BEMS) Committee reveals that the infrastructures at Chirundu and Kariba OSBP was not constructed with a OSBP in mind. Some of the common challenges being faced at the border posts identified by the report include:

- Multiplicity of agencies at the border, the majority of whom appear not to have clear mandates
- The Single Window concept has not yet been rolled out thus clients still visit the various stakeholders for services delaying the whole process. This includes payments that must be made to individual stakeholders.
- Low staff compliment due to a shortage of staff accommodation, resulting in officers working on average sixteen (16) hours per day. This affects the quality of output due to fatigue
- Limited parking space for both incoming and outgoing commercial and private traffic, which makes it difficult to establish additional search bays, segment traffic and put-up signage. The existing search bay processes one bus at a time.

There are also a number of insights from the BEMS Committee report, which also explains some of the challenges that affect doing business due to delays at the borders. These include:

- Costs for transporters are inflated due to service charges and recommends charging for some services only when there is violation of the law. There is a multiplicity of border agencies, who charge for the provision of services such as physically inspecting commercial cargos, which is mandatory for everyone and adds to increased costs in the border by transporters.
- There is no adequate parking space at a time when clearance procedures are still inefficient. Trucks are therefore forced to spend a lot of time at the border rather than in parking bays. Thus, there is need for enhancing efficiency so that trucks get walk in services.
- There is an accumulation of captured goods from smuggling activities at the border. There is a risk that these products can find their way into the market and cause unfair competition with genuine locally produced products. There is need to urgently construct an incinerator at Kariba Border Post in view of the increasing volumes of smuggled restricted goods, including creams and medical drugs that have to be destroyed.

3.

Commodities Prices Movements

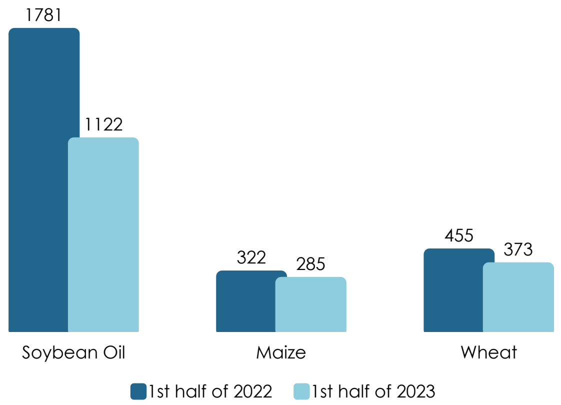
The price movements of key commodities in the international markets have an impact on the revenue position of any economy. Zimbabwe is one of the countries that exports primary products on the international market and is exposed to price fluctuations. Tobacco, gold, platinum, and nickel are Zimbabwe's top exports. On the other hand, Zimbabwe also imports products which are also subject to price volatilities. These include soybean oil, maize, and wheat.

- A comparison of the situation on price movements for the key import commodities over the first half of 2022 and the first half of 2023 (Figure 2) reveals the following: The international average prices for Zimbabwe's basic imports (soybean oil, maize, and wheat) fell while for the country's major exports they were increasing (gold, tobacco, and platinum except for nickel) which is a net advantage to Zimbabwe.

- There was a sharp decrease (37%) in the average price for soybean oil from $1,781 per metric tonne in the first half of 2022 to $1,122 in the first half of 2023. This implies that soybean oil was being imported at a cheaper price, which helps in cost reduction and inflation management, while also capacitating business to import enough of the soybean oil to ensure continued supply of cooking oil.

- Over the years, wheat and maize were also part of Zimbabwe's major import drivers. Due to good rains that were received during the cropping season, Zimbabwe is now self-sufficient in terms of wheat and maize. There are already discussions underway with neighbouring countries on possible wheat exports[1] which is a relief for the country. However, given that fears of a possible El Niño have already been raised[2], there are possibilities that the self-sufficiency could be under threat. The international average prices of wheat per tonne fell from $455 to $373 (18%) while maize prices decreased from $322 to $285 (12%) per tonne.

Figure 2:International average prices for Zimbabwe's imports declined in the 1st half of 2023 compared to the 1st half of 2022.



Source: Compiled from the World Bank Pink Sheet

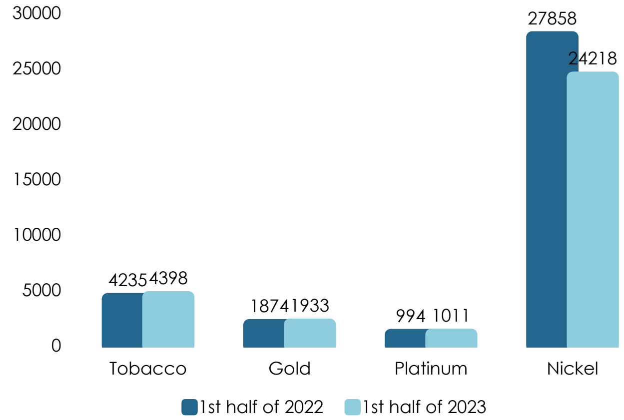
Zimbabwe is rich and a net exporter of the world's most precious metals which include gold and platinum. During the first half of 2023, the international average price of gold and platinum increased by 3% and 2% respectively (Figure 3). Gold price per ounce rose from $1,874 in the 1st half of 2022 to $1,933 in 1st half of 2023.Following uncertainty of the exchange rate, this offers a lucrative opportunity to invest in gold coins and digital gold backed tokens the Reserve Bank of Zimbabwe has introduced. The firming prices have put the country at an advantage in terms of export earnings and its production.

Nickel is the second highest contributor (20%) of the country's major exports (ZIMSTAT, 2023).There was a sharp decrease in nickel's international average price by 13% to $2,4218 in the 1st half of 2023 compared to the same period in 2022. This has slacken off the value of export earnings of the country. Reports have also shown that the market for nickel is so volatile, prone to distortions and exposed to geopolitical risks (London Metal Exchamge Group, 2023).The volatility in price movements for Nickel may discourages potential investors.

1. https://www.veritaszim.net/sites/veritas_d/files/20TH%20POST%20CABINET%20PRESS%20BRIEFING%20%282023%29_0.pdf
2. https://reliefweb.int/report/world/el-nino-anticipatory-action-and-response-plan-august-december-2023-mitigating-expected-impacts-el-nino-induced-climate-extremes-agriculture-and-food-security#:~:text=There%20is%20a%20greater%20than,drought%20to%20floods%20and%20storms.

Zimbabwe recorded the highest level of tobacco production in 2023 in its 198-year production history, at a time when the international price for tobacco was also increasing. The international average price for tobacco for the first half of 2023 was about $4,398 per metric tonne, having increased by 4% compared to the same period in 2022. This boosted the country's export revenue while it is also expected that business enjoyed from increased spending by tobacco farmers.

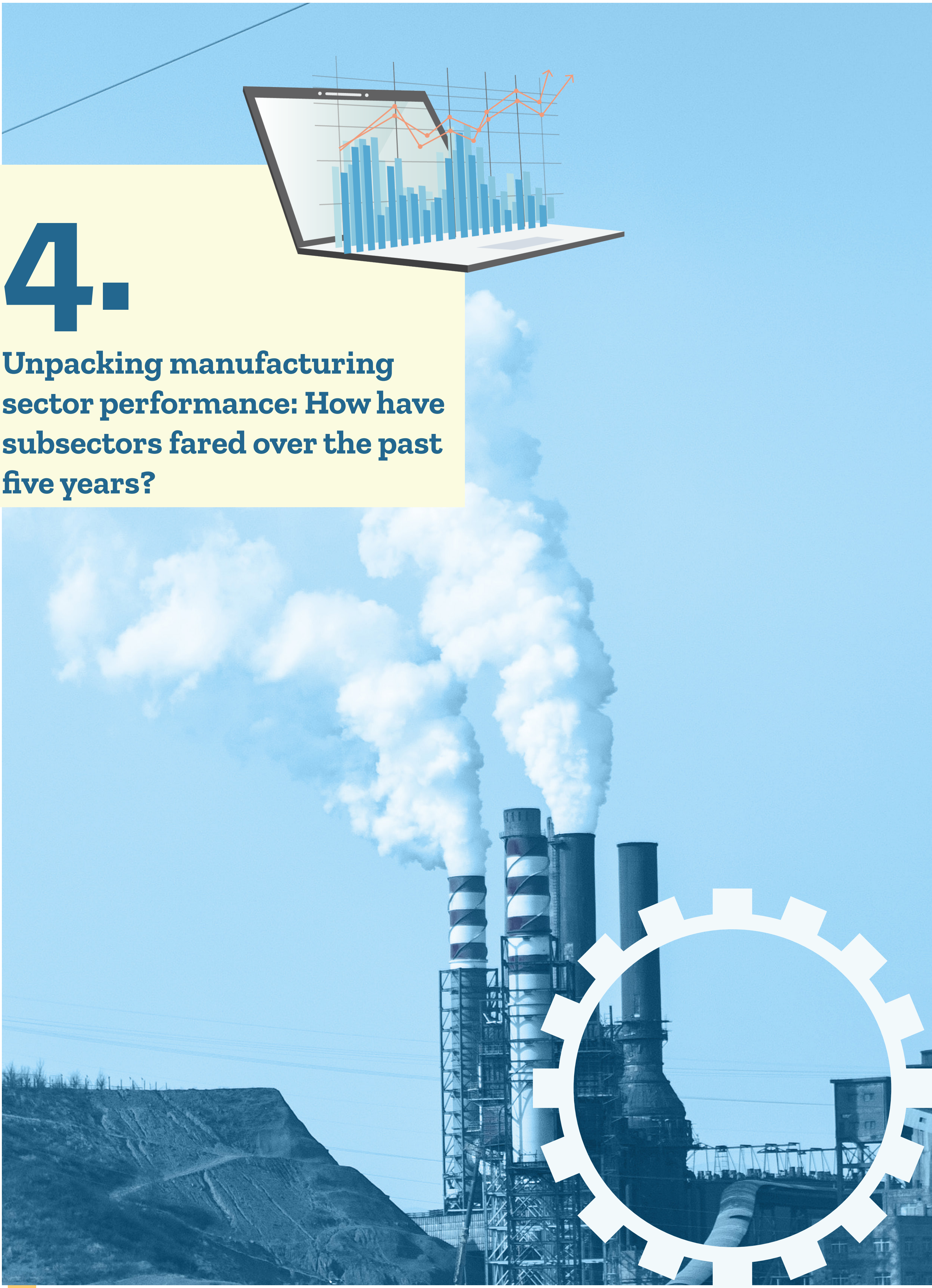
Figure 3:An increase in average international price for Zimbabwe's top exports in the 1st half of 2023 compared to 1st half of 2022 excluding nickel.



Source: Compiled from the World Bank Pink Sheet

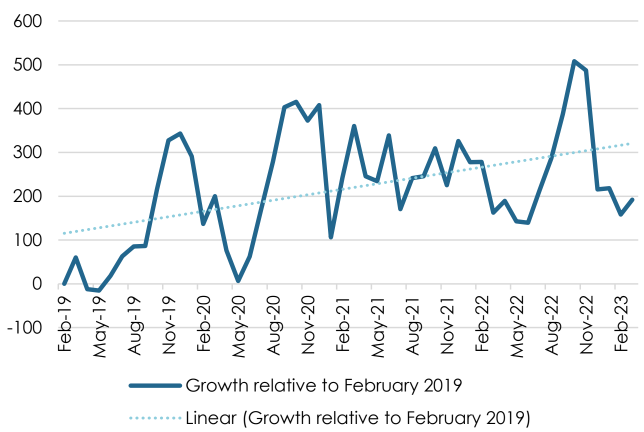
4.

Unpacking manufacturing sector performance: How have subsectors fared over the past five years?



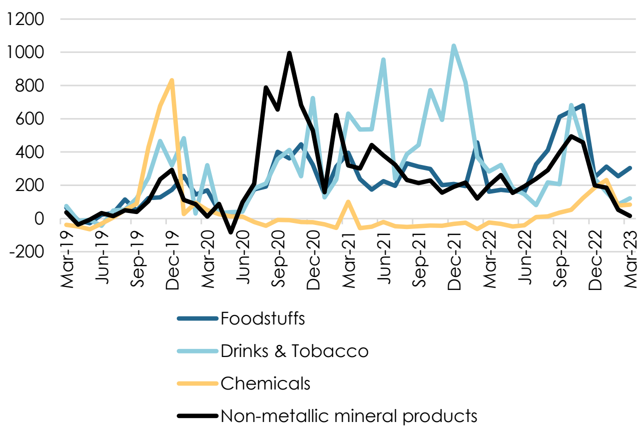
The manufacturing sector has generally been struggling to grow, which has seen it being overtaken by mining and agriculture to become the fourth most important sector in terms of real GDP contribution. The recently released statistics from ZIMSTAT revealing the Volume of Manufacturing Index (VMI) are very instrumental in tracing how the performance of the manufacturing sector has been improving in comparison to the level of output that had been registered in February 2019. The VMI is an index of manufacturing sector output with its base set at February 2019[3]. A look at the manufacturing sector shows that although the growth rate of output produced has a positive trend (as reflected by a positive linear trend), there are a lot of volatilities involved (Figure 4). As a result, although output had increased by more than 500% in October 2022 compared to the levels recorded in February 2019, the growth had declined to 192% by March 2023. This shows that although the level of output in March 2023 is still almost three-fold compared to the level of output in February 2019, there were some period where output was actually more than fourfold the February 2019 levels. Since November 2022, manufacturing sector output has actually been declining, with a slight recovery recorded in March 2023.

Figure 4: Volume of Manufacturing Index (VMI)



Given that the manufacturing sector is characterised by various subsectors, it is important to understand how the different subsectors have helped influence this overall trend. Subsectors that have high weights in overall manufacturing include the foodstuffs subsector, which accounts for about 38% of overall manufacturing performance, as well as the drinks & tobacco (20%), chemicals (11.6%) and the non-metallic mineral products (11.6) subsectors. This means that more than 80% of the manufacturing sector trends are influenced by these four subsectors. A look at how these have been performing (Figure 5) shows that the chemicals subsector has been imposing the downward trends as its output levels over the period July 2020 and June 2022 was well below the February 2019 levels. The volatilities in the overall manufacturing sector output performance were mainly emanating from the drinks & tobacco, foodstuffs and non-metallic mineral products.

Figure 5: Volume of Manufacturing Index (VMI) by subsector



The trends generally show that in March 2023:

- Output in the foodstuffs subsector had only improved about fourfold compared to its levels in February 2019
- Output in the non-metallic minerals subsector had only increased by 16% over a four year period, which is quite low

The chemicals subsector had also registered an increase in output of only about 80% over a period of about four years.

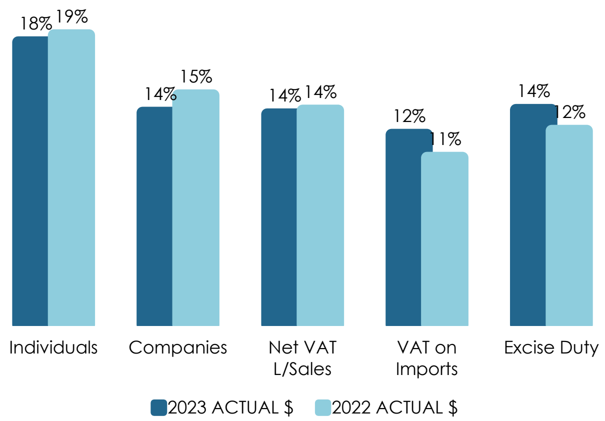
3. February 2019 = 100

5.

Some fiscal performance improvement but not too pronounced

Resource mobilisation through taxation remains key in providing Zimbabwe a resource envelope to finance its development agenda as spelt out under NDS1. Revenue collection for the first half of 2023 were ZWL$4.43 trillion, translating to nominal growth of 801.6% (Zimbabwe Revenue Authority, 2023). However, this phenomenal growth was mainly reflective of inflation, as in real term revenue collection increased by only 1.6% over the first half of 2023 compared to the same period in 2022. Corporate tax, individual tax (PAYEE), Value Added Tax and Excise duty continue to be main drivers of revenues in Zimbabwe (Figure 6)

Figure 6: Contribution of major revenue heads in the first half of 2023 compared to the first half of 2022.



Source: Construction from fiscal outturn statistics

A comparison of the various tax heads reveals that only VAT on imports and Excise duty performed better in real terms over the first half of 2023 compared to the same period in 2022 (Figure 7). The positive performance of the trade related tax heads reflects a significant growth in imports. The first half of 2023 was also characterised by currency instability and erratic power supply, which greatly affected business performance, resulting in a decline in corporate tax revenue by 6% in real terms compared to the same period in 2022.

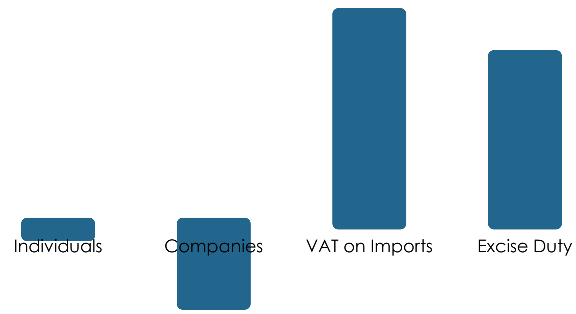
Revenue collection for the first half of 2023 were

ZWL$4.43 trillion,

translating to nominal growth of

801.6%

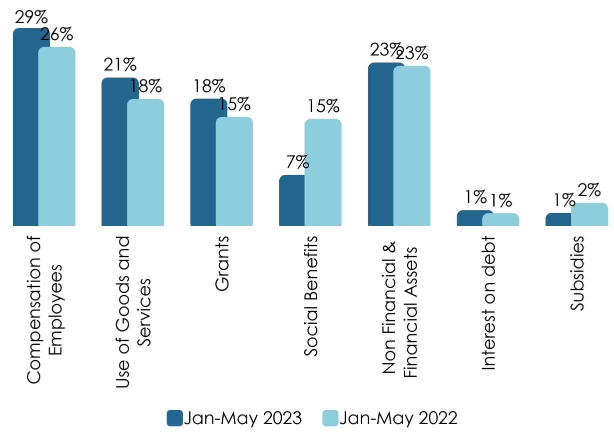
Figure 7: Revenue collections from companies' tax fell in the 1st half of 2023.



Source: Construction from fiscal outturn statistics

Given that 2023 is an election year, it was generally expected that there would be more demands on the fiscus which would also result in more pronounced differences in the structure of expenditure compared to 2022. The expenditure pattern over the first five months of 2023 converted into US$ using the official exchange rate shows that total expenditure was about US$2.32 billion, which would be a slight decrease from US$$2.36 billion incurred in 2022. This shows that the government has managed to keep its expenditures on track despite the demands. A look at the structure of the expenditure reveals that compensation of employees, the use of goods and services as well as grants took a larger share of the envelope in 2023 compared to 2022 (Figure 8), which could have been driven by election related pressure. However, infrastructure related expenditure was not sacrificed, with its share in total expenditure remaining constant at 23%, even though social benefits were sacrificed.

Figure 8: Non-financial and financial Assets among expenses given priority.



Source: Construction from fiscal outturn statistics

6.

Will the positive momentum of power supply be sustained throughout the rest of 2023?

Over the last three months, the power supply situation in Zimbabwe has been fairly stable, with reduced loadshedding taking place. This minimised disruptions to business operations, thus reducing costs associated with energy back up sources such as diesel, petrol, and gas. On the 3rd day of August 2023, the President of Zimbabwe officially commissioned the US$1,5 billion Hwange Thermal Power Station Units 7 and 8 Expansion Project in Matabeleland North Province, which has added 600MW to the national grid. The massive project has significantly improved the power supply situation in the country.

However, currently, the Kariba Dam and Zambezi River got less than expected inflows this past rainfall season. With the 2022/23 rainfall season having effectively ended in April, the Kariba catchment is no longer experiencing any rainfall activities. As per normal trend following the end of a rainfall season, flows of the Zambezi River and its tributaries are now receding and this downward trend is expected to continue until the commencement of the next rainfall season (2023/24 rainfall season).

Will the decrease in the water levels in Kariba Dam going to offset some of the increased generation from the units 7 and 8 power plants? Businesses should expect any outcome concerning the power supply going forward.

7.

Financial Sector

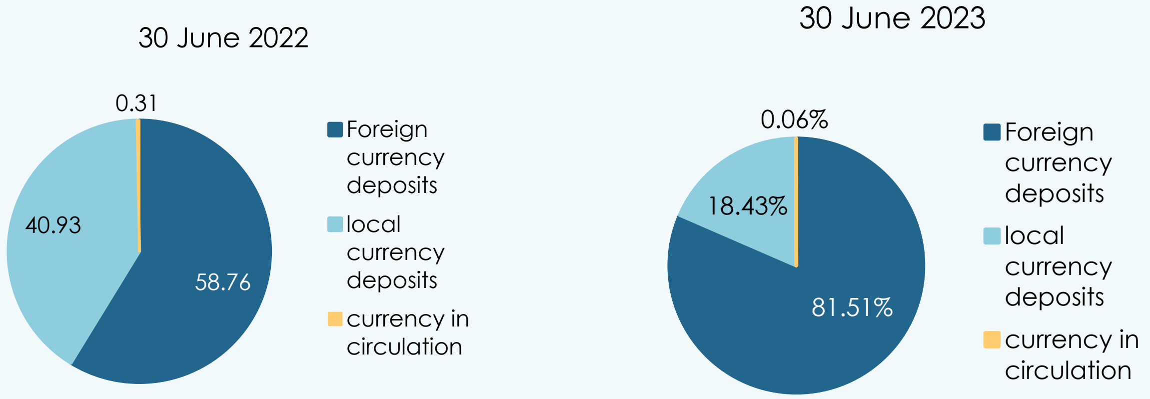
Policy-induced increased dollarisation

The Bank policy rate for ZWL$ which had been pegged at 150% per annum was revised downwards in April 2023 to 140% and in June 2023 it was once again revised upwards to 150%. The bank policy rate has made it expensive to borrow in local currency and individuals and companies are preferring to borrow in USD. Some companies managed to successfully negotiate with banks to convert their ZWL$ loans into USD loans. Based on the recently announced Mid-Term Monetary Policy Statement, foreign currency-denominated loans constituted 94% of the banking sector loan book as at 30 June 2023, having increased from about 37% in December 2021, highlighting the fact that the banking sector lending has moved close to 100% dollarisation.

The statutory reserve requirements also encourage banks to lend in foreign currency compared to domestic currency. Banks can lend 90% of their foreign currency demand and call deposit while they can only lend 85% of their ZWL$ demand and call deposit. In line with the policy thrust, together with the general instability associated with the local currency, the economy is becoming more dollarized. Foreign currency deposits constituted 82% of total money supply on 31 June 2023 compared to 58.76% in June 2022 (Figure 9). This means that at only about 18%, local currency deposits are shrinking in the banking sector. In addition to lower statutory reserve requirements for foreign currency, other policy issues such as lower interest rates when borrowing in foreign currency and lower IMMT tax when transacting in foreign currency has also made the USD a currency of choice in the economy.

If the policy objective announced under NDS1 and Vision 2030 are to remain in place, there is need for de-dollarisation initiatives to be put in place. De-dollarisation must be market driven based on policy tools rather than forced de-dollarisation, which, as witnessed in 2019 when Zimbabwe tried it, does not work. Other countries such as Bolivia (1982), Mexico (1982), Peru (mid-1980s) and Pakistan (1998) also unsuccessfully tried forced dollarisation.

Figure 9: Money supply composition shows increasing dollarisation of the economy



Source: RBZ

Attracting long term savings through the financial system is still a challenge

While lending rates have been adjusted upwards to be in line with inflation, deposits rates for ZWL$ have remained constant since 1 February 2023 at 30% and 50% for savings and time deposit respectively. At a time when there is a dearth of confidence with the financial system, savings rates are too low. These low deposits rates do not encourage long term savings in the economy, especially with high levels of annual inflation in the economy. Transferable deposits constituted 92% of money supply in April 2023, emphasizing the point that long term deposits are scarce.

Transferable deposits constituted

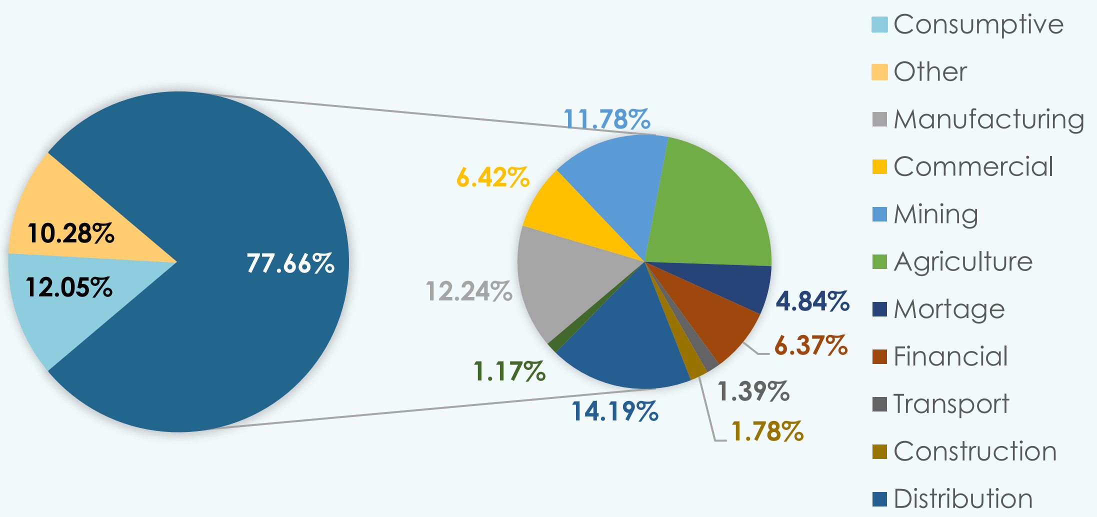
92%

of money supply in April 2023

channelled to the productive sector

Total banking sector loans and advances increased by 7.9 times from $1.29 trillion as at 31 December 2022 to $10.19 trillion as at 30 June 2023. Loans to the productive sector constituted 77.7% of total loans as at 30 June 2023 (Figure 10). The banking sector is playing a critical role in facilitating production, although this is mainly meeting working capital needs rather than the much-needed long term funding for investment capital. The availability of the USD lending window is helping in this regard. Although USD loans constitute about 94% of the total loan book (including ZWL$ loans), the USD loans currently constitute about 60% of total USD deposits. This means that there could still be scope for banks to lend more in USD. The total loans to deposit ratio is 55%, highlighting the fact that business is cautious when borrowing in ZWL$ due to high interest rates, as the inclusion of the ZWL$ has weighed down the average by five percentage points.

Figure 10: The productive sector was taking the bulk of loans as at 30 June 2023



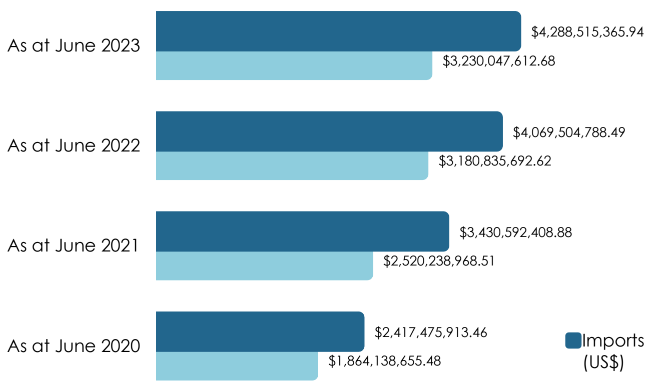
Source: RBZ

8.

An encouraging export performance offset by increasing imports

During the first half of 2023, Zimbabwe exported about US$3.2 billion worth of products, which was an increase of about 1.5% compared to the same period in 2022 (Figure 11). While the growth in exports is good news for a country that was struggling to achieve exchange rate stability, imports over the same period also increased by about 5.4% to about US$4.3 billion. This means that the trade deficit has been widening, mainly driven by a higher growth in imports relative to exports over the same period since 2020.

Figure 11: Trade deficit perpetuating over the period under review



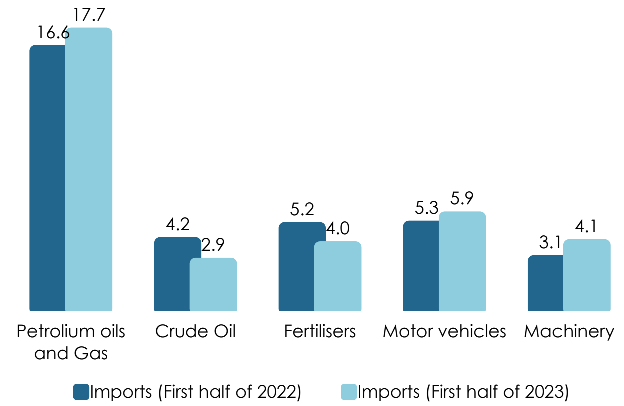
Source: Constructed from statistics from Zimbabwe National Statistics Agency

Despite the trade deficit, the policy position undertaken over the years has been the one aiding rather than discouraging imports. Policy tools such as Statutory Instrument (SI) 98 of 2022, and SI 80 of 2023 suspended customs duty and value added tax (VAT) on importation of basic commodities. The relaxation of import restrictions under SI 80 of 2023 introduced in May 2023 led to a surge in imports to US$850 million in May 2023 up from US$709 million recorded in April 2023.

A look at the major import drivers during the first half of 2023 and 2022 (Figure 12) shows that:

- Petroleum and gas remain the major import product for Zimbabwe. In 2023 there was an increase in the share of petroleum and gas in total imports to 17.7% up from 16.6% that was recorded in 2022, generally underlining the challenges with electricity availability, resulting in usage of fuel powered generators as alternatives.
- During the first half of 2023, crude cooking oil imports constituted about 2.9% of the total import bill. In 2022 over the same period, crude cooking oil constituted about 4.2% of the total import bill. In addition to general production challenges, the fall in imports of crude oil was due to reduced demand as consumers shifted to importing refined cooking oil following the opening up of borders. Refined cooking oil imports increased to US$254 664 in the first half of 2023 from US$37 795 that was recorded in the same period in 2022, which is an increase of more than 500%.
- The importation of motor vehicles increased by 0.6 percentage points in the first half of 2023. This was also driven by the removal of import duty for transportation goods vehicles.
- About 4.1% of the imports in 2023 were due to the importation of various kinds of machinery to facilitate production. The increase in importation of machinery by 1 percentage point also brings with it an expectation that the production capacity of the economy is increasing.

Figure 12: Petroleum oils and gas proves to be the major imports for Zimbabwe (% of total imports)

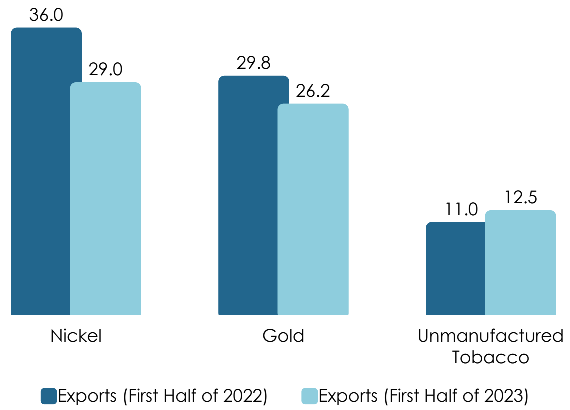


Source: Constructed from statistics from Zimbabwe National Statistics Agency

On the export side, the economy was performing well in the first half of 2023, with a total export bill of about US$3.23 billion, an increase of 1.6% compared to the same period in 2022. The top performing exports for the country include nickel, gold and unmanufactured tobacco. There are also other critical exports that also contributed to the overall performance of exports in the first half of 2023 that include tea, cane or beet sugar, raw hides and skins, among other manufactured products.

During the first half of 2023 exports for nickel (mattes, ores and concentrates) declined to 29.0% as compared with same period in 2022 that recorded 36.0%. The case was also the same for gold, whose share declined to 26.2% in the first half of 2023, from 29.8% recorded in the same period in 2022. The poor performance of minerals in the first half of 2023 is largely attributed to the halting of mining activities in low lying areas because of the Tropical Cyclone Freddy in February[4]. Exports for unmanufactured tobacco performed fairly well and recorded 12.5% during the first half of 2023, which is an increase from 11.0% recorded in the same period in 2022 (Figure 13).

Figure 13: There were declines in shares of nickel and gold in total exports (%) in the first half of 2023



Source: Constructed from statistics from Zimbabwe National Statistics Agency

4. https://miningzimbabwe.com/ministry-of-mines-calls-for-a-temporary-halt-to-low-lying-mining

9.

The Labour Amendment Act, 2023: Which are the critical areas for business to take heed?

During the first half of 2023, the government introduced quite a number of changes to the regulatory environment through Statutory Instruments. Among such regulatory developments was the Labour Amendment Act of 2023, which introduced some amendments to the Labour Act [Chapter 28:01]. Critical issues which business needs to take note include the following:

Protection of employees against discrimination

Business must be aware of amendments to Section 5 of the Labour Act. This section has been amended by redefining discrimination and states that every employer shall pay equal remuneration to male and female employees for work to which equal value is attributed without discrimination on the grounds of sex or gender. Failure to abide will constitute an offence, liable to a fine not exceeding level eight (US$ 500) or imprisonment for a period that do not exceed 2 years.

Employed women to get paid maternity leave

Business must also be aware that Section 18 of the Labour Act has been amended by granting all employed women three months paid maternity leave for each pregnancy. Previously, a woman needed to have served for one year to qualify for this benefit and the amendment has removed the one-year qualifying period. In addition, previously, the benefit was limited to three times for one woman. The amendment has removed the limit, to ensure that a woman would still get the three months paid maternity leave regardless of the number of times she falls pregnant. Within the interest of gender advancement, this is generally a welcome development, with the only fear being that it may result in reluctance to employ female workers, especially within the short term before full gender mainstreaming has been fully embraced. Failure to uphold the principle constitutes an unfair labour practice by the employer, liable to a fine not exceeding level 12 (US$ 2000) or imprisonment for a period not exceeding ten years.

Retrenchment and compensation for loss of employment

Business also needs to be aware of the sweeping changes that were made with respect to retrenchment. After the Amendment, on the part of an employee, a contract of employment may be terminated only by his or her resignation or retirement. On the other hand, an employer can only terminate a contract of an employee under two conditions:

- by mutual agreement in writing; orfor the breach of an express or implied term of contract, upon such breach being verified after due inquiry under an applicable employment code or in any other manner agreed in advance by the employer and employee concerned.

The Amendment states that a minimum retrenchment package shall be payable by the employer as a compensation for retrenchment not later than some days from the date on which the retrenchment takes effect[5] unless the affected employees agree to a longer or shorter or staggered period of payment of the package. In the case that the employees concerned or their representatives, having alleged that the employer has the capacity to pay an enhanced retrenchment package, and having satisfied the Retrenchment Board to that effect, the enhanced retrenchment package shall be payable with effect from the notification of the Retrenchment Board's decision.

An employer who intends to retrench any one or more employees or has negotiated with his or her employees a retrenchment package better than the minimum retrenchment package is now obliged to give 14 days' written notice:

a) to the works council established for the undertaking. If there is no works council established for the undertaking concerned, the written notice has to be sent to the employment council established for the undertaking or industry. In addition, where the employer intends to retrench more than one employees and if the majority of the employees concerned agree to such a course, then the written notice can be sent directly to the employment council established for the undertaking or industry rather than to the works council.
b) of the intention or the agreed retrenchment package to the Retrenchment Board;
c) to the employee or employees concerned if there is no agreed retrenchment package as yet.

If the employer wants to retrench an employee in the absence of an agreed retrenchment package, the employer has to provide the works council or employment council, as the case may be, and the Retrenchment Board with details of every employee whom the employer wishes to retrench and of the reasons for the proposed retrenchment.

Within a period of 14 days following retrenchment, the employer has to notify the Retrenchment Board of the retrenchment, including the particulars of any agreed retrenchment package and the Retrenchment Board has 14 days from the date of notification to issue a notification certificate indicating that they are satisfied.

An employer who retrenches any employee without giving notice of retrenchment to the Retrenchment Board shall be guilty of an offence and liable to a fine not exceeding level 12 or to imprisonment. However, the amendment is not quite clear with respect to how the minimum retrenchment package should be determined.

5. There appears to be a typo in the Labour Amendment Act as the exact number of days are not specified

10.

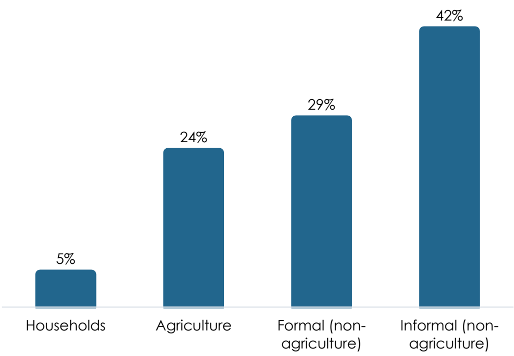
Insights from the Second Quarter 2023 Labour Force Survey

CZI Business Environment Insights...

The informal sector employs a big chunk of the population.

The total number of people that were employed as at June 2023 was about 3.2 million. Out of those that are employed, about 43% are employed directly in the informal sector, while a further 5% is employed by households and some informal employees are also part of the agriculture sector (Figure 14). Formal employment is only constituting 29% of those that are employed. Given that the majority of people that are employed in the informal sector do not pay income taxes, this places the tax burden on only about 29% of those earning an income in Zimbabwe. An increase in formal jobs will create fiscal space and aid development.

Figure 14: Only 29% of the population was employed in the formal sector in June 2023.

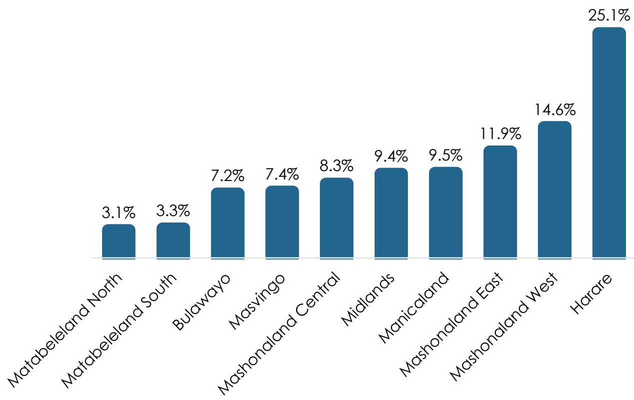


Source: ZIMSTAT (2023)

More than a quarter of those employed are in Harare

A quarter of the employed population are in Harare province which happens to be the capital city (Figure 15). Rural industrialization will be key in increasing employment in other provinces. Value addition and beneficiation of raw materials close to source markets will be a game changer as it will aid rural industrialization. Devolution is the step in the right direction and local councils must play a critical role in attracting business into their areas.

Figure 15: Matabeleland North has the least number of employed persons

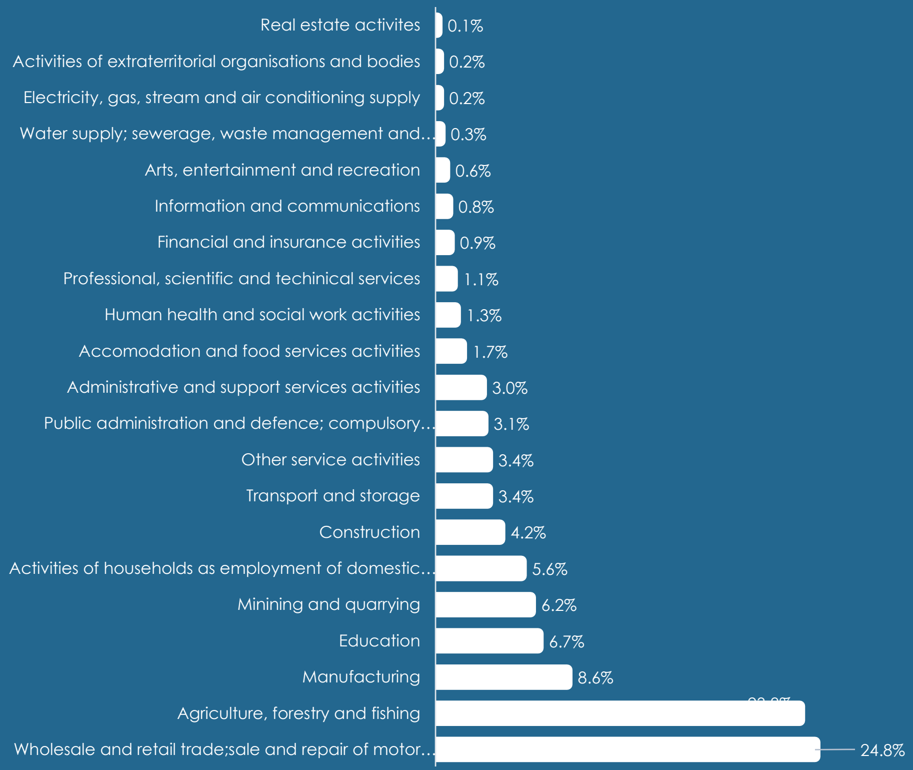


Source: ZIMSTAT (2023)

Buying and selling creating employment for Zimbabweans

The wholesale and retail trade, sale and repair of motor vehicles and motorcycles industry employs almost a quarter of the employed population (Figure 16). This means that the Zimbabwean economy is currently being driven by the wholesale and retail sector, as it is also the highest contributor to GDP. The manufacturing sector contributes 8.6% to total employment. The manufacturing sector has the potential to increase employment through value addition and beneficiation. Creating jobs in the manufacturing sector has a multiplier effect, as it will lead to more job creation in other sectors of the economy.

Figure 16: Distribution of Employed Population by Industry

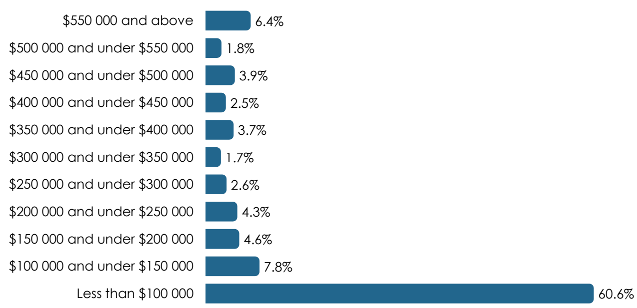


Source: ZIMSTAT (2023)

Incomes levels not ideal for economic growth

Most of the employed population earn less than ZWL$ 100 000 (Figure 17). Converting the ZWL$ figure to USD using the average official exchange rate for the second quarter of 2023 (US$1: ZWL$2700) shows that about 60% of the employed population is earning less than US$38 dollars. Low wages are not good for the economy in general, as they create a vicious cycle of poverty. Low wages result in low aggregate demand resulting in low business profits leading to retrenchments and even lower wages. Aggregate demand is also a function of disposable income, thus higher incomes will lead to increased demand resulting in economic growth.

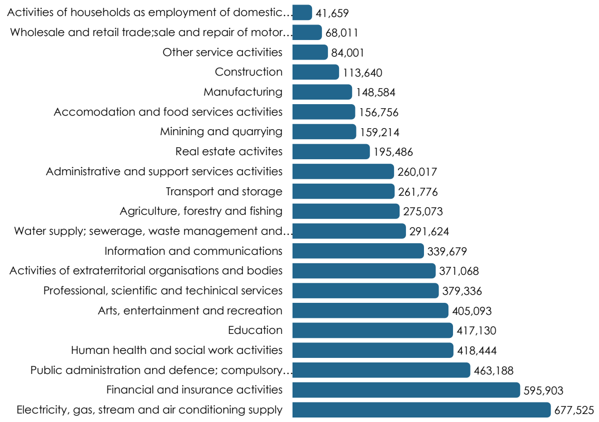
Figure 17: Only 6.4% of the employed population earned more than ZWL$550 000 per month



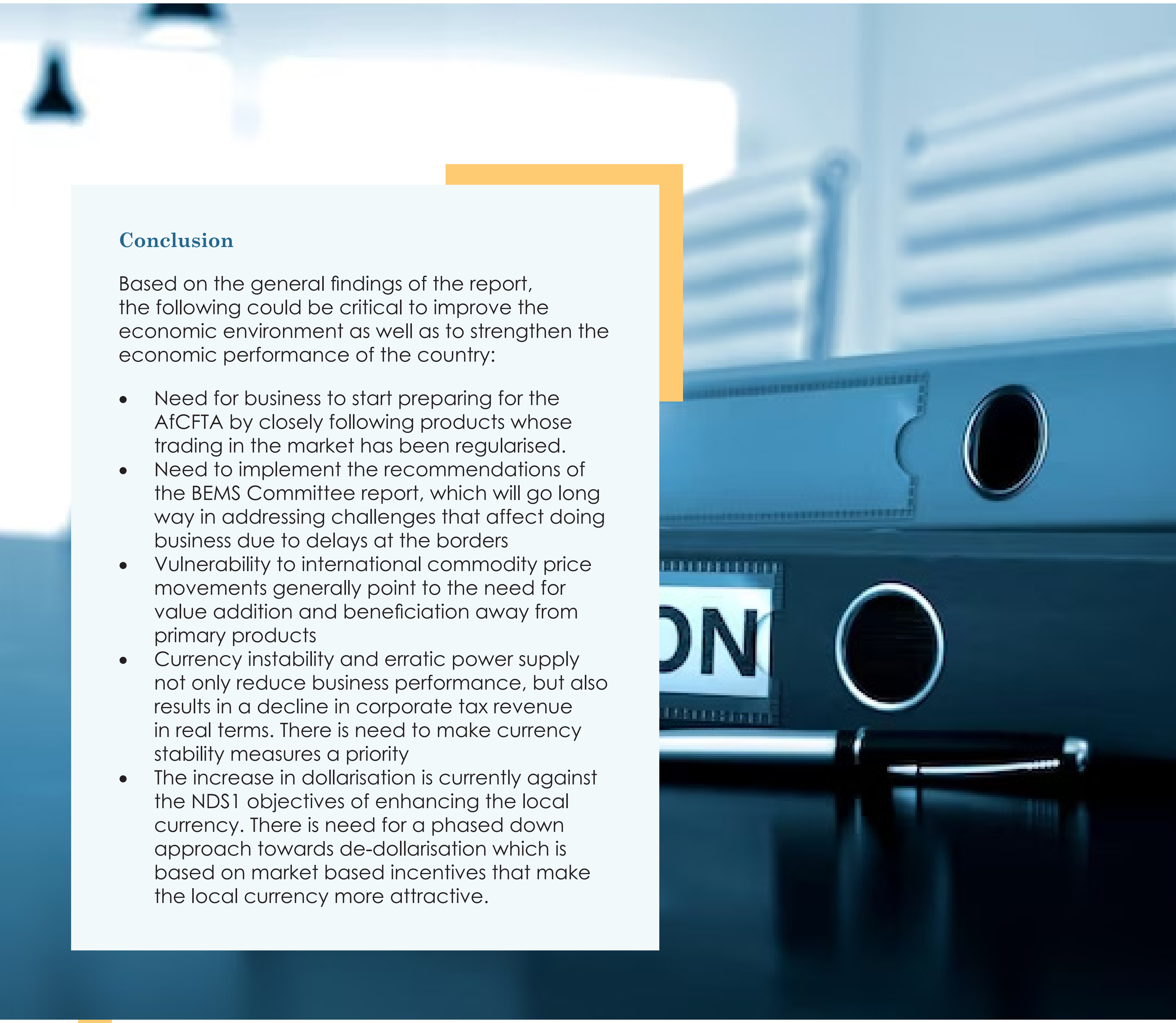
Source: ZIMSTAT (2023)

A closer look at the average income by industry highlights that the sector which employs the biggest chunk of employed persons paid ZWL$ 68 011 per month on average for the second quarter of 2023 (Figure 18). Converting the average income into USD using the average official exchange rate for the second quarter of 2023 (USD1: ZWL$ 2700) means that employees earned approximately USD 25. The wholesale and retail trade; sale and repair of motor vehicles and motorcycles industry is highly dominated by shop flow workers which are not highly skilled, thus weighing down the average income of the whole sector. However, this level of average income for a sector which employs the most is just too low to jumpstart economic development in Zimbabwe.

Figure 18: Average Income for Employed Persons by Industry



Source: ZIMSTAT (2023)



Conclusion

Based on the general findings of the report, the following could be critical to improve the economic environment as well as to strengthen the economic performance of the country:

- Need for business to start preparing for the AfCFTA by closely following products whose trading in the market has been regularised.
- Need to implement the recommendations of the BEMS Committee report, which will go long way in addressing challenges that affect doing business due to delays at the borders
- Vulnerability to international commodity price movements generally point to the need for value addition and beneficiation away from primary products
- Currency instability and erratic power supply not only reduce business performance, but also results in a decline in corporate tax revenue in real terms. There is need to make currency stability measures a priority
- The increase in dollarisation is currently against the NDS1 objectives of enhancing the local currency. There is need for a phased down approach towards de-dollarisation which is based on market based incentives that make the local currency more attractive.

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