

CZI BUSINESS ENVIRONMENT INSIGHTS



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Encouraging external sector performance

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About the CZI Business Environment Insights Report

This publication is the first in a series of forthcoming business environment insights by the Confederation of Zimbabwe Industries (CZI) intended to give trends and Insights on the business environment as informed by local and international landscape and events. The publication series are aimed at informing the market and policy makers on industrial development, technology, emergence of new sectors or products, performance in value chains, emerging trends and highlight both business and policy opportunities. The intention is to ensure that CZI members as well as other constituencies are kept abreast of developments within the policy sphere as well as at the international scene that could have a bearing on how business decisions and strategies should be formulated. This is within the general CZI advocacy responsibilities.



Acknowledgments

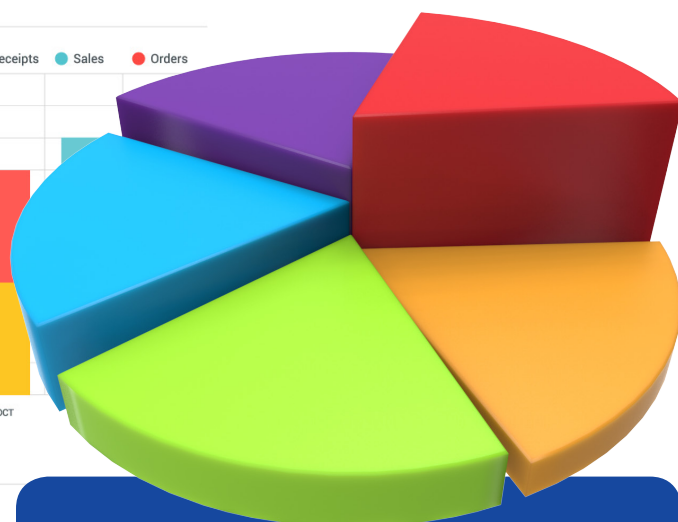
The CZI Business Environment insights is a publication of CZI Industrial and Economic Research.

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Stacked Chart



Line Chart



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Synopsis

1

International commodity price movements for precious minerals generally show that there are prospects for increased exports earnings:

- o the international price of gold increased by 4% from \$1,816.02 per ounce in January 2022 to \$1,897.71 in January 2023;
- o international platinum prices increased by 6% from \$994.15 in January 2022 to a 12-month record high of \$1,053.25 per ounce in January 2023.

4

The Zimbabwe external sector continues to shine, as total foreign currency receipts for the year 2022 increased by 17% compared to 2021 to about US\$11.6 billion, with exports receipts, constituting about 64% of total foreign currency earnings, being the main source of foreign currency. The structure of exports receipts shows that the contribution of the manufacturing sector to exports receipts remained subdued at only 3% in both 2021 and 2022.

2

Government revenue trends show that there was generally an upward trend, even if converted using the parallel market rate, which could be a reflection that the economy was improving despite the various challenges associated with 2022. However, corporate tax revenue was generally lower during the first half of the year 2022 compared to a similar period in 2021, underlining that the first half of 2022 was indeed a difficult period for business.

5

In addition to bringing in low exports receipts, the manufacturing sector is also a concern with respect to employment, accounting for only 8% of total employment. This pales in comparison to the wholesale and retail trade, sale and repair of motor vehicles and motorcycles sector which is the largest employer in the Zimbabwean economy at 26.9% of the employed population. This reflects that the wholesale and retail sectors are growing largely through imported rather than locally manufactured products, underlining the need for localizing value chains.

3

The financial sector indicators, including deposits and loans generally show that the economy is slowly moving towards full dollarisation, as the USD is now the most preferred currency. The downward revision of interest rates from 200% to 150% under the 2023 Monetary Policy Statement is likely to be of less significance in than respect as USD loans are now the main borrowing avenue.

6

Developments from the AfCFTA reveals that there is a private sector mapping initiative, which helps the private sector to identify opportunities for collective action, key challenges, or success factors for industry engagement. This also underlines that there are a number of issues still needed for Zimbabwe businesses to be ready to exploit the opportunities that will arise from continental integration.

7

On the innovation front, Zimbabwe has been improving as reflected by the country's rank on innovation capacity, having improved from 120 out of 132 countries in 2020 to 107 in 2022. This implies that relative to other countries in the world, the country has been doing better in terms of innovation. However, there is still need for more cooperation and collaboration between industry and the tertiary institutions to engage in productivity enhancing innovations.

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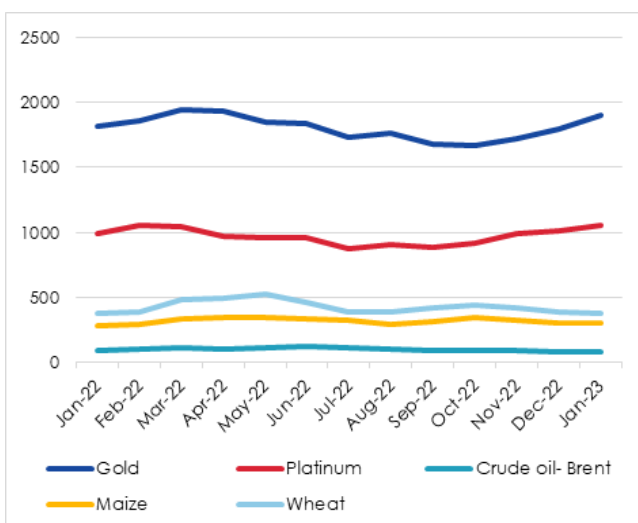
Positive expectation from international commodity price movements

The performance of the Zimbabwe economy is highly dependent on the price movements of some key commodities in the international market. This is largely because Zimbabwe is both a net exporter and a net importer of some commodities, at a time when the country is not able to exert much influence on the international market pricing dynamics. Key commodities whose prices have a bearing on the Zimbabwe economy include the following:

- Gold
- Platinum
- Crude oil
- Maize
- Wheat

A look at the price movements in 2022 as well as in January 2023 (Figure 1) shows that the international average prices for gold, platinum, crude oil, and maize increased during the month of January 2023. However, wheat price declined during the same month. These trends have some implications for the Zimbabwean economy.

Figure 1: Gold and platinum prices trending upwards



Source: Compilation from World Bank Pink Sheet, February 2023

Favourable position from precious metal prices movements

The movement of precious metals has a direct bearing on revenues for Zimbabwe, given that precious metals accounted for 75.8% of total export earnings in 2022, with gold and platinum being the highest contributors (Reserve Bank of Zimbabwe, 2023). Prospects are looking good for gold coin investors and gold producers in Zimbabwe as the international price of gold increased by 4% from \$1,816.02 per ounce in January 2022 to \$1,897.71 in January 2023. This upward momentum was also carried over into 2023, as the gold prices rose by 2% from a monthly average of US\$1,797.55 per ounce in December 2022 to US\$1,897.71 per ounce in January 2023. However, despite the upward trend, the gold prices peaked at US\$1,947.83 in March 2022, which is higher than the January 2023 price. This demonstrates that gold prices are still volatile and there is still need for care in investment decisions.

The same upward trend is also observable with respect to international platinum prices. Platinum prices increased by 6% from \$994.15 in January 2022 to \$1053.25 per ounce in January 2023. The January 2023 price is a record 12 month high, which spells good fortunes for platinum mining firms and underlines its emerging increased interests as an investment tool.

The increase in precious metals generally responds to the increase in investors' interest in precious metals. Investors' interest in precious metals has increased because of the continuous economic uncertainty in the world as they are regarded as a secure asset during turbulent times. **The price increments boosted Zimbabwe's export earnings and the increase in these precious metals price will incentivise primary and small-scale miners to increase more output. The favourable mineral prices maximise the country's contribution to socio-economic development.**

Not so good news from Brent crude oil prices

As net importer of crude oil, trends with respect to crude oil prices Zimbabwe do not paint a pleasing picture. In 2021 fuel contributed 12% to the foreign payments and in 2022 it increased to 19% thus a variance of 96% (Reserve Bank of Zimbabwe, 2023). The crude oil prices increased by 3% in January 2023 compared to December 2022 to \$83.09 per barrel. This brought with it upward price adjustments on fuel prices in Zimbabwe, as the formula used by the Zimbabwe Energy Regulatory Authority (ZERA) in price determination is very sensitive to international price shocks. However, the crude oil prices were 3% lower than the January 2022 price, which could be signalling lower pressures into 2023.

These price instabilities of fuel increases operating costs of businesses, which is already struggling in containing other sources of instability which drive prices such as inflation and exchange rate.

Fortunately, a good maize harvest is expected

The international maize price trend generally places a net importer at a disadvantage, as it is pointing upwards. The price of maize increased by 9% in January 2023 compared to January 2022 to \$302.78 per metric tonne (mt). Fortunately, the prospects are looking good with respect to the current agriculture season, as Zimbabwe is expected to have a good harvest. This would greatly help save the need to import maize under conditions of increasing international prices. For the past two decades Zimbabwe has been importing maize which is a staple food for the country, and it is also a critical input in the animal feed industry. Thus, the international price of maize is of paramount importance to Zimbabwe.

Not so clear picture on wheat prices

Zimbabwe is a net importer of wheat and the international wheat prices have a direct bearing on wheat value chain pricing. While the picture looks good following a decrease in the price of wheat by 2% from \$386.33 per tonne in December 2022 to \$380.36 in January 2023, the January 2023 wheat price was still 2% higher than the same \$374.24 per tonne registered in January 2022. It remains to be seen if the downward trend from the December 2022 picture will be sustained into the year. The bread and confectionary value chain pricing pressures are significantly influenced by the international wheat price movements.



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Fiscal Developments: Positive performance aiding revenue collection

3.1 A general improvement in revenue collections

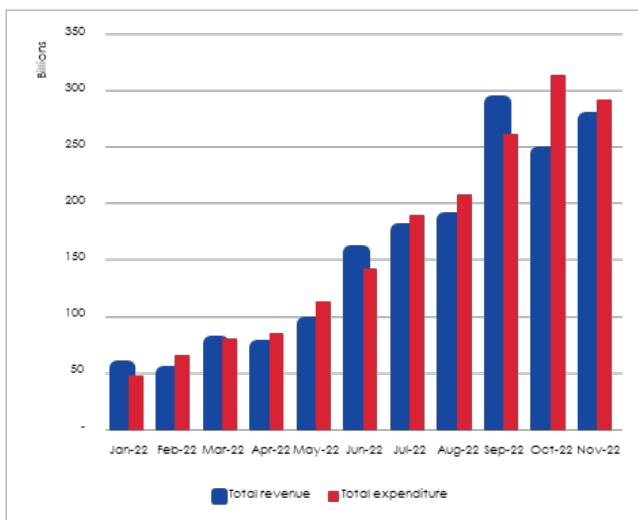
The performance of an economy is also reflected on government revenue and expenditure, as these are both functions of the profitability of the taxpayers. In ZWL\$ both revenue and expenditure trended generally upwards over the period January to November 2022 (Figure 2). It is also quite apparent that government was able to contain its expenditure in line with revenue, which is within the general policy commitment to keep the budget deficit within levels that can be financed without recourse to borrowing from the central bank.

However, given that the tax and expenditure were incurred during an inflationary environment, there is a huge possibility that the upward trend could only be reflecting inflationary pressure. A conversion of both revenue and expenditure to USD using the official exchange rate numbers (Figure 3) reflects that there were higher collections

in USD in the first quarter of 2022 than in the later part of the year. This is not surprising, given that the official exchange rate was more rigid during the first quarter than during the later parts of the year. **However, a conversion using the parallel market rate reflects that there was generally an upward trend in both revenue and expenditure in 2022, which could be a reflection that the economy was improving.**

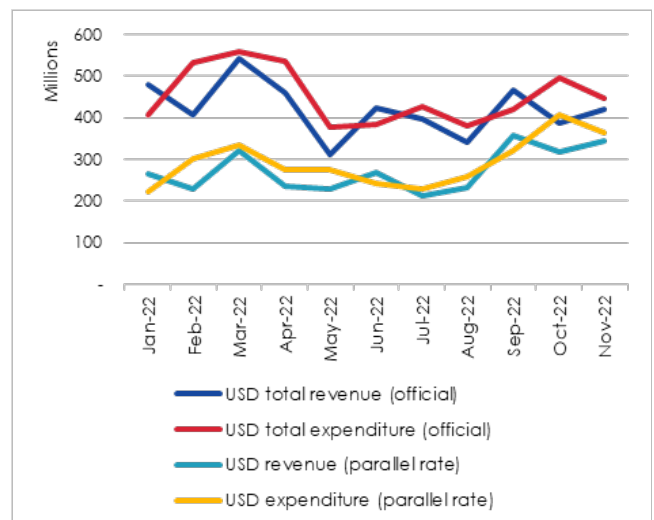
The extent to which the positive performance which drove upwards the general revenue trend also filtered through to business performance can be reflected by the corporate tax revenue collection. However, given that corporate tax revenue is mainly collected quarterly, only a comparison between 2021 and 2022 would help reveal whether there was indeed positive economic performance. Based on parallel market rates, corporate tax revenue was generally lower during the first half of the year 2022 compared to a similar period in 2021 (Figure 4).

Figure 2: Both revenue and expenditure trended upwards in ZWL\$ in 2022



Source: Construction from fiscal outturn statistics

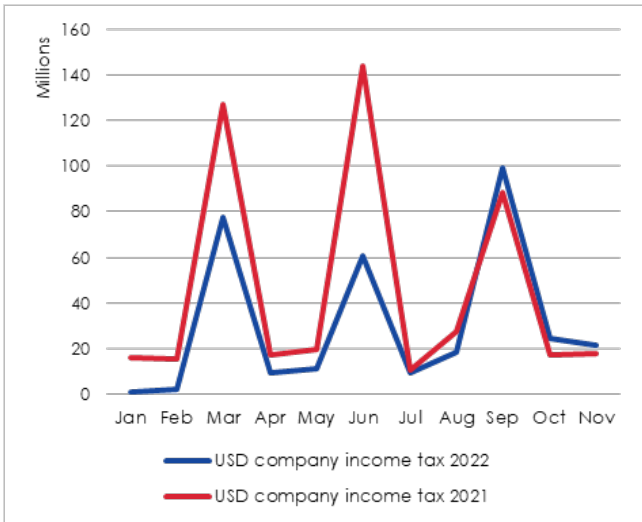
Figure 3: Revenue and expenditure in USD still satisfactory



Source: Construction from fiscal outturn statistics

This generally underlines that the first half of 2022 was indeed a difficult period for business, as it was characterised by instability with respect to the exchange rate and high inflation. This means that there were some tax heads outside corporate tax which performed better and were driving the total revenue trends.

Figure 4: Corporate tax revenue was generally lower during the first half of 2022



Source: Construction from fiscal outturn statistics

The underperformance of corporate tax relative to other tax heads is not surprising, as corporate tax tends to be associated with leakages as some business activities go underground. Composed largely of the informal sector, which is non-compliant to voluntary taxation, corporate tax is associated with evasion of tax and underreporting of revenue received (particularly foreign currency receipts).

3.2 Government procurement as a source of exchange rate instability

In 2022, government introduced reforms in its procurement system, after establishing that the procurement system was now becoming one of the major sources of parallel market exchange rate movements. Given that government procurement involves huge sums of money, if payment is made when the parallel market premium is huge, there is a tendency for contractors to offload the receipts at the parallel market to preserve value. However, while it is expected that it is the huge government contracts, that would tend to involve billions of dollars through capital projects that are likely to fuel the parallel market, it turns out that even suppliers of general consumption goods and services for government also tended to drive the parallel market rates. A simple calculation of the correlation coefficients between the parallel market and the two sources of government procurement (Table 1) confirms that although it was not a very serious concern in 2020 and 2021, the correlation was too high in 2022. While government has instituted measures to minimise the damage, such as instituting a value for money policy where there is increased scrutiny on the invoices, if a huge parallel market premium remains in place, it will be inevitable for government contractors to convert their money into USD at the parallel market to preserve value.

Table 1: Correlation coefficients between the parallel market rate and government procurement

	Parallel market rate		
	2020	2021	2022
Government procurement of goods and services	0.58	0.66	0.95
Government procurement of capital goods	0.75	0.44	0.72

Source: Computations from the Fiscal Outturns

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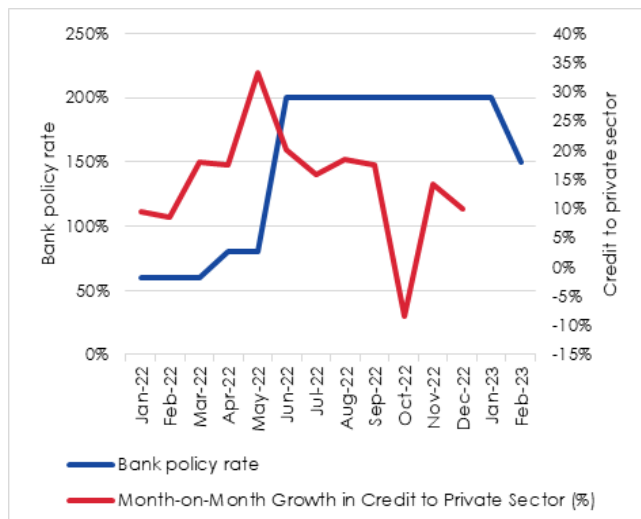
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Increasing dollarisation of the Financial Sector

4.1 Interest rates reviewed downwards

Business performance in 2022 was affected by interest rates, which were reviewed frequently by the central bank. Interest rates initially were raised to 80% before they were hiked to 200% on 27 June 2022. The sharp increase in interest rates to 200% in June 2022 slowed down ZWL\$ borrowing. Month-on-month growth in credit to private sector, which was growing exponentially, declined from a high of 33% in May 2022 to negative 8.5% in October 2022 (Figure 5).

Figure 5: Hiking of interest rates curtailed credit to private sector



Source: RBZ

The main goal of hiking interest rates was to curtail speculative borrowing, which was running rampant in the economy due to high inflation and depressed interest rates. Although the goal was achieved, bona fide businesses were also caught in the crossfire. **This means that policy correction measures in Zimbabwe tend to have some casualties as it becomes difficult to have a clear separation at some times.** They could

not borrow or service their debts because the hiking of interest was retroactive, as it applied on existing loans. Working capital for business was decimated, which ultimately affected production. Viability of some businesses was under threat and fortunately they managed to convert some of their existing ZWL\$ loans into USD loans, at a time when the inflows of USD loans to the formal sector began to improve.

The recently announced 2023 Monetary Policy Statement reveals that the proportion of foreign currency-denominated loans increased from about 37.0% in December 2021 to 64.2% in December 2022. Conversion of ZWL\$ loans into USD loans, coupled with increased USD borrowing, has further plunged the economy towards re-dollarisation, which will be catastrophic for the economy due to the cost associated with full dollarisation.

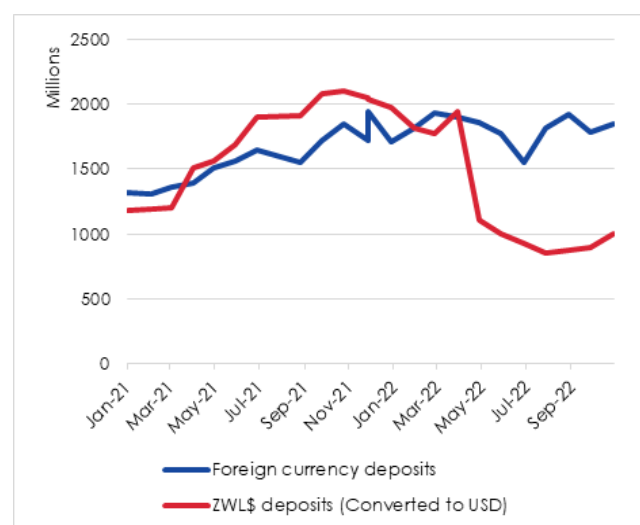
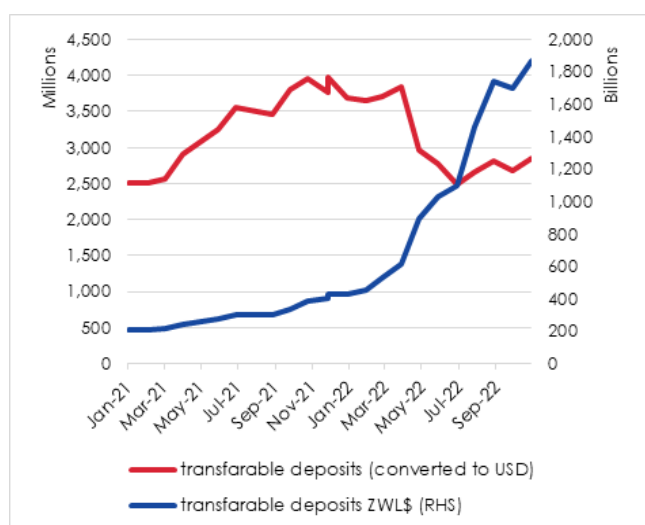
The 2023 Monetary Policy Statement reviewed interest rates downwards from 200% to 150% with effect from 1 February 2023. This move is likely to be of less significance from two perspectives. First, some corporates already had exemptions, as reflected in the weighted average lending rate for December 2022 of only 110.97%. Second, 150% interest rate is still too high; there are very limited avenues where a business could earn a return on investment of 150% even in ZWL\$ to pay off the loan and remain profitable. It is not expected that the reviewed bank policy rate will be able to entice bona fide business to borrow in ZWL\$. It is mainly speculators and arbitragers who are likely to pull off deals that could generate such high returns. Thus, it is likely that business will continue to borrow more in USD than ZWL\$.

4.2 Foreign currency deposits are on an upward trend, while ZWL\$ deposits are trending in the opposite direction

Transferrable deposits generally represent narrow money and in a dual currency regime, their structure could be a useful reflection on how transactions through banks are being conducted. The trend shows that if the total transferrable deposits (which are reported in ZWL\$) are converted into USD using the official exchange rate, they were increasing up until April 2022, when a downward trend would begin

up to June 2022, when they started to recover (Figure 6a). A disaggregation of the total transaction deposits into foreign currency deposits and ZWL\$ deposits shows that foreign currency deposits are on an upward trend, whilst ZWL\$ deposits are actually on a downward trend in USD terms (Figure 6b). The general decline in ZWL\$ deposits supports the notion that the Zimbabwean economy is getting closer to full dollarisation. USD is now the dominant currency in Zimbabwe, which clearly erodes local manufacturing companies' competitiveness.

Figure 6: Foreign currency deposits steadily trending upwards



Source: RBZ Depository Corporations Survey, November 2022

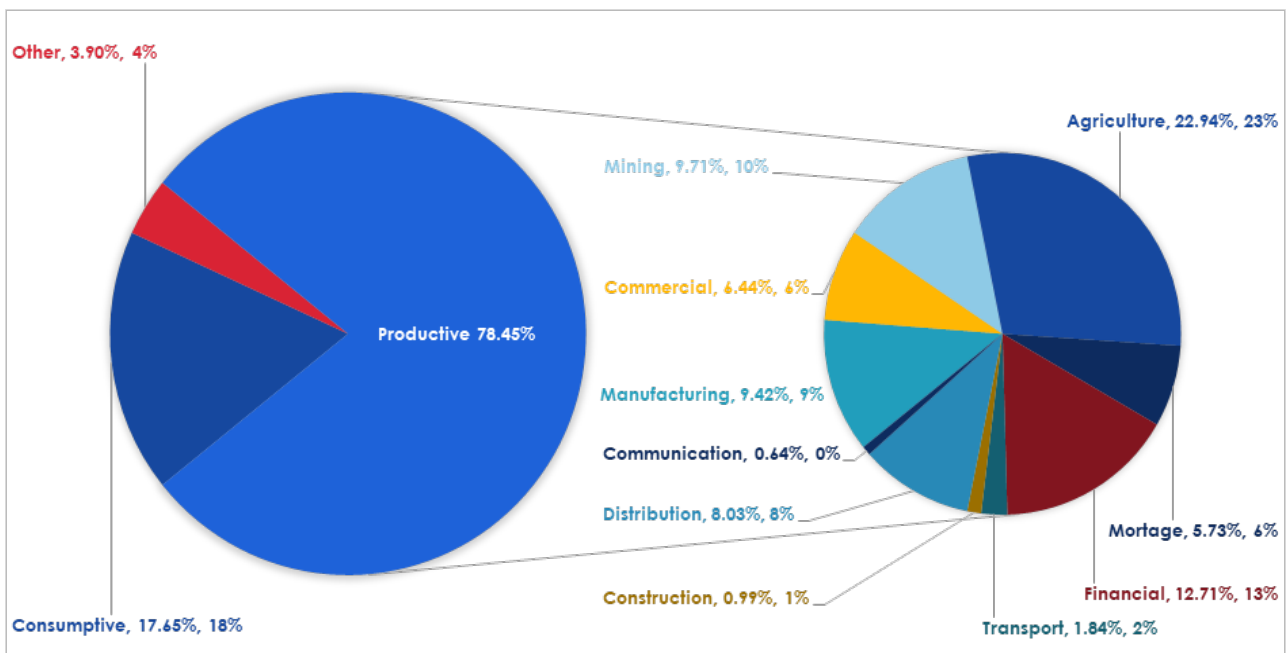
4.3 Increased USD deposits being reflected in USD loans.

The foreign currency loans to foreign currency deposits ratio as at 31 December 2022 was 62.69% whilst the ZWL\$ loans to deposit ratio was 41.40% as at the same reporting date (Reserve Bank of Zimbabwe, 2023). Borrowing in USD for working capital means that business will be forced to sell more of their products in USD for them to be able to service their debts. With increased USD loans, it becomes more difficult to reverse the tide of dollarisation which has engulfed the Zimbabwean economy.

The productive sectors got the chunk of

loans and advances (78.45%) extended by the financial institutions. The sectoral distribution of the productive sectors loans, indicate that the agriculture sector got most of the funding 22.94% (Figure 7). The manufacturing sector had a mere 9.42%, at a time when it has lost out to mining and agriculture in terms of contribution to GDP over the past two years. For the manufacturing sector to adequately retool, more credit must be extended to the sector, especially with African Continental Free Trade Area (AfCFTA) now in force. There is need for the banking environment to promote long term deposits, out of which long term loans could emerge, which are more suitable for the manufacturing sector.

Figure 7: Sectoral distribution of loans as at 31 December 2022



Source: Reserve Bank of Zimbabwe, 2023

4.4 The USD now dominating money supply

As reflected in 2023 Monetary Policy Statement, broad money (M3) amounted to ZWL\$2.3 trillion as at end-December 2022, compared to ZWL\$475,36 billion recorded in December 2021, which constitute a 392% increase. The levels at which broad money is increasing poses a greater danger to the achievement of exchange rate convergence. As long as money supply continue to increase at this rate, exchange rate stability will be hard if not impossible to archive.

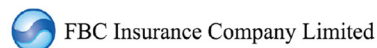
Foreign currency deposits are now dominating money supply, at 56.88% of the total money supply as at December 2022.

Local currency deposits constitute 43.04% of money supply and the remaining 0.18% is currency in circulation. Given exchange rate instability, a significant portion of the growth in money supply is largely reflecting exchange rate depreciation.

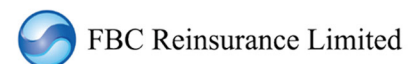
However, monetary statistics are generally reflecting that the degree of dollarisation is increasing. Full dollarisation is bad for the Zimbabwean economy, as the economy will migrate to a high-cost environment. Local companies will lose competitive advantage and Zimbabwe will become a big supermarket of imported commodities. Shrinking capacity utilisation, closure of local manufacturing companies, loss of jobs and depressed economic growth will be the end result.

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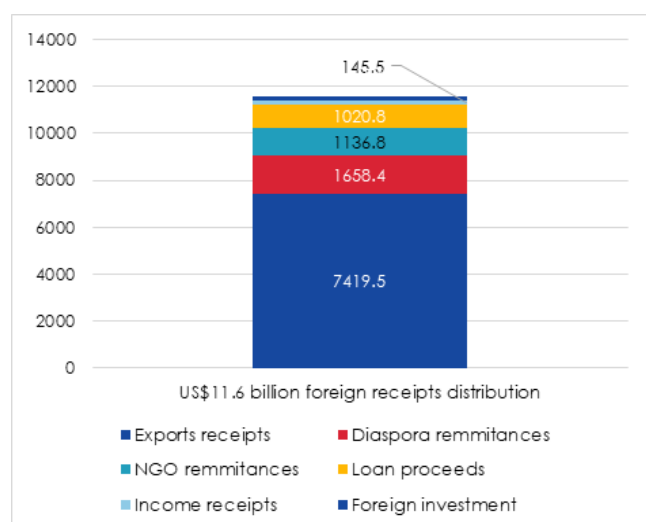
Encouraging external sector performance

The positive performance of the Zimbabwe economy is also reflected on the external sector position. Total foreign currency receipts for the year 2022 were about US\$11.6 billion (Figure 8), having increased by about 17% compared to the total foreign currency receipts for 2021. Exports receipts, constituting about 64% of total foreign currency earnings, are the main source of foreign currency. Diaspora remittances constitute about 14% and are also a significant source of foreign currency. However, the Zimbabwe economy continues to struggle with respect to foreign investment attraction, as foreign investments constitute only 2% of total foreign currency inflows. Diaspora remittances are actually bringing in seven-fold the value that foreign investors are bringing in, at a time when there are so many investment needs within the value chain transformation agenda.

In addition to being the largest contributor of foreign currency receipts, exports receipts in 2022 also grew significantly compared to 2021; increasing by 16.5% compared to

2021. This is welcome news with respect to improvement in foreign currency inflows are concerned. However, a comparison of the exports receipts for 2022 and 2021 shows that the structure has not changed much. The mining sector continues to be the dominant player in foreign currency generation, implying that Zimbabwe is vulnerable to international commodity price movements. Exports receipts from the mining sector were 76% of the total exports receipts in 2022, which was an improvement in vulnerability from 79% in 2021 (Table 2). The drop in mining sector contribution in 2022 was accounted for by, among others, tobacco and tourism, which increased their contribution by four and two percentage points respectively. The contribution of the manufacturing sector to exports receipts remained subdued at only 3% in both 2021 and 2022. The low contribution to manufacturing underlines the local orientation of manufacturing, which struggles to remain competitive in the international market in the face of high costs of production.

Figure 8: Exports receipts constitute about 64% of total foreign currency earnings



Source: Reserve Bank of Zimbabwe, 2023

Table 2: The contribution of manufacturing to total export receipts is low

Key Export Sectors	Contribution to exports	
	2022	2021
Minerals	76%	79%
Tobacco	13%	9%
Tourism	4%	2%
Manufacturing	3%	3%
Transport	2%	3%

Source: Reserve Bank of Zimbabwe, 2023

The improving foreign currency receipts could have made a much more pronounced role in exchange rate stability if foreign payments were also under control. In 2022, foreign payments were about US\$8.6 billion, having increased by 23.1% compared to 2021. Merchandise imports payments constituted the bulk of foreign payments at 74% (Figure 9), which is not quite different from 73% in 2021.

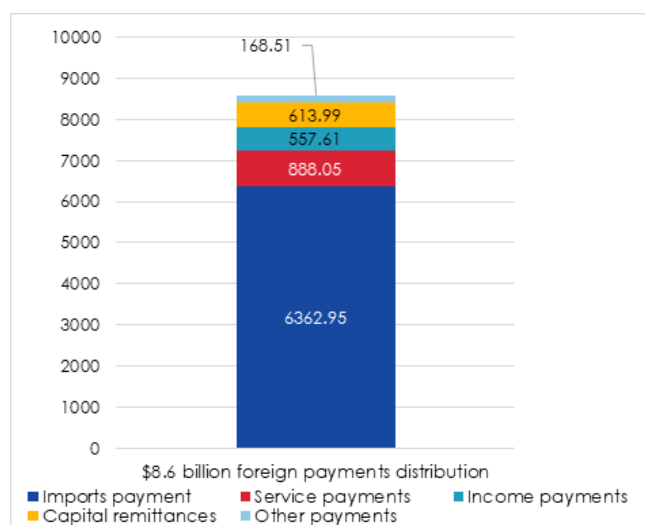
Given that they constitute most in resources outflow, it is important to understand the main drivers for imports. A look at the structure of imports in 2021 and 2022 (Table 3) reveals the following:

- There is a significant drop in the share of consumption goods in imports from 34% in 2021 to only 20% in 2022. This is quite commendable as it could reflect that local manufacturing capacity has

improved to displace imports;

- The share of intermediate goods in imports increased from about 18% in 2021 to about 22% in 2022. This could also reflect the increase in manufacturing sector activity, which in turn created demand for more intermediate goods to serve as raw materials;
- The share of fuel in imports increased from 17% in 2021 to 26% in 2022. In addition to increased economic activity, the intensified load shedding in 2022 also imposed pressure on diesel imports to power generators for both households and industry;
- Unlike in 2021 where consumption goods were the single largest component of import payments, capital goods constituted the bulk in 2022. This is also commendable as capital goods increase the production capacity of the economy.

Figure 9: About 74% of foreign payments in 2022 were for merchandise imports



Source: Reserve Bank of Zimbabwe, 2023

Table 3: The importation of consumption and manufactured goods is declining

Key Import Commodities	Contribution to imports	
	2022	2021
Capital goods	29.5%	29.1%
Fuel	26.3%	16.9%
Intermediate Goods	21.7%	17.9%
Consumption & Manufactured Goods	20%	33.7%
Electricity	2.5%	2.5%

Source: Reserve Bank of Zimbabwe, 2023

Impact of regulations on doing business

There are several new regulations that are introduced from time to time by the government of Zimbabwe. In January 2023, among these are two Statutory Instruments that were aimed to address different issues; Statutory Instrument 5 of 2023 and Statutory Instrument 9 of 2023.

6.1 Opportunities from the ban on base minerals export

Statutory Instrument 5 of 2023 states that no un-beneficiated base mineral ores shall be exported from Zimbabwe to another country except under written permit of the Minister. Zimbabwe is endowed with significant, well-known mineral reserves. Zimbabwe primarily exports unprocessed mineral ores, which disadvantages the country in terms of increased job creation and increased revenue generation despite having more than 40 minerals whose commercial viability has been proven over the previous few years. Since mineral ores are being exported, most mineral beneficiation plants are either vacant or underutilized. While over 60% of the nation's exports are made up of mineral commodities, beneficiation and value addition can increase the sector's overall contribution to socioeconomic development.

The banning of un-beneficiated Base Mineral Ores supports the National Development Strategy 1 which aims at enhancing mineral beneficiation and value addition through creation of value chains to anchor the national reindustrialisation policy. Base minerals such as coal is one of the five key minerals which was selected on the enhancement of beneficiation and value addition strategy which will facilitate the role towards national reindustrialisation to build a strong integrated economy.

The Zimbabwe mining sector has been growing and has a positive outlook and aspiring to be a US\$12 billion economy by 2030. The local capacity to add value to the base mineral ores should thus begin to emerge, given assured throughput. **Industry should now focus on investing in the value addition process and associated value chain industries of the base minerals.**

6.2 Payment of electricity in USD by exporters and partial exporters

In July 2022, SI 131 of 2022 had been introduced, which provided that payment for electricity and related services should be made exclusively in foreign currency by exporters and partial exporters. In January 2023, Statutory Instrument 9 of 2023 was introduced to renew SI 131 of 2022 so that it continues to have effect for a period of six months, that is, from January 2023 up to June 2023.

Since the introduction of SI 131 of 2022, there has been an industry outcry that the move is adding pressure on the much-needed USD in the formal market. Although the economy is largely dollarized, the formal business USD sales are still low due to SI 118A of 2022 which prohibits businesses to sell exclusively in USD. The formal sector is required to sell in both local currency and foreign currency and the pricing must be with reference to the interbank exchange rate with a margin of not more than 10%. Due to imperfect exchange rate market reflected by a high exchange rate premium, most of the USD goes to the informal market when the premium is huge.

ZESA has a huge demand shortfall which is being managed through power cuts. They also import electricity and pay in USD and thus need to access foreign currency. However, while this need is clear, the liability for raising this foreign currency should not be passed on to business. Rather, ZESA should be able to purchase foreign currency from the auction or WBWS like every other importer, rather than getting the prerogative of charging in only one currency in a dual currency environment, where businesses earn a portion in ZWL\$.

The industry is already experiencing induced costs due to power cuts resulting in damage of machines and increased production costs due to usage of alternative energy. The introduction of electricity USD payments will continue to worsen the ease of doing business and it is also promoting dollarisation, which has more disadvantages to the industry than its advantages.



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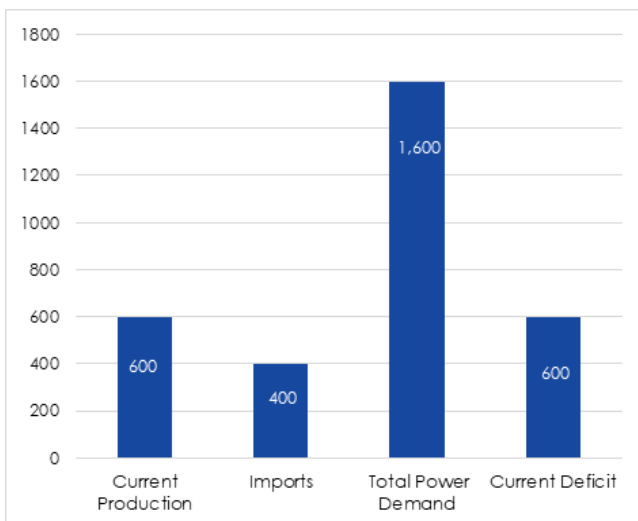


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Promising prospects about the power situation

The year 2022 was characterised by enhanced load shedding, as demand fell far below available supply. The situation is still critical in the first two months of 2023. Currently, power generation is averaging 600MW, against current peak demand of 1,500-1,700MW (Figure 10). The daily power supply deficit is over 900MW during peak hours and to meet this deficit, ZESA is importing at 300-450MW of power from ZESCO of Zambia, ESKOM from South Africa, EDM and HCB of Mozambique.

Figure 10: Massive power deficit currently (MW)



Source: Construction from Choga, 2023

The prospects for 2023 look bright from April to November when Kariba water levels improve. It is expected that improved rainfall patterns in the north along the Zambezi River will increase inflows into Lake Kariba. The Zimbabwe Electricity Transmission and Distribution Company (ZETDC) expects Kariba Power Station to feed 775MW by mid-April to May 2023 from the current 350MW¹. Hwange 7 completion has been delayed but ZETDC now expects it to feed the grid in March 2023, with Hwange 8 expected to be complete by June 2023. The two power stations are expected to add 600MW to the grid, which would see power declining by May 2023.

This means that the **outlook is positive in 2023** as far as energy availability is concerned. Given the extent to which alternatives, such as fuel powered generators, were increasing operation costs, it is expected that competitiveness will be enhanced as the power situation improves.

Employment is a key driver of Economic development

The wholesale, and retail trade, sale and repair of motor vehicles and motorcycles is the major employer

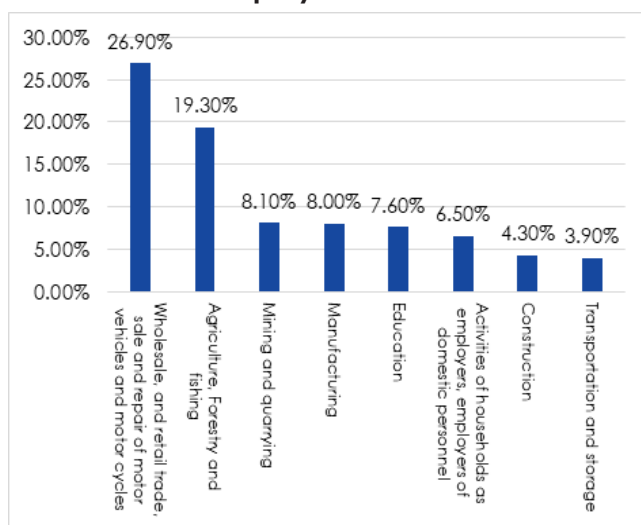
The wholesale, and retail trade, sale and repair of motor vehicles and motorcycles sector is not only the largest contributor to GDP, but it is also the largest employer in the Zimbabwean economy. The sector employs 26.9% of the employed population (Figure 11). The manufacturing sector, which should be the driving force in economic transformation towards Zimbabwe's National Vision of an upper middle-income economy by 2030, is lagging behind, only accounting for 8% of total employment.

This generally shows that the wholesale and retail sectors are growing largely through imported rather than locally manufactured products. Localizing value chains will boost the manufacturing sector, while also saving on foreign currency.

The high proportion of low income earners suppresses demand

Consumer spending mainly depends on

Figure 11: Agriculture is no longer the major contributor to employment in Zimbabwe

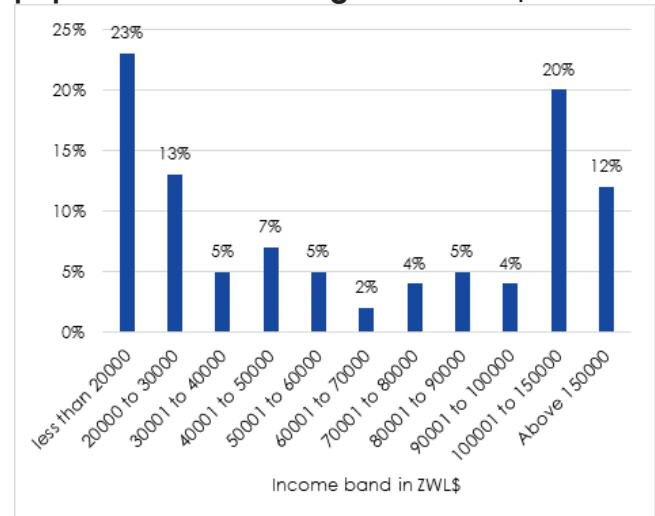


Source: Constructed from Zimbabwe National Statistics Agency, 2023

disposable income. Depressed salaries, result in low disposable income which leads to low demand of goods and services. For example, sales volumes of OK Zimbabwe decreased by 11.33% for the third quarter (October-December) and 9.37% for the nine months to December 2022 compared to the prior year driven by declining consumer spending power².

In the last three months of 2022, 23% of the employed population in Zimbabwe were earning less than ZWL\$20,000 (Figure 12). If this amount is converted to US dollars using the parallel market rate (ZWL\$910: 1 USD) of December 2022, it will be USD22. This level of depressed salaries adversely affects consumers purchasing power, which in turn affects sales. To boost demand and spur economic growth, salaries should reasonably increase. Looking at the upper band, only 12% of the employed population are earning more than ZWL\$ 150,000. If the amount is converted to USD using the parallel market rate it will be USD165. Thus, diaspora remittances can be credited for driving demand, as salaries remain subdued for the majority of the population.

Figure 12: Only 12% of the employed population was earning above ZWL\$150 000



Source: Zimbabwe National Statistics Agency, 2023

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Continental integration: Is Zimbabwe private sector ready to cope with the AfCFTA?

Continental integration under the Africa Continental Free Trade Area (AfCFTA) is gathering momentum. The crucial role of the private sector in driving intra-African trade and industrial capacity is already acknowledged. It is on this basis that the 'AfCFTA Private Sector Engagement Strategy, 2022–2032' was launched in November 2021.

However, the private sector in Africa is not much acquainted with the AfCFTA to a stage of readiness to embrace its benefits. A 2022 survey established that 75% of businesses in Francophone Africa are yet to hear about the AfCFTA, while also establishing that there are several inhibiting factors that will threaten the full exploitation of opportunities arising from the AfCFTA (Table 4).

Table 4: Threats to the Private Sector in exploitation of AfCFTA

- ✓ 42% of micro-sized firms, and 34% of small firms, struggle delivering products and services on time, compared to just 18% of large firms.
- ✓ Less than 60% of firms have business bank accounts in some African countries, though in most countries over 80% of firms own a bank account
- ✓ Just 32% of African firms report having a business website, with women-led and informal firms being 15 percentage points and 28 percentage points less likely respectively
- ✓ Only 28% of micro-sized and 37% of small firms report high availability of information on standards and certificates, and this information is less available for firms exporting within Africa
- ✓ Companies that engage Business Support Organisations (BSOs) are 13 percentage points more likely to report having high availability market information on potential buyers and suppliers ▪ Firms with a high share of export sales are 22 percentage points more likely to report excellent skills matching between employees and company needs, compared to firms with a low share
- ✓ Exporting firms are more likely to innovate, with 42% of African exporting firms investing heavily in R&D, compared to only 24% of non-exporting firms

Source: International Trade Centre, 2022

It is against this background information that in November 2022 in Niger, during the African Industrialisation week, the AfCFTA Secretariat, in partnership with the International Trade Centre (ITC), launched the Private Sector Mapping strategy to facilitate understanding of the AfCFTA technical terms by the private sector so that it would also benefit from this agreement.

Private Sector mapping is the process of detailing how the private sector can engage with the AfCFTA (International Trade Centre, 2022). The mapping helps the private sector to identify opportunities for collective action, key challenges, or success factors for industry engagement on given topics and serves as a foundation for private sector-led policy dialogues.

It was noted during the meeting that the private sector needs greater access to information on market trends and better awareness of business opportunities on a local, regional, and global which would contribute significantly to increasing trade activity and foster job creation across Africa.

This generally implies that it is **imperative for businesses in Zimbabwe to take part and be part of this private sector mapping**. The key questions that need to be answered, which would generally inform the agenda for enhancing private sector participation in the AfCFTA process over the course of 2022 include the following:

- How prepared is business in Zimbabwe to exploit the opportunities to arise from the AfCFTA?
- How informed is Zimbabwe business about the AfCFTA process, especially with respect to not only getting full information about the process itself, but becoming fully integrated into the AfCFTA private sector strategy?
- What platforms exist to ensure that the various competitiveness bottlenecks that arise full exploitation of advantages are addressed without resorting to tariff protection, which is on its way out under the AfCFTA?
- Who should be playing specific roles in positioning the Zimbabwe private sector ready to overcome the looming tide from continental integration whose end game is removal of the current protection advantages?

The quest for having answers to such questions must be part of the advocacy agenda around issues on the AfCFTA going forward.

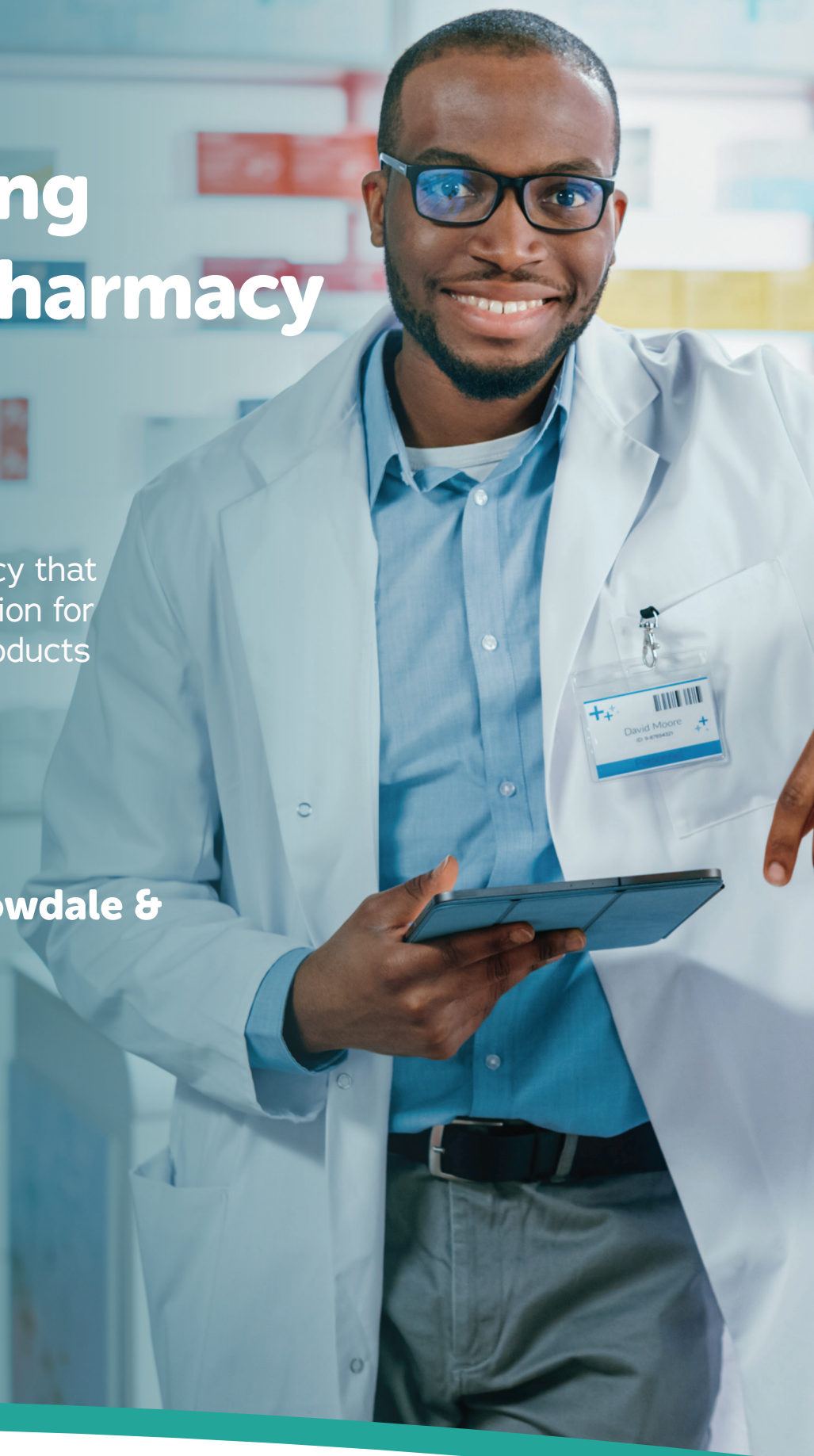


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Innovation in Zimbabwe: Implications from the 2022 Global Innovation Index

As Zimbabwe continues to embark on a journey towards middle income country status, there are a number of critical expectations that should anchor such a trajectory. One of such critical attributes is the degree of innovation and creativity by Zimbabwean firms. Innovation can be defined as the creative and investment activities that a firm can undertake, aimed at the development, manufacture and distribution of new types of goods, services, technologies and organizational forms (Tuzubekova, et al., 2020). Innovation is very critical in that it leads to a decrease in costs and to the creation of new needs, which increases competitiveness by allowing for decrease in prices and the opening and capture of new markets, including external markets.

This generally implies that the extent to which Zimbabwean firms compete with regional and global counterparts in innovation determine the extent to which the country is progressing towards competitiveness. An improvement in innovation rankings would generally be showing that the economy is progressing well towards positioning itself ahead of competitors in the regional and global markets.

The World Intellectual Property Organization (WIPO) produces a comparative measure of innovation in the economies through the Global Innovation Index (GII). The GII is a ranking of countries by their capacity for, and success in, innovation, which is produced annually by WIPO. The index is designed to capture a number of innovation attributes by firms, including:

- Science and innovation investments
- Technological progress; and
- Technology adoption

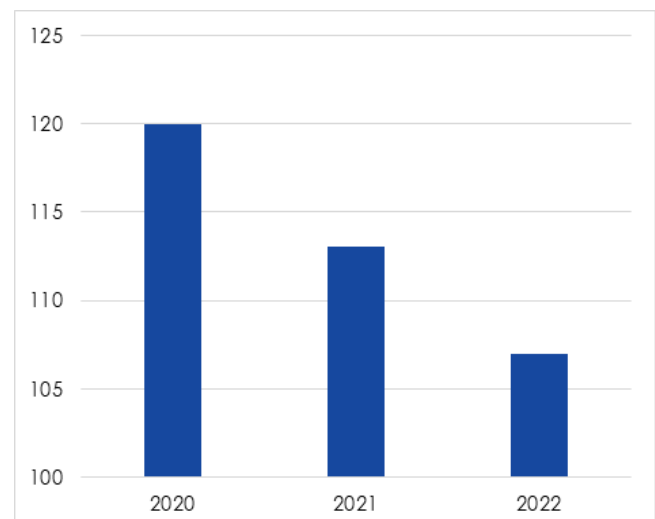
These attributes are measured through seven different categories, which generally produce the overall GII score for a country, namely:

- Institutions
- Human capital and research
- Infrastructure
- Market sophistication
- Business sophistication
- Knowledge and technology outputs
- Creative outputs

Zimbabwe has been improving steadily in terms of innovation

Zimbabwe was ranked 120 out of 132 countries in 2020 in terms of the country's innovation capacity. However, over the past two years, the country has steadily improved its rankings, to close 2022 at 107 (Figure 13). This implies that relative to other countries in the world, the country has been doing better in terms of innovation.

Figure 13: Zimbabwe innovation ratings showing improvements

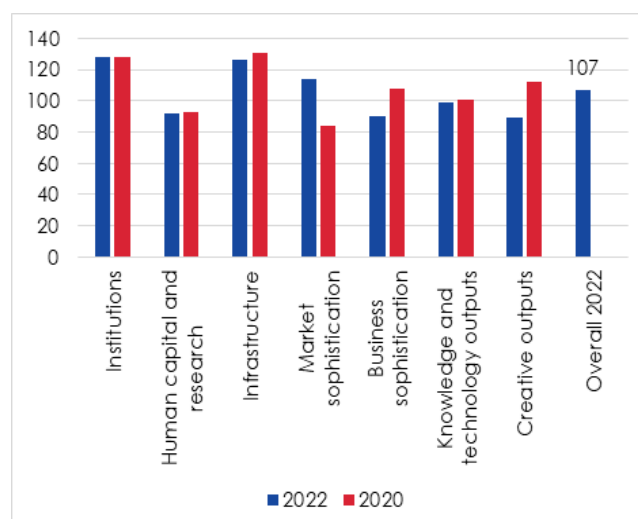


Source: Constructed from the WIPO GII, 2022 report

A look at the disaggregation of the overall ranking across the seven categories (Figure 14) shows that:

- There are three categories which weighed downwards the overall ranking of 107, namely:
 - Institutions (ranked 128)
 - Infrastructure (ranked 126)
 - Market sophistication (ranked 114)
- A further disaggregation reveals that in the 'institutions' category, Zimbabwe was ranked 129 on government effectiveness and 130 on regulatory quality. On 'infrastructure' the country was rated number 132 on general infrastructure viability, while on 'market sophistication', access to credit was ranked 129.
- Zimbabwe has its best score in the 'creative outputs' category, with a ranking of 89.
- Compared to 2020, Zimbabwe performed worse only on one category; 'market sophistication'. The ranking in that category worsened from 84 in 2020 to 114. The drop in the ranking was mainly due to the rating on access to credit, which was 114 in 2020 and ended up being 129 in 2022.
- Compared to 2020, the biggest positive movement was in the 'creative outputs' and 'business sophistication' categories. Creative outputs rating was spurred by intangible assets (trademarks etc), where the rank improved from 126 in 2020 to 85 in 2022.

Figure 14: Market sophistication worsened in 2022 compared to 2020



Source: Constructed from the WIPO GII, 2022 report

The improvements in innovation rankings generally reflect that some of the policies and programmes that the Ministry of Higher and Tertiary Education, Innovation, Science and Technology Development are bearing fruits. The Ministry adopted Education 5.0 in 2019, which focuses on innovation and industrialisation in, addition to the traditional Education 3.0 whose primary focus was teaching, research and community service. The improvements in innovation rankings shows that there is enhanced scope for competitiveness, as the country is slowly catching up with regional and global competitors. **This calls for more cooperation and collaboration between industry and the tertiary institutions to engage in productivity enhancing innovations.**

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CZI ENGAGEMENTS ON THE BUSINESS ENVIRONMENT

MEMBER ISSUES

SECTOR	TYPE OF ISSUE	CZI ACTION
Plastics Pipes Manufacturing Sector	Duty regime on imported irrigation kits are making the importation of pipes effectively duty free and VAT free.	Prepared a proposal for consideration by the Minister of Finance Next is to meet the 4 key players in the plastic piping sector to discuss the paper and proposal.
All	USD Energy billing Power outages	Sharing engagements documents with members, Hosting the CZI Economic Enablers meeting and mobilizing business for the ZETDC meeting on 13 th of March.
All	Tax Laws and Tax administration	The Macro-Economic Committee has put together a Tax Sub Committee who are working with a consultant to support engagements. A meeting was held with the Minister of Finance and agreement was reached to organise a meeting between CZI, Treasury, ZIMRA and ICAZ to explore the challenges further and come up with some concrete proposals
All	USD inflation numbers. Members have a need to refer to the USD inflation in the Zimbabwean economy and its absence from official statistics creates a business decision making information gap.	CZI was able to calculate USD inflation number up to January 2023 before the publication of ZWL\$ was stopped.
Detergents Manufacturing	CZI was requested to conduct a washing powder industry survey to tease out the operational challenges in the sector	Survey done and sent to the member.
Electrical Cable Manufacturing	CZI was approached to seek audience with government to have their industry protected from import competition and smuggled/dumped products.	CZI facilitated a meeting with the Ministry of Finance for the member to present their case. However, the desired goal is yet to be met.

OUR ENGAGEMENTS IN THE POLICY ECOSYSTEM

JANUARY - FEBRUARY

Ministry of Foreign Affairs and International Trade	Operationalisation of Memoranda of Understanding by Chambers of Commerce
Ministry of Finance and Economic Development	Economic Growth and Stability Sector Working Group – Zimbabwe's Arrears Clearance and Debt Resolution Process. Input into the economic reform proposals at the technical working group and participation at the dialogue.
Ministry of Finance and Economic Development	Members accompaniment on Imported and smuggled electrical cables and conductors
World Bank IFC	World Bank Group Country Private Sector Diagnostic Mission for Zimbabwe
RBZ Governor – Dr JP Mangudya	Monetary Policy Submission
Ministry of Foreign Affairs and International Trade	Courtesy Call on the Zimbabwean Business Community to strengthen bilateral cooperation between Zimbabwe and Indonesia
SADC BC	AfCFTA Stakeholder Consultation Working Session
Zimbabwe Revenue Authority – Commissioner Govha – Domestic Taxes	Tax Sub-Committee Meeting with Commissioner on Tax Issues
Bureau Veritas	CBCA Programme Meeting with CZI Members
Embassy of Zimbabwe in Turkey	Opportunities within the Zimbabwean Manufacturing Industry
European Union Delegation – Head of Cooperation	Agriculture, Private Sector and Trade Collaborations
Ministry of Women Affairs	Launch of Women in Decision Making Strategy
Minister of Finance and Economic Development – Prof. M Ncube	Tax issues
SADC & Ministry of Foreign Affairs and International Trade	Validation Workshop on Regional Authorised Economic Operator Framework Procedure Manual Awareness and Training
Ministry of Finance and Economic Development	Structured Dialogue Platform Meeting - Zimbabwe's Arrears Clearance and Debt Resolution Process
Ministry of Industry and Commerce	Development of Local Content Thresholds for Pharmaceutical, Packaging and Fertiliser Sub-Sectors Report Validation
Ministry of Foreign Affairs and International Trade	EU-Eastern and Southern Africa (ESA) Interim Economic Partnership Agreement (EIPA) Public Procurement Financial Thresholds Consultative Forum
European Union Delegation	Private Sector Needs Assessment on Women's Empowerment Programming

POLICY PROPOSALS, BRIEFS, RESPONSES, ANALYSIS AND RESEARCH

TITLE
CZI Third Quarter Business and Economic Intelligence Report
CZI 2022 Inflation and Currency Developments Round Up
CZI Monetary Policy Submission
CZI Inflation and Currency Developments Update - January
Tax Paper
CZI Position Paper on ZERA Generator Licensing
CZI Update to Members on Power Supply Situation



- Through robust factual analysis, CZI assists members to strategically navigate the macro, micro, regional and continental business environments.
- Provides thought leadership and policy entrepreneurship for the growth of Zimbabwe's Industrial Sectors.
- CZI is at the forefront of influencing a competitive business climate through the collective experience and knowledge of its members and cutting-edge policy analysis and proposals that make for private sector-led economic development.
- We provide members with various business facing services and high-level networking opportunities.
- With a wide network of stakeholder institutions in and outside government where CZI has official representation, we play an intermediary role between business and government, and business and other institutions that enable business.
- CZI provides regulatory compliance accompaniment to companies investing or operating in the industrials sectors.
- Various sector, sub sector and value chain platforms are convened at CZI for business and policy interactions. In partnership with technical providers, CZI conducts LEAN management Training courses for industry.
- Promotes Value Chain and Enterprise Development through various programmes and activities.
- The CZI Industrial and Economic Research conducts internal and commissioned research.



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