CZI 2024 HALF YEAR
BUSINESS ENVIRONMENT INSIGHTS

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CZI
CONFEDERATION OF
ZIMBABWE INDUSTRIES
Enterprise Leadership Service

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ABOUT THE CZI BUSINESS AND ECONOMIC INSIGHTS

The report is published to capture how the policy environment is impacting business and economic performance. The CZI Quarterly Business and Economic Insights is intended to give trends and insights on the business environment as informed by local and international landscape. The publication series is aimed at informing the market and policy makers on industrial developments and performance, with the intention of keeping track of the policy environment and its impact on business. This is within the general CZI advocacy responsibilities.

This provides a continuous policy and market feedback loop and frequent iterations that better and timeously inform policy and business engagement as well as decision-making.

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1. PUTTING THE FIRST HALF OF 2024 INTO PERSPECTIVE

1.1 Introduction

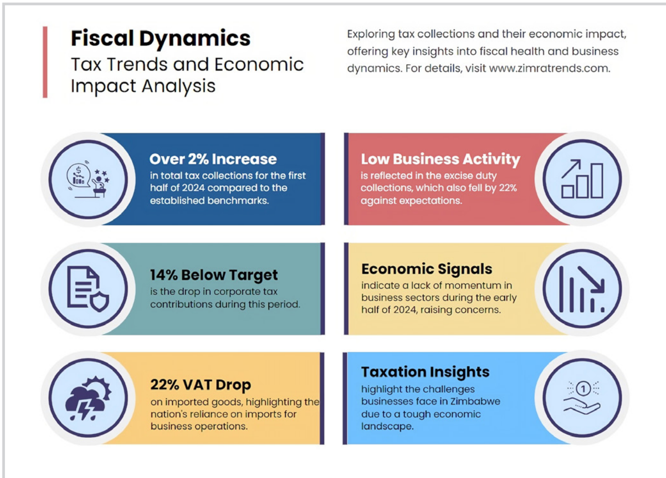
Assessment of business sentiments and performance during the first half, helps to give a reflection on whether the expectations that have been placed on business by policy in the general delivery of the expected nation-wide economic trajectory is realisable. Second, it also helps to inform the necessary policy reforms that might need to be conducted to ensure that the policy expectations remain achievable. Thirdly, it helps give a context on how the policy measures that were announced have impacted on businesses, which would be instructive to policy adjustments going forward.

The major shift that happened was currency transition from the ZWL$ to ZiG in April 2024. This had not been anticipated when the 2024 National Budget was presented. In addition, while El Nino induced drought had been anticipated, its impact could have been underestimated.

The 2024 National Budget introduced several measures which were a major departure from the 2023 tax environment especially for basic commodities. These include restrictions for manufacturers to supply the informal market. The Minister also introduced a levy on beverages containing sugar, which has a bearing their competitiveness. In addition, there were wide VAT reforms, with several products being removed from VAT zero rating to either standard VAT or VAT exemption status. This also had an impact on general pricing dynamics for business.

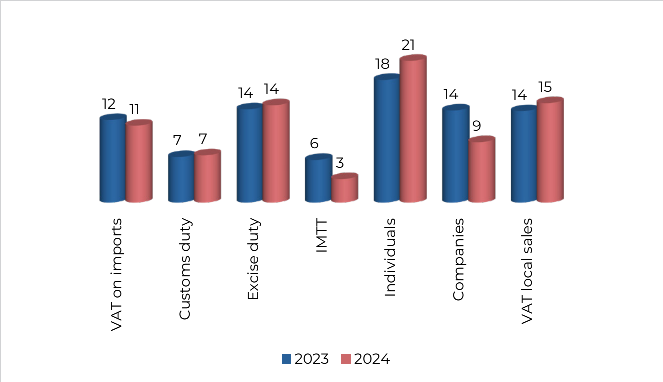
1.2 Business performance as reflected by revenue collections

Tax collection can be one of the ways of understanding the operating environment to put the survey results into context. **Statistics show that total tax collections for the first half of 2024 exceeded targets by about 2%, despite companies' tax contributions being 14% below target (ZIMRA, 2024). VAT on imports also fell 22% below target during a period when import dependence for most business activities in Zimbabwe was high. Additionally, excise duty, another tax head linked to business activity, was 22% below target. These indicators suggest that business activity was subdued during the first half of 2024.**



A look at overall contribution to total government revenue also confirms that the relative importance of corporate tax in total revenue fell during the first half of 2024 compared to the same period in 2023 (14% to 9%), with the contribution of the IMTT, a direct reflective of business transactions, also falling significantly from 6% in 2023 to 3% in 2024 (Figure 1). This is also reflective of subdued business activity in the first half of 2024 compared to the same period in 2023, which resulted in reduced volumes and productivity, as transactions shifted to the cash only informal sector.

Figure 1: Companies' contribution to total revenue (%) decreased in 2024 first half compared to 2023

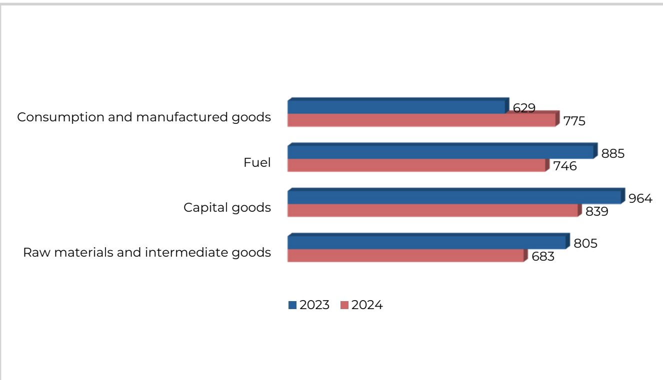


Source: ZIMRA, 2024

1.3 Business performance as reflected by trade volumes

The importation of raw materials and intermediate goods decreased by 15% during the first half of 2024 compared to the same period in 2023, while the importation of capital goods and fuel also decreased by 13% and 16% respectively (Figure 2). However, the importation of consumption and finished goods over the same period increased by 23%. This generally shows that there was a decline in manufacturing activity in 2024 compared to the same period in 2023, which could also underline subdued general economic activity.

Figure 2: The import trends of select category of goods (US$ million) in 2024 first half compared to 2023



Source: RBZ (2024)

1.4 Inflation and currency

In June 2024, inflation was generally under control for the local currency as it was just over a month since ZiG had been introduced. Month on month ZiG inflation was recorded at 0.0% in June 2024 from -2.4% that was recorded in May 2024, gaining 2.4 percentage points. This implied that prices in ZiG generally remained the same between May 2024 and June 2024. USD month on month inflation for June was -0.3% in the month of June 2024 from 0.1% in May 2024, shedding 0.4 percentage points. This means that inflation was generally under control by June 2024 in both currencies of trade.

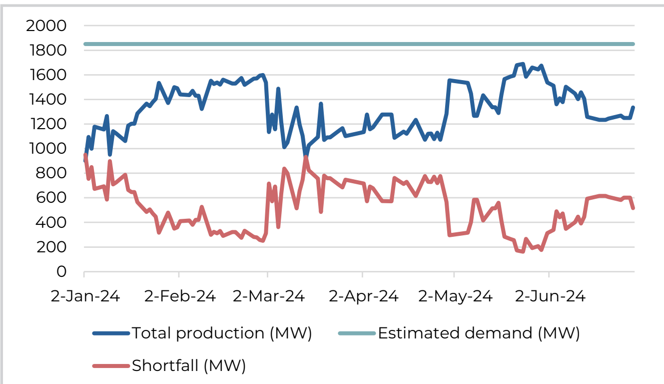
However, the currency challenge still remained in June 2024. The official exchange rate for ZiG was still stable, having depreciated by only 1% on average between the month of April 2024 and June 2024 from 13.56 to 13.70 by end of June. Although the official exchange rate was stable, the main challenge for business was to get access to foreign currency at the willing buyer willing seller platform for genuine import requirements. There was not enough foreign currency to meet the demand from business, as it was largely the foreign currency from the surrender requirements that was available for sale. Government remained the only willing seller, with several willing buyers. This meant that pressure had already begun to mount for traffic towards the parallel market in June 2024.

Thus, access to foreign currency is also expected to be one of the major constraints that characterised business operations during the first half of 2024.

1.5 The Glaring Power supply Gap

Load shedding characterised the first half of the year as electricity generation was generally well below national demand, worsened by the El Nino induced drought that reduced water levels at Kariba Dam. Statistics from ZPC show that the average daily energy production for the first six months of 2024 was about 1322MW at a time when national demand is about 1850MW. A closer look at the statistics shows that the energy shortfall remained very high throughout the period (Figure 3), which has serious implications for business in terms of electricity availability as well as use of more expensive alternatives. The highest shortfall occurred on 14 March 2024 due to disturbance on 13 March 2024. The power situation is expected to have negatively impacted business performance.

Figure 3: The total energy shortfall for Zimbabwe was high for first half of 2024



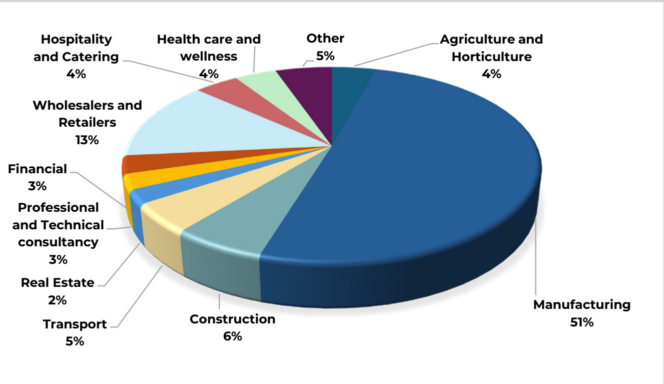
Source: Authors' construction from ZPC statistics

2. METHODOLOGY NOTE

In addition to undertaking a review of literature and keeping track of economic developments over the first half of 2024, this report is largely based on analysis of primary data from a survey undertaken by CZI in August 2024. The survey was undertaken among both members and non-members of CZI to understand their views and experiences with respect to the first half of 2024 as well as prospects for the remainder of 2024. A total of 437 firms were surveyed across the country using a structured questionnaire administered both online and through face-to-face discussions with the firms.

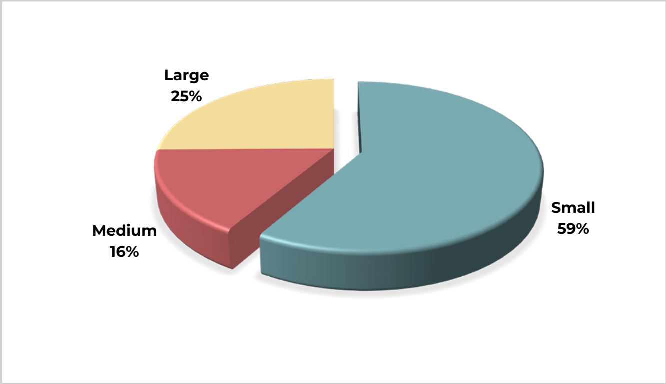
The profile of respondents by sector (Figure 4) generally shows a wider representation of sectors, although the manufacturing sector dominates the sample, accounting for about 51% of the respondents. The dominance of the manufacturing sector among the respondents generally reflects the dominance of the sector among CZI membership.

Figure 4: Sample distribution by sector



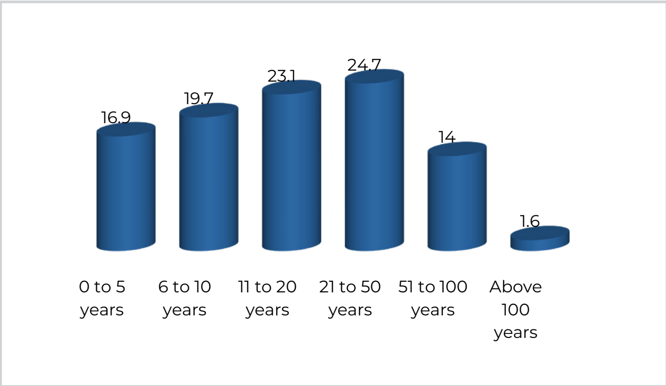
The sample also sought to contain representation across all sizes of businesses, although it is restricted to only formal sector players, specifically those with total employees of at least 10. The Small and Medium Enterprises Act [Chapter 24:12] classifies enterprises into small if they have turnover of a maximum of US$500,000 per annum. Medium sized firms are those whose turnover exceeds US$500,000 but does not exceed US$1 million per annum, with only enterprises whose turnover is above US$1 million considered large. Although the small firms, whose turnover is below US$500,000 per annum constituted the bulk of the sample at about 59%, medium and large-scale firms were also significantly represented in the sample (Figure 5).

Figure 5: Sample distribution by size



The sample covers enterprises that have been in operation from less than a year to over 100 years. (Figure 6).

Figure 6: Sample distribution by age(%)

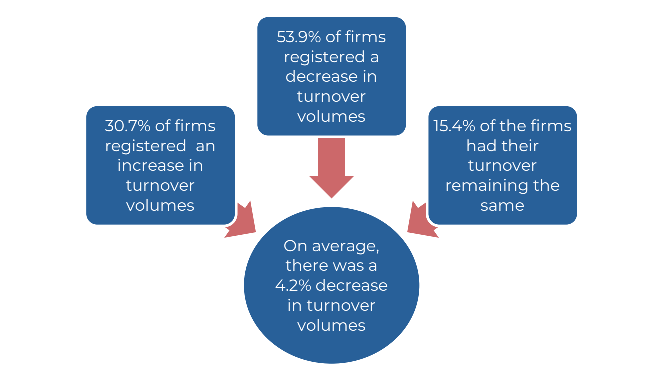


3. PERFORMANCE INDICATORS

3.1 A general decline in turnover was registered in the first half of 2024

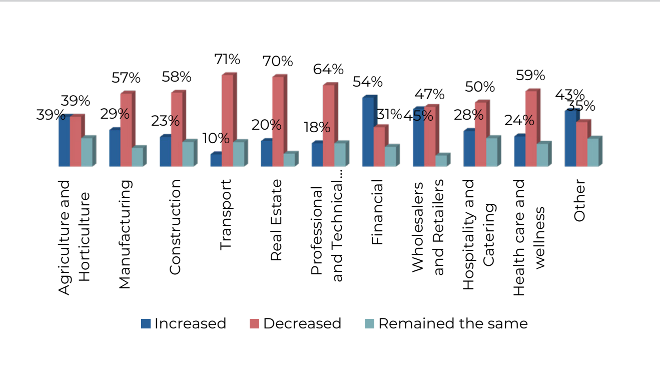
Comparing the first half of 2024 to the same period in 2023, the survey results show that there was an overall decrease in turnover by an average of 4.2% across all the respondents. The survey results also showed that about half (53.9%) of the respondents registered a decrease in their turnover while almost a third (30.7%) registered an increase and 15.4% had their turnover remaining the same (Figure 7).

Figure 7: On average, turnover volumes declined by 4.2% in the first half of 2024



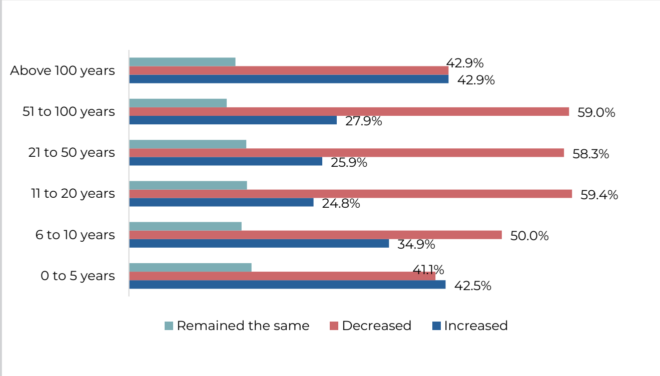
A disaggregation by sector shows that the transport (71%) and real estate (70%) sectors recorded the highest proportion of firms that registered a decline in turnover. However, the financial (54%), wholesale & retail (45%) and the 'other' sectors (43%) had a significant proportion of firms registering an increase in their turnover (Figure 8).

Figure 8: Several firms in the financial sector recorded increase in turnover volumes



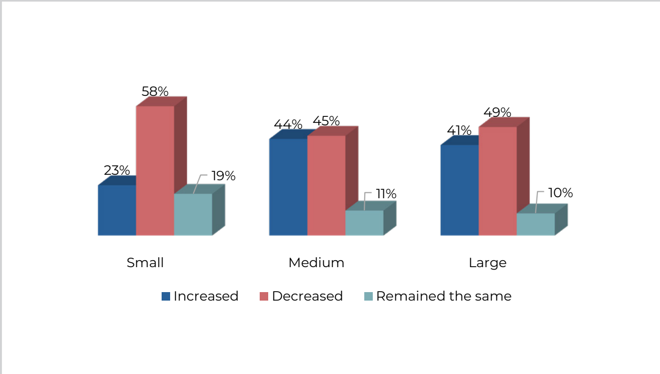
Except for those firms that have been in business for more than 100 years, the proportion of firms registering an increase in turnover decreases with age (Figure 9). The recent entries into the market have a higher proportion of firms registering an increase in turnover compared to those that have been in business for 50 years. However, almost half of the respondents across all age categories registered a decrease in turnover.

Figure 9: Almost half of the respondents across all age categories registered a decrease in turnover



An analysis by size of firm, however, shows that small scale firms registered a higher proportion of firms that registered a decline in turnover compared to large and medium sized firms (Figure 10). The recent entries that showed resilience are largely those that entered into the Zimbabwe operating environment as large firms rather than as small firms.

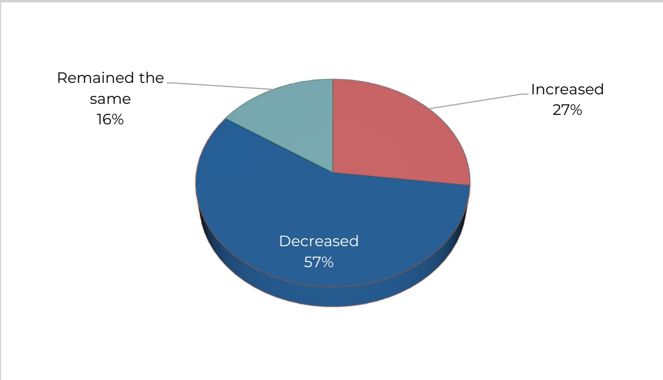
Figure 10: Small firms have a higher proportion registering a decrease in turnover



3.2 Profitability of firms

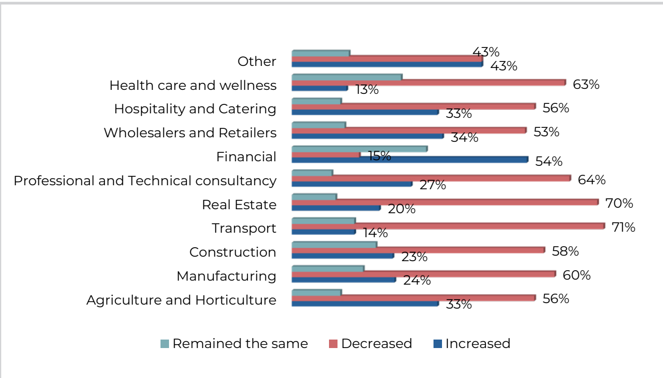
The survey results showed that, generally, more than half of the respondents (57%) reported a decrease in their profitability in the first half of 2024 as compared to the same period in 2023 (Figure 11). Only 27% registered an increase while 16% have their profit remaining the same. This signifies that the operating environment has been difficult for businesses and margins are shrinking.

Figure 11: Less than a quarter registered an increase in profitability in the first half of 2024



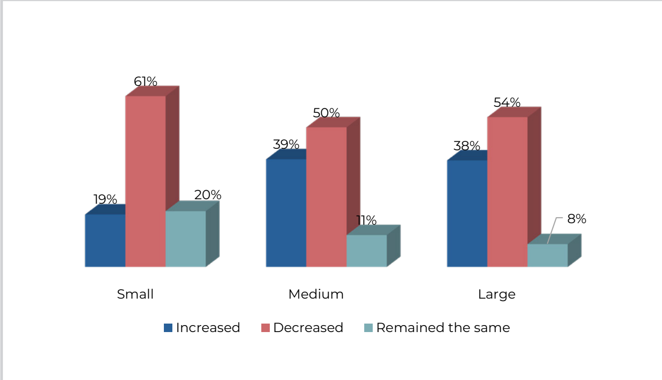
A disaggregation by sector shows that the financial sector is the only sector which had a higher proportion of firms registering an increase in profitability (54%). The transport (71%), real estate (70%), professional & technical consultancy (64%) and healthcare & wellness (63%) recorded the highest ratio of firms that had a decrease in profit (Figure 12).

Figure 12: The majority of firms in the financial sector registered an increase in profit



A disaggregation by firm size mirrors that of turnover, where the small-scale firms had the lowest proportion (19%) of firms registering an increase in profit compared to medium and large firms (Figure 13).

Figure 13: Above half of the respondents across all firm sizes reported a decrease in profit



3.3 Challenges affecting operations

There are several challenges that affected surveyed firms' operations during the first half of 2024. These challenges include currency transition from ZWL$ to ZiG, increase in the cost of doing business, drought, limited access to foreign currency from the willing seller willing buyer platform and regulatory issues. Some of the specific issues raised include the following:

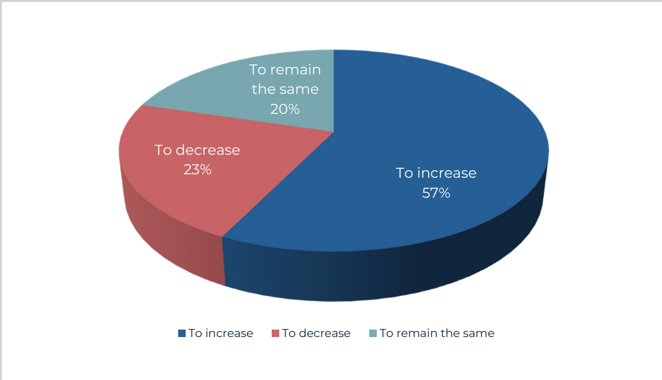
- In the first half of 2024 there was an increase in the cost of doing business due to changes in value added tax (VAT) legislation with some products moving from zero rated to exempt thereby increasing product cost. Some products were moved from VAT exempt to standard rating.
- Currency transition through the introduction of the ZiG without adequate physical currency which affected trading due to shortages of coinage and notes for change adversely affected businesses.

- Liquidity challenges are worsened by the limited access to foreign currency from the willing buyer willing seller RBZ platform as the platform is failing to meet foreign currency demand by firms.
- Exchange rate issues affected formal trade due to pricing distortions. In addition, the 25% export surrender requirement has also resulted in exchange rate losses as businesses try to access forex from alternative markets.
- Erratic supply of utilities especially water and electricity.
- Equipment breakdowns as antiquated equipment's are mostly used.
- Unfair competition with unregistered operators who do not pay value added tax and do not comply with various regulations.
- High excise duty which usually results in increased prices that drives consumers to opt for cheaper counterfeit products.
- Shortage of raw materials that disrupts day to day running of businesses and causes several bottlenecks.
- Grain procurement difficulties since there is drought and the government delayed in issuing permits.
- Limited access to loans which also attract high interest rates inhibit businesses.
- High Staff turnover as workers migrate to other countries in search of greener pastures.
- Influx of Second-hand clothing has adversely effected manufactures in the textile industry.
- Sugar content tax has resulted in increased prices of the products, and this has also resulted in a decline in the sales volumes.
- Increased prices from suppliers as they try to hedge against ZiG uncertainties.

3.4 Expectations for the remainder of 2024

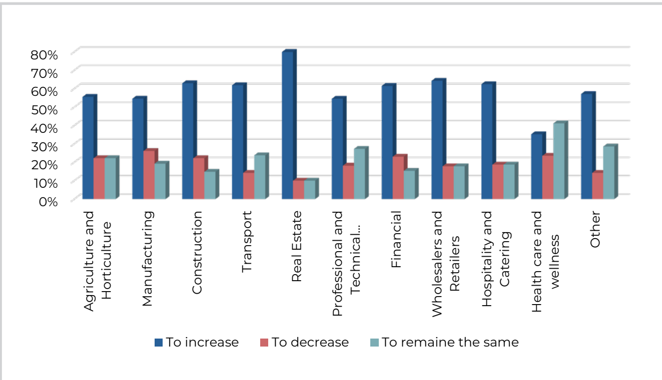
Generally, most of the surveyed firms were optimistic about how they will perform in the remainder of 2024. **This source of optimism generally underlined business' belief that government would respond with appropriate policies to cushion business against some of the attendant challenges.** The majority, about 57%, expect their sales volumes to increase during the remainder of 2024(Figure 14). However, the remainder are less optimistic, with 23% indicating that their sales volumes are likely to decline in the remainder of 2024 and the other 20% believing that they will remain at the same position.

Figure 14: About 57% of the firms are optimistic about sales for the rest of 2024



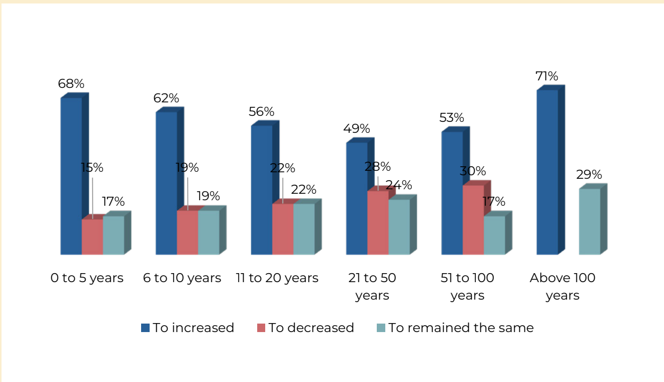
A disaggregation by sector shows that optimism is mostly pronounced in the real estate sector, where about 80% of the firms indicated that their sales volumes are likely to increase in the second half of 2024 (Figure 15). Only the healthcare and wellness subsector was generally pessimistic about the remainder of the year, with only 35% forecasting an increase in trading volumes for the second half of 2024.

Figure 15: Most firms are generally optimistic about 2024 across all the sectors



Analysis by age of firms also reflects the same trend where optimism about the remainder of 2024 decreases by age except for those firms that have been in operation for more than 100 years (Figure 16). Only close to half (49%) of the firms that have been operating for a period between 21 to 50 years are optimistic about the remainder of 2024.

Figure 16: Optimism decreasing with age except for those over 100 years old

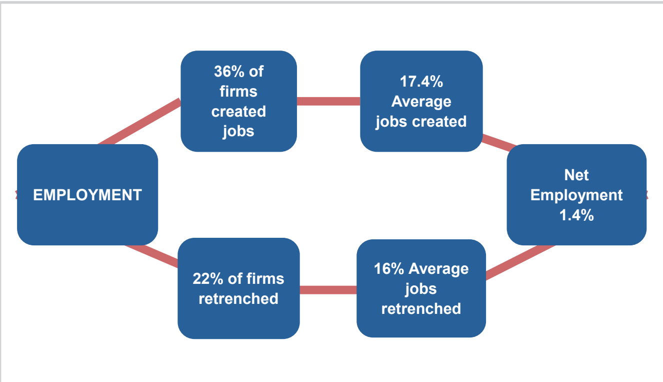


4. HUMAN CAPITAL AND INVESTMENT

4.1 Despite reduced profits, there is still a positive net employment creation

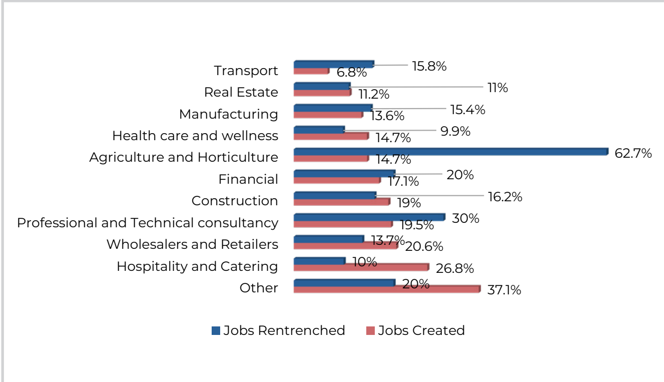
The survey indicates that during the first half of the year 2024, more than a third of firms created new jobs (36%) which is a higher percentage compared to those that retrenched (22%) (Figure 17). Even though on average about 16% of employees lost their jobs, this was mitigated by the fact that a larger proportion of employees (17.4%) were hired over the same period, resulting in an average net employment per firm of 5.2%. The positive net employment generally underscores that there is a general level of optimism about the remainder of 2024 under the new currency.

Figure 17: The net employment for the first half of 2024 was at positive 1.4%



A look at the employment creation by sector shows that the hospitality and catering, wholesale and retailers, construction, healthcare and wellness and real estate all had a larger proportion of firms creating new jobs compared to retrenchments (Figure 18). However, some sectors had a larger proportion of firms retrenching their permanent employees compared to those creating new jobs. Some of the sectors that retrenched workers include agriculture and horticulture, which had 63% of firms retrenching, which can be attributed to the El Nino induced drought which affected agriculture productivity.

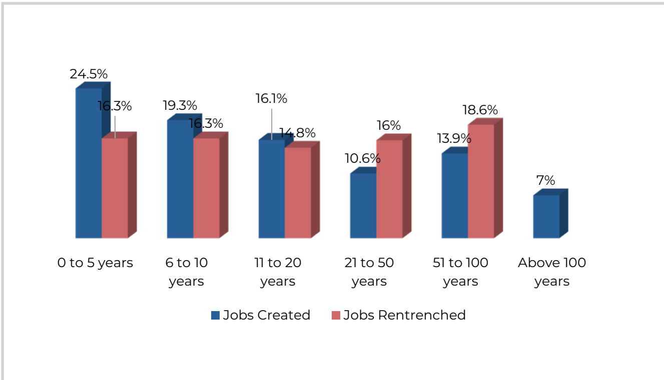
Figure 18: The percentage of firms retrenching and creating new jobs by sector



Source: Survey results

A look at job creation by age shows that job creation percentage decreases with age, with newly established firms having a larger job creation percentage compared to larger firms (Figure 19).

Figure 19: Net job creation decrease by age of operating in Zimbabwe



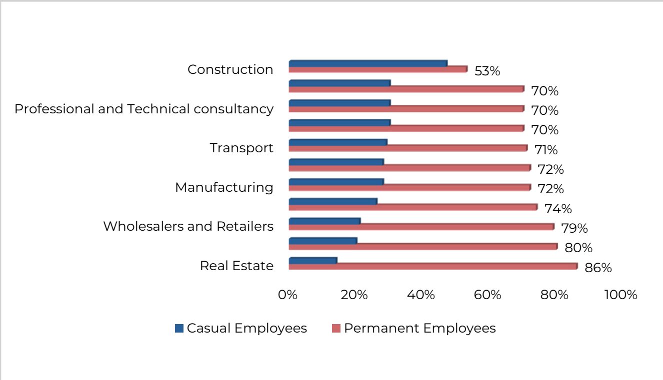
Source: Survey results

The survey results also reflect the level of casualisation of labour in Zimbabwe. About 72% of the workforce holds permanent positions and only 28% of the workforce is employed on a casual basis. This shows that majority of employees enjoy greater job stability and potentially comprehensive benefits.

Average of 72% Permanent jobs

A look at the sectorial distribution on the rate of casualisation shows that the construction sector has the highest level of workers on contract basis (47%) while the real estate sector has the lowest (Figure 20). However, the rest of the sectors have a generally high level of permanent employees.

Figure 20: Level of casualisation is highest in the construction sector at 47%

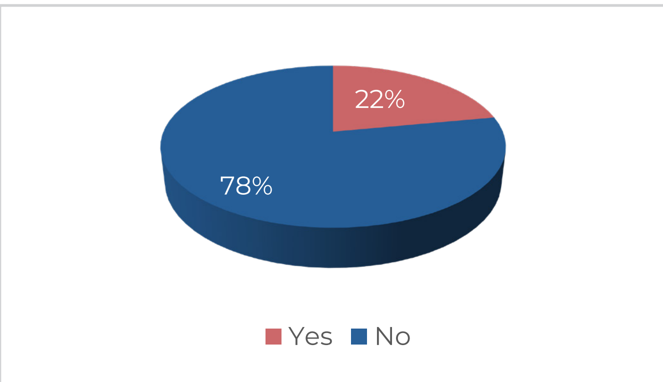


Source: Survey results

4.2 Investment during the first half of 2024 was subdued

Given that firms were facing a difficult operating environment, it is not surprising that only a few of them undertook new investments in machinery and other assets. Only 22% of the firms undertook new investments.

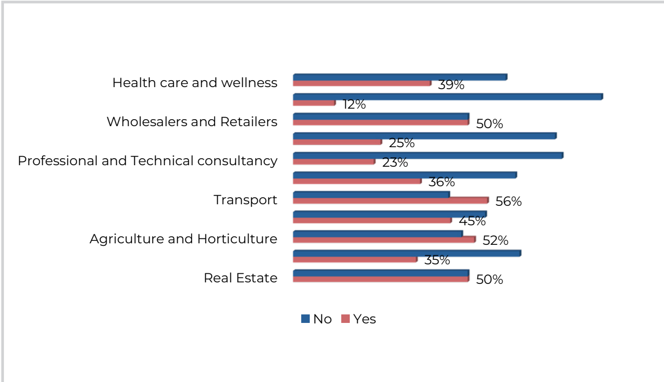
Figure 21: More than three quarters businesses did not invest in the first half of 2024



Source: Survey results

A disaggregation of investment decisions by sector, however, reveals that there were significant levels of investments in some sectors. There is a significant number of firms that undertook new investment in the transport sector as 56% of firms undertook investment (Figure 22). Agriculture and horticulture (52%), wholesalers and retailers (50%), and the real estate (50%) sectors also have a majority of firms that carried out investment in machinery and other assets (Figure 22).

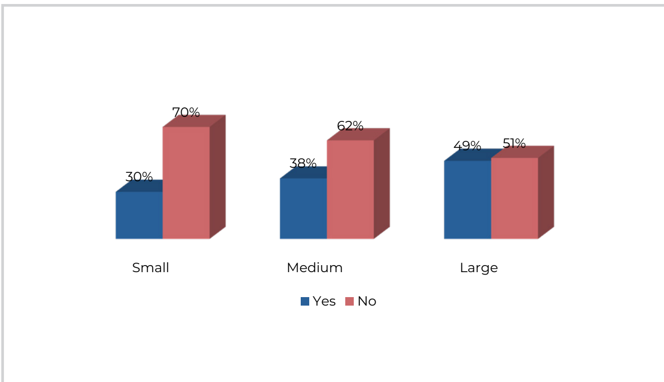
Figure 22: The financial sector has the lowest percentage of firms that managed to invest



Source: Survey results

The survey results revealed that close to half of the large-scale companies (49%) managed to invest, while only 30% of small-scale companies invested in machinery and other assets during the surveyed period (Figure 23).

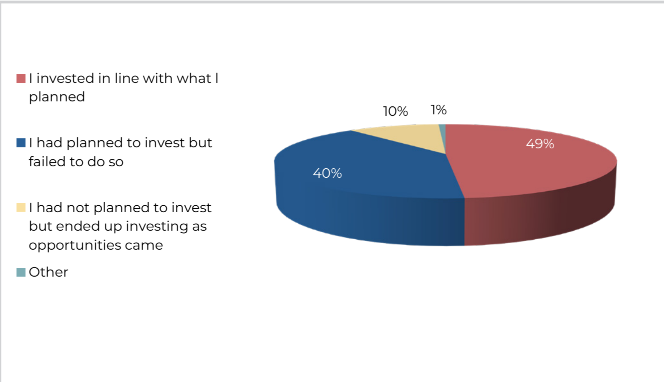
Figure 23: Larger firms displaying more ability to invest compared to other categories



Source: Survey results

The investment decisions results highlight that while nearly half of the firms that invested successfully executed their investment plans (49%), **40% of the firms did not go through with their investment decisions due to adverse conditions in the business environment** (Figure 24). This shows that some firms had not anticipated the negatives associated with the operating environment. A smaller group (10%) had not planned to invest but leveraged opportunistic investments, showing flexibility in their approach.

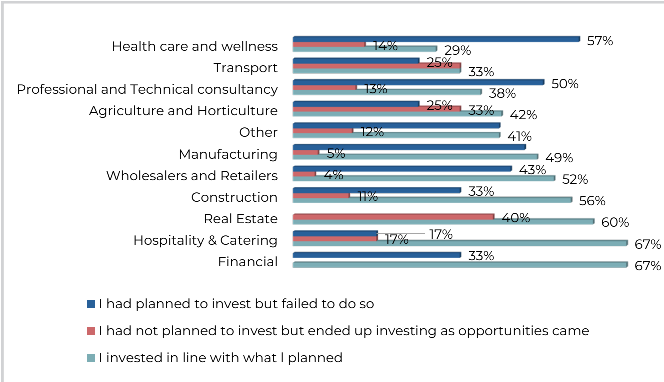
Figure 24: Close to half of the firms managed to execute their investment plans as intended



Source: Survey results

A disaggregation of investment decision by sector indicates that above 60% of firms in the financial, hospitality and catering and the real estate successfully executed their investments according to their initial plans. Firms that intended to invest but did not manage to follow through with their plans are more pronounced in health care and wellness (57%), professional and technical consultancy (50%), manufacturing (46%) and the wholesale and retail sector (43%). More than a third of firms in real estate (40%), transport (33%) and agriculture and horticulture (33%) adjusted their investment approach based on emerging opportunities rather than sticking strictly to their original plans.

Figure 22: The investment decisions in some sectors was not in line with plans



Source: Survey results

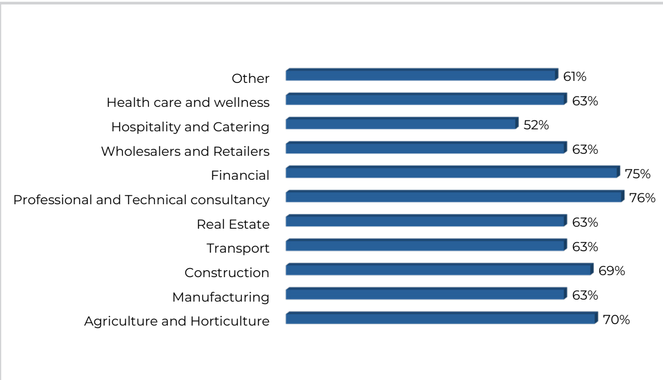
5. FOREIGN EXCHANGE ACCESS AND DOLLARISATION

5.1 Level of dollarisation still high

The level of dollarisation, as defined by the proportion of sales in the USD compared to total sales, is still very high among businesses. Firms indicated that an average of 63.5% of their invoices/ sales were settled in USD in the first half of 2024. This clearly reflects that despite the introduction of the ZiG currency, the economy is still highly dollarised.

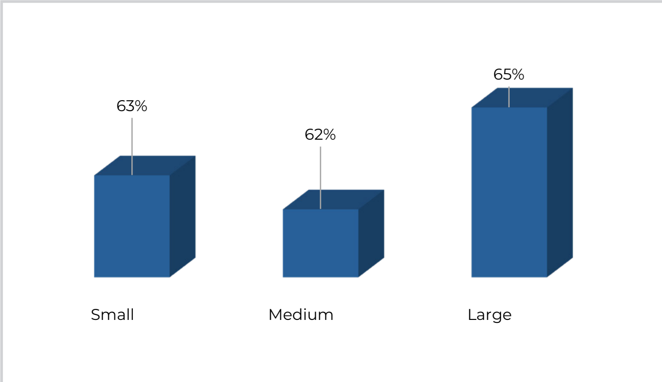
Analysis by sector highlights that professional & technical consultancy and the financial sector tops in terms of settling transactions in USD as reflected by the proportion of their invoices or sales of about 76% and 75% respectively (Figure 26). However, the hospitality and catering sector recorded a lower proportion (52%) of invoices or sales that were settled in USD as compared to other sectors in the first half of 2024.

Figure 26: Across all sectors above 50% of their invoices/sales were settled in USD



Further analysis by size of the firm reveals that all firms despite their sizes, recorded most of their sales/invoices in USD. About 65% of sales or invoices for large firms were settled in USD in the first half of 2024 (Figure 27). Medium sized firms also transacted mostly using the USD as indicated by the percentage of sales/ invoices at around 62%. Therefore, most sales/invoices for all categories of firms were settled in USD in the first half of 2024.

Figure 27: Dollarisation is high across all the sizes of businesses

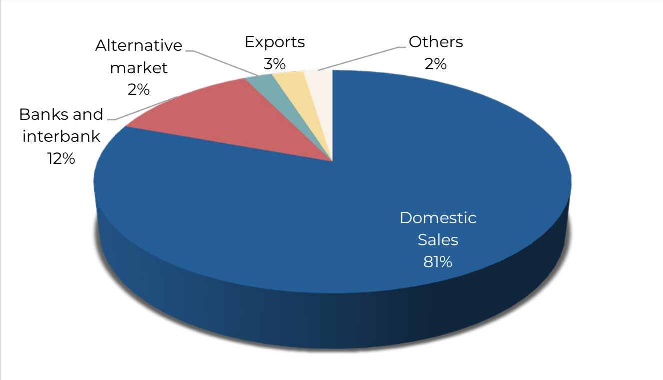


5.2 Foreign currency sources

During the first half of the year, on average, about 81% of the foreign currency that a typical business might possess would have been sourced in the domestic market through domestic sales in USD (Figure 28). Banks and the interbank market only accounted for about 12% of foreign currency that businesses possessed. The parallel market trading of ZiG was still in infancy in June 2024 as the new currency was still relatively new, and it is not surprising that the parallel market was not a significant source of foreign currency, accounting for only about 2% of all the foreign currency which businesses possessed. Export proceeds only accounted for about 3% of the foreign currency available.

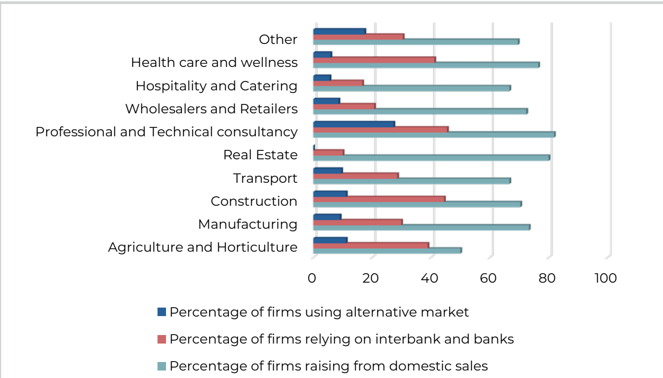
On average, dollarisation of sales is about 63.5%

Figure 28: About 81% of foreign currency by business is generated from domestic sales



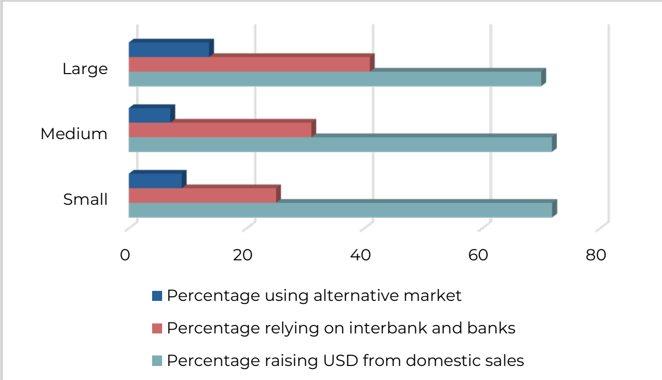
By considering the sectoral distribution of foreign currency sources, generally all sectors of the economy relied largely on domestic sales for foreign currency during the first half of 2024 (Figure 29). The percentage of firms using the alternative market remained low generally across all the sectors, although relatively higher for the professional and technical consultancy sector compared to other sectors. Participation at the interbank market was also less than 50% of the players across all the sectors, with the professional and technical consultancy as well as construction sectors having a higher proportion of firms relying on this channel for foreign currency.

Figure 29: The recourse to the parallel market for foreign currency by business was very low across all sectors



The participation of firms in the various sources of foreign currency also shows that across all sizes, domestic sales remain dominant (Figure 30). However, even large firms also find their way to the alternative market for foreign currency, although the use of the interbank is higher for large firms compared to small and medium scale firms.

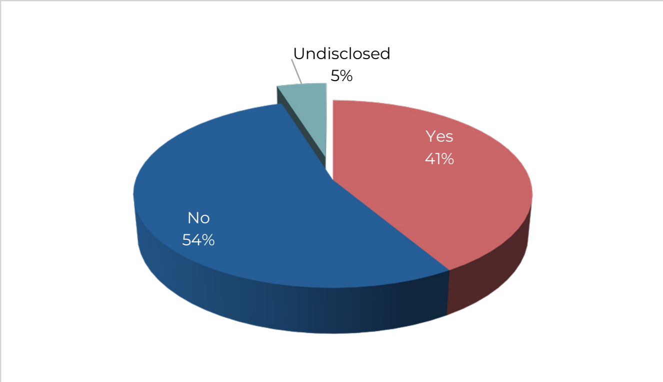
Figure 30: The recourse to the parallel market by small scale players was also low



5.3 General negative sentiments about ZiG introduction

The transition to a new currency in April 2024 came at a time when the local currency was losing value rapidly, with the ZiG ushering in a period of stability. However, sentiments on ZiG are rapidly deteriorating, with the majority of the businesses (54%) indicating that the currency transition to ZiG has not been very helpful to their businesses so far (Figure 31). The expectation generally would be that the stability that was brought about by ZiG would see the majority of the businesses acknowledging ZiG as having helped enhance their performance. About 41% of the businesses were generally positive that the introduction of ZiG positively enhanced their businesses.

Figure 31: Generally, there are negative sentiments towards ZiG impact on business



As a result, firms were asked to shed more light on their experiences with ZiG which informed their sentiments on the currency transition. The positives that were raised include the fact that:

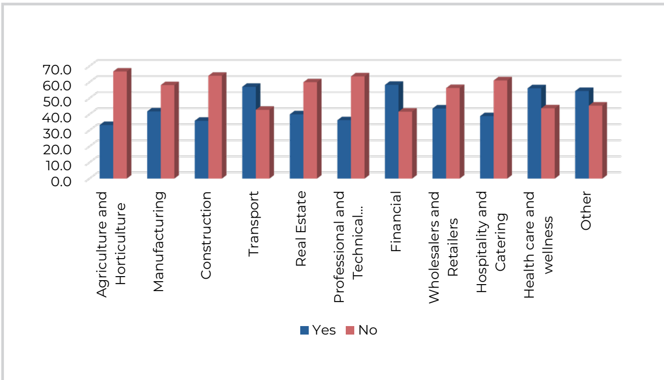
- ZiG resulted in stability in pricing unlike in the previous period where business had to continuously revisit their pricing to cater for inflation.
- ZiG saved some clients who were on the verge of collapse
- ZiG has generally remained stable against major currencies, which is a business enabler
- The transition to ZiG helped boost sales in ZiG for most businesses
- ZiG brought stability on suppliers' prices, which also helped budgeting and forecasting
- ZiG brought general certainty in the economy, as inflation dropped, which in turn helped in better decision making as well as ability to pay rates and bills in local currency.
- The introduction of ZiG helped address the USD change problem which has been a big problem before the ZiG.

However, the negative sentiments on ZiG emanated from the fact that:

- 90% of some products are imported while ZiG sales are huge, yet conversion into foreign currency is a challenge.
- A reduction in sales volume was registered by some businesses upon the introduction of the ZiG in May and June
- The price discovery mechanism has been difficult to come up on the exchange rate, resulting in competitive ZiG pricing becoming difficult due to differences between interbank rate and parallel market rates.
- Manufacturers have significant import component in their raw materials which require foreign currency yet they are accumulating ZiG which they are failing to convert into USD payments for their invoices of raw materials.
- At the beginning ZiG seemed to be a game changer but the market is now preferring USD in daily transaction as uncertainty and scarcity grips the market.
- Some businesses are now stuck with balances in ZiG which they cannot use.
- Currency transition disrupted the supply chains of goods, with some suppliers no longer keen to supply goods in local currency and putting limits on goods that can be bought using local currency.

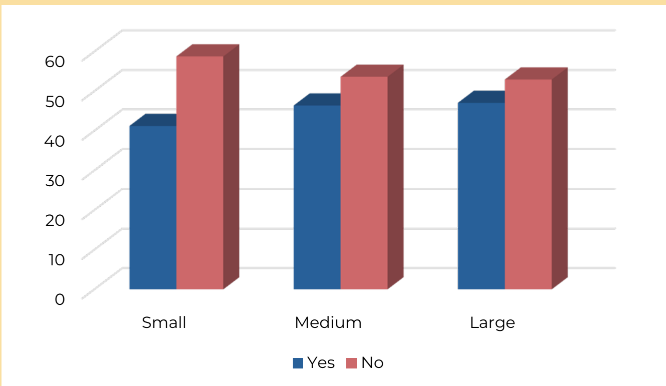
A look at the distribution of the sentiments across sectors (Figure 32) shows that while the majority of sectors had a higher proportion of firms having negative sentiments on the impact of ZiG in their businesses, the transport, financial and the healthcare and wellness subsectors had a higher proportion of firms believing that ZiG had positively enhanced their businesses (Figure 32).

Figure 32: The negative sentiments on ZiG (%) are not uniform across sectors



A look at the distribution of the sentiments by size shows that across all the sizes, the sentiment that the transition to ZiG was not helpful to their businesses is quite common (Figure 33). However, medium and large firms have a higher proportion of firms indicating that ZiG enhanced their businesses compared to small scale firms.

Figure 33: Across all the sizes the percentage with negative sentiments on ZiG is huge



6. REGULATORY ENVIRONMENT

Businesses were also asked to identify any policy, regulatory and ease of doing business challenges that negatively affect their businesses. The following were some of the issues raised by businesses which also explain challenges with the operating environment:

The 25% foreign currency retention policy is considered a challenge for exporters, as it erodes incentives to export. This issue will remain a significant export restraint unless the exchange rate distortions are addressed.

The intermediated money transfer tax (IMTT) is raised as one of the serious realities which formal business have to live with. The IMTT is currently reducing incentives to formalise and could explain the growing informality.

The Consignment-Based Conformity Assessment (CBCA) programme which requires inspection for products supplied by reputable and certified suppliers worldwide is also considered an unnecessary burden with cost implications for business. It also contributes negatively to the cost of doing business in Zimbabwe.

The Environmental Regulatory Agency (EMA) assessments, which are done quarterly, are also considered too much by businesses, who would welcome a reduction in frequency to semi-annually.

The short-term nature of import licences of three months is considered by business to be ideally suited for speculators rather than serious businesses. Granting a business three month import licence at a time when a consignment might also take three months or even longer to arrive is also considered a challenge for importing raw materials consistently.

High diesel prices, which continues to be driven by taxes and levies is not consistent with an economy with serious load shedding challenges resulting in diesel becoming a factor of production. The high diesel prices significantly compromise competitiveness.