



ZAMBIA CHAMBER OF COMMERCE AND INDUSTRY

BUSINESS CONFIDENCE INDEX SURVEY QUARTER TWO 2020

October, 2020

- Business environment continues to record negative sentiments
- COVID-19 and loading shedding hampering business performance



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INTRODUCTION

The ZACCI Business Confidence Index Q2 - 2020 survey covers the period from April, 2020 to June, 2020. The survey captures the current business climate in Zambia and factors affecting and impacting business

development and growth in the country. It allows for short term forecasting and provides some valuable information to businesses, investors and Government.

BUSINESS CONFIDENCE INDEX

Business Confidence Index (BCI) is the ZACCI proprietary tool that measures the level of business executives' confidence in the business environment and predicts short term business trends. It simply expresses perceptions on the state of business climate in one figure (index) with

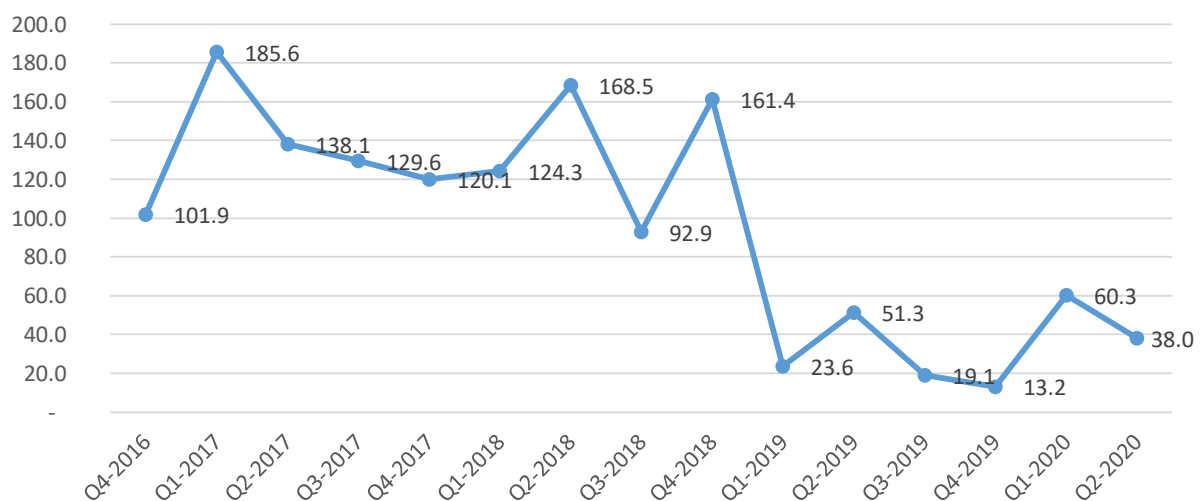
100 points as the median. A BCI higher than 100 points signifies positive sentiments about the business climate and a BCI lower than 100 points signifies negative sentiments about the business climate. It is calculated out of current business mood and expectations for the future.

Overall Business Confidence Index

The overall Business Confidence Index in Q2 of 2020 (April to June 2020) has been recorded at 38 points according to the ZACCI Business Confidence survey conducted covering 114 members of ZACCI across all sectors as shown in figure 1 below. This represents a decrease by 22.3 points from 60.3 points recorded in Q1 of 2020. The 38 points recorded implies some

level concern or negative sentiments about the business environment. Key to the main reasons that led to concerns in the business environment as reported were load shedding and its related effects as well as the impact resulting from the outbreak of COVID-19 leading to slow business in and out flows both in-country and cross-border.

Fig 1: Overall BCI Trend



Source: ZACCI 2020 field survey

Business Confidence Index by Sector

All study sectors recorded concerns on and over the current business environment as reported in table 1 below.

Table 1: Business Confidence Index by Sector

SECTOR	INDEX PREVIOUS (Q1 2020)	INDEX CURRENT (Q2 2020)
Mining and Quarrying	95.9 points	97.7 points
Manufacturing	94.7 points	89 points
Construction	91.9 points	88 points
Wholesale/Retail	94.0 points	89.7 points
Tourism	96.7 points	94.7 points
Transport/Communication	94.9 points	91.4 points
Financial	99.7 points	99 points
Community and Social	95.2 points	96.7 points

Source: ZACCI 2020 field survey

Note: Index below 100 points implies negative sentiments

Business Confidence Index by Province

Results from the 3 surveyed Provinces are shown in table 2 below and read as follows.

Table 2: Business Confidence Index by Province

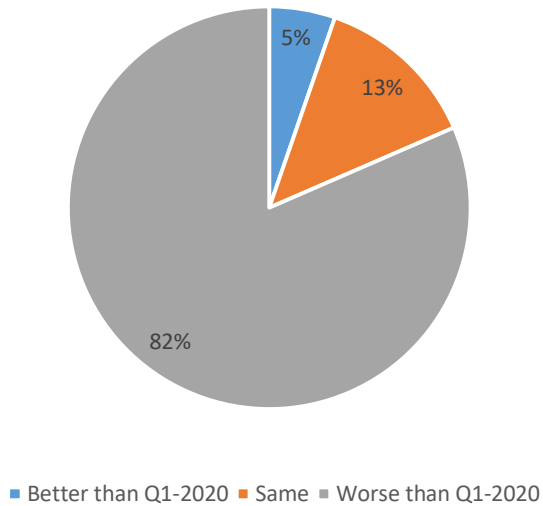
PROVINCE	INDEX PREVIOUS (Q1 2020)	INDEX CURRENT (Q2 2020)
Lusaka	95.2 points	92.7 points
Copperbelt	79 points	82.6 points
North Western	88.2 points	68.5 points

Source: ZACCI 2020 field survey

Note: Index below 100 points implies negative sentiments

STATE OF BUSINESS

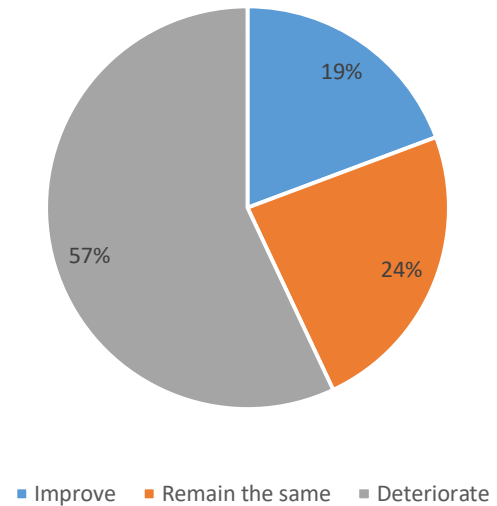
Fig 2: State of Business Q2 2020



Source: ZACCI 2020 field survey

Figure 2 above shows the state of business in Q2 of 2020. The figure shows that most of the respondents (82 percent) were of the view that their businesses performed worse in Q2 of 2020 than in Q1 of 2020, 13 percent of the respondents felt that their businesses operated at the same level in Q2 of 2020 as in Q1 of 2020, while only 5 percent of the respondents said their businesses performed better in Q2 of 2020 than in Q1 of 2020.

Fig 3 Expected State of Business Q3 2020

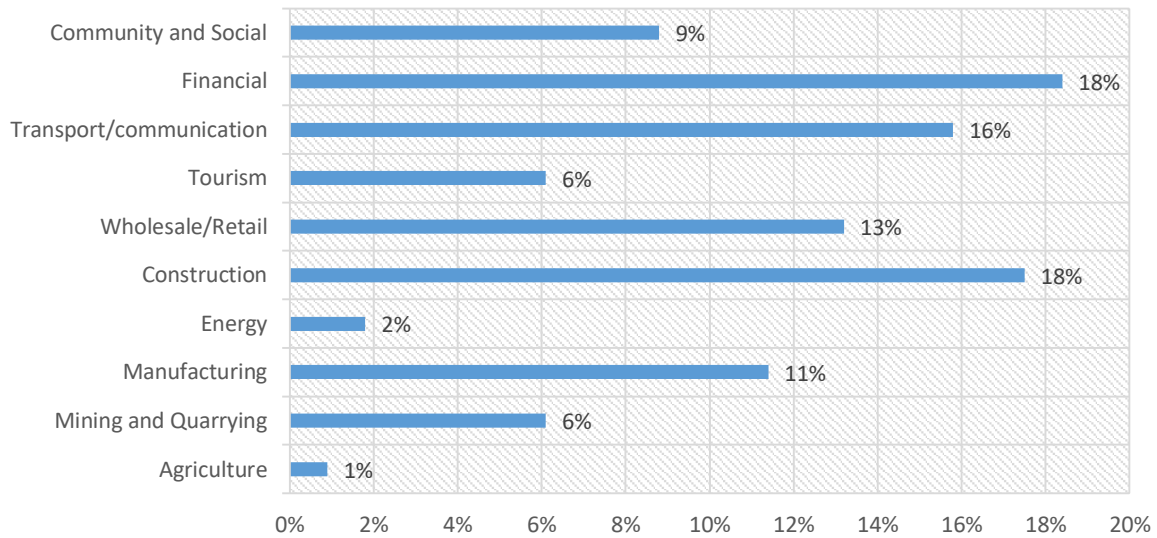


Source: ZACCI 2020 field survey

Figure 3 above shows expectations for Q3 of 2020. The figure shows that most of the respondents (57 percent) expect the performance of their businesses to deteriorate in Q3 of 2020, 24 percent of the respondents do not expect any changes in the performance of their businesses in Q3 of 2020, while 19 expect the performance of their businesses to improve in Q3 of 2020.

RESPONSE BY SECTOR

Fig 4: Response by Sector



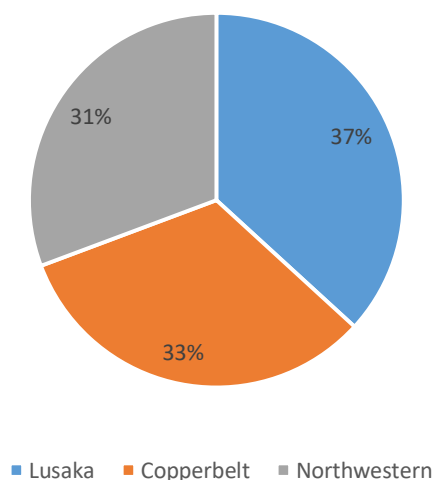
Source: ZACCI 2020 field survey

Figure 4 above shows responses by sector. The highest number of responses were received from the construction and financial sectors both at 18 percent followed by transport/communication at 16 percent. The figure further shows that

the agriculture sector recorded the lowest number of responses at 1 percent of the total responses, while the energy sector had the second lowest responses at 2 percent.

RESPONSES BY PROVINCE

Figure 5: Responses by Province (3 Provinces Surveyed)



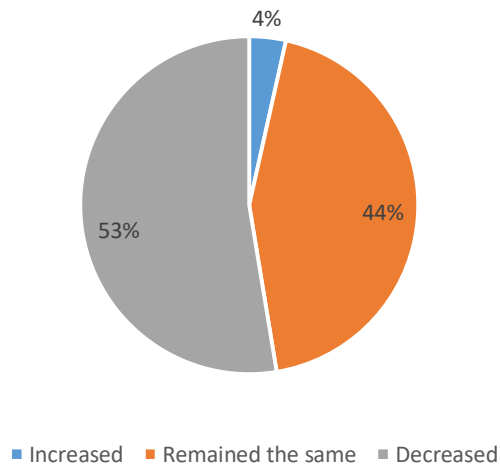
Source: ZACCI 2020 field survey

Figure 5 above indicates that most of the responses were received from Lusaka Province (37%), 33% were received from

Copperbelt, while 31% were received from North Western Province.

EMPLOYMENT SITUATION

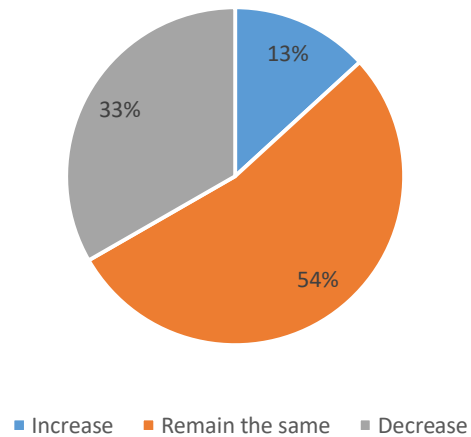
Fig 6: Employment situation in Q2 2020



Source: ZACCI 2020 field survey

Figure 6 above shows employment situation in Q2 of 2020. The figure indicates that most of the respondents (53%) reduced the number of employees, 44% indicated that they had maintained the number of employees, while only 4 percent of the respondents employed more staff in the same period.

Fig 7: Expected Employment situation in Q3 2020

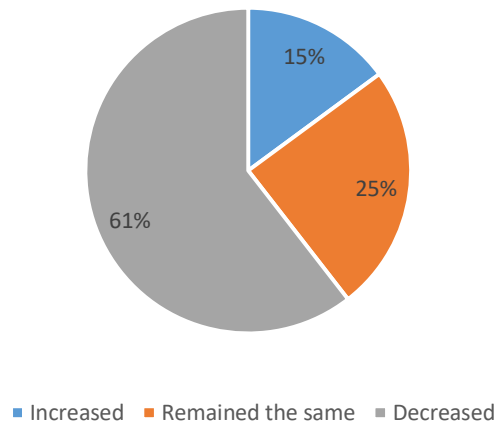


Source: ZACCI 2020 field survey

Figure 7 above shows employment expectations in Q3 of 2020. The figure shows that most of the respondents (54%) expect to maintain the number of employees, 33% expect to reduce the number of employee, while 13% of the respondents expected to employ more staff in the same period.

DEMAND FOR GOODS AND SERVICES

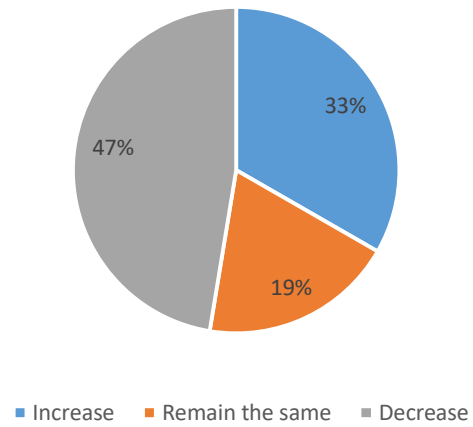
Fig 8: Demand for goods and services Q2 2020



Source: ZACCI 2020 field survey

Figure 8 above shows demand for goods and services in Q2 of 2020. The figure indicates that most of the respondents (61%) said demand for their goods and services decreased, 25% indicated that there was no change in demand for their goods and services, while 15 percent experienced increased demand for their goods and services in the same period.

Fig 9: Expected Demand for goods and services Q3 2020

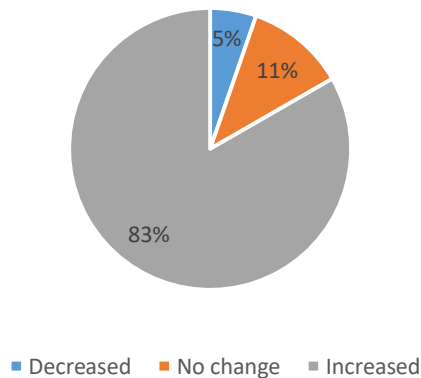


Source: ZACCI 2020 field survey

Figure 9 above shows expected demand for goods and services in Q3 of 2020. The figure shows that most of the respondents (47%) expect demand for their goods and services to decrease, 33% expect demand for their goods and services to increase, while 19% of the respondents expect no change in demand for their goods /products and services in the same period.

VIEWS ON THE GENERAL COST OF DOING BUSINESS IN Q2 OF 2020

Fig 16: Respondents' views on the general cost of doing business in Q2 2020



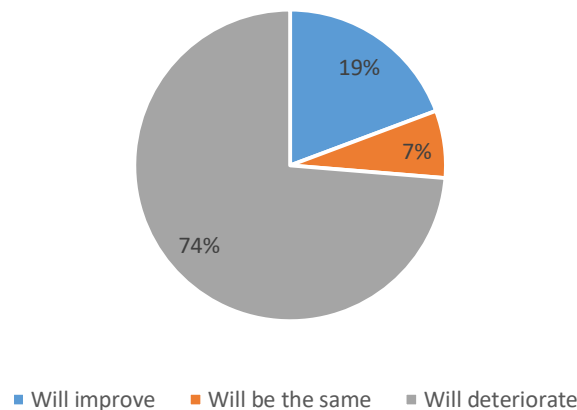
Source: ZACCI 2020 field survey

Figure 16 above shows respondents' views on the general cost of doing business in Q2 of 2020. The figure shows that most of the respondents (83%) indicated that the general cost of doing business increased in

Q2 of 2020, 11 percent were of the view that the general cost of doing business remained the same, while only 5% indicated that the general cost of doing business reduced in the same period.

EXPECTATIONS ON THE OVERALL PERFORMANCE OF THE ECONOMY

Fig 17: Respondents' expectations on the overall performance of the economy



Source: ZACCI 2020 field survey

Figure 17 above shows respondents' expectations on the overall performance of the economy. Most of the respondents (74%) were of the view that the performance of the economy will

deteriorate, 19% indicated that the performance of the economy will improve, while only 7% said the performance of the economy will remain the same going forward.

EFFECT OF COVID-19 ON BUSINESS

The survey reveals that the COVID-19 outbreak led to reduced demand for goods and services, delayed delivery of goods and services due to closures of borders as well as closures of some businesses due to reduced cash flows. In order to remain afloat amidst COVID-19, companies

employed varying and survival mechanisms such as temporal or permanent laying off of employees, negotiated salary cuts, Leave considerations, business line diversification, proactive marketing and borrowing to sustain business operations.

NOTABLE FACTORS EFFECTING BUSINESSES (INDUSTRY FEEDBACK)

Other factors affecting businesses included depreciation of the Kwacha against major convertibles, high taxation, loading

shedding, high fuel costs and high electricity tariffs.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The BCI for Q2 of 2020 was recorded at 38 points, a decline from 60.3 points recorded in Q1 of 2020. The 38 points recorded implies that the business executives expressed negative sentiments about the business environment. The main reasons that led to negative sentiments in the business environment were load shedding and the outbreak of COVID-19 leading to closures of borders. The survey reveals a reduced growth trajectory in Q2 of 2020 compared to Q1 of 2020 due to the aforementioned reasons. All the sectors and the 3 Provinces surveyed recorded concerns about the business environment which in many cases are manageable.

Further, the survey reveals that most businesses reduced their staff in Q2 2020. Furthermore, businesses experienced reduced demand for their products in the same period. Additionally, the survey reveals that the general cost of doing business increased in Q2 of 2020. Other observations are that economy may experience notable drops in key sectors unless remedial fiscal and non-fiscal measures are considered and put in place.

As feared and observed, the effects of COVID-19 on business led to reduced demand for goods and services, delayed delivery of goods and services due reduced

inter-country business with Zambia thus reduced cash flows. Companies employed survival mechanisms such as laying off some workers, salary cuts, putting some workers on hold, diversifying business operations, proactive marketing and borrowing to sustain business operations. Other factors affecting businesses included depreciation of the Kwacha against major convertibles currencies like the US Dollar, British Pound and South African Rand, high taxation, loading shedding, high fuel costs and high electricity tariffs.

Comments and Recommendations

- The Chamber applauded the government through the office of the Vice President for receiving multiple sets of recommendations over the past 6-7 months as Covid-19 and other healthcare uncertainties took their toll not only on Zambia but globally. We further commend and appreciated the increased dialogue between the Private sector and Government through the Ministry of Commerce Trade and Industry (MCTI). This latter effort so the commencement of a platform call Public Private Dialogue (PPD) and the first session was held drawing in members of

the Zambia Private Sector Alliance (ZPSA) including ZACCI participate.

- One notable recommendation is that Government through continued collaborative and joint efforts of the Bank of Zambia, the Ministry of Finance, Ministry of National Planning and Ministry of Commerce Trade and Industry work on modalities of reducing the cost of accessible funds under the current and future stimulus packages. This will support industry across all levels large, medium and small find some areas of comfortable but effective contribute to the Tax base amidst and post COVID-19.
- FULL LIBERALIZATION across our key economic sectors is a necessity, unavoidable and required. There Government should accelerate in the implementation of Policy and Regulatory reforms if we are to see real industrialisation, sustained job creation and real tax base expansion.
- Investors want to take advantage of the Electricity Act of 2019 which opens up the energy sector and gives equal access to the electricity infrastructure in terms of transmission and distribution, but low Power Purchase agreement tariffs (low cost reflective tariffs) reduce interest from potential independent power producers. We need the power as observed from industry feedback.
- Under the energy sub-sector, Mandatory fee payable to the Energy Regulation Board (ERB). Immediate reduction the 0.7% to 0.1% Energy Regulation Board

(ERB) regulatory fees charge to IPP to total power generation. The mandatory fee payable to the Energy Regulation Board (ERB) as a percentage on turnover of the renewable energy plants.

(1) This is infact a tax because it is mandatory and collected on behalf of the government. What is peculiar about this tax though, is that it is imposed on the business as the first expense before all other expenses. It subordinates all other operating expenses which are incurred to create the revenue. Therefore, before suppliers to the business can be paid, this tax needs to be settled. This tax creates a liability on the business before it is known whether the business will be profitable or not. It is worse than the corporate tax which allows the business to settle its dues and allow for its own continuity and going concern, and is levied on the residue which is the profit. Taking taxes before lenders to a business as well as other suppliers kills the reward to invest let alone increase the operating cost of business. This type of tax disenfranchises investment in an industry that sits at the pinnacle of the economic recovery of the nation.

(2) The current policy is detrimental causing concern on power availability. The fee structures affect existing Independent Power Producers

(IPPs) as well as future investors in the power sector in Zambia. The regulatory hurdles such fees cause must be eliminated immediately if we are see an effective response from the private sector in terms of investments in the sub-sector.

Relaxing taxes in the energy industry will attract the required funding which will lead to more business operations being set up and more people being employed as a by product of the entire process of ensuring that the country has the necessary power needs met.

Attract 6000 MegaWatts in Renewable Solar by 2030

Positive impact on Bank of Zambia Reserves

- Government to should consider sectoral reduction levels of VAT, Turnover Tax, PAYE and Corporate Income Tax Rates. VAT should be reduced from 16% to 10% for all transactions. This will allow businesses to channel the savings back into staff retention and manufacturers for increased production.
- Let Private Sector Finance Lead Raod Infrastructure Development:- The trend toward greater private participation in infrastructure development is firmly established in many developing countries, and the benefits of the initial wave of privatizations and new investment are becoming apparent. The move to private infrastructure, launched in the mid-1980s, began primarily

in the power sector, especially power generation facilities undertaken as build-own-operate (BOO) or build-operate-transfer (BOT) projects. More recently, investors have become active in other types of infrastructure as governments promote private involvement in water, transport, and other sectors.

- De-risking Investment in the Country - Solving problems, must not always be related to scale or financial resources – the challenge is in organisation and shared responsibility between citizens and government, and the public and private sectors. Government must regulate and set standards while private sectors both local and/or in partnership with foreign must be allowed to structure transactions it be economic and feeder roads, railway, real estate, renewable energy projects, bridges, crude / oil procurement, fertilizer, maize price setting, etc. We must create stability and certainty in the policy, legal and regulatory frameworks as they are key to attracting the right local and foreign investment.
- The urgency of Public Sector Reforms i.e. fiscal and political environment in Municipal and City Councils.
 - (1) Reform through the devolution from Central Government of the powers of taxation.
 - (2) Part of the low capacity it be financial expertise, technical expertise, social impact expertise and other resources that many city and municipal councils are tagged as missing

must be addressed through the reassignment of the staff on current large Government wage bill to independent and self-sustaining councils. Help poor people trade their way out of poverty.

This will increase latitude of councils to act independently and design local investment incentives central government through the Parent Ministry and ZDA can feed into and endorse. Further, Local and Foreign Investor confidence will leverage on the reshaped Government's approach of its excellence in rural, peri-urban and urban development planning. Spur development nationwide. This will help Build development from bottom up. Increase investment attraction to rural and peri-urban. Migrate civil service expertise without significant job losses. Stem the high flow of urbanization which is stressing service delivery in the cities and provincial capitals. Ease identification of new Tax bases; and lastly the Towns/City will begin to stretch up and not out thus reduce the cost and impact on service delivery.

- Covid has casued a surge in demand fro ICT related products and services. In order to expand broadband

infrastructure and application of ICT and increase capital investment in the Telecoms Sector. An increase of capital allowances to 50% from current 25% for the sector is proposed for income tax purposes. Without infrastructure status and capital expenditure benefits like tax/financing benefits, the industry will not be able to afford these long payback investments to enable the country begin enjoying the benefits therefrom. Payback is in increased investments and job creation. As an essential service provider the corporate income tax should be reduced from 40% to a flat rate of 30% for the telecommunications sector.

- Other notable recommendations include suspension of importation of wholesale second hand clothes (Salaula) for resale; as well as Suspension of any and all Taxes on Heavy and light Textiles equipment for 10 years. This will set industrialization in the textile sub-sector and:
 - (1) Recreate the garment / textile industry to its pre-1995 levels
 - (2) Increase tax revenue contribution of the garment sub-sector to the treasury
 - (3) Spur more than 8,000 youth jobs in the fashion sub-sector