

## COVID-19 PANDEMIC AND ITS IMPACT ON AGRICULTURE AND FOOD SECURITY



# Policy Response for Zambia

The first case of COVID-19 in Zambia was confirmed on March 18, 2020 and has since risen to 1,200 cases with 10 deaths<sup>1</sup>. After the first case was confirmed, the government put in place restrictions on movement, as well as closures of schools, restaurants and gyms. Zambia closed its border to Tanzania due to increased cases amongst truck drivers and the community at the border, but this has now been relaxed. The restriction on gatherings of 50 or more people is still in force and everyone going outside must wear a face mask.

## Impact of COVID-19 in Zambia

Zambia is the second largest copper producer in Africa after the Democratic Republic of the Congo. Zambia is effectively a mono-economy, heavily reliant on copper mining. The country depends on favorable copper prices, which make up three-quarters of export earnings. The mining sector accounts for about 70% of exports earnings and 26% of budget revenue (Liebenthal and Cheelo 2018). Prior to the COVID-19 pandemic, Fitch Ratings had forecast a widening of the fiscal deficit from 8.1% of GDP in 2019 to 8.5% in 2020 and 8.8% in 2021<sup>2</sup>. With the COVID-19 pandemic affecting global market prices (copper [has already fallen by 9.6%](#)), the shortfall in government revenue is further widening the budget deficit and depreciation of the Zambian Kwacha.

Zambia's economic growth has plummeted due to the fall in the price of copper, and the impact of drought on agricultural and hydroelectric production. According to the Ministry of Agriculture, about 2.3 million people's livelihoods were affected by the 2018/2019 drought; their already difficult situation has been further exacerbated by the COVID-19 pandemic. Despite the COVID-19 pandemic, the country is expected to experience a bumper harvest in the current harvesting season, allaying fears of food insecurity for rural households in the short to medium term. This is not the case for semi-urban and urban households who rely on purchases from the formal market, and are affected by supply chain disruptions due to the border closure by South Africa.

## Impact on imports and exports

COMSTAT<sup>3</sup> data shows that Zambia's import traffic declined overall by 25%, between March and April at the Zambian borders with Botswana, Zimbabwe, and Tanzania. There was a decline by 83% in volume between the Zambia-Botswana-Zimbabwe border, and 42% in volume at the Nakonde border (Zambia-Tanzania). As part of government response measures to the COVID-19 pandemic, the Ministry of Finance has proposed a number of measures, which include:

- Setting up an Epidemic Preparedness Fund under the Ministry of Health amounting to K57 million (approximately \$3 million);
- Approval of a COVID-19 Contingency and Response Plan with a budget of K659 million (\$36 million) under the Disaster Management and Mitigation Unit;

<sup>1</sup> [covid19.who.int/region/afro/country/zm](https://covid19.who.int/region/afro/country/zm)

<sup>2</sup> <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-zambia-to-cc-16-04-2020>

<sup>3</sup> <https://comstat.comesa.int/hkluphe/covid-19-impacts-on-trade-zambia-report>

- The government will continue implementation of its seventh National Development Plan 2017-2021 with key policies focused on strengthening domestic resource mobilization, improving fiscal governance, accountability and transparency, restoring fiscal credibility and increasing confidence in the private sector.

## Impact on GDP and economic growth

Zambia has been grappling with an unsustainable debt crisis creating a major structural challenge for the country. The country's debt-to-GDP ratio is at 91.6% of GDP (IMF 2019). According to the IMF, it will continue to increase, reaching 95.5% GDP in 2020 and 98% GDP in 2021<sup>4</sup>. The Ministry of Finance in its recent briefing acknowledged the IMF projected that the Zambian economy will experience negative growth this year, shrinking by at least 2.6% (MoF, 2020). The Minister noted that the government forecast shows a shortfall in government revenue by 19.7% in 2020 (MoF, 2020). Zambia's economic performance started plummeting with the country experiencing severe drought and a slowdown in mining activity, resulting in GDP dropping from 4% in 2018 to 1.5% in 2019. This is expected to further plummet to -3.5% in 2020 due to the COVID-19 pandemic, and pick up to 2.3% in 2021 (IMF, 2020).

The country is undertaking budgetary reviews in response to the challenges created by the pandemic but more so to restore debt to a sustainable level. The government has pledged to postpone new non-concessional loans and increase revenues, and increase spending on infrastructure, health and social protection.

## Government Response

In response to the COVID-19 pandemic, the Zambian government developed a COVID-19 response plan to ease liquidity challenges in the face of the adverse effects of the pandemic and support business to thrive. The government package includes:

- Released K2.5 billion (\$137 million) to reduce domestic arrears owed to domestic suppliers of goods and services;
- Suspended excise duty on ethanol for use in alcohol-based sanitizers and other medical related commodities;
- Waived charges for person-to-person electronic money transfers of up to K150 (\$8);
- Reduced outstanding arrears to pensioners under Public Service Pension Fund and retirees under Ministry of Justice;
- Revised upwards transactions and balance limits for individuals, small-scale farmer and businesses. The limits for agents were revised upwards to give agents more float to deal with transactions and help decongest crowds in banking halls;
- Reduced outstanding third-party arrears and other employee related commitments;
- Suspended export duties on the export of concentrates in the mining sector to ease pressure on the sector;
- Removed the transaction and balance limits on agents and corporate wallets;
- Reduced the processing fees for Real Time Gross Settlement System;
- Government is expected to issue a Statutory Instrument for Classification and Provisioning of Loans Directives to encourage financial service providers to provide relief to the private sector and facilitate long term lending to productive sectors of the economy.

<sup>4</sup> April 2020, World Economic Outlook IMF



## Policy Response Package for Zambia

- a. Work to ensure that the new Zambia National Agriculture Investment Plan (NAIP) is resilient to shocks like COVID-19 and climate change;
- b. Support development of communication and awareness campaigns materials and their dissemination in both print and electronic media;
- c. Develop a post-COVID-19 agriculture strategy to drive recovery and growth. This will cover key agricultural policies, strengthen institutions and increase investments in agriculture through flagship investment programs;
- d. Support to ensure efficient of supply of inputs, especially seeds and fertilizer;
- e. Support to structure food supply chains including warehouse infrastructure and other support mechanisms.

### **For further information about costs, please contact:**

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