

## The Impact of Coronavirus on the Zambian Economy

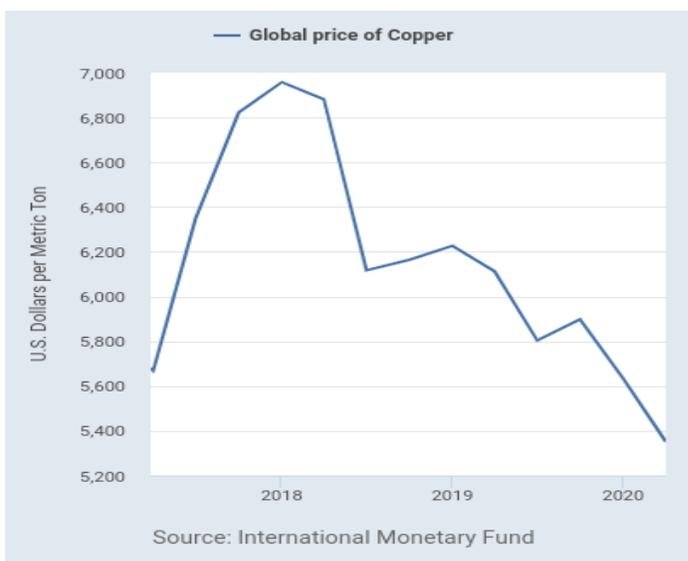
### Objective:

The COVID-19 virus, posed an unprecedented threat to all; having first appeared in China in December 2019. The alarming rate at which Covid-19 has spread throughout the world has not only affected the public healthcare systems but all the economies across the globe. Global recession seems to be an inevitable consequence.

Global trade has, for example, been affected negatively by the pandemic. The widespread implementation of guidelines set out by the World Health Organisation (WHO) has heavily impacted every country and its day to day affairs. Zambia, a landlocked country in Africa, is heavily dependent on imports and these guidelines which have been imposed has caused there to be restrictions on travel and trade. The closing off of the country's borders to its neighbours is thus fuelling the issue of an already fragile economy.

This academic paper gives an insight into the current state of the Zambian economy and business further brings out some of the short and long term measures which should address the current situation both from social and economic perspectives.

### A Summary of the Zambian Economy:



Zambia is well known for its richness in mineral resources including copper, gold, cobalt, uranium, emeralds and manganese. Copper in particular is important to Zambia as its exports are a major source of income to the country. In 2018 the world had seen a drastic fall in the price of copper; this is mainly due to the reduced demand for Copper from China due to onset of trade restrictions with United States of America and the slump in global demand on various products across the world. Furthermore, Zambia was seeing a fall in output of copper due to the slump in prices resulting in mines slowing / shutting down on their operations. [1]

Agriculture, the other major sector of Zambian economy, equally faced challenges due to repeated droughts for the past years. The droughts dwindled farming outputs i.e. maize, wheat and soya and other crops. As a consequence, the price of mealie meal (the staple food of Zambia) increased due to deficits in maize production.

Another challenge posed by the drought was a shortage in electricity supply in the country, since approximately 95% of the country's electricity source comes from hydroelectric plants. The affected industries were manufacturing, mining, construction and commerce.

The aforementioned factors affected the performance of the local currency which reduced the value of the Kwacha from 11.9 to the Dollar to 15.5 Kwacha at the end of the year.

### **Effects of the Pandemic on Zambian Economy:**

The Covid-19 pandemic's impact is being felt in all sectors of the economy with businesses shrinking due to low demand and stiff supply conditions. The local currency, the Kwacha has slumped from 15.5 to a Dollar to about Kwacha 19.5 to a Dollar.

The economic situation in Zambia has become challenging and the fiscal situation constrained due to the pandemic. The Treasury in Zambia is striving for efficient mobilization of domestic resources. It has been predicted that the adverse impact of COVID-19 on the country has caused a downward shift of the predicted 3% of economic growth to an approximate of -4.2%. The government is hoping to engage its external partners for support and cooperation on the fiscal side of the economy.

COVID-19 has further triggered a demand and supply shock. On the supply side we have seen a fall in employment levels. The fall in employment levels is caused by the fall in aggregate supply for goods. On the demand side the consumers and the suppliers were deferring spending in order to have a stronger financial position due to severe uncertainties facing households.

The restriction of travel and the closure of workplaces was a common occurrence as many countries imposed a lockdown. The economy has also suffered from the restrictions of travel as Zambia holds one of the natural wonders of the world (Victoria Falls). Zambia attracts a vast number of tourists and the tourism industry contributes approximately 7.1% of the country's GDP. The restrictions on travel has caused there to be a massive fall in the number of tourists visiting the beautiful tourist attractions of Zambia. [2]



[3]

## **The Impact Covid-19 on Small and Medium sized Enterprises (SME) and Households in Zambia**

The SME (Small and Medium sized Enterprises) sector of Zambia is estimated to account for 97% of all businesses. SME contributes about 38 percent to the country's GDP. However, the sector still faces challenges and that being the inaccuracy in the financial records. These inaccuracies can cause financial service providers (FSP) to potentially provide firms which are financially incompetent with funds causing there to be bad debts. SME's find it difficult to access finances from the bank as they may not have the adequate security or financial records that would provide an assurance about their capacity to repay loans. This has led to business failure and closure for these SMEs.

The SME sector continues to have and is still having a difficult time handling the affairs of the business during the period of Covid-19. There has been massive downsizing of the workforce in the country, leading to increased unemployment rates. There are some businesses that have been forced to close down due to the business being financially fragile [4]. This is a case where the low liquidity is not able to meet the ever rising cost owing to high exchange rate, high inflation, high wage demands and overall high cost of inputs such as fuel and electricity.

Furthermore, it has been seen that the Bank of Zambia has issued a 10 Billion Kwacha Stimulus Package. This stimulus package is being applied in order to enable the financial services providers to on-lend to local SMEs and households that have been impacted by the Covid-19 pandemic. This facility targets the four sectors prioritised in the National Development Plan of Zambia (Agriculture, Manufacturing, Tourism and Energy) [5]

Through this stimulus package, it is hoped that the business sector, including SMEs, will access affordable finance which has been pegged at 17.5% as opposed to an average 30% commercial rate. By supporting businesses to sustain operations, it is anticipated that there will be no further job losses arising from the impact of COVID-19.

The impact on households and consumers are uncertain as there is increased uncertainties on number of people who are infected by the virus as there may be a lack of testing kits. Moreover, as the fear grows the people are worried that they will not have access to medical check-up if they do catch the virus. In addition to this the poverty levels in Zambia are very high; many people would find it difficult to sustain the burden of hospital bills and lodging fees for the quarantine period.

Despite many African countries having difficulties in providing basic healthcare to all of its population, Zambia has been in a better position when compared to other African countries as the healthcare has been financed mostly by the government and external donors. This is reducing the out-of-pocket expenses for healthcare expenditure per person resulting in cheaper health care services for people of Zambia when compared to the other countries in Africa.

Another problem which African countries face is the restricted access of water and the maintenance of proper hygiene and sanitation. The (WHO) has recommended the public to wash hands with soap for at least 20 seconds to remove the viral contagions on the hand. This recommendation cannot be met in Africa as there is restricted access to water. Additionally even if there is access to water this water may be contaminated, this would be unhygienic and it can cause an increase in the number of water borne diseases. The total number of Zambians in the country is 17.35 million of that it has been estimated that approximately 33% of Zambians do not have access to basic sanitation. Only 24% have access to basic hygiene services. These

numbers proves that a large proportion of the Zambian population do not have access to basic use of water. [6]

### **Financial Aid Provided to African Countries**

The International Monetary Fund (IMF) is providing financial assistance and debt service relief to member countries facing the economic impact of the COVID-19 pandemic. It has currently allocated \$88 billion in total to several countries globally. Approximately 102 countries have requested financial aid from the IMF [7]. The fund has doubled and the access to its emergency facilities is trying to be allocated through to the many countries that are requesting its aid. There is an approximate demand of about \$100 billion in financing. [8]

It has been reported by the World Bank that over the next 15 months, the World Bank Group will be making available \$160 billion in financing, tailored to the health, economic and social shocks that countries are facing. This includes up to \$50 billion for African countries. The World Bank has taken fast action to help African countries strengthen their pandemic response and health care systems. Nearly a billion dollars for the immediate response to the COVID-19 pandemic has been approved in Africa. The World Bank has amounted \$1.9 billion in aid across the globe which is assisting 25 countries, was rolled out as an immediate response by the World Bank. [9]

The African Development Bank Group (AFDB) has provided foreign aid to many African countries to relieve the economic impact that each country has faced from the COVID-19. [10]

An approximate of 297 million students in Africa are out of school because of the pandemic. The governments of Kenya, South Africa, Egypt, and Morocco, alongside many other countries, have launched e-learning platforms. The governments have partnered with national broadcasters, telecoms, and private organisations. Maintaining and increasing access to education is a vital step during the global pandemic. [11]

As the number of cases continues to rise across the world, the situation appears to be worsening. It is important to keep the people of the country safe and try to prevent the spread of the COVID-19 virus across the country. It is the responsibility of the government and other related institutions in ensuring the different sectors of the economy continue to thrive despite the current COVID-19 challenges.

### **Solutions some Governments across Africa have implemented in order to improve the economic position of the country which can be implemented by the Zambian government**

Other governments across the world have adopted economic packages including fiscal, monetary, and financial policy measures in order to support the country's economy. These economic measures are targeting households, firms, health systems and banks in order to reach everybody. There are several other African countries who have taken more successful measure in reducing the spread of Covid-19. The solution each country has taken to try improve its economy is going to be analysed in order to understand what Zambia can do to its economic position. [12]

Senegal has developed an immune based diagnostic test for Covid-19 which is heavily subsidised and charged at about \$1 per test. A multifunctional robot has been developed in order to reduce the strain in which health care workers do taken when doing these tests on the patients of the hospital. [13]

Ghana has produced a low-cost Covid-19 antibody test which is currently going through regulatory reviews. In Kenya many of the existing factories have changed their production products in order to produce masks which can be used for the general use across the public throughout the world, this is considered to be an aid for its market as the businesses will not be sitting idle as well as it will continue to support the people reduce the spread of Covid-19. [14][15]

### **My opinion on how Zambia must improve its Economic Position**

The Zambian government has been striving hard to keep the spread of the COVID -19 virus at the lowest level and had put in measures of social distancing and mandatory wearing of face masks by all and is ensuring strict adherence of the same.

Some of the suggestions to improve on the economic position are given below both in Short term and in the long term

#### **Short Term Measures:**

- a) Austerity measures can be considered in order to reduce the government budget deficits through the cutting of government expenditure.
- b) Support the SME'S and business houses with easy access to finance which will enable them to keep afloat the business and to maintain the employment of their personnel.
- c) The scale of finance and support to SME can be based on the number of people in employment in that establishment. The Support can be more for people who have more personnel on their rolls. This will also ensure that people are retained in employment.
- d) Tourism can be improved by waiving the visa fees and allowing on arrival short term Visa for Tourists from anywhere in the world. Steps to be taken to promote other destinations in Zambia which are still to be explored by incoming tourists.
- e) VAT refund on any purchases by tourists of goods manufactured in Zambia (restricted to an amount to be fixed) to be made easier on their exit.

#### **Long Term Measures:**

- a) Value addition to Zambia's mineral resources is cardinal. Currently many of our minerals are being exported out of the country in raw form resulting in low revenue generation in terms of sale value as well as taxation to the exchequer.
- b) Investments into the value addition manufacturing / refining in the mining sector has to be promoted by giving Incentives to such Investments which will improve the foreign exchange earning of the country.
- c) Other minerals like gold which has been found recently are to be organised and a gold refinery be set and an auction floor for Zambian gold be set up with base in Lusaka.
- d) To invest in alternate source of energy like solar and windmill energy thereby reducing the dependence on hydroelectric power.

Some of the Social measures which can be taken to handle the pandemic are:

**Short Term Measures:**

- a) To provide test kits for free/subsidised rate to enable mass testing access
- b) Government can open an online portal for primary and secondary education (for all students) to enable the students to continue their education from their homes.
- c) To introduce multi-functional robots in routine health care places as in Senegal this will avert the scarce healthcare professionals to expose themselves to the virus.
- d) The cities can be fragmented into different areas and each area has got a community health personnel and data on people who are infected with the virus and to enforce strictly quarantine rules.

**Long Term Measures:**

- a) To encourage online platform trade wherein essentials like groceries and vegetables and other household are available on online store which will avoid people rushing into stores for such purchases.
- b) To invest more in healthcare personnel recruitment and training. The training of healthcare personnel especially Nurses and other allied areas be taken up in a large scale.
- c) To immediately improve in fibre optic (Internet) infrastructure across the country.

**Note: This academic paper has been written by Mr Anish Balasubramanian, Year 13 Student of Baobab College, Lusaka, Zambia**

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