

Press Statement

26 April 2020

About us

The Consumer Unity and Trust Society (CUTS) International, Lusaka is an NGO that was established in 2000 to function as a center for research, advocacy and networking on issues of trade and development, economic governance and consumer welfare.

The mission of the center is to function as a resource, co-ordination, as well as networking center, to promote South-South cooperation on trade and development by involving state and non-state actors (NSAs).

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THANK YOU!

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Government Should Not Resort to Commercial Borrowing to Secure Financial Resources for Covid-19

Why is this important for you as a consumer?

In recent months the Zambian economy has endured a period of unfavorable economic conditions that have been exacerbated by the Covid-19 pandemic. The average consumer has seen rising cost of goods and services, and reduced value of the Kwacha. In the wake of the pandemic, the IMF has made available emergency finance through its interest-free Rapid Credit Facility (RCF) to provide emergency assistance. As the government looks outside for support to finance the pandemic, we urge Government to put in place the necessary measures to be able to access this affordable finance from the IMF as opposed to other expensive commercial options which will only worsen the country's debt risk profile further.

On April 13, 2020, International Monetary Fund (IMF) announced that it had approved immediate debt service relief to 25 of the IMF's member countries under the IMF's revamped Catastrophe Containment and Relief Trust (CCRT) as part of the Fund's response to help address the impact of the Covid-19 (Corona Virus) pandemic. Countries in the region such as Congo, D.R., Malawi, Madagascar and Mozambique among other African countries have successfully received debt relief from the fund. Zambia, however, did not qualify for this debt relief as its per capita income at \$1,430 is above the International Development Association (IDA) poor country threshold for the 25 countries at \$1,175.

Despite this, Zambia still remains under immense pressure to access resources to mitigate the impacts of the pandemic. The Minister of Finance, Honourable Bwalya Ng'andu, in his speech this week said that they would approach local and international stakeholders to access funding. In doing so we urge the government to engage with the IMF and look to accessing affordable finance offered through facilities such as from the IMF's Rapid Credit Facility (RCF) rather than commercial loans. This facility provides rapid concessional financial assistance with limited conditionality to low-income countries as opposed to expensive commercial borrowing. Zambia qualifies for this facility as a Poverty Reduction and Growth Trust-eligible country.

Over the past few years Zambia has been faced with a growing debt problem which has limited the Government's ability to provide quality public services. In 2020, the Government had planned to spend over K33 billion on external and domestic debt payments while key sectors such as education, health and social protection had a budget allocation of K24.3 billion combined. Not only have interest payments become the biggest spending area for the Government, particularly in light of the significant depreciation of the Kwacha, but we are also seeing spending redirected from crucial areas of investment to these payments. During this time, it is pertinent that the country does not find itself acquiring more high interest debt but rather explore flexible financing grants available from multilateral institutions.

Covid-19 is expected to have major implications on Zambia's economy beyond health implications. According to the IMF the economy will grow by negative 2.6% from a projection of 3.6%. Sectors such as tourism, mining, manufacturing, construction and wholesale and retail trade are projected to slow down due to the pandemic. As businesses have come under pressure due to stay-at-home orders, many businesses are scaling and closing down increasing unemployment levels in the country.

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Raising resources domestically will be a challenge for the Government given the slowdown of the economy due to the pandemic. The Minister of Finance this week announced that revenues under the 2020 budget are projected to be lower on account of the slowdown in economic activity and thereby collections under VAT, Customs Duties, Income Tax and Mineral Royalty are expected to decline. Revenues are expected to fall short of target by K14.8 billion or 19.7%. The Government also announced tax relief measures by suspending export duty on export on copper concentrates and precious stones in the mining sector among other measures and so will forego significant revenue.

In addition to this, the Government has spending pressures to contain the pandemic. Cabinet recently approved a Covid-19 Contingency and Response Plan with a budget of K659 million under the Disaster Management and Mitigation Unit and more resources will be expected to be channeled to mitigate impacts of COVID-19.

We, therefore, urge the Government to ensure that the country does not resort to commercial borrowing to secure financial resources but accesses affordable emergency funds available and debt relief where possible to deal with the pandemic. Despite being reclassified as a lower-middle income country, Zambia is still hard hit by poverty and must not further swell its debt levels unsustainably as we fight the pandemic.

By Kangwa Muyunda, Programme Officer