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Mitigating the Socio-economic Impact of Covid-19 in Zambia: A Rapid Assessment

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Working Document

Summary

This paper seeks to undertake a rapid assessment of the socio-economic effects of Covid-19 in Zambia. Using the most recent sectoral level and household data, it estimates the likely employment and output losses in key sectors of the Zambian economy and assesses the poverty implications of the Covid-19 pandemic on different types of vulnerable households in Zambia. The model follows the prevailing approaches and considers only the direct first round impact of the pandemic. This rapid assessment therefore does not consider the indirect effects that typically materialize in the longer term.

To model the household poverty impacts, the paper assumes that the impact of Covid-19 is likely to reduce per capita consumptions under three scenarios: low, medium and high restrictions, arising from the government's containment measures. In estimating the impact of Covid-19 on the selected sectors, we likewise consider the short-term direct impacts on GDP output and employment in the selected sectors under low, medium and high restrictions.

The analysis finds that in the formal sector, the wholesale and retail, and mining sectors suffer the largest decline in contribution to GDP dropping by 2.24% and 1.45% respectively under the most conservative restrictions scenario. The most significant losses in employment will be in the wholesale and retail sector and tourism sectors where jobs losses are estimated at 14,634 and 14,291 respectively. The consequences on the informal sector, however, will be much more significant with the 'wholesale and retail' and the agriculture sector seeing job losses of 55,492 and 36,050 respectively. Given the nature of the informal sector however, we can expect that the knock-on effects will be more severe. Holding all the dynamics in the other sectors constant, the paper finds that overall GDP would drop by 5.5%, 8.2% and 10.1% for the low, medium and high restriction scenarios respectively.

With regards to social implications, focusing on the moderate scenario, which is similar to the prevailing situation where the government has implemented partial restrictions such as closure of schools, restaurants and bars, and announced social distancing; we find that the incidence of poverty increases by about 3.5%, from about 60% to 63.5% for the whole sample. The paper also finds that among the identified vulnerable groups, households with children have the largest number of potential poverty increases under any Covid-19 intervention scenario while households with any disabled persons have the lowest possible increases in poverty under any scenario. The paper shows that overall, the number of people that may fall into poverty as a result of the effect of Covid-19 ranges from 290,000 in the case of low restriction levels to over 1.2 million for the strictest lockdown scenario.

The paper then also explores a number of multidimensional challenges. It notes that perhaps the biggest dilemma that Covid-19 poses to decision makers in Zambia is the need to find a balance between addressing the imminent Covid-19 crisis and ensuring continuity of essential services in delivering its commitments under the Seventh National Development Plan. Like many developing countries, and due to the high poverty rates in Zambia, most of the population lives on a daily income, therefore, despite government efforts to ensure awareness on the importance of social distancing, these restrictions are perceived to jeopardise the livelihoods of the very population they aim to protect.

1. Main Points

• **The world faces the most significant health challenge in history.** Four months after China's first reported several cases of unusual pneumonia to the World Health Organisation, the world now faces its most significant health challenge in modern history. Having since been identified as a novel coronavirus disease, the pandemic has now spread to over 200 countries and territories with over 2.5 million confirmed cases, 177,718 recorded deaths and 696,232 recovered cases. Of these totals, Africa accounts for 25,426 confirmed cases, 1,197 recorded deaths, and 6,780 recovered cases.[1]

• **Governments are working to contain the virus.** Governments around the world have scrambled to contain the virus and have implemented various measures ranging from selective economic and travel restrictions to the more draconian 'complete lockdowns.' Consequently, the socio-economic impact of Corona Virus Disease (Covid-19) has been devasting with millions of jobs and livelihoods lost so far. On 18 March 2020, Zambian authorities announced the country's first two cases of Covid-19 and within five weeks, Zambia recorded 70 confirmed cases, 3 recorded deaths and 30 recovered cases.

• **Covid-19 has the potential to affect more than 3,4 million men and 3,6 million women in 43 districts of the 10 provinces of Zambia.** According to the risk analysis conducted by the Disaster Management and Mitigation Unit and the Ministry of Health, Covid-19 has the potential to affect 7,616,108 people in 43 districts of the 10 provinces of Zambia as the general immunity of the country is low.[2] At 70 confirmed cases, the epidemiological crisis in Zambia has remained comparatively manageable, minimising the endogenous effects of the virus on Zambia, however the threat of an outbreak remains imminent if not properly managed.

• **The global economic slowdown has already started to affect Zambia.** Zambia has already begun to experience the exogenous effects of the pandemic as a result of the global economic slowdown. With the global GDP growth rate projected to drop to 2.4% in 2020, from an already weak 2.9% in 2019,[3] and Sub-Saharan Africa's economic growth rate also projected to decline from 2.4 % in 2019 to between -2.1 and -5.1% in 2020, the first recession in the region in 25 years,[4] this scenario is already impacting Zambia's economy. Growth in 2020 was initially projected at 1.6%, but with the arrival of the Covid-19 pandemic, the economic growth rate has since been revised downwards to -2.6%. This clearly reflects the lack of policy space to counteract the Covid-19 threat.[5] Zambia's delicate fiscal position is in large part due to its external and domestic debt burden which currently stands at of US$11.2 billion and ZMW80.2 billion (US$4.4 billion)[6] respectively. As a result, after interest payments and emoluments, Zambia has less that 10% of domestic revenues available for discretionary spending.[7]

• **Job losses are already being recorded in various sectors due to Covid-19 effects.** Thousands of jobs have already been directly affected by business closures and reductions in operational capacity, and Zambia's March Consumer Price Index statistics have already shown a marginal increase in inflation suggesting that Covid-19 is likely to have a real impact on households' welfare and poverty, especially among the most vulnerable households. It is expected that job losses will be more pronounced in the informal sector given that the informal sector employs nearly 70% of the labour force.

• **The government has implemented a number of health response and economic mitigation measures. I**n early March the Ministry of Health began to implement a number of preventive and control measures.[8] These were then followed by measures by the Ministry of Finance and the Bank of Zambia to mitigate the economic effects of the crisis in Zambia. These tools, however, are largely targeted towards the formal sector thereby diminishing their ability to contribute to the livelihood of the general population as almost 70% of the total employed persons in Zambia are in the informal economy.[9] Further to this, 54.4% of the population lives below the poverty line.[10] This compromises the population's ability to adhere to measures to mitigate the spread of Covid-19 thereby putting the country at significant epidemiological risk.

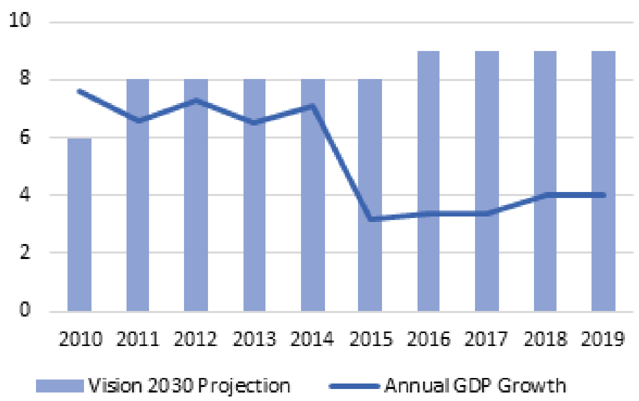
2. Covid-19 and the Zambia's path towards the National Vision 2030 and the SDGs

Zambia's Vision 2030 (2006-2030) is to transform Zambia into a prosperous middle-income nation by 2030 and to create a new Zambia which is a "strong and dynamic middle-income industrial nation that provides opportunities for improving the well-being of all, embodying values of socio-economic justice."[11] The Vision 2030 has ambitious objectives and within it gives a breakdown of three different development scenarios, namely: The Optimistic, the Preferred and the Baseline scenarios.

The objectives of the scenarios are in line with several Sustainable Development Goals (SDGs) and working towards those goals would enable Zambia to reach its Vision 2030. Vision 2030 is implemented through medium-term national development plans. Zambia is currently implementing its Seventh National Development Plan (7NDP) for the period 2017-2021. The 7NDP is aligned to the SDGs and in delivering the plan, the country is equally delivering on the SDGs.

Zambia's recent weakening economic fundamentals, however, have compromised its ability to make the desired progress towards achieving its Vision 2030 objectives and ultimately the SDGs. At the end of 2019, the Ministry of Finance projected an economic growth rate of 3% in the 2020 National Budget Address. This was 6% lower than the objective of the Preferred scenario of the Vision 2030.

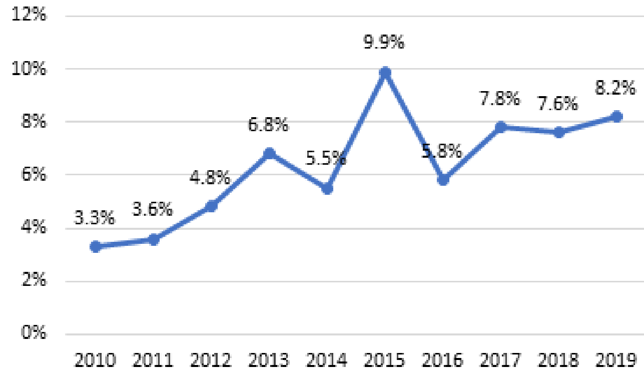
Figure 1: Actual GDP Growth Rate Vis-à-vis Vision 2030 Projected Growth Rate[12]



With the arrival of the Covid-19 pandemic, the Zambian economy's growth rate has since been revised downwards to -2.6%.[13] As such, the Covid-19 outbreak poses a serious risk to the attainment of the country's 7NDP, the Vision 2030 and the SDGs.

Over the past few years Zambia has been recording increasing fiscal deficits as the country has struggled to sufficiently finance its development programs. In 2019, preliminary estimates indicated that the fiscal deficit, on a cash basis, was 8.2% of GDP, against a budget target of 6.5% of GDP.

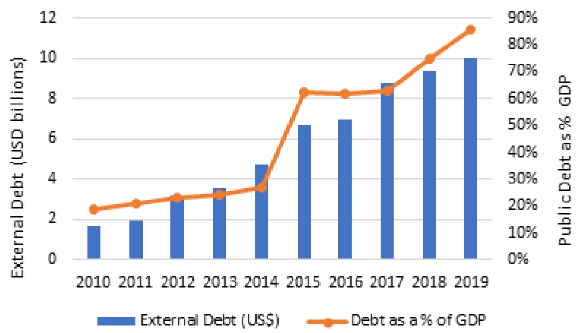
Figure 2: Zambia's Fiscal Deficit Figure[14]



With the of the emergence of the Covid-19 crisis, it is expected that government revenue and expenditure will be severely impacted, thereby causing the fiscal deficit to widen further. According to the Ministry of Finance, the budgeted revenue collection is projected to fall short of target by at least K14.8 billion or 19.7%.[15]

Zambia is also facing significant debt sustainability challenges and in 2017, the International Monetary Fund indicated that Zambia was at high risk of debt distress.[16]

Figure 3: Zambia's Growing Debt Burden



High debt levels can limit the capacity of a country to provide basic public services and in recent years as Zambia's debt levels have been rising, the country has been spending more on debt servicing than on education and health combined. Against this backdrop, in April, Moody's Investors Service dropped Zambia's credit rating to the second lowest level from Caa2 to Ca, citing rising default risks and a debt restructuring that could involve significant losses for private creditors.[17]

Diagram 1: The Effects of Covid-19 Pandemic on the SDGs[18]

Source: UNDESA

Achieving the SDGs and the 7NDP priorities by 2021 under the prevailing macroeconomic environment would be a challenge for the policy makers. Now with the Covid-19 pandemic, however, this is certainly another complicating factor into the country's development path towards Vision 2030 and the SDGs. Given the effect that the pandemic will have on a number of keys areas including income, food production, education and health, it is imperative that the government takes a proactive stance in finding ways to navigate the threats of the Covid-19.

3. Economic, Social and Multidimensional Implications

Understanding the effects of the current pandemic in real time is crucial to support the government's preparedness, response and recovery. There is, however, a lack of recent analyses that could effectively help the Zambian government gauge the real household and sectoral impacts of the pandemic in the country. Although institutions such as the African Union (AU), the Organization for Economic Cooperation and Development (OECD), Economic Commission for Africa (ECA), the World Bank, and UNU-WIDER have conducted rapid assessments of the likely impacts of Covid-19 in developing countries, these have focused on the macro-economic impacts on selected economic sectors, and mostly targeted regional level dynamics with limited focus on country specificities. Furthermore, no assessment has so far looked at household poverty implications despite poverty remaining the most pressing problem in developing countries. This rapid assessment, therefore, aims to highlight the poverty implications of the Covid-19 pandemic on different types of vulnerable households in Zambia as well as estimate the likely employment and output losses in key sectors of the Zambian economy.

Data Assumptions and Approach

This rapid assessment uses the most recent household and sectoral level data[19] to estimate the likely household welfare and sectoral level employment and output impacts of the Covid-19 pandemic. In line with other recently completed rapid assessments such as those conducted by the UNU-WIDER,[20] International Food Policy Research Institute (IFPRI)[21], Economics Association of Zambia[22] and prevailing expert views, we assume that the Covid-19 pandemic and its direct economic effects in Zambia will be largely short-term. This assessment therefore only simulates the likely first-round short-term direct impacts of Covid-19 on the Zambian economy. The indirect, behavioral or general equilibrium effects that typically materialize in the longer term are not explored in this study due to the uncertainty surround the pandemic and a lack of actual impact data of the pandemic at this point.[23] To model the impact of Covid-19 on household poverty, we follow the assumptions in notable rapid assessments already conducted in developing country contexts. In particular, we follow the above referenced studies by UNU-WIDER and IFPRI and assume that the impact of Covid-19 would likely induce contractions in per capita consumption in the order of 5%, 10% and 20% under the scenario of low, medium and high restrictions arising from the imposition of various containment measures. These assumptions are reasonable but appear conservative and should therefore be taken as lower-bound estimates of the likely impacts of Covid-19.

To estimate the likely output and employment effects of Covid-19 at the sectoral level, the basic GDP multiplier approach is applied to the sector level output and employment structure in Zambia. And as indicated, only the short-term first-round direct impacts of Covid-19 were considered in selected sectors. The selected sectors are agriculture, tourism, mining, wholesale and retail, manufacturing and construction. These sectors are selected on account of either their employment potential, significance of current GDP contribution or potential for sector contribution to economic diversification. For instance, while agriculture's GDP share is only 1.4%, it has the largest contribution to employment and is therefore considered in this analysis. Mining is necessarily included because it is one of Zambia's largest sectors and largest foreign exchange contributor. Tourism on the other hand is included because government places tourism services at the core of the national diversification strategy under the 7NDP, and it has shown significant growth potential, nearly doubling in GDP contribution between the period 2010 and 2018. The construction, wholesale and retail and manufacturing sectors are included on account of their significant sector contributions to GDP. For each sector, a specific shock is simulated based on sector-specific basic assumptions. In addition to considering the effects of Covid-19 on selected sectors, this policy note also comments on the likely impacts of Covid-19 on more complex macro-indicators such as the exchange rate, trade and fiscal balances, and domestic and external debt.[24]

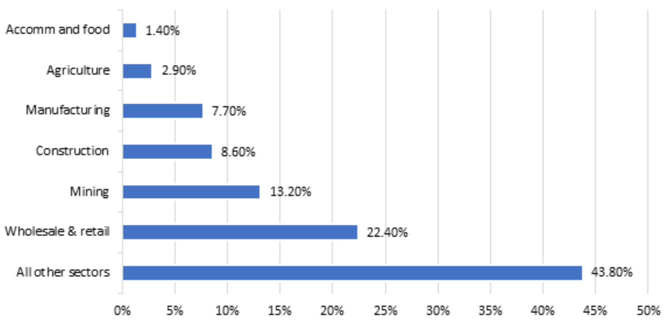
This rapid assessment has important policy implications. First, unlike other rapid assessments which are anecdotal or are narrative-based, this rapid assessment is the first in Zambia to estimate the direct household impacts of Covid-19 using actual survey and official data. The assessment is also the first to use actual data to estimate the sector-level output and employment effects in Zambia. This study therefore provides plausible data-driven estimates that various stakeholders such as the Government of Zambia, the private sector, civil society organizations, the UN and other cooperating partners could use in designing Covid-19 response and recovery plans. For example, the study highlights the likely impacts of Covid-19 on vulnerable groups such as rural, disabled or female-headed households. Such inputs would be timely and useful in assisting stakeholders interested in Zambia's social welfare situation. The sector-specific results on output and employment would help the government understand the level and nature of support needed to sustain various sectors during the pandemic.

Finally, like any other study, this assessment has some data limitations. First, Zambia's most recent survey, the Living Conditions Monitoring Survey (LCMS), is now nearly 5 years old and may not reflect the current living arrangements. To make the survey representative, we calibrate the sampling weights to the 2020 mid-year estimates so that the poverty estimates are up to date.[25] Secondly, although the sector analysis components uses very recent (2018 and 2019) employment and sector data, not all the channels of influence such as the behavioral, indirect or general equilibrium effects are considered. To this extent, our estimates may be under-estimates and should be taken as lower-bound likely effects.

a) Economic Implications: Sectoral Impacts of Covid-19 on Employment and Output

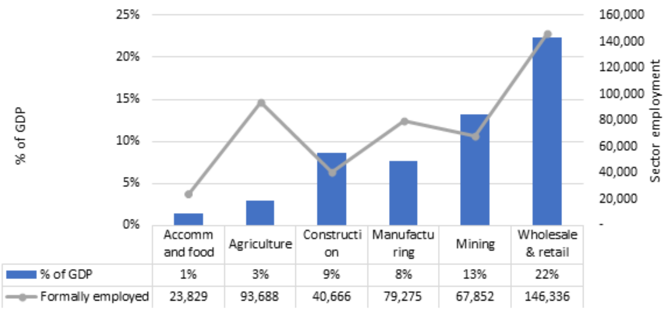
In looking at the economic implications, this paper looks at the sectoral impacts of Covid-19 on employment and output. In the Zambian economy, the wholesale and retail, mining and construction sectors are the largest contributors to Zambia's GDP.

Figure 4: Sectoral Contribution to GDP[26]



The starting point for understanding the sectoral output and employment effects is to compute the sectoral GDP and employment shares for the relevant sectors. These parameters are considered for the accommodation and food (tourism), agriculture, construction, mining and wholesale and retail sectors. Figure 5 shows the GDP and employment shares from the afore-mentioned sectors.

Figure 5: Sectoral GDP and Employment Contributions[27]



To simulate the likely output and employment impacts of Covid-19 in various sectors, we define Zambia's sector-specific Covid-19 induced shocks as follows:

i) Accommodation and food (tourism): This has perhaps been one of the worst affected sectors particularly due to the disruptions in international travel. For example, average room occupancy rates have dropped by 60%, although this is likely much higher given recent closure of the country's largest hotels, the Taj Pamodzi and Intercontinental hotels, and several lodges in tourism hotspots such as the Lower Zambezi. The new social distancing regulations and closure of restaurants, bars, entertainment components have effectively grounded activity in these sub-sectors. We therefore model the following reductions in tourism economic activities: 60%, 70% and 80% under low restrictions and the possibility of widening the current restrictions if a total lockdown in the sector was implemented.

ii) Agriculture: The impact of Covid-19 on the sector is complex but the pandemic will certainly have some negative effects on labour supply, productivity, value chains and exports (due to likely input supply shortages). There are no clear estimates of the likely effects on agriculture, therefore, we propose modelling agricultural shocks parsimoniously as: 5%, 10% and 15%.

iii) Construction: the Covid-19 pandemic is likely to reduce construction activity. Major projects such as road construction may decline as public funds are diverted towards health and social cash transfer programmes, notwithstanding the fact that the government has pledged to pay construction sector arrears.[28] Reduced rates of private home construction due to contractions in disposable incomes would mean construction section could decline by at least 5%, 10% and 15%.

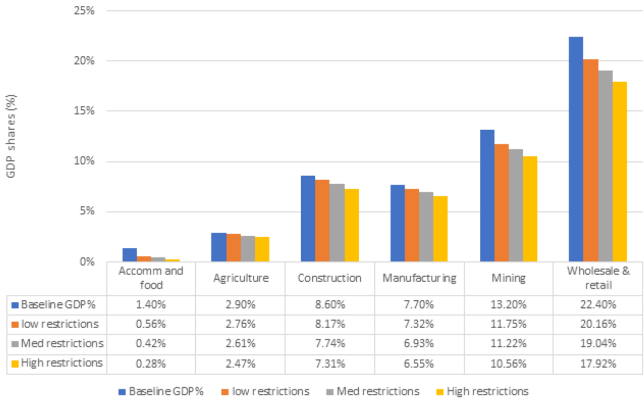
iv) Manufacturing: Manufacturing would be hit by reductions in input imports as well as reduced demand due to reduced domestic and export demand. At the minimum, manufacturing could decline by 5%, 10% and 15%..

v) Mining: Zambia's copper exports are likely to reduce further than the 11% decline registered in February 2020 as the impacts of Covid-19 have since intensified. The prevailing lockdowns in major copper exports markets such as China, Europe and South Africa are likely to dampen copper demand further. Productivity is also likely to be affected by the 24% reduction in copper prices at the London Metal Exchange. We therefore model the following scenarios for mining activity at 11%, 15% and 20% for low, moderate and highly restrictive export market conditions.

vi) Retail: Import reductions due to Covid-19 restrictions in origin countries, the recent rapid Kwacha deterioration, and importantly, reductions in household incomes would adversely affect the sector. Here, we model scenarios as follows: 10%, 15% and 20% reductions in economic activity in the sector.

Applying a linear framework with GDP and employment shares, Figure 6 provides the simulated indicative effects of Covid-19 on Zambia's real sector and jobs.

Figure 6: Reductions in Sectoral GDP Shares due to Covid-19[29]

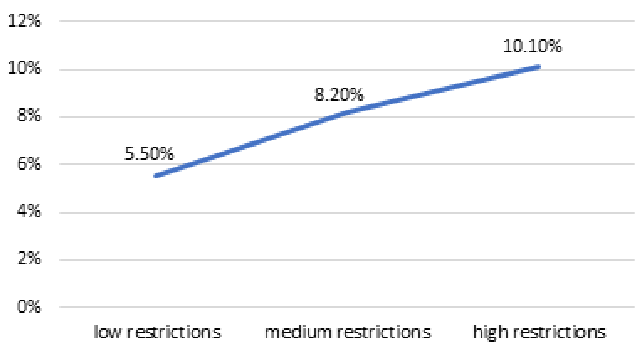


The graph indicates that Covid-19 would have significant effects on sector GDP contributions across all industries. The wholesale and retail sector has the largest sectoral reduction of 2.24% declining from 22.4% of GDP before the pandemic to 20.16% of GDP (under the most conservative restrictions scenario). The mining sector which is the second largest contributor to GDP with about 13.2% of the share would also experience a significant decline of 1.45% to 11.75% under the most conservative scenario.

The agriculture, manufacturing and construction sectors shares will also drop by 0.24%, 0.28% and 0.43% respectively in the most conservative scenario. The accommodation and food (tourism) sector has one of the lowest contributions to GDP at 1.40% however it will experience the second largest reduction from the selected sectors of 0.84% in the most conservative scenario.

Holding all the dynamics in the other sectors constant, we expect that overall GDP would drop by 5.5%, 8.2% and 10.1% for the low, medium and high restriction scenarios respectively.

Figure 7: Reduction in Composite GDP[30]



Effect of Covid-19 on Employment

We expect that the sectoral GDP share declines would translate to significant job losses in the formal and informal sectors.

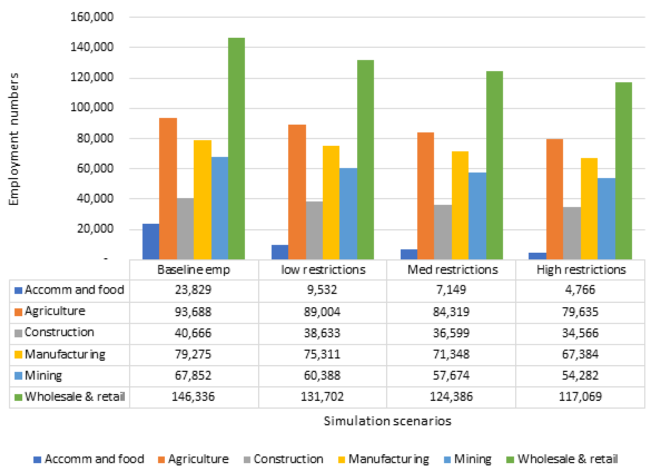
Figure 8 shows the reductions in formal jobs by sector. The wholesale and retail, and tourism sectors would incur significant jobs loses of 14,634 and 14,297 respectively in a conservative scenario and 29,267 and 19,063 respectively if high restrictions were implemented.

The tourism sector would be the hardest hit, losing more than 60%[31] of the pre-Covid-19 jobs if significant government interventions are not put in place to preserve jobs. The massive job losses in tourism are as expected given the sector's heavy dependence on both local and international tourists. Any restrictions to travel as is currently the case globally and locally would directly affect tourist visits and jobs without government financial bailouts.

Within a month of Covid-19 being reported in Zambia, most hotels, lodges and even the world-famous Victoria Falls were closed to the public. This puts employees at risk of complete job loss if the businesses do not resume soon. Global estimates suggest a rapidly deteriorating jobs risk situation in the tourism sector, with projected job losses increasing from 50 to 75 million in a period of only 2 weeks from latest estimates.

The job losses in construction and formal agriculture sectors are simulated to be less severe with mining, manufacturing, manufacturing, and agriculture sector experiencing losses of 7,467; 3,964 and 4,684 respectively in the most conservative scenarios.

Figure 8: Effect of Covid-19 on Formal Employment[32]



While the employment analyses above has been for the formal sector, the Zambia informal sector is significantly larger in terms of employment numbers.

Table 1: Sectoral Employment and GDP for Selected Sectors (Industries)[33]

Sector	Total Employed	Formal	Informal	% of GDP	% of Formal Emp	% of Informal Emp
Accomm. & Food	64 637	23 829	40 808	1%	3%	2%
Agriculture	814,692	93 688	721 004	3%	10%	36%
Construction	176 708	40 666	136 042	9%	4%	7%
Manufacturing	239 046	79 275	159 771	8%	9%	8%
Mining	84 535	67 852	16 683	13%	7%	1%
Wholesale & retail	701 252	146 336	554 916	22%	16%	28%
Other sectors	868 101	480 260	387 841	44%	52%	19%
Total	2 948 971	931 906	2 017 065	100%	100%	100%

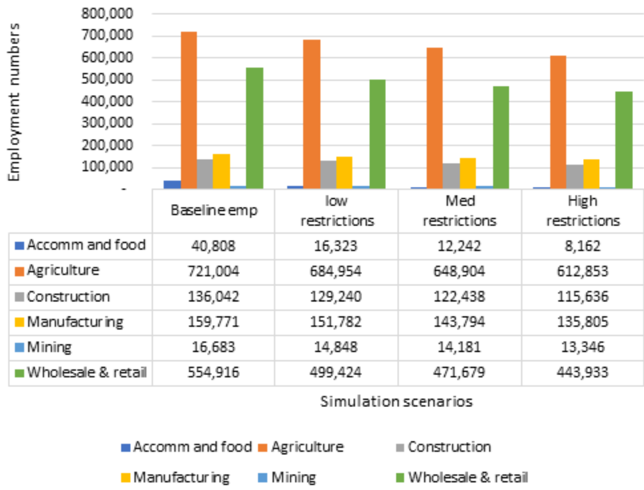
As can be seen in Table 1, the informal sector which employs nearly 70% of the labour force. The actual contribution of the informal sector to GDP is unknown but estimates range between 30% to 40%. While large, the informal sector is characterised by low pay and productivity as well as a lack of access to social security which makes it prone to suffering severely during outbreaks like Covid-19.

Past experiences with similar epidemics and crisis situations show that informal workers without social protection or any kind of insurance are more exposed.[34] Further to this the informal sector has been a victim of containment measures. In Lusaka, for example, the city council banned street vending as part of the move to promote social distancing and reduce overcrowding in the central business district of Lusaka. All vendors were directed to established markets designated for trading.[35]

The council, however, experienced much pushback from the vendors as a result of the significant negative effect this would have on their livelihood and as such police had to be deployed.[36] According to our simulations, the wholesale and retail, and agricultural sectors, which employ the majority of informal sector workers would be the most affected if the effects of Covid-19 filtered to these sectors.

Without government mitigation, each sector could lose 55 492 and 36 050 jobs respectively in an environment with low restrictions. Tourism, manufacturing and construction sectors would also be affected sectors losing 24 485, 7 989 and 6 802 informal jobs respectively in the most conservative scenario.

Figure 9: Reductions in informal sector employment due to Covid-19[37]



While we apply the same assumptions for the formal and informal sector, the informal sector is likely to be more severely affected than the formal sector due to the lack of social safety nets and labour law implementation. All in all, across both formal and informal sectors, wholesale and retail and tourism sectors would account for the largest job losses. Supporting these two sectors as well as the agriculture sector given its importance in the informal sector would be crucial.

The Effects of Covid-19 on the Small and Medium-scale Enterprises Sector in Zambia

Small and Medium-scale Enterprises (SME) constitute the majority of businesses in Zambia and play an important role in employment creation and economic growth. The sector is estimated to account for 97% of all businesses in Zambia contributing 70% to GDP. Accounting for 88% of employment, SMEs also play a key role in society as they tend to employ a large share of the most vulnerable segments of the workforce.[38] Despite their large footprint, however, SMEs face significant challenges in Zambia particularly in accessing finance thereby limiting their growth potential. In order to address this, the government through the 7NDP emphasizes the creation of a credit guarantee scheme for issuance of low interest, long-term loans to Zambian SMEs, as well as initiatives to accelerate informal sector formalization, foster skill development, create urban industrial clusters, strengthen value-chain linkages and provide business development services to SMEs.[39] In light of the Covid-19, in an online survey conducted on 98 SMEs in March 2020, 93% of the respondents believed that the pandemic would have a negative impact on their businesses. Respondents indicated that they were most concerned about the implications that the pandemic would have on their sales, salaries and wages, and rentals. In looking towards the future only 48% of the respondents indicated that they saw their businesses surviving through the pandemic and the rest either did not see themselves surviving or were unsure. The SMEs indicated that the top three ways that the government could assist them during this time was by offering tax exemptions, subsidies and grants.[40] Given the importance of the sector to the economy it will be imperative for the government to put in place measures to protect SMEs, especially in the earlier identified sectors, during this time.

b) Other Impacts on Macro-indicators

Unlike assessing the impacts of real sectors, modelling the impacts of Covid-19 on indicators such as the exchange rate, debt levels, and fiscal and trade balances is a lot more data-intensive. However, we briefly provide some insights on the likely direction each indicator is likely to take.

i) Exchange rate: Holding monetary policy and fiscal stimulus measures constant, the Kwacha is likely to deteriorate further if restrictive measures are extended and global trade conditions in the copper sector remain subdued. Over the past three weeks the Kwacha has been in a free fall and at ZMW18.32 it is at all-time low.

Figure 10: ZMW to USD Exchange Rate[41]

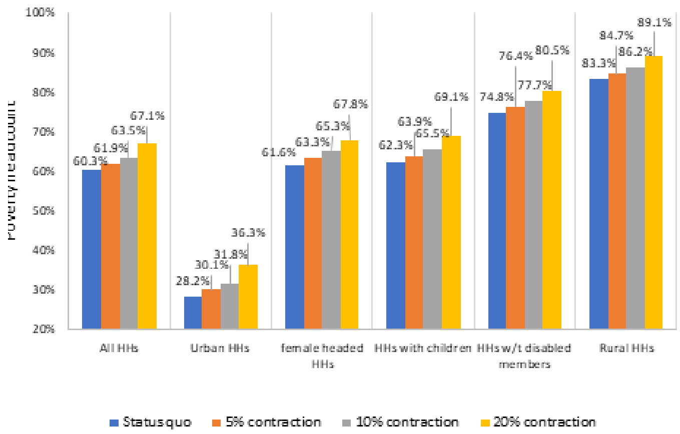
ii) Trade balances: The trade deficit is likely to deteriorate further as domestic manufacturing production and copper exports are constrained further. Zambia's major international export partners are Switzerland and China, to whom Zambia export the majority of its copper. As a result of the global economic slowdown, the global price of copper has seen a decline with the price dropping of copper dropping to a low of US$4 617.5 in March from a high of US$6 165 at the beginning of the year. Further to this, South Africa is Zambia most important regional partner. As Zambia's largest import partner, South Africa's current lockdown has had an impact on trade between the two countries. As a result of this relationship, South Africa and Zambia formed a private sector working group in April to create a framework that is targeted at ensuring the smooth flow of essential goods and services during the Covid-19 lockdown of most of the Southern African Development Community countries.[42] Despite this situation, the government and domestic manufacturers see the opportunity to increase Zambia's domestic production due to the lack of competing imports.

iii) Debt: According to the International Monetary Fund (IMF), Zambia's debt burden places Zambia at a high risk of debt distress.[43] The pandemic could have a severe negative effect on the economy's debt levels as the country seeks additional resources to mitigate the negative social and economic impacts of the pandemic. Further to this, as a result of the country's fast depreciating currency, Zambia's debt interest payments are placing increasing strain the treasury. [44] To reduce this burden on developing countries, the IMF and the World Bank have made calls for debt relief and write offs by multilateral and bilateral lenders.[45] While this would be helpful, Zambia's multilateral and bilateral debt only accounts for 21% of its debt portfolio as the bulk of its lenders are commercial and private investors that are unlikely to opt into the IMF and World Bank calls although there is increasing pressure in this direction.[46]

c) Social Implications: The impact of Covid-19 on household poverty in Zambia

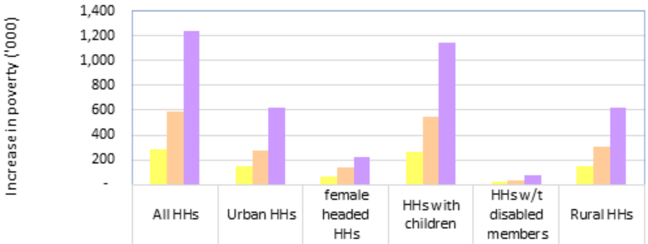
The figure below shows the poverty implications of implementing low, moderate and high Covid-19 containment restrictions for various types of household groups. These restrictions correspond to simulating contractions in per capita consumption by 5%, 10% and 20% respectively. The results show that relative to the baseline scenario of no containment measures, any Covid-19 response has important poverty implications for Zambian households. Focusing on the moderate scenario, which is similar to the prevailing situation where the government has implemented partial restrictions such as closure of schools, restaurants and announced social distancing, we find that the general incidence of poverty increases by about 3.5%, from about 60% to 63.5% for the whole sample.

Figure 11: Poverty headcount ratio for various types of vulnerable households[47]



Given the high incidence of poverty in Zambia, an important policy question is, are vulnerable groups such as female headed households at particular risk of poverty or hardship as a result of Covid-19? To answer this, we estimate the likely impact of Covid-19 on the incidence of poverty for different groups such as female-headed households, households with any disabled members, households with children and those located in rural and urban areas. As can be seen above, all the groups generally, except the urban households, have a higher incidence of poverty than the national average poverty rates suggesting that special attention needs to be given to all the vulnerable groups. Covid-19 mitigation programmes at the household level such as the social cash transfer must be scaled up and prioritise the most at risk households especially those with disabled members and those located in rural areas due to their high incidence and risk of poverty. Having said that however, the results indicate that while urban areas have a lower incidence of poverty, the percentage increase in household poverty is higher than the other vulnerable households. Despite the difference in poverty levels in rural and urban areas, the graph shows that we would see similar increases in the number of people falling into poverty in both rural and urban areas. This indicates that it is imperative that the urban poor also be targeted in any expansion of social protection programmes. Indeed, while identifying the incidence and likely impact of mitigation measures on vulnerable groups is important, qualifying the actual numbers of people that fall into poverty in the various vulnerable groups is informative for the effective design, planning and budgeting of suitable interventions. The number of people falling into poverty in various vulnerable groups as a result of the Covid-19 pandemic is shown in the graph below.

Figure 12: People falling into poverty (in thousands) under various Covid-19 containment scenarios[48]



	All HHs	Urban HHs	female headed HHs	HHs with children	HHs w/t disabled members	Rural HHs
5% contraction	288	144	64	266	20	144
10% contraction	585	276	134	546	36	311
20% contraction	1,239	622	225	1,147	70	616

As can be seen in figure 12, the overall number of people that may fall into poverty as a result of the effect of Covid-19 on household income ranges from 290,000 in the case of low restriction levels to over 1.2 million for the strictest lockdown scenario. Among the identified vulnerable groups, households with children have the largest number of potential poverty increases under any Covid-19 intervention scenario while households with any disabled persons have the lowest possible increases in poverty under any scenario. This could be due to the low numbers of recorded people with disabilities. The graph also shows that the numbers of people who will fall into poverty in both urban and rural areas would be quite similar, despite the differences in prevailing poverty rates. Table 2 below presents the rest of the statistics on the likely impacts of the covid-19 pandemic on poverty in Zambia.

Table 2: Estimations of the poverty impacts of the covid-19 pandemic on various household types[49]

Reductions in per capital consumption	Poverty rate (%)	Number living in poverty	Percentage point increase in poverty rate (pp)	Additional increase in people living in poverty
Panel A: Individuals in the full sample (total population: 18,353,123)				
Status quo	60.3%	11 074 274.84	-	-
5%	61.9%	11 362 418.88	1.6%	288 144
10%	63.5%	11 659 739.49	3.2%	585 465
20%	67.1%	12 313 110.69	6.8%	1 238 836
Panel B: Individuals living in urban households (population: 7,677,170)				
Status quo	28.2%	2 168 032.92		
5%	30.1%	2 312 363.72	1.9%	144 331
10%	31.8%	2 443 643.34	3.6%	275 610
20%	36.3%	2 789 883.72	8.1%	621 851
Panel C: Individuals living in rural households (population: 10,675,953)				
Status quo	83.3%	8 893 069.10	-	-
5%	84.7%	9 037 194.47	1.4%	144 125
10%	86.2%	9 203 739.34	2.9%	310 670
20%	89.1%	9 509 071.60	5.8%	616 003
Panel D: Individuals living in female headed Households (population: 3,588,296)				
Status quo	61.6%	2 209 314.00		-
5%	63.3%	2 272 826.84	1.8%	63 513
10%	65.3%	2 343 157.45	3.7%	133 843
20%	67.8%	2 434 300.18	6.3%	224 986
Panel E: Households with children (population: 16,961,234)				
Status quo	62.3%	10 568 545.28	-	-
5%	63.9%	10 834 836.66	1.6%	266 291
10%	65.5%	11 114 697.03	3.2%	546 152
20%	69.1%	11 715 124.74	6.8%	1 146 579
Panel F: Households with disabled members (population: 1,219,967)				
Status quo	74.8%	912 047.89	-	-
5%	76.4%	931 689.37	1.6%	19 641
10%	77.7%	948 036.94	3.0%	35 989
20%	80.5%	981 830.05	5.7%	69 782

d) Multi-dimensional implications

The Governance Challenges

Perhaps the biggest dilemma that Covid-19 poses to decision makers in Zambia is the need to find a balance between addressing the imminent epidemiological crisis and further plunging the country into an economic crisis. This tension was expressed by the President of Zambia in his second address to the nation on Covid-19 on 9 April. .

> **I am aware that some of you have been saying, "We would rather die from Covid-19 than from hunger." But I advise you to choose life.**
>
> H.E. Edgar C. Lungu, President of the Republic of Zambia, 9 April 2020

Unfortunately, due to the high poverty rates in Zambia, most of the population lives on a daily income therefore despite government efforts to ensure awareness on the importance of social distancing, these restrictions jeopardise the livelihoods of most of the population. The failure to adhere to social distancing measures is therefore a huge draw back in the fight against the pandemic.

The Covid-19 has also had implications on the judicial system: on 27 March the Chief Registrar of the Judiciary and Director of Court Operations issued a public notice suspending the hearing of civil matters whether in Chambers or Open Court for 14 days effective 30 March. As an exception Judges would only attend to urgent matters such as injunctions and stay of executions. Further to this, all High Court Criminal sessions scheduled to commence on 6 April were deferred. In addition, the National Assembly was adjourned indefinitely on account of Covid-19 in March. This adjournment resulted in the postponement of number of bills including the widely debated Constitution (Amendment) Bill, 2019, popularly known as Bill 10.[50]

Another particularly important governance challenge stems from Zambia's already constrained fiscal capacity. Given that Zambia has less than 10% of its domestic revenues available for discretionary spending, the country has no resources available to fight the pandemic. In March, the Minister of Finance announced that in order to accommodate the decrease in revenues, increase in debt service payments and expenditures in response to the pandemic, other expenditures in the budget will have to scale down.[51] There will, therefore, be a need to reprogram Zambia's 2020 National Budget and unfortunately this will likely have the most harmful effects on funding towards priority social sectors such as education, health and agriculture whose current budget allocations are below Zambia's regional commitment levels.[52] The IMF and the World Bank have, however, made resources available to support low-income countries in the fight against the pandemic.

Another measure that has been taken by the government that will have implications on the country's governance is the suspension of face to face meetings. In late March, the Secretary to the Cabinet indicated that Cabinet had directed and approved 'unprecedented measures' which included the suspension of face to face interactional measures and for selected workers to work remotely in a bid to curb the spread of the virus.[53] Only essential employees in the public service have been retained as approved by the President. As such the government's operations have scaled down at a time when there is need for all arms of the government to be on the ground to fight the pandemic.

Over and above the issues that the country is currently facing, the unprecedented circumstances have also raised a number of unexpected societal challenges. The closure of schools, bars, entertainment centres, hotels, gyms, etc. have confined people into closed spaces for extended periods of time. As a result, different countries have seen an increase in, for example, domestic and gender-based violence, divorce rates and mental issues. Although this is an area yet to be examined, the underlying issues would require a new set of norms and services, which most governments are not able to avail at this juncture given the Covid-19 response measures. In the Zambian case this might simply mean more challenges affecting social cohesion, as the government operates under a tight fiscal environment.

National efforts to combat COVID-19

Considering the spread of Covid-19, the government has taken several steps to mitigate the negative effects of Covid-19 on the economy. On 23 March, Zambia's Cabinet approved a Contingency Plan including its budget aimed at enhancing the fight against the Covid-19 pandemic. Zambia's Covid-19 National Multi-sectoral Contingency and Response Plan (NMRCP) aims to 'guide the preparedness and response mechanism to be undertaken in the context of the threat from the global outbreak of the novel coronavirus disease'. The plan considers three scenarios of public health risk from the Covid-19 and their response action level. It has an estimated budget of ZMW 659 million which remains largely unfunded.[54] Efforts are underway to mobilise the required resources.

On 26 March, the Minister of Finance, Hon. Bwalya Ng'andu, highlighted several measures that the ministry would be taking to mitigate the negative impacts of Covid-19. These measures included: providing funding towards COVID-19 response, accessing resources available from multilateral organisations such as the IMF and the World Bank, and measures to ease liquidity and give tax relief. He also highlighted some measures to be implemented by the financial sector and others to allow for business continuity. On 20 April, he gave a second address where he indicated further tax relief and liquidity measures. Many of the measures identified to ease liquidity, however, were measures that the government had already indicated it would implement in 2020 National Budget. Further to this, the significant tax relief proposals were primarily targeted towards the mining sector with no measures proposed for other key sectors in the economy. There is a need to implement measures that are more broad-based targeting key sectors. In Rwanda for example, the government is working on a fiscal stimulus package that may include scaled-up health spending to support affected individuals and targeted fiscal support for the hospitality industry and other hard-hit sectors, as well as SMEs.[55] Given the fiscal constraints, however, the treasury could also consider immediate relief and increasing disposable income of its citizens by providing tax relief for persons earning below a certain threshold, reducing the income tax rate and reducing turnover tax rates for MSMEs.

On 3 April, the Bank of Zambia communicated 'Measures in Response to the Deteriorating Macroeconomic Environment and the Coronavirus' to complement the measures taken by the other arms of the government.[56] One of the measures included the establishment of a Targeted Medium-Term Refinancing Facility with an initial amount of ZMW 10 billion to provide medium term liquidity. The intention is to help relieve the Covid-19 related liquidity constraints by enabling banks and other financial institutions to refinance, restructure or onwardly lend capital to local investors. Given some of the challenges mentioned earlier that are faced by SMES, this support is unlikely to reach this sector's entrepreneurs, particularly women. The experience in the US shows that the funds provided by the government to support businesses were depleted in a few days and were only accessible to a fraction of businesses. In the Zambian context, it is very likely that businesses that are able to provide collateral will be prioritised. As such, the funds made available through Bank of Zambia will therefore likely only be accessible to large businesses with little or no financial inclusion of vulnerable groups.

The central bank has also scaled up open market operations to provide short-term liquidity support to commercial banks on more flexible terms. This standard monetary policy tool would help reduce interest rates and encourage business activity and liquidity in the economy. Further the central bank has also revised rules governing the operations of the interbank foreign exchange market to support its smooth functioning. Given the increase deterioration and volatility of the Kwacha, this measure is expected to restore stability and business confidence in the economy.

The bank however may consider also taking measures that will target SMEs as they are likely to be hardest hit by the effects of the pandemic.

4. Summary and Recommendations

This rapid assessment has considered both the household and key real sector implications of Covid-19 in Zambia. The analysis finds that in the formal sector, the wholesale and retail, and mining sectors suffer the largest decline in contribution to GDP dropping by 2.24% and 1.45% under the most conservative restrictions scenario.

The most significant losses in employment in the formal sector will be in the wholesale and retail sector and tourism sectors where jobs losses are estimated at 14,634 and 14,291 respectively. The consequences on the informal sector, however, will be much more significant with the wholesale and retail and the agriculture sector seeing job losses of 55,492 and 36,050 respectively. Given the nature of the informal sector however, we can expect that the knock-on effects will be more severe.

With regards to social implications, focusing on the moderate scenario, we find that the incidence of poverty increases by about 3.5%, from about 60% to 63.5% for the whole sample. The paper finds that among the identified vulnerable groups, households with children have the largest number of potential poverty increases under any Covid-19 intervention. The paper shows that overall, the number of people that may fall into poverty as a result of the effect of Covid-19 on household income ranges from 290,000 in the case of low restriction levels to over 1.2 million for the strictest lockdown scenario.

There are likely to be significant effects on macroeconomic indicators as well. The Zambian Kwacha is likely to depreciate further as a result on the effects on the real sector and reduced copper exports; the need for increased health and social protection expenditure is likely to put pressure on the domestic and external debt burden thereby increasing the fiscal deficit; and trade levels will also likely reduce posting a net deficit position due to a larger reduction in exports relative to imports.

Based on the analysis in the paper, below are some recommendations:

Short-term solutions

Actor	Target	Action
Government	**General**	• Consider introducing digital solutions to ensure continuity of core governance functions including parliamentary oversight and access to justice. • Encourage state agencies to establish and implement effective frameworks for staff to work from home. • Consider various alternatives to a total or complete lockdown given the negative socio- and macro-economic consequences that such measures would have on the most vulnerable communities, particularly households with children, female headed households and the rural and urban poor. • Enhance a co-ordination and collaboration mechanism and establishment of sectoral working groups to more effectively and expeditiously implement key action points to mitigate the crisis. • Engage stakeholders on repurposing the 2020 budget developing budget policy and priorities for 2021.
	Households	• Increase the exempt PAYE threshold from K3300 to cushion low-income households. • Reduce income tax rates at the different thresholds to increase household disposable income. • Implement a temporary VAT reduction from 16% effective 1st of May. • Mobilise resources from partners to scale up social protection through increasing and widening the social cash transfer to all vulnerable groups, especially female headed households, households with children and poor households in both the urban and rural areas. Special focus should be paid to households with disabilities who in most cases would not be able to effectively participate in the labour markets. • Develop temporary social assistance programmes for population groups affected by economic contraction by adding them to existing programmes on a temporary basis or by creating stand-alone temporary programmes[57]
	Cooperating partners	• Reach out to cooperating partners for support to adjust social protection programmes in light of the considerable high number of vulnerable individuals that will fall into poverty given the likely high employment losses even in a low restriction scenario. • Reach out to bilateral and multilateral partners for support as well as provision of temporary suspension of debt interest payments to create policy space.
	Private Sector	• Provide a fiscal stimulus package that includes sector-specific support measures to private sector with targeted support for SMEs especially in the worst hit sectors like wholesale and retail, tourism and agriculture.s.
	Informal Sector	• Provide safety nets for workers in the informal sector to prevent escalating poverty levels and depth especially wholesale and trade as well as agriculture sectors. • Explore ways to extend support such as social protection or offer partially paid leave to affected informal workers especially in the wholesale and retail, and agricultural sectors. • Consider implementing Covid-19 related public works programmes where vulnerable individuals are prioritised for work opportunities in cleaning of public spaces, community sensitisation, etc.
Banking sector	**Private sector**	• Cut the base lending rate to effectively reduce lending rates to the private sector and ensure prioritisation of SMEs. • Reduce the cash reserve ratio, relaxing the requirements for loan classification and providing debt relief for certain loan categories. • Work closely with the Ministry of Finance to provide support to microfinance institutions. • Explore mechanisms to maintaining exchange rate flexibility and limiting foreign exchange market interventions to avoiding excessive exchange rate volatility. • Take stock of existing funds under CEEC, DBZ etc. and see how to rationalise and target resources in response to sectors most hard hit by the pandemic.
Private sector	**Government**	• Support government measures aimed at protecting SMEs and vulnerable households through expanding scope of corporate social responsibility. • Locally manufacture necessary medical products and enter into key value chains to domestically produce goods that are not able to enter the country.
Cooperating Partners	**Government**	• Provide technical support to the Ministry of Community Development and Social Services (MCDSS) for the design and implementation of the emergency cash transfers[58] • Leverage existing cash delivery mechanisms to expand the recipients of emergency cash transfers to vulnerable households.

Medium term solutions

Government	**General**	• In collaboration with key partners and stakeholders, develop post-Covid-19 recovery plan to resuscitate the economy and provide support to vulnerable households. • Re-engage Zambia's fiscal consolidation plan as articulated in the Zambia Plus and Zambia's Debt Management Strategy. • Set up clear instruments to facilitate increased resources into the sinking fund.
	Private Sector	• Increase the pace of clearing domestic arrears to ensure liquidity in the market.
Cooperating partners		• Provide support to the government to undertake a thorough post-impact assessment to be accompanied by targeted measures to bring the economy back on track

Long term solutions

Government	**General**	• Revise and enact legislation to curb the escalation of debt, namely the Loans and Guarantees Act, the Planning and Budgeting Bill and the Public Procurement Bill.
	Private Sector	• Dialogue with private sector on measures necessary to establish an enabling environment in Zambia in order to help the domestic industry build resilience and competitiveness in the Zambian economy.

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