MINISTRY OF FINANCE AND NATIONAL PLANNING

STATEMENT ISSUED
BY
MR. FELIX NKULUKUSA,
SECRETARY TO THE TREASURY OF THE REPUBLIC OF ZAMBIA,
TO
THE UNCTAD PANEL DISCUSSION ON FINANCING FOR DEVELOPMENT
TO RESPOND AND RECOVER IN AN ERA OF INTERRELATED AND GLOBAL
CRISES

GENEVA, SWITZERLAND
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Let me, from the outset, convey my appreciation to the conference organisers for inviting us to come and share our views and experiences on some of the challenges we face as developing countries in view of the interrelated global crises.

Zambia has suffered the adverse impacts of climate change, lingering Covid-19 Pandemic, tight financial conditions on the global market and the persistent Russia-Ukraine Conflict.

Like in many other countries, the Covid-19 Pandemic not only resulted in loss of human life but also had significant negative impact on economic growth and revenue collection. The Pandemic exposed our extreme vulnerabilities as developing countries both in terms of the capacity to cope with the Pandemic but also in terms of capacity to respond. Close to 3,500 lives were lost due to the Pandemic in Zambia. In 2020, we recorded a contraction of 2.8 percent, first negative growth since 1998. This was mainly due to the global lockdowns and restrictions which affected most sectors of the economy with the tourism sector having been the worst affected.

The Pandemic compromised our revenue generating capacity while expenditure rose in response to the Covid-19 related challenges. In addition, Government was compelled to offer some tax relief to enable economic entities weather the Pandemic. This further deepened the debt crisis which was already eminent prior to the Covid-19 Pandemic.

I should take the opportunity to express our gratitude to our multilateral and bilateral partners that augmented our Covid-19 response efforts. For instance, the IMF granted Zambia Special Drawing Rights (SDR) equivalent to US $1.3 billion in August 2021, for Balance of Payment support while the World Bank, the African Development Bank and several bilateral partners such as Germany,
Japan and China also extended financial and material support which made our Covid-19 response less onerous.

**Distinguished Invited Guests,**

**Ladies and Gentlemen,**

While we seem to be overcoming the Covid-19 Pandemic, the phenomenon of climate change has become even more evident in countries such as Zambia despite not being a major polluter. We now experience, more than before, rising temperatures, frequent droughts and flash floods whose impact on our agriculture sector calls for change of our agricultural practices. The impact of climate change, if not mitigated, is posing a serious challenge on food security. In Zambia, the 2021/2022 season saw a decline in the production of some major crops including maize and rice due to the **late onset of rains**, including drought in some areas and **flash floods** in others. There is need for more research in climate variability to inform appropriate policy interventions in the sector. This requires financing.

The Federal Republic of Germany is currently supporting Zambia in undertaking a study on climate change expected impacts in some selected river basis of Zambia. We hope that this study will assist us in developing suitable interventions to respond to the changing climate. The scope of the study, however, does not cover the whole country. I wish to implore other developed countries to support such studies and initiatives especially in developing countries to inform intervention measures whether in terms of what crops to grow, water resource management strategies, what adaptation options are available or provision of seasonal weather forecasts.

Aside the pressure on water availability for agricultural purposes, there is also pressure on water availability for humans and livestock.

Another sector that has felt the blunt of climate change is the mining sector. The **flash floods** experienced in some areas of Zambia have negatively affected **output in some open-pit mines** especially in 2021 in which huge investments had to be made to pump out water from the flooded mines before production could resume.
In recognition of the significance of climate change and its impact, we have prioritized it in our 8th National Development Plan. However, climate interventions whether in terms studies, adaption and mitigation require financing. In view of weak fiscal positions, developing countries such as Zambia will still require to be hand held to support mitigation and adaptation measures. Zambia has a lot of opportunities for implementation of green climate initiative such as carbon trading and green bonds. However, these are still under development and it will be useful to exchange experiences on how these financing initiatives operate and how they can be actualized in our countries. Further, the processes of accessing such types of financing must be made easy.

I am happy to inform you that Zambia has finalized, through the Securities and Exchange Commission, the guidelines and listing rules on the issuance of green bonds to support climate related projects. With the finalization of the regulations, we hope that raising of financing through green bonds to support climate change projects and green growth could commence. We have also provided for tax exemption on withholding tax in the 2023 National Budget on interest income earned on green bonds with a maturity of at least three years to promote green bond trading. So far, there has been some interest in the energy sector to raise green bonds. We are also in the process of developing legislation to regulate the carbon market.

It is our belief that the breakthrough agreement by the United Nations Climate Change Conference COP27 on 20th November, 2022, to provide “loss and damage” funding for vulnerable countries hit hard by climate disasters, like ourselves, will be another important source of financing.

We have already seen the important role that agricultural insurance has begun to play in mitigating against agriculture losses occasioned by droughts or floods. Disaster risk financing under the African Risk Capacity, supported by the African Development Bank and other cooperating partners such as Switzerland and Canada, is another important financing source that is assisting in mitigating the impact of climate change on the most vulnerable.
In addition, as individual countries, it is important that we integrate climate-smart technologies in our developmental agenda, including the development of climate resilient infrastructure across all sectors for sustainable development.

There is also need to scale up adaption measures in the agriculture sector such as conservation farming to respond to the changing climate if food security is to be safeguarded. In the case of Zambia, we are confronted with all these challenges at a time when the country is struggling with the debt crisis and a heavily constrained fiscal space. In view of the disproportionate impact of climate change on developing countries, continued support of developed countries will therefore, be required.

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Ladies and Gentlemen,

The prolonged Ukraine-Russia Conflict has also impacted negatively on developing countries such as Zambia through the rising global petroleum prices, particularly in the first half of the year. This supply side shock led to higher domestic petroleum pump prices in Zambia. This also happened at the time when the country embarked on petroleum reforms through which fuel subsidies were removed as part of the response to the debt crisis.

Similarly, the international price of fertilizer increased by about 61 percent per metric tonne between August 2021 and August 2022, in view of supply disruptions of the product from Russia which produces about 25 percent of the world’s fertilizer. This is likely to affect harvests in 2023 not only in Zambia but in the region where agriculture is the main source of livelihood for the majority of the people. The conflict has, without a doubt, led to food security concerns.

The pass-through effects of global prices especially of volatile commodities such as food and fuel, onto the domestic market have seen a number of commodity prices adjusted upwards. While Zambia
has been successful in containing inflation which declined from 24 percent in August, 2021 to 9.7 percent in October, 2022, the recent depreciation of the local currency and possible increase in fuel prices could exert pressure on inflation going forward. While Zambia recorded growth of 4.6 percent in 2021, the prospects of robust growth over the medium term are being hampered by the prolonged Ukraine-Russia Conflict which has already affected global growth.

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Ladies and Gentlemen,

As indicated in my earlier remarks, Zambia has had to respond to all these global crises at the time when the country is in a debt crisis. Debt distress was evident even before the Pandemic leading the country into becoming the first pandemic-era sovereign to default on its debt obligations. Subsequently, in early 2021, Zambia applied to restructure its sovereign external debt under the G20 Common Framework for Debt Treatment. We are now in the process of restructuring our debt following the IMF’s approval for an Extended Credit Facility in August, 2022.

Zambia has commenced engagements with creditors to conclude debt restructuring which will then result in debt repayment profiles that are more manageable. Successful debt restructuring will create fiscal space to enable the country provide support to developmental and social sector programmes. This is a complex undertaking and as such we require international support to achieve a successful debt restructuring. Zambia is also a test case for the G20 Common Framework for Debt Treatment.

Ladies and Gentlemen,

In terms of the key next steps and timelines, we are looking forward to finalizing the Memorandum of Understanding with the Official Creditors by the first quarter of 2023, while engaging in parallel discussions with the private creditors mainly focusing on the outcome of the Debt Sustainability Analysis (DSA) and the kind of relief that
Zambia requires from its creditors based on the DSA. We are also signing Non-Disclosure Agreements with private lenders to facilitate exchange of detailed information as we advance the restructuring process.

For Zambia, debt restructuring is an immediate action required. As we focus on restructuring our debt, we are working on interventions that will assist in spurring economic growth. One such intervention is the development of farm blocks that will commercialize agriculture, promote job creation and promote export-oriented agriculture. This program is being supported by the World Bank. We are also working, with the support of the World Bank, on opening up new tourism sites that will promote new investments and ease access to the sites.

To promote investments in mining, one key measure we have undertaken is to reform the mining taxation regime and commit to a predictable mining fiscal regime go forward.

We are also working on regional power interconnectivity with East Africa and other countries within the SADC region. This interconnectivity will enable Zambia to sell or purchase power from the Eastern Power Pool in addition to the Southern African Power Pool. The World Bank and partners such as the European Union have expressed strong commitment to support the development of this infrastructure. This will be particularly important for us as we look to ramp up mining production to 3 million tonnes in the next ten years as this expansion will significantly increase electricity demand.

With a constrained fiscal space, we have prioritized the use of Public Private Partnerships (PPP) as an alternative financing model in the development of key infrastructure. We recently been able to conclude some PPP deals while a few others will be concluded soon. On the fiscal side, we have been working on reforms aimed at enhancing revenue mobilization and expenditure rationalization. This has enabled us to support social spending as well as to significantly increase the Constituency Development Fund which will be instrumental in championing development at the community level.

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Ladies and Gentlemen,

As I conclude my remarks, I hope the shared experience of Zambia sheds light on possible policies that Governments represented here could learn from, the same way, we are looking forward to learning from experiences of other countries so that our individual economies and the global economy can be much more resilient in this era of interrelated global crises.

I thank you for your attention.