OP-ED: IMPACT OF UKRAINE-RUSSIA WAR ON GLOBAL AID/GRANTS AND ITS IMPLICATIONS ON THE IMPLEMENTATION OF THE 2022 NATIONAL BUDGET FOR ZAMBIA: OPTIONS FOR DOMESTIC RESOURCE MOBILIZATION FOR ZAMBIA

Introduction

The impact of the Ukraine-Russia war has not only been devastating to Ukraine but has equally been destructive to the whole global village. **According to the International Monetary Fund (IMF) April 2022 World Economic Outlook, economic damage resulting from the Ukraine-Russia conflict will contribute to a significant slowdown in global growth in 2022.** A severe double-digit drop in GDP for Ukraine and a large contraction in the Russian economy are more than likely, along with worldwide spillovers through **commodity markets, trade, and financial channels.**

It is anticipated that the war will result in reduced economic growth, thereby adding to a rise in inflation. Furthermore, fuel and food prices have increased rapidly in the last few months with the vulnerable populations, particularly those in the third world countries being the most affected due to the limited fiscal space to cushion the impact of the war on their economies. Additionally, their post-COVID-19 recovery has not been realized in comparison to the developed countries due to low fiscal space and a high debt burden.

A report released on March 18th 2022 by Oxfam London, indicates that the global repercussions of the Ukraine crisis are already being felt in the fast-rising food, commodity and energy prices and these could undermine aid efforts in other humanitarian hot spots as some donor **Governments are already shifting aid budgets to pay for Ukrainian assistance and the cost of hosting the more than 3 million Ukrainians that have fled their country.**

The Ukraine-Russia war is reshaping spending priorities and forcing Governments, especially in Europe, Asia and America in preparing for a tidal wave of refugees and the further escalation of the war. **The reshaping of spending priorities has taken the side of a sudden reshuffle of budgets on military spending, and sectors such as agriculture, energy and humanitarian aid being shoved to the frontline while other essential needs like education and social services are likely to be reduced further.**

For instance, the demonstration of unity through the economic sanctions by the North Atlantic Treaty Organization (NATO) countries, the European Union, and other European countries could place a greater focus on defence resilience against other economic sectors. France and Germany have both announced significant increases in defence spending whilst, the US Congress approved a $42 billion increase in America's defence budget in early March 2022.

Impact of Ukraine-Russia war on Zambia's 2022 Budget Implementation

The Ukraine-Russia war negatively impacts the implementation of the 2022 Zambian National Budget in two ways;

(a) Reduced prospects of foreign financing: The 2022 budget financing is premised on 71% domestic financing and 21% foreign financing. Foreign financing is comprised of K39.9 billion budget supports through Programme loans, K8.5billion existing project disbursements through project loans and K1.9 billion in foreign grants from cooperating partners amounting to K49.7 billion in projected foreign financing to the 2022 National Budget.

The Ukraine-Russia war poses a threat to the projected foreign financing of the 2022 budget as most resources since the outbreak of the war may have been diverted to contain the impact of the war by prospective collaborating partners.

The knock-on effect of the war on budget financing has already been experienced in Zambia. The first-quarter economic report indicates that a total of K195.1 million against a target of K455.5 million was received from cooperating partners and the performance was below target by 57.2 per cent. This underperformance is largely on account of the non-remittance of the pledged funds by cooperating partners.

(b) Increased shifts in budget spending: Crude oil prices have increased by around 60%. Additionally, gas and fertilizer prices have more than doubled on the global market. Like any other developing country, Zambia's vulnerable population in particular are the most exposed to these price upswings, as they dedicate a larger share of their income to food and energy. As a net importer of various essential commodities such as fertilizer, food and machinery, the budget will be hugely affected, as prices of these commodities continue to rise and are likely to affect the exchange rate. Due to the rise in the prices of fertilizer and fuel on the global market, the Government will require more financial resources for budget execution that is most likely to exceed expenditure projections, especially on Agricultural subsidy and other poverty reduction programmes. **The war has led to the rise in commodity prices, especially for fertilizer, which is a key component of agricultural production.**

Recommendations

By directly constraining agricultural production through increased fertilizer prices, limited economic activity and increased fuel prices, the conflict will further weaken the purchasing power of local populations, consequently leading to increases in food insecurity and malnutrition in Zambia. This development, therefore, calls for multi-sectoral policy options to ensure that the country does not experience another recession as well as increased poverty levels countrywide:

1. **Expedite debt restructuring**

Given the projected reduced economic growth and a further reduction in foreign financing, the Government is urged to work around the clock to get the International Monetary Fund (IMF) package and its accompanying debt restructuring program. The success of this program and package will free up a significant amount of millions of dollars for foreign debt repayment. **This coupled with the increased capital inflow from the $1.4 billion IMF package will result in the appreciation of the kwacha and allow for imports of required fertilizer and machinery for agricultural production and manufacturing sectors.**

The current high prices and a projected price increase to over K1000 per bag of fertilizer and other farming inputs will lead to increased domestic borrowing by the Government for the 2022/2023 farming season which will further crowd out the private sector through increased interest rates. Therefore the IMF and debt restructuring program is essential to ensure that Government securities do not increase sharply from the current K201.16 billion as at end of March 2022.

2. **Climate and Nature Debt Relief**

Using the expanded National Determined Contributions (NDCs), Biodiversity Strategy and National Plan of Action (NBSAPs) and the creation of the Ministry of Green Economy and Environment in the short to medium term, the Government is urged to consider a climate and nature debt swap as there is a clear opportunity to learn from the past where relatively small debt for nature swaps have been successful to massively scaled up large and comprehensive debt relief programmes. This measure is linked to improved adaptation and mitigation efforts, such as the Highly Indebted Poor Countries (HIPC) debt relief packages in the past that were linked to poverty reduction and increased social spending.

Learning from the past and similar structured transactions, the Government of Zambia in 1993 established a debt conversion Programme that permitted an orderly conversion of external debt owed to its creditors purchased by many Non-Governmental Organisations (NGOs) to restore nature. In this World Bank funded Programme, debt buy-back was facilitated by the Debt-for-Development Coalition (a non-profit institution that executed debt-for-nature swaps on behalf of single NGOs), NGOs purchased Zambian debt at 11 per cent. They received a dollar-denominated note worth 16.5 per cent (WWF Report, 2003).

3. **Expedite Hemp Production**

On May 20, 2021, Zambia enacted two laws, the Cannabis Act, 2021 and the Industrial Hemp Act, 2021. Their enactment follows a 2019 Cabinet decision to permit the production and export of cannabis for medical and export purposes. These long-awaited reforms were driven by the need to boost foreign exchange sources.

4. **Expenditure Rationalization towards Productive Sectors**

The increase in essential commodity prices will affect expenditure performance, as the projected targets are likely to be exceeded for the remaining three quarters of 2022. This scenario coupled with the shrinking fiscal space will likely result in the Government taking a path of expenditure rationalization between meeting its local and foreign debt obligations and funding for economic and social sectors.

This situation calls for Government to quickly align spending in the agriculture sector to support key drivers of growth in the sector including expansion of exports in the horticulture industry, extension services, research and development, livestock management and production, disease control and irrigation infrastructure. These measures have the potential to grow the agriculture sector and reduce inequalities, as well as earn the country FOREX through the existing markets that have been caused by reduced food exports by Ukraine and Russia war.

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