Rhombus Advisors LLC
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Omotunde A.J. Mahoney
+1-973 509 5300

ZAMBIA FLASH NOTE

Previewing the can of fiscal worms

A week ago, your correspondent warned that, *"Based on the precedent set in Q3&Q4/2014 (i.e. the run-up to the 2015 by-election),* ***Zambian farmers who have begun delivering maize to the Food Reserve Authority are likely to find themselves acting as reluctant creditors to the Government*** *– alongside other providers of goods and services."*[1]

This **grim prediction has already been borne out** by the first bulletin issued by Food Reserve Agency for the 2016 crop marketing season, which began in mid-July.

1) As reported, the FRA purchased a total of 193,923 MT[2] of maize through Aug. 18th. More significantly, however, spokesman David Msoka proudly announced that the **Government has now provided a total K43,198,219.23** – enabling the FRA to start "paying farmers on a first-come, first-served basis".

But, based on the new administered price announced in June[3], the cost of maize is K1,700 per MT. This means that the cash made available to the FRA for grain procurement was **only sufficient to cover 25,411 MT** – i.e. a mere 13.1% of the maize actually delivered.

2) In other words, the Authority is already **in hock to Zambia's hapless farmers to the tune of K 286,470,881** – and this on an interest-free basis, with the CPI running at 20.1%.

More alarming yet, in order to reach its stated target of 1 million MT, **the FRA will need to procure an additional 806,077 MT of grain at a total cost of K1,370,330,900** – equivalent to approximately USD 137 million. To finance these purchases, the Zambian authorities are almost certain to tap the long-suffering well.

3) It is worth recalling at this juncture that Zambia's **2016 budget appropriated the sum of K 750 million for the FRA**[4], which would have covered the procurement of 500,000 MT of maize at the price then in effect. This immediately raises two questions:

- On what authority did the minister of agriculture announce to the National Assembly on May 9th that the FRA intended to purchase 1 million MT of maize[5] during the 2016 crop marketing season?
- More urgently, to what extra-budgetary ends has the residual K 706,801,781[6] of the FRA's appropriation been diverted?

[1] See Rhombus research note, "*All systems go …*?" - Aug. 17, 2016.
[2] The FRA provided the following breakdown by province: Luapula - 48,654 MT; Muchinga – 29,506 MT; Northern - 55,608 MT; North Western - 31,382 MT.
[3] See discussion of 'Grain prices as a microcosm of economic imbalance' in Rhombus research note, *"Assessing the Road Ahead"*; Jun. 21, 2016.
[4] See tabulation of *Expenditure by Function*, under Para. 110 in "2016 Budget address" delivered to the National Assembly by Hon. Alex. B. Chikwanda, minister of finance, on Oct. 9, 2015. In Para. 121, Mr. Chikkwanda stated, *expressis verbis*, "Mr. Speaker, I have allocated the sum of K750 million to procure grain in the 2016 crop marketing season."
[5] Statement reported by *The Post* in *"FRA to procure a million tonnes of maize at K75 per bag – Lubinda"*; May 10, 2016.
[6] I.e. K750 million appropriation less the K 43,198,219 disbursed to the FRA.

4) The looming grain procurement crisis is by no means Zambia's most egregious irregularity[7]. At the time the 2016 budget was unveiled, we flagged as problematical the K6.6 billion appropriation – equivalent to **12.5% of the entire budget - for roads infrastructure**[8]. Our concern was based on the Road Development Authority's troubled history.[9] Anecdotal reports of contractors halting work on projects due to non-payment[10] suggest that this dismal record remains intact.

Unlikely to escape discovery during the next Article IV review, **this can of fiscal worms is clearly not conducive to the early agreement on an IMF support package**.

[7] It should be recalled that in February, barely 6 weeks into the new fiscal year, the authorities felt it necessary to hike the approved debt ceiling by a factor of 2.6x to K190 billion.
[8] Representing 12.5% of the entire budget, this allocation was ostensibly to fund a series of ambitious construction projects including: *Link Zambia 8000*; *Pave Zambia 2000*; *L400* (Lusaka); and phase 1 of *C400* (Copperbelt).
[9] I.e. as a ready source of liquidity for the Patriotic Front party.
[10] By way of example, see *"Raubex halts Zambia contract over debt"*, posted by *Independent Online* (S. Africa); May 10, 2016.