

ZAMBIA RESEARCH NOTE

A baptism of fire

*Amid the market euphoria that greeted his appointment, we suggested that Dr. Ng'andu's honeymoon as finance minister was likely to be quite brief. Barely one month later **he is facing significant incoming fire.***

1) The first sign of trouble came at the conclusion of last week's MPC session. It spoke volumes that the Committee's statement included a section entitled "*Fiscal pressures persist*", that pointedly observes, inter alia: **'Implementation of fiscal consolidation measures ... remains critical for overall macroeconomic stability.'**

Evidently Dr. Bwalya Ng'andu's former colleagues are yet to discern any evidence of concrete steps being taken to address this chronic, and now critical issue. Indeed, as if to underscore the Government's total insouciance, no fewer than **36 individuals¹ accompanied President Lungu on his state visit to India** last week.

2) With an exquisite sense of timing, social media erupted the same day with the first images of the so-called Savenda² ambulances, of which a fleet of 50 was purchased in 2018 at a **unit cost of USD 288,000.**

It is clear from the damning photographs that these vehicles are not the Mercedes-Benz vehicles that the health minister was authorized to purchase³, but a vastly inferior **Iveco model** assembled in S. Africa, with a **price tag of USD 38,000.** Predictably, there has been **no official reaction to the textbook case of procurement fraud.**

3) What had already proved a challenging week for the new minister was then capped on Friday when **S&P's cut Zambia's sovereign rating to CCC+/CCC,** citing inter alia its large **"fiscal deficits, rising external debt and falling foreign currency reserves"**. In our view, the agency actually **erred on the side of generosity** by appearing to accept at face value such official lines as:

- *The government may engage with bilateral creditors⁴ in a liability management exercise, likely intended to smooth Zambia's foreign-currency debt redemption profile.*
- *On the expenditure side, it has adopted control measures ...⁵*
- *Negotiations with the IMF for a funded program are still on the agenda⁶.*

¹ These included such essential functionaries as the chairman of the Electoral Commission, a State House accountant and a 'bedroom attendant' (sic).

² The relevant procurement order was awarded to Savenda Management Services Ltd., a favoured Lusaka contractor.

³ In 2017 Chitalu Chilufya, who remains the incumbent, testified before Parliament that the relevant contract covered:

" supply and delivery of fifty purpose-built Mercedes Benz high-roofed ambulances mounted with modernised emergency and mobile medical equipment at the unit price of US\$143,110, bringing the total price to US\$7,155,500;

" five years' service and provision of service parts for ambulances, inclusive of both mobile platform and the medical equipment at US\$3,649,305; and,

" training of twenty mechanics, fifty drivers and 100 medical staff at a cost of US\$715,550."

⁴ Negotiations with China, by far the most significant of these creditors, are reportedly focused on no more than redenominating the relevant liabilities from USD to RMB.

⁵ Only in rhetorical terms. Indeed, it was striking to see how closely Dr. Ng'andu's remarks in the course of an interview this week-end echoed his predecessor's discredited clichés.

⁶ First, it is far from clear that this is the case. Then, although S&P note that there is little prospect of an agreement materializing in the near term, the caveat is undermined by the fact that they assert, in almost the same breath, that **'an IMF-funded program could support Zambia's creditworthiness.'**

4) Since predictions of a **southern African drought** first emerged last Fall, we have repeatedly warned about the **adverse implications for Zambia**.

- The most obvious has been the risk of a sharp fall in crop-yields slashing, or even erasing the **maize surplus that has historically been an implicitly political issue** in Zambia⁷.
- The second was that, because of the much higher price that maize has always commanded in the neighbouring markets, especially the DRC, **a significant share of the reduced local crop would be diverted from the local supply-chain** to exploit the cross-border arbitrage.
- Arguably the most insidious risk has been that **ruling party insiders would raid the strategic reserve** maintained by the Food Reserve Agency and sell the looted grain 'offshore'⁸.

There is reason to believe that **all three factors are already at play**.

5) The national disaster monitoring and management unit (DMMU) has acknowledged that the drought-induced maize shortage has affected the food security of **2.5 million individuals, distributed across 59 of the country's 118 districts**⁹.

Predictably the shortage has impacted the price¹⁰ of **mealie-meal**, which has been selling for as much as **Kw 150 per 25-lb bag, up from a peak of Kw 120 earlier this year**¹¹.

6) In a statement issued on Friday 23rd, the agriculture minister appeared to threaten price-control, when he warned, **"Government will not stand by and watch the staple food go out of reach of ordinary Zambians."**¹²

Even if intended as no more than moral suasion¹³, this curious demarche¹⁴ raises the obvious question, **why not simply release maize from the strategic grain reserve** for which the FRA has been receiving an annual appropriation to cover the procurement of 500,000 MT?

7) The circumstantial evidence strongly suggests that **the relevant stocks might already have suffered significant depletion**. If so, the Zambian **authorities will be obliged to import maize**. Given the critical level at which gross reserves currently languish and the existing burden of external debt-service¹⁵, this would be a highly invidious position¹⁶. In other words, **the incipient failure of Zambia's maize crop might well prove the straw that breaks the camel's back**.

⁷ The riots that erupted in June 1970 – the nation's first – were triggered when the government was forced to deregulate the administered price for the national staple, mealie-meal, in acknowledgment of the maize shortfall resulting from several years of intermittent drought. The crisis paved the way for Kaunda's shock electoral defeat the following year.

⁸ It is worth recalling how many trucks, registered to Patriotic Front officials and/or members of parliament have been apprehended in the Copperbelt and Northern provinces – within 10 miles of the DRC border – only to be quietly released upon 'instructions from above'.

⁹ However, when he called on Government to declare a national food emergency three weeks ago, the UK high commissioner painted a much grimmer picture of 109 (of the country's 118) districts being affected, with "the majority of the population [there] in need of assistance". His recommendation was vigorously rebuffed, with President Lungu himself arguing, on Aug 13th, that **"the country has sufficient maize stocks"**.

¹⁰ Naturally, supply is becoming an issue, even at this elevated price, as was illustrated by the week-end fracas among desperate customers at a supermarket in Monze (Southern province). The extraordinary **footage** has since been circulating on social media.

¹¹ At the time, the national average was Kw 93 per bag.

¹² The warning drew a sharp response from the national farmers' union, viz.: **"ZNFU would like to disassociate itself from being party to the consultation process for the reintroduction of price controls of maize."** See **Press release** by ZNFU; Aug. 25, 2019.

¹³ The government has since denied any intention to re-introduce price-control.

¹⁴ By the cabinet minister who appoints every single member of the FRA board.

¹⁵ This is likely to be aggravated by other emergency requirements such as the need to import power in the face of the growing challenges created by the critically low water level at Kariba Dam and repeated equipment failure at ZESCO's thermal plants.

¹⁶ À propos, a recent article discussing the respective assessments of the local FAO representative and the national DMMU includes the (admittedly unattributed) observation, **"Government in the immediate term needs about 178 million dollars to avert the hunger situation which has escalated to phases three and four in most of the districts."** See, **"No need to declare hunger situation as emergency – FAO"**, by LusakaTimes, Aug. 16, 2019.