

AFRICA RISK CONSULTING**Zambia Monthly Briefing April 2019**

Zambia Summary 24 April 2019

Finance minister Margaret Mwanakatwe reports that Zambia's external debt rose to \$10.05 billion at the end of 2018, up from \$8.74 billion at the end of 2017, a worrying sign that its debt is becoming ever more unsustainable. The government looks to increase its solar power plant generation in an attempt to not only increase electricity capacity but also decrease energy tariffs, which have plagued the economy, particularly the mining sector. Lands and natural resources minister Jean Kapata says the government is considering reforming the national land policy to make it more difficult for foreigners to own land in Zambia.

Debt issues mount as foreign reserves plummet

Finance minister **Margaret Mwanakatwe** said on 8 March that **Zambia's** external debt rose to \$10.05 billion at the end of 2018, up from \$8.74 billion at the end of 2017,¹ a worrying sign that its debt is becoming ever more unsustainable. The large debt and lower foreign exchange reserves increase the risk that Zambia will default on its debt in the future. Investors have already anticipated this by refusing to buy any long-term bonds. Servicing of external debt reached \$759.9m in 2018 while the government holds \$1.3 billion of guaranteed debt.²

Mwanakatwe said in early March that the government plans to swap its **China**-held debt, which accounts for one-third of total debt, from the **United States (US)** dollar to Chinese yuan to ease pressure on its foreign reserves (see *ARC Briefing Zambia* March 2019).³ However, Zambia's foreign reserves may already be on the way to depletion. **Stanbic Bank**, a subsidiary of **South Africa**-based **Standard Bank Group**, forecast in April that foreign exchange reserves could reach just \$1 billion by the end of June.⁴ Despite this, the government does not seem to have a plan to stop the foreign exchange drain and plans to continue to borrow on foreign markets, even though debt servicing could eventually drain its foreign reserves.⁵ In an interview with US-based news agency **Bloomberg** on 12 April, Mwanakatwe re-iterated this view, saying that "*debt, much as it looks high, is a debt for the future.*"⁶

Despite Mwanakatwe's confidence, others are more fearful for the future. The Zambia-based **Centre for Trade Policy and Development** said on 17 April that Zambia may not have enough foreign exchange reserves left in 2021 to repay its \$750m **Eurobond** and that Mwanakatwe's comments were "*deeply worrying*".⁷ Without an **International Monetary Fund** bailout, which appears highly doubtful considering the government's current course, Zambia's economy is likely to experience further shocks in the near and long term.

In rebuke to Mwanakatwe's optimism, Bloomberg released an article stating that Zambia's Eurobond yield curve – which measures the interest paid at maturity – was inverted, so shorter-dated securities had higher yields than bonds with longer maturities.⁸ This is rare, as bonds with longer maturities should have larger yields to encourage investors to part with their funds for a longer period.

¹ Reuters, 11 Mar 2019

² Reuters, 11 Mar 2019

³ Reuters, 11 Mar 2019

⁴ Lusaka Times, 9 Apr 2019

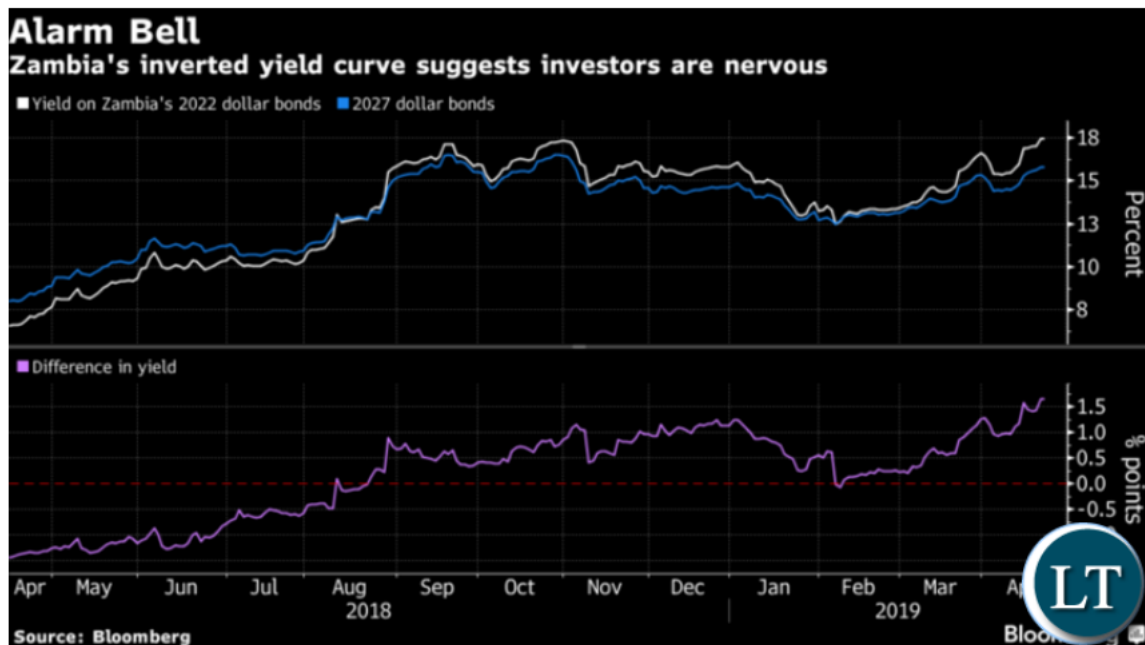
⁵ Lusaka Times, 9 Apr 2019

⁶ Bloomberg, 12 Apr 2019

⁷ NewsDiggers, 17 Apr 2019

⁸ Bloomberg, 24 Apr 2019

Bloomberg suggests the reason for this is that traders are becoming nervous about how Zambia will deal with its debt in the long term and are thus moving to shorter-term bonds, which are less risky.⁹ This inverted chart usually happens when countries are already in default, such as **Venezuela**,¹⁰ and may be a signal that Zambia is not far from the same economic precipice.



Government pushes solar power plants to reduce energy tariffs

The government is looking to increase its solar power plant generation in an attempt to not only increase electricity capacity but also decrease energy tariffs, which have plagued the economy, particularly the mining sector. Zambia needs to diversify its electricity sources; solar power units – particularly those that do not need to be connected to the grid – could be an ideal source of power for rural areas.

President **Edgar Lungu** (2015-present) commissioned the 54 megawatt **Bangwelu** solar power plant on 11 March, the first utility-scale solar photovoltaic (PV) project in Zambia.¹¹ The \$60m project is a joint venture between US-based consortium **First Solar** and France-based **Neoen**.¹² The project aims to sell electricity to state-owned energy company **Zambia Electricity Supply Corporation (Zesco)** at \$0.06 per kilowatt per hour (kWh).¹³ This was to be one of the lowest electricity tariff costs in **sub-Saharan Africa** until the state-owned power programme, **Global Energy Transfer Feed-in Tariffs (GET FiT)**, awarded a tender of six solar PV projects in early April which will sell electricity at around \$0.04 per kWh.¹⁴ The initial tender was only for 100 megawatts, but the government increased it to 120 megawatts due to favourable results.¹⁵ GET FiT awarded six 20 megawatt projects to:

- Italy- and South Africa-based joint venture, **Building Energy & Pele Energy (Bulemu East)**
- Italy- and South Africa-based joint venture, **Building Energy & Pele Energy (Bulemu West)**
- South Africa-based joint venture **Globeleq** and **Aurora Power Solutions (Aurura Solar One)**
- South Africa-based joint venture **Globeleq** and **Aurora Power Solutions (Aurura Solar Two)**
- South Africa-based joint venture **InnoVent** and **CEC (Garneton North Solar)**

⁹ Bloomberg, 24 Apr 2019

¹⁰ Bloomberg, 24 Apr 2019

¹¹ Lusaka Times, 11 Mar 2019

¹² Lusaka Times, 11 Mar 2019

¹³ Lusaka Times, 11 Mar 2019

¹⁴ ESI Africa, 5 Apr 2019

¹⁵ Mercom India, 10 Apr 2019

- South Africa-based joint venture InnoVent and CEC (**Garneton South Solar**).

The two projects in Bulemu East and West came in at just \$0.03999 per kWh, which is the first public tender to be below \$0.04 per kWh.¹⁶ The other tenders are able to sell electricity at \$0.0452 per kWh and \$0.0480 per kWh respectively.¹⁷ The winning tenders will sign a 25-year power purchase agreement with Zesco to deliver electricity across the country.¹⁸

During Lungu's commissioning of the Bangwelu plant, he called for increased power generation using alternative sources to attract investment throughout Zambia.¹⁹ Zambia needs diversified energy sources considering its main electricity source, hydro-electric, is unreliable due to ongoing drought. Foreign affairs ministry assistant director **Eliphias Chinyonga** said on 19 April that the government hopes to build up to 6,000 megawatts of solar capacity, but will also make use of wind resources to increase the national electrification rate, which is currently at just 31%.²⁰ The **Rural Electrification Master Plan and Vision 2030** envisions at least 51% energy access, and solar is a better option for the country than traditional electricity sources.²¹

Zambia considers limiting foreign land ownership

Lands and natural resources minister **Jean Kapata** said on 27 March that the government is considering reforming the national land policy to make it more difficult for foreigners to own land in Zambia.²² Depending on the accepted policy and how it is presented, land reform may scare off mining companies from further investment in Zambia and damage the economy, which relies on the mining sector. Kapata said the reforms are to make sure land ownership is for Zambians, rather than the current practice in which foreign investors reportedly buy large tracts of land, demarcate it into smaller parcels, and re-sell to Zambians.²³

However, under the new reforms, land would only be leased to investors for a specific time period, after which the land would be repossessed.²⁴ Kapata has mentioned the lands ministry's desire to reform the national policy before. In December 2017 she said the government might reduce land tenure ownership from 99-year leases to just 25-year leases.²⁵ Currently, foreigners are allowed to own state land (which comprises 6% of land) if they are a permanent resident, an investor as per the **Zambia Development Agency Act**, or own a company in which there is 75% Zambian shareholding. Foreigners can acquire customary land (which comprises 94% of land) if they have the permission of the area chief.²⁶

Despite these hurdles, many foreigners have invested in land, particularly white **Zimbabwean** farmers who left in the early 2000s after former President **Robert Mugabe's** (1980-2017) land grabs.²⁷ However, according to a Zimbabwean farmer based in Zambia,

"I would never have come here if they only had 25-year leases for land. It takes at least five years of work before you see any production, and from there it takes another 10 years before you are established in the market. By 25 years, you may have paid off your debt and would then risk losing your farm and everything you worked for."²⁸

The government has been very quiet about whether this new policy would affect mining lands and leases. However, whether or not it does, reforms that penalise foreign investors and affect capital

¹⁶ Mercom India, 10 Apr 2019

¹⁷ ESI Africa, 5 Apr 2019

¹⁸ Mercom India, 10 Apr 2019

¹⁹ ZNBC, 11 Mar 2019

²⁰ ZNBC, 19 Apr 2019

²¹ The Southern Times, 15 Apr 2019

²² Lusaka Times, 28 Mar 2019

²³ Lusaka Times, 28 Mar 2019

²⁴ Lusaka Times, 28 Mar 2019

²⁵ African Farming, 19 Dec 2017

²⁶ www.zda.org.zm

²⁷ Deutsche Welles, 16 Jan 2019

²⁸ Source, farmer, Zambia

investments into land will be detrimental for Zambia's economy and foreign direct investment. While the government's reasoning for the reform – to increase Zambian land ownership – may be just, it should consider other policy changes that do not affect foreign investment and jobs before instituting drastic changes that will hurt Zambia's economy.

Planner

21 May 2019 **Lusaka (Zambia) Bank of Zambia** (central bank) interest rate decision
 13-14 Jun 2019 **Lusaka (Zambia) Zambia International Mining and Energy Conference and Exhibition (ZIMEC)**
 26 Jun - 2 Jul 2019 **Ndola (Zambia) Zambia International Trade Fair**
 20 Aug 2019 **Lusaka (Zambia) Bank of Zambia** (central bank) interest rate decision
 12-13 Sep 2019 **Lusaka (Zambia) Zambia E-commerce Expo and Conference**
 3-5 Oct 2019 **Lusaka (Zambia) Africa Food Manufacturing and Safety Summit Southern Africa (AFMASS Zambia)**
 2021 **(Zambia) Scheduled presidential elections;**

Chronology

23 Apr 2019 **Lusaka (Zambia) Bloomberg. United States (US)-based media source Bloomberg** reports that **Zambia's Eurobond** yield curve has become inverted, where shorter-dated yields have higher returns than longer maturities, which is a rarity and happens in countries already in default;

20 Apr 2019 **Lusaka (Zambia) Xinhua. Reuben Katebe**, the coordinator of the **National Energy Program Implementing Organisation**, says **Zambia's** nuclear energy programme is on track, with a 2,400 megawatt nuclear power plant scheduled in the second phase;

12 Apr 2019 **Lusaka (Zambia) Mining Weekly. Australia-based mining company Arc Minerals** starts its exploration programme at the **Zamsort** copper and cobalt mine;

10 Apr 2019 **Lusaka (Zambia) BBC. The United Kingdom (UK) Supreme Court** rules that **Zambian** villagers can sue UK-based mining giant **Vedanta** in the UK over alleged pollution;

10 Apr 2019 **Lusaka (Zambia) Lusaka Times. The International Monetary Fund** forecasts 2.9% economic growth for **Zambia** in 2019, down from a previous 3.1% forecast, as well as over 10% inflation by the end of the year;

9 Apr 2019 **Lusaka (Zambia) Lusaka Times. Standard Bank Group** forecasts that **Zambia's** foreign exchange reserves could decline to \$1 billion by the end of June;

8 Apr 2019 **Lusaka (Zambia) Reuters. The World Bank** forecasts 3.3% economic growth in 2019 for **Zambia**, down from 3.5% in 2018;

8 Apr 2019 **Lusaka (Zambia) PV Tech. Zambia's state-run energy procurement arm, GET FiT Zambia**, awards a 120 megawatt solar to three bidders for under \$0.04 per kilowatt hour, which is the lowest in **sub-Saharan Africa**;

4 Apr 2019 **Lusaka (Zambia) Lusaka Times. Transport and communications minister Brian Mushimba** says that national airline **Zambia Airways** will re-launch in 2019;

3 Apr 2019 **Lusaka (Zambia) ZNBC. Zambia's** three-year tenure on the **African Union Peace and Security Council** ends;

29 Mar 2019 **Lusaka (Zambia)** *Reuters*. Finance minister **Margaret Mwanakatwe** says **Zambia** will delay replacing VAT with a non-refundable sales tax until July to allow for further consultation with stakeholders;

28 Mar 2019 **Lusaka (Zambia)** *Lusaka Times*. Lands and natural resource minister **Jean Kapata** says the government will reform the national land policy to make it difficult for foreigners to own land;

25 Mar 2019 **Lusaka (Zambia)** *Zambia Watchdog*. The government reportedly prints 23 billion kwacha (\$1.9 billion) to finance the wage bill and pay **China**-based contractors;

22 Mar 2019 **Lusaka (Zambia)** *Reuters*. **United Kingdom**-based mining company **Vedanta Resources** appoints **Christopher Sheppard** as the new CEO of its **Zambian** unit, **Konkola Copper Mines Plc**;

18 Mar 2019 **Lusaka (Zambia)** *Herald*. The government issues small-scale mining licences to youths in **Chingola** town to curb illegal mining activities;

12 Mar 2019 **Lusaka (Zambia)** *Lusaka Times*. US ambassador to **Zambia**, **Daniel Foote**, denies that the US government is contemplating sanctions over the suspension of **Zambian** television station **Prime TV**;

11 Mar 2019 **Lusaka (Zambia)** *Reuters*. Finance minister **Margaret Mwanakatwe** says that external debt rose to \$10.05 billion at the end of 2018, up from \$8.74 billion at the end of 2017;

11 Mar 2019 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** commissions a 54 megawatt solar power plant, the largest in the country;

6 Mar 2019 **Lusaka (Zambia)** *Kitco*. Finance minister **Margaret Mwanakatwe** plans to swap **Zambia's** **China**-held debt from dollars to yuan in late March to ease foreign reserve pressures.

About Africa Risk Consulting:

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