

## AFRICA RISK CONSULTING

## Zambia Monthly Briefing September 2020

## Zambia Summary 25 September 2020

*Finance minister Bwalya Ng'andu presents the 2021 Budget, which aims to stimulate economic recovery through "practical and tangible support to businesses" and "enhance social protection response programmes to prevent the worsening of poverty levels despite constrained fiscal conditions". Ng'andu notes that the fiscal shortfall, on a cash basis, is expected to rise to 11.7% of GDP by the end of 2020 against the government's target of 5.5%. The government will remove import duty on copper ores and concentrates to encourage local processing. President Edgar Lungu (2015-present) fails to acknowledge the severe government debt crisis in his State of the Nation Address, as Zambia looks likely to become Africa's first country to default on its sovereign debt obligations following the coronavirus pandemic. Zambian students return to schools and universities, borders open to foreign nationals, and bars and nightclubs reopen as the government eases its restrictions to curb the spread of Covid-19. Relations with Turkey continue to improve with free trade deals proposed and increased economic activity between the two countries encouraged.*

## 2021 budget aims to stimulate economic recovery ...

Finance minister **Bwalya Ng'andu** delivered the 2021 budget speech on 25 September, the theme of which was to "*Stimulate Economic Recovery and Build Resilience to Safeguard Livelihoods and Protect the Vulnerable*".<sup>1</sup> Acknowledging the continuing devastating effect the **Covid-19** pandemic has had on **Zambia's** economy, Ng'andu proposed a list of macroeconomic goals for the upcoming financial year:

- Achieve a real GDP growth rate of at least 1.8%;
- Reduce the inflation rate towards the 6-8% medium-term target;
- Increase Gross International Reserves to at least 2.5 months of import cover;
- Reduce the fiscal deficit to 9.3% of gross domestic product (GDP); and
- Achieve domestic revenue collections of not less than 18.0% of GDP.<sup>2</sup>

Ng'andu noted that due to the fall in revenues and grants, and the increase in spending, the fiscal deficit, on a cash basis, is expected to rise to 11.7% of GDP by the end of 2020 against the government's target of 5.5%.<sup>3</sup> On proposed expenditure, Ng'andu said:

*"Government proposes to spend K119.6 billion [\$6 billion] in 2021 which translates to 32.6 percent of GDP. Of this amount, K68.0 billion [\$3.4 billion], representing 18.5 percent of GDP, will come from domestic revenues and grants. The balance of K51.6 billion [\$2.6 billion] will be raised through financing."*<sup>4</sup>

Opposition **United Party for National Development (UPND)** president **Hakainde Hichilema** said he was "*shocked*" to learn that the finance minister plans to finance the 2021 budget through borrowing K51.6 billion (\$2.6 billion), representing 43.1% of the total budget:

<sup>1</sup> Lusaka Times, 25 Sep 2020

<sup>2</sup> Transcript of budget speech, 25 Sep 2020

<sup>3</sup> Transcript of budget speech, 25 Sep 2020

<sup>4</sup> Transcript of budget speech, 25 Sep 2020

*“Of this K51.6 billion [\$2.6 billion], the PF wants to borrow K27.7 billion or \$1.4 billion from external sources, an amount equal to total interest payments on external debt and about the size of our reserves.”<sup>5</sup>*

2021 BUDGET ALLOCATIONS BY FUNCTIONS OF GOVERNMENT		
Function	2021 Budget	Share of Budget
	K	
<b>General Public Services</b>	<b>57,819,227,707</b>	<b>48.3%</b>
Domestic Debt Interest	18,338,481,000	
External Debt (Interest & Principal)	27,745,178,541	
Dismantling of Arrears	2,762,080,579	
Local Government Equalization Fund	1,164,567,612	
General Elections and Voter Registration	598,112,678	
Constituency Development Fund	249,600,000	
MPs Gratuity	202,073,000	
Public Affairs and Summit Meetings	200,000,000	
Contingency	125,000,000	
Compensation Fund	100,000,000	
<b>Defence</b>	<b>5,642,820,724</b>	<b>4.7%</b>
<b>Public Order and Safety</b>	<b>3,078,694,172</b>	<b>2.6%</b>
<b>Economic Affairs</b>	<b>21,499,987,741</b>	<b>18.0%</b>
Road Infrastructure	6,214,145,268	
Farmer Input Support Programme	5,701,404,933	
International Airports	567,334,377	
Strategic Food Reserves	517,500,000	
Rural Electrification Fund	307,199,557	
Empowerment Funds	266,285,212	
<i>o/w Youth Empowerment Funds</i>	<i>155,237,025</i>	
<b>Environmental Protection</b>	<b>955,530,142</b>	<b>0.8%</b>
<b>Housing and Community Amenities</b>	<b>2,221,524,168</b>	<b>1.9%</b>
Water Supply and Sanitation	2,172,274,286	
<b>Health</b>	<b>9,653,313,513</b>	<b>8.1%</b>
Infrastructure Projects	1,731,846,564	
Drugs and Medical Supplies	1,392,443,990	
Operations for Hospitals	627,263,831	
<b>Recreation, Culture and Religion</b>	<b>151,357,265</b>	<b>0.1%</b>
<b>Education</b>	<b>13,772,752,981</b>	<b>11.5%</b>
Infrastructure Projects	1,216,937,500	
Skills Development Fund	178,857,469	
<b>Social Protection</b>	<b>4,820,803,202</b>	<b>4.0%</b>
Social Cash Transfer	2,344,175,162	
Public Service Pension Fund	1,067,955,725	
Food Security Pack	1,100,000,000	
<b>TOTAL</b>	<b>119,616,011,615</b>	<b>100.0%</b>

Source: Lusaka Times, 25 Sep 2020

Ng'andu has suggested the suspension and reduction of many import duties to help stimulate the economy and support local production, as well as the adjustment of income tax rates for various stakeholders in the tourism sector. Ng'andu noted that Zambia will remove import duty on copper ores and concentrates to encourage local processing. He has also advocated to reduce the investment threshold for Zambian citizens to qualify for tax incentives from \$500,000 to \$100,000.<sup>6</sup> He intends

<sup>5</sup> Lusaka Times, 27 Sep 2020

<sup>6</sup> Lusaka Times, 25 Sep 2020

also to adjust income tax bands, setting K4,000 (\$199.5) as the threshold for **Pay-As-You-Earn** tax payments.

The 2021 budget appears to focus on offering relief and support to businesses and individuals who have suffered challenges and losses as a consequence of the **coronavirus** pandemic and the resulting global economic fallout. Primarily by suggesting tax cuts across the board, government is prioritising stabilisation and increased production over ambitious growth; a wise move in the run-up to elections. A Zambia-based economist told ARC that as far as the theme and aims of the 2021 budget are concerned, Ng'andu has done admirably. In particular, he praised the proposed tax cuts and the economic relief they will offer individuals, as well as resulting in less money being thrown into the "*bottomless pit of government coffers*".<sup>7</sup> Reduced tax rates may encourage investment in Zambia and in turn increase government revenue.

Two weeks earlier, President **Edgar Lungu** (2015-present) delivered his **State of the Nation Address** during the official opening ceremony of the fifth session of Zambia's 12th National **Assembly** on 11 September.<sup>8</sup> Although economic recovery was the theme of his speech, critics remarked on Lungu's notable failure to mention the country's debt, or any plans to address it. Lungu emphasised his government's successes, which include increased literacy rates, improved access to clean water and sanitation, and a stronger healthcare system – while ignoring the country's mounting debt problem.

The minor opposition **National Democratic Congress (NDC)** party has accused Lungu and the ruling **Patriotic Front (PF)** of attributing Zambia's poor economic standing to the global Covid-19 pandemic, rather than the party's own mismanagement, a criticism that Ng'andu's budget speech bore out.<sup>9</sup> Lungu maintains that the combined effects of climate change and resulting agricultural losses, the Covid-19 pandemic and the ensuing economic domino collapse the world over, as well as the tax relief and grants issued to Zambian citizens to address their personal financial challenges are the ultimate villains when it comes to Zambia's economy.<sup>10</sup>

The numbers speak for themselves, however. The Zambian kwacha (ZK) has fallen by more than 100% during Lungu's term, from ZK8 to the **United States (US)** dollar in 2016 to ZK19,90 to the dollar now. Inflation has risen from 6% to 16% and food prices have more than doubled in the four years since Lungu took office.<sup>11</sup> Despite being the continent's second-biggest copper producer, Zambia's currency is one of the worst performers this year.<sup>12</sup> US-based ratings agency **Moody's** has predicted that Zambia's public debt may exceed 110% of the country's GDP in 2020. Zambia owes \$10 billion to external parties: \$2 billion to commercial banks, \$2 billion to the **International Monetary Fund (IMF)** and the **World Bank**, \$3 billion to **China** and \$3 billion in Eurobonds.<sup>13</sup>

Zambia has become the first **African** country to request 'breathing space' since the beginning of the coronavirus pandemic, asking for a deferral of interest payments from the holders of its Eurobonds.<sup>14</sup> A source at **REDD Intelligence** believes that although most bondholders will accept the terms of the standstill, neither the IMF nor China looks likely to offer Zambia any bailouts,<sup>15</sup> and it is highly unlikely that the government will be able to repay its debt before the upcoming elections, despite Lungu's assertions to the contrary.

Neither Lungu nor Ng'andu have managed to impart any solid reassurance about Zambia's economic path. The State of the Nation Address neglected key economic issues while the budget speech failed to offer hope that Zambia can tackle its mounting public debt. The opposition is ready to pounce on any

<sup>7</sup> Source, economist, Zambia.

<sup>8</sup> Edgar Lungu, State of the Nation Address, 11 Sep 2020

<sup>9</sup> Lusaka Times, 18 Sep 2020

<sup>10</sup> Edgar Lungu, State of the Nation Address, 11 Sep 2020

<sup>11</sup> Lusaka Times, 1 Sep 2020

<sup>12</sup> Bloomberg, 22 Sep 2020

<sup>13</sup> Engineering News, 18 Sep 2020

<sup>14</sup> Bloomberg, 22 Sep 2020

<sup>15</sup> Engineering News, 18 Sep 2020

opportunity to point out failings that may sway public opinion and secure them the vote come the 2021 elections.

### Zambian doors begin to reopen ...

Much to the relief of students and other stakeholders, President Lungu announced that as of 14 September all learning institutions will be reopened. Schools, colleges and universities have been closed since the outbreak of Covid-19 in March. Lockdown restrictions have placed significant stress on daily life the world over, but the increased lifting of restrictions will improve the ease of conducting business and is good news for the economy. The **World Health Organization (WHO)** states Zambia's total Covid-19 cases (as at 22 September) as 14,131 with 330 deaths reported.<sup>16</sup>

Students are enthusiastic to return to their classrooms and begin learning once again after more than six months at home. Despite the creation of online learning platforms, the majority of the country's students do not have the means to use the alternative educational offerings, as access to the internet and computers remains limited. Sources have noted that the closure of schools has resulted in an increase of problematic behaviour among the youth with both teen pregnancies as well as drug use on the increase over the past six months.<sup>17</sup>

Stakeholders and officials have widely applauded the reopening of schools, with risk of Covid-19 infection appearing to be low. Since July, when examination classes were reopened, there has been a low transmission rate between pupils and the government is confident that the benefit of sending pupils back to school outweighs the risk of increased infection numbers.<sup>18</sup>

The government has also announced the reopening of borders to foreign nationals, with visa processing remaining as per standard requirements, along with increased emphasis on following all Covid-19 protocols.<sup>19</sup> Those arriving in Zambia will be required to undergo health screening upon entry and provide a negative Covid-19 test result obtained fewer than 14 days prior to arrival in the country. Flight schedules remain limited, although international carrier **Emirates Airlines** has resumed flights to **Lusaka**.<sup>20</sup>

Bars, nightclubs and taverns have tentatively been given the go-ahead to open their doors to patrons from 18h00 to 23h00, Friday to Sunday, providing strict Covid-19 protocols are in place.<sup>21</sup> Lungu has threatened to revoke this restriction lift should there be a significant increase in coronavirus infections as a result of careless behaviour.

The resumption of economic and social activity is imperative for the survival of the weak Zambian economy. As more of the country begins to resemble the pre-pandemic world, the chances of business success and economic growth increase.

### ... as Zambia strengthens relations with trading partners

Trade relations between Zambia and **Turkey** are set to grow with a free-trade deal on the table for signature. Zambia's ambassador to Turkey, **Joseph Chilengi**, said during a trip to **Ankara** (Turkey) on 15 September to meet political leaders and businesspeople that Zambia is interested in signing a free trade deal with Turkey.<sup>22</sup> Closer trade ties with Turkey will not have a major impact on Zambia's economy given that Turkey is a relatively minor trading partner to Zambia, but the move appears to be a demonstration to foreign investors, many of whom have been taken aback by the Zambian government's heavy-handed approach in recent years, that the country is still open for business.<sup>23</sup>

<sup>16</sup> World Health Organization, 22 Sep 2020

<sup>17</sup> Xinhuanet, 21 Sep 2020

<sup>18</sup> CGTN, 12 Sep 2020

<sup>19</sup> Lusaka Times, 23 Sep 2020

<sup>20</sup> Lusaka Times, 28 Aug 2020

<sup>21</sup> Edgar Lungu, State of the Nation Address, 11 Sep 2020

<sup>22</sup> AA, 17 Sep 2020

<sup>23</sup> ARC's Zambia analyst

An historically good relationship improved further with the opening of the **Turkish Embassy** in Lusaka in 2011 and the **Zambian Embassy** in Ankara in 2013. But Chilengi wants to take things further, and is encouraging Turkish businessmen to invest in Zambia.

*“At this point, we invite Turkey to Zambia as an economic power. We want to see the Turkish private sector be more active in our country.”<sup>24</sup>*

Chilengi added that Zambia is prepared to use the Turkish lira in foreign trade. For their part, Turkish business players have committed to partner with Zambia and invest further in the relationship between the two countries. During a visit to the Zambian embassy in Ankara on 15 September, Turkish member of parliament and **Turkey-Zambia Inter-Parliamentary Friendship Group** chairperson **Atila Odunc** said:

*“We would like to use our strong manufacturing potential in **Bursa** and partner with the private sector in Zambia to help add value to Zambian raw materials so that we can create jobs and wealth for the peoples of our two countries.”<sup>25</sup>*

According to the Turkish government, imports from Zambia are primarily copper and copper-related products. 2019 saw Turkey and Zambia’s trade volume at \$23.7m. This was predominantly made up of Turkey’s exports to Zambia, worth \$17.8m. Imports from Zambia to Turkey equalled the remainder of \$5.9m.<sup>26</sup>

Closer to home, Zambia trades mainly with **South Africa** and the **Democratic Republic of the Congo (DRC)**, with the two countries together representing 80% of Zambia’s total intra-Africa trade. Imports are sourced mainly from South Africa and exports are destined predominantly for the DRC. These partners make up roughly 30% of all of Zambia’s world trade.

Zambia has, interestingly, had increasing numbers of agreements and improved relations with a handful of countries otherwise thought to be problematic by the international community. Sources have commented that Zambia’s growing ties with authoritarian states such as **Sudan**, **Russia** and **China** are unsettling. Earlier this year the presidency published a press release praising Zambia’s relationship with Sudan, a country still struggling with internal conflict and governance. Speaking at the farewell for outgoing Sudanese ambassador, **Awad Ali**, in January, President Lungu thanked him for his service and expressed his admiration of Sudan’s governance, saying *“democracy has its own variations therefore, each country has its own version.”*<sup>27</sup> It is also well documented that Zambia and China have become enmeshed both politically and economically, while relations with Russia have historically been markedly good with bilateral trade agreements totalling above \$17m.<sup>28</sup>

Regardless of raised eyebrows, Zambia’s improved relations with foreign countries could stand to benefit the country economically and in terms of vital structural support. A municipality in Turkey donated 20,000 facemasks to Zambia in efforts to combat the Covid-19 virus.<sup>29</sup> Given the precariousness of Zambia’s economic situation, it cannot afford not to embrace any friendships offered or seek out new ones.

<sup>24</sup> Middle East Monitor, 19 Sep 2020

<sup>25</sup> Lusaka Times, 18 Sep 2020

<sup>26</sup> Republic of Turkey Ministry of Foreign Affairs

<sup>27</sup> Sh.gov.zm, accessed 22 Sep 2020

<sup>28</sup> Russian Ministry of Foreign Affairs, 17 Feb 2009

<sup>29</sup> Andalou Agency, 17 Sep 2020

## Planner

16-17 Nov 2020 **Lusaka (Zambia)** *Bank of Zambia website* **Bank of Zambia** Monetary Policy Committee meets;

18 Nov 2020 **Lusaka (Zambia)** *Bank of Zambia website* **Bank of Zambia** Monetary Policy Committee statement media briefing;

2021 **(Zambia)** Presidential and legislative elections.

## Chronology

25 Sep 2020 **Lusaka (Zambia)** *Creamer Media's Mining Weekly*. Finance minister **Bwalya Ng'andu** says in a budget speech delivered in parliament that the fiscal shortfall will reach 9.3% of GDP in 2021 and that **Zambia** will remove import duty on copper ores and concentrates to encourage local processing;

22 Sep 2020 **Lusaka (Zambia)** *Financial Times*. Government asks **Eurobond** holders for debt payment delays until April 2021, seeking to avoid becoming **Africa's** first country to default on debt repayments since the start of the **coronavirus** pandemic.

15 Sep 2020 **Ankara (Turkey)** *AA*. Zambia's ambassador to Turkey, **Joseph Chilengi** meets with Turkish political leaders and business partners;

14 Sep 2020 **Kabwe (Zambia)** *Creamer Media's Mining Weekly*. Mines ministry grants **United Kingdom**-based **Jubilee Metals'** application for the renewal of a small-scale lead, zinc, copper and cobalt mining licence in **Kabwe**;

14 Sep 2020 **Kansanshi (Zambia)** *Reuters*. **Canada**-based **First Quantum Minerals** says it plans to expand the sulphide ore processing facility at its **Kansanshi** mine, **Africa's** largest copper mine;

14 Sep 2020 **Lusaka (Zambia)** *Lusaka Times*. **Zambia** reopens schools and educational institutions;

11 Sep 2020 **Lusaka (Zambia)** *Lusaka Times*. President **Edgar Lungu** delivers State of the Nation Address during the opening of the fifth session of the 12<sup>th</sup> National Assembly;

7 Sep 2020 **Lusaka (Zambia)** *Reuters*. Finance ministry says in an authorisation letter to its creditors that its financial adviser, **France**-based **Lazard**, has appointed **Morrow Sodali** to gather information on the holders of its three outstanding **Eurobonds** and "*facilitate communications*";

1 Sep 2020 **Lusaka (Zambia)** *Times of Zambia*. Government says it is "disturbed" by allegations that opposition **United Party for National Development** party leader **Hakainde Hichilema** benefited from the privatisation of state-owned assets in the 1990s;

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