

## AFRICA RISK CONSULTING Zambia Monthly Briefing May 2020

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### Zambia Summary 17 May 2020

*President Edgar Lungu (2015-present) has eased the national lockdown to allow cinemas, restaurants and gyms to operate, but movement of people across borders is banned. Lungu has been largely absent from public view, leaving his ministers to respond to the growing Covid-19 emergency. One, Lusaka Province minister Bowman Lusambo, reportedly ordered police to break up weddings and beat guests for alleged breaches in pandemic containment without any sanction. New finance minister Bwalya Ng'andu presents a clear economic response to the Covid-19 economic crisis and announces he has approached the International Monetary Fund (IMF) for budget support. The IMF expects Zambia's economy to contract by 2.6 % in 2020. The mining crisis continues as the government, private sector miners and electricity providers remain at loggerheads. President Lungu declares gold a strategic mineral and orders police to stop 'illegal' mining as the Covid-19-spurred gold price prompts a gold rush in Mwinilunga (Northwestern Province).*

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### Lungu eases lockdown just as Covid-19 cases start to rise ...

President **Edgar Lungu** (2015-present) has eased the national lockdown, allowing some businesses to operate just as cases of the **Covid-19** virus start to escalate. President Lungu justified his move saying there is a need to balance the economy and the health of the people, adding that the pandemic has had a devastating effect on social and economic sectors.<sup>1</sup>

However, the government was forced to impose a five-day closure of **Nakonde (Muchinga Province)** border with **Tanzania** after health officials reported 76 new cases of Covid-19.<sup>2</sup> By 15 May, the nationwide number of new cases had increased sharply to 200 bringing total new cases reported to 679 with 183 recoveries and 7 deaths.<sup>3</sup>

Zambia has only imposed limited restrictions since mid-March, stopping short of imposing a state of emergency or declaring a national disaster. Along with **Kenya** and **Nigeria**, Zambia has resisted the draconian measures imposed in **South Africa** and elsewhere because of the large number of subsistence businesses. The measures that remain in place include:

- mandatory 14-day quarantine, testing, and daily monitoring at government-designated locations for anyone entering Zambia from any country where there are confirmed Covid-19 cases;
- mandatory wearing of face masks;
- limiting the number of people at church gatherings (including weddings and funerals) to 50;
- banning hand shaking and generally encouraging social distancing;
- A ban on all cross-border public passenger services, railway passenger services, and cross border cargo transport with the exception of the export of copper and cobalt and the import of fuel.<sup>4</sup>

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<sup>1</sup> National address, 8 May 2020

<sup>2</sup> Reuters, 17 May 2020

<sup>3</sup> Wikipedia amalgamated WHO statistics.

<sup>4</sup> Statutory Instruments No. 21 and 22 issued on March 14th 2020 and subsequent Presidential directives

The restrictions that President Lungu eased on 8 May include those on cinemas, restaurants, and gyms, which will now be allowed to resume operations. Authorities are also considering re-opening hotels and lodges. Exam-taking students will go back to school from 1 June.

*"We have a number of sensible restrictions in place regarding social distancing, the now compulsory wearing of masks, restricted travel etc., but full lockdown on [South Africa] SA scale is seen as impractical for socio-economic reasons. ...The challenge on the ground appears to be logistical – [personal protection equipment] PPE and tests, which are still only a few hundred a day. Interestingly, the clinics don't report a rise in suspected cases or symptoms."*<sup>5</sup>

### Junior cabinet ministers abuse powers to enforce lockdown ...

Throughout the emerging Covid-19 crisis, uncertainty has fed rumour, notably as President Edgar Lungu has largely stayed away from the public eye. Lungu is 63 years of age and has previously suffered health scares – including throat surgery abroad after he collapsed at an International Women's Day event in **Lusaka** in March 2015. Since the pandemic began, and until the public address on 8 May, the president has barely made an appearance in public.

*"The President has apparently not been seen in public for over a month although there are photos of him wearing a surgical mask at various **State House** events. The last two presidential addresses were written statements and appear not to have been broadcast live."*

In the president's absence, the public face of the Covid-19 response has been home affairs minister **Stephen Kampyongo**, health minister **Chitalu Chilufya**, and the comparatively new finance minister, **Bwalya Ng'andu**.

The absence of clear leadership has resulted in junior ministers overreaching their authority. The **Lusaka Times** online carried photographs of police brutally beating citizens – apparently under **Lusaka Province** minister **Bowman Lusambo**'s supervision – and breaking up a wedding party of Zambians of **Asian** heritage. A local source confirmed:

*"The more junior members of the cabinet and party are seen to be operating with impunity – Lusambo's personal involvement in overseeing enforcement and on the spot punishment for breaches in pandemic containment measures are a case in point."*<sup>6</sup>

Lusambo's actions drew criticism from Kampyongo who told local media that even he as home affairs minister,

*"... cannot instruct the police to beat up people or arrest them for any reason... Police officers know whose instructions to follow when there is an operation order and certainly not from politicians."*<sup>7</sup>

### Finance minister announces a series of measures

In marked contrast to the chaotic brutality of the junior cabinet minister enforcing lockdown provisions in the capital, finance minister Bwalya Ng'andu has approached the economic crisis with a clear and collaborative approach. The Covid-19 related global economic shock has hit Zambia at a time when the government was already struggling to meet its international debt commitments. With the **International Monetary Fund (IMF)** predicting the Covid-19 economic shock to be akin to the great depression of the 1930s and far worse than the 2007/2008 economic crisis, Ng'andu reported that its forecast for Zambia would be economic contraction of 2.6 %, down from an earlier projection of 3.6% growth. Ng'andu made a presentation to the public on 19 April in which he outlined the key impacts and the government's remedial measures:

- Covid-19 will result in 20% drop in government revenue;

<sup>5</sup> Business executive, Lusaka, 22 Apr 2020

<sup>6</sup> Business executive, Lusaka, 22 Apr 2020

<sup>7</sup> Lusaka Times, 15 Apr 2020

- **London Metals Exchange (LME)** prices are expected to drop and result in decreased royalties, mineral tax receipts and Pay As You Earn (PAYE) from miners;
- Peak impact on revenue will be April and May but is likely to continue to December;
- All sectors to be hit: manufacture, transport, power, wholesale and retail trades.

The minister announced a series of emergency measures to support business to weather the storm:

- Steps to ease liquidity including direct payments to pension funds, to business and government contractors;
- Emergency steps with the **Zambia Revenue Authority** to waive penalties on tax and outstanding tax;
- Suspension of customs duties for medical equipment;
- K10 billion (\$541m) in bank refinancing.

In addition, the minister reached out to Zambia's business organisations and has formed a joint task force with Zambia's manufacturers and farmers' associations and the national chambers of commerce.<sup>8</sup> However, a local business executive says many private stakeholders believe that the government's action has been *"largely stilted"*, too little and too late:

*"As to 'too little', the actions are a mere shadow of what is apparently happening elsewhere in the region with almost no support for employers despite the entreaties of the tourism industry particularly. However, the bottom line is the country has little fiscal flexibility for a number of pre-existing reasons."*<sup>9</sup>

Despite President Lungu's measures to open up restaurants and the tourism sector, many believe the effects of the global economic tsunami are going to be felt into October and beyond. Local and international travel is unlikely to return to normal in time for Zambia's key tourism season (August through to October).<sup>10</sup> A slow return to full mining activity and volatility on the LME mean that pressure on the price of Zambia's metals will continue, reducing royalties and export earnings. It was unsurprising then when Ng'andu confirmed on 10 May that the government had applied to the IMF for a Covid-19-related rapid credit facility as it starts the process of shortlisting financial advisers to help reduce its debt load.<sup>11</sup>

### Mining in crisis ...

Zambia's mining sector remains in crisis with the owners of two major mines – **Switzerland**-headquartered **Glencore's Mopani Copper Mines (MCM)** mine and **United Kingdom**-headquartered **Vedanta's Konkola Copper Mines (KCM)** – at loggerheads with the government. Mines minister **Richard Musukwa** challenged Glencore's right to declare *force majeure* in the face of the Covid-19 pandemic and its right to put the company's mines in the **Copperbelt** towns of **Kitwe** and **Mufulira** on care and maintenance, and potentially retrench 11,000 miners.<sup>12</sup> Musukwa threatened to revoke Glencore's mining licence if it went ahead, prompting Glencore to backtrack on its decision to put MCM on care and maintenance<sup>13</sup> but Glencore's plan appears to re-start mining operations only long enough to issue formal notices to regularise its intention to place the mining operations on care and maintenance after 90 days.

Under Lungu's presidencies disputes between private business and government have increased. Mining companies have been particularly affected though not exclusively. The government has refused to renew the bulk supply agreement of state-owned power company **Zesco** with Zambia-

<sup>8</sup> Finance minister's statement, 20 Apr 2020

<sup>9</sup> Business executive, Lusaka, 22 Apr 2020

<sup>10</sup> Business sources

<sup>11</sup> Reuters, 10 May 2020.

<sup>12</sup> Bloomberg, 4 Apr 2020

<sup>13</sup> Reuters, 8 Apr 2020

listed **Copperbelt Energy Corporation (CEC)** – a key supplier of energy to the copper mines – leaving the company vulnerable.<sup>14</sup>

*“Is it resource nationalism or is it that ZCCM (**Zambia Consolidated Copper Mines**) has been given a new mandate? Its role in the Zesco- Plc is the case in point. CEC were distributing Zesco generated power to KCM at a bulk rate. No-one thought the government would not reach an agreement with CEC because it would reveal the cost of putting someone else’s electricity through your hardware, now it is in the open. The failure to renew the CEC-Zesco bulk supply agreement, leaves CEC vulnerable as they are forced to wheel Zesco power to the older mines at a rate of 07.1.7 US cents/kWh.”<sup>15</sup>*

### ... but there’s gold in them thar’ hills

Meanwhile, despite Covid-19, Zambia’s gold rush continues after artisanal miners in August found deposits in **Mwinilunga District** in **Northwestern Province**. Since gold prices have increased on the back of Covid-19 uncertainty, there has been an explosion of artisanal mining.

President Lungu on 21 April declared gold a mineral of strategic development and has sought to clamp down on artisanal mining, despatching security forces to try to stop the artisanal mining. In late April, he fired Northwestern Province police commissioner **Hudson Namachila** for his failure to stop ‘illegal’ mining. The president has further issued an order that gold be held at the **Bank of Zambia (BOZ)** (central bank). On 13 May police in Mwinilunga arrested seven people with six bags of gold samples with an estimated value of K60,000 (\$3,250).<sup>16</sup>

The state-owned mining investment company, **ZCCM-Investment Holdings (ZCCM-IH)**, has entered into a joint venture with **Karma Mining Services and Rural Development Company**, to form **Consolidated Gold Company Ltd (CGCZ)**, a gold processing and trading company. CGCZ has built 10 milling plants to process gold in an apparent drive to formalise artisanal and small-scale miners and diversify from copper mining. Despite this, artisanal miners are being short changed: ZCCM-IH is buying gold for K600 (\$33.33) per gram while world market prices have ranged around \$58 and \$61 a gram over the past month.

Zambia had aimed to produce 40,000 kg of gold in 2020 from primary and secondary sources including gold bought from artisanal and small-scale miners at government-controlled buying centres. ZCCM-IH said the project aims to reach gold production of 25 kg per month from the milling and leaching plants by the end of 2020. Although gold is little mined in Zambia, the geology is thought to be favourable. According to one source,

*“It is widely considered that if properly explored, Zambia’s gold production could be on a similar scale to the **Witwatersrand (Gauteng Province)** in RSA (South Africa).”<sup>17</sup>*

<sup>14</sup> Energy sector sources

<sup>15</sup> Energy sector sources

<sup>16</sup> Lusaka Times, 13 May 2020

<sup>17</sup> Business source, Lusaka

## Planner

2021 **(Zambia)** Zambia General Elections

### Chronology

14 May 2020 **Lusaka (Zambia)** *Creamer Media's Mining Weekly*. High court documents show **Vedanta Resources' Zambian unit, Konkola Copper Mines**, is fighting to keep the lights on after **Copperbelt Energy Corp (CEC)** threatened to reduce supply because of a \$132m bill;

13 May 2020 **Lusaka (Zambia)** *Creamer Media's Mining Weekly*. State mining investment company **ZCCM-IH** says **Zambia** has built ten milling plants to process gold in a drive to formalise artisanal and small-scale miners and diversify from copper mining;

12 May 2020 **Lusaka (Zambia)** *Creamer Media's Mining Weekly*. **Muchinga Province** minister **Malozo Sichone** says its main copper exports via **Dar es Salaam (Tanzania)** have been delayed due to the closure of its border with Tanzania to enhance measures against the spread of the **coronavirus**;

9 May 2020 **Lusaka (Zambia)** *CGTN*. President **Edgar Lungu** announces the easing of confinement measures and allows certain activities to resume;

9 May 2020 **Lusaka (Zambia)** *Africanews*. Government announces the closure of land border with **Tanzania**, the **Nakonde** border, effective 11 May over **coronavirus** spread fears;

6 May 2020 **Lusaka (Zambia)** *FCPA Blog*. **World Bank** debars **China**-based electrical equipment company **Liaoning-EFACEC Electrical Equipment Company** for 20 months for fraud involving an electricity transmission and distribution project in Lusaka;

3 May 2020 **Lusaka (Zambia)** *Creamer Media's Mining Weekly*. **Switzerland**-based **Glencore's Zambia unit Mopani Copper Mines** confirms its mining operations will restart and a notice issued of the company's intention to place the mining operations on care and maintenance after 90 days;

30 Apr 2020 **Lusaka (Zambia)** *Times of Zambia*. Finance ministry says **Zambia** will get 2.7 billion kwacha (\$145m) from multilateral lenders **United Kingdom** and **United States** to help fight the **coronavirus**;

27 Apr 2020 **Lusaka (Zambia)** *Mining.com*. **Anglo-Australian** mining company **Rio Tinto** signs a \$51m earn-in and joint venture agreement with **Canada**-based junior **Midnight Sun Mining**, in which Rio will earn 75% of the latter's **Solwezi** licences;

21 Apr 2020 **Lusaka (Zambia)** *Times of Zambia*. Finance minister **Bwalya Ng'andu** estimates that **Zambia's** budgeted revenue will fall short of target by at least 14.8 billion Zambian kwacha (\$802m), which is 19.7% of the approved 2020 budget;

20 Apr 2020 **Lusaka (Zambia)** *Finance ministry statement* outlines government's response to **Covid-19**.

20 Apr 2020 **Lusaka (Zambia)** *Reuters*. **Switzerland**-based **Glencore** says it will reverse its earlier decision to shutter its **Zambian** subsidiary, **Mopani Copper Mines**, if it reaches an agreement with the Zambian government;

19 Apr 2020 **Lusaka (Zambia)** *Reuters*. Mines ministry permanent secretary **Barnaby Mulenga** says **Glencore** has reversed its plan to shutter its copper mining subsidiary **Mopani Copper Mines**;

16 Apr 2020 **Lusaka (Zambia)** *Fitch Ratings*. **United States**-based **Fitch Ratings** downgrades **Zambia's** long-term foreign-currency issuer default rating to 'CC' from 'CCC';

15 Apr 2020 **Lusaka (Zambia)** *Financial Times*. State officials detain **Switzerland**-based

**Glencore subsidiary Mopani Copper Mines' head Nathan Bullock as he tries to leave Zambia;**

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