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Zambia Summary 14 June 2021

The Electoral Commission of Zambia (ECB) expresses concern over escalating campaign violence ahead of Zambia's 12 August parliamentary and presidential elections. The Bank of Zambia (BoZ) (central bank) increases the daily limit for foreign currency exchange transactions with effect from 1 June. The limit for exchange at commercial banks increases from \$5,000 to \$10,000 per day, while individuals at retail foreign exchange bureaus can now exchange up to \$5,000 per day. The BoZ leaves lending rates unchanged at 8.5%, predicting inflationary pressure to ease earlier than expected and economic growth to rebound faster. A surge in copper prices renews pressure on the government to establish greater certainty over tax and operational issues. The health ministry re-imposes restrictions on travelers from 15 countries in response to concerns over the so-called Indian variant and a third wave of SARS-Cov-2 in Zambia.

Tensions rise ahead of August elections ...

Electoral Commission of Zambia (ECB) chief electoral officer **Kryticous Nshindano** has expressed concern over escalating campaign violence ahead of **Zambia's** presidential and parliamentary elections scheduled for 12 August.¹ Despite the government's imposition of **Covid-19**-inspired restrictions on campaigning, the elections are likely to be fiercely contested. The ruling **Patriotic Front (PF)**, which has held power since September 2011, faces main opposition party **United Party for National Development (UPND)** amidst the threat of a third wave of Covid-19, a deepening economic crisis, and opposition accusations that PF leader President **Edgar Lungu** (2015-present) is not eligible to run for a further term as president.

Zambia's **Constitutional Court** on 11 June cleared Lungu to stand for re-election in the August elections, declaring that a second opposition challenge to his eligibility had no merit.² Lungu took office in 2015, following a presidential by-election to replace late former president, **Michael Sata** (2011-2014), who died in a **London (United Kingdom)** hospital in October 2014.³ Lungu was re-elected as president in August 2016, beating UPND leader **Hakainde Hichilema** by 2.72%; Lungu won 50.35% of the vote to Hichilema's 47.63%.⁴ The opposition has argued that Lungu is technically running for a third term. However, the Constitutional Court rejected this argument in 2018, saying 2016-2021 is Lungu's first full term.⁵

Hichilema's UPND has cried foul over the ECB's suspension of election campaigning, claiming the government is using the Covid-19 pandemic to suppress the opposition.⁶ Although there is legitimate concern about the growing number of coronavirus cases (see below), the opposition's claims of eroding democratic space also appear valid. A **Sweden-based Varieties for Democracy (V-dem)** report published in 2020 shows a significant decline in the quality of democracy in Zambia since the 2016 elections.⁷ There are also concerns regarding the lack of transparency in the upcoming election; UK-based **University of Warwick** political commentator **Nicole Beardsworth** notes problems with Zambia's voters' roll:

¹ Lusaka Times, 11 Jun 2021

² Lusaka Times, 11 Jun 2021

³ Lusaka Times, 28 Oct 2014

⁴ ECZ website, 15 Aug 2016.

⁵ Reuters, 11 Jun 2021

⁶ News24, 26 May 2021

⁷ V-dem Report 2020.

“The electoral commission decided in 2020 to scrap the voters’ roll that had been in use for over a decade. It then allocated just 38 days to register more than 8 million people in the middle of the rainy season. The commission has refused to make the roll available for an independent audit, ignoring widespread calls to do so. Such an audit of the roll was allowed in 2016.”⁸

There is also widespread scepticism regarding the impartiality of the courts and the ECB, with opposition parties calling for the presence of international election observers to ensure free, fair and peaceful elections.⁹

“There is deep distrust that spills over into violence, instead of competitive elections, as the ECB is perceived as being untrustworthy by the opposition. When the checks and balances in a democratic dispensation start to erode, the result is often violence, as the arbiter can no longer be trusted.”¹⁰

A Zambia-based analyst describes the animosity between the UNDP and the PF in the build-up to the election as “unprecedented” in democratic Zambia.

“The PF has been acting with increasing impunity of ruling party-aligned ‘cadres’. Their politicised accusations against civil servants and citizens are a growing concern, as much of the violence surrounding the 2016 elections was perpetrated by groups of young men who are sponsored by politicians.”¹¹

The UPND has complained of attacks on its supporters, accusing security forces of attacking a convoy carrying Hichilema on 7 June.¹² Police deny the accusations.¹³

Central bank raises cap on foreign transactions...

In good news for Zambia-based businesses, the **Bank of Zambia (BoZ)** (central bank) announced on 27 May that it would increase the daily limit for foreign currency exchange transactions.¹⁴ The increased limit is part of the central bank’s efforts to draw transactions into official channels and minimise complication for business. As of 1 June, commercial banks may exchange **United States (US)** \$10, 000 per day, up from the previous daily limit of \$5, 000. Customers at retail foreign exchange bureaus will be permitted to exchange up to \$5, 000, up from \$1, 000.¹⁵ BoZ governor **Christopher Mvunga** said the increased foreign exchange limits will allow for “a regulated, systematic market where people can transact within the formal channels”.¹⁶

Zambia introduced the previous foreign exchange limits in 2001. However, the BoZ recognised that the lower limits were inconveniencing businesses and encouraging them to buy hard currency on the black market. The BoZ said it would observe the new over-the-counter foreign currency limits for a period of two months, subject to further review.¹⁷

Zambia’s currency has weakened against the US dollar over the past two months, although at a slower rate.¹⁸ The kwacha lost 4.4% against the US dollar in the first quarter of this year, averaging K21.63/US\$, compared to 9.4% depreciation in Q4 2020. In its **Monetary Policy Committee (MPC)** report released on 19 May (see below), the Bank of Zambia reported that it had sold \$259.7m in Q1 2021 compared to \$339.8m in the preceding quarter. This largely reflected receipts of tax obligations from mining companies, which were sold back to the market. Mvunga noted that gross international

⁸ The Conversation, 4 May 2021

⁹ Source, Zambia-based analyst

¹⁰ Source, Zambia-based analyst

¹¹ The Conversation, 4 May 2021

¹² BBC, 7 Jun 2021

¹³ BBC, 7 Jun 2021

¹⁴ BoZ press release, 27 May 2021

¹⁵ BoZ press release, 27 May 2021

¹⁶ Reuters, 27 May 2021

¹⁷ Reuters, 27 May 2021

¹⁸ Lusaka Times, 20 May 2021

reserves remained broadly unchanged at \$1.2 billion (equivalent to 2.1 months of import cover) at 31 March.¹⁹

... and holds lending rates unchanged

At its MPC meeting on 17-18 May, the BoZ decided to leave the monetary policy rate unchanged at 8.5%.²⁰ Zambia slashed its lending rates by a cumulative 350 basis points at the height of the Covid-19 pandemic, but has recently decided to tighten them again, lifting them 50 basis points in February to combat inflation and currency slide (see *ARC Briefing Zambia March 2021*).²¹ In giving the MPC's reasons for its decision, Mvunga noted that inflation is projected to remain above the upper boundary of the central bank's 6-8% target range over the forecast horizon:

*"Elevated fiscal deficits, higher crude oil prices, and rising inflation in some major trading partner countries are the key sources of inflationary pressures over the forecast period."*²²

Annual overall inflation accelerated to a five-year high, averaging 22.2% in the first quarter of 2021 from 17.6% in the previous quarter, largely due to depreciation of the kwacha (see above) and low seasonal supply of fish and some vegetables:

"Food inflation rose sharply to 27.0% from 17.2% while non-food inflation declined to 16.6% from 18.0%."

The BoZ expects inflationary pressures to ease in view of the improved supply of food, particularly maize and wheat, following a good crop harvest.²³ Mvunga added that the "significant improvement" in copper prices and renewed interest in domestic government securities by non-resident investors support the foreign exchange market and will lower inflation going forward.²⁴ The BoZ projects inflation to average 21.9% in 2021 and 16.7% in 2022.

Mvunga said the MPC's decision recognises existing vulnerabilities in Zambia's financial sector and fragile growth. Mvunga noted that in order to restore and anchor macroeconomic stability, the implementation of fiscal adjustment measures in line with the **Economic Recovery Programme** and understandings reached in discussions with the **International Monetary Fund (IMF)** remain critical.²⁵ Mvungu expressed optimism about Zambia's talks with the IMF, including the restructuring of its debt under the new **Group of 20 (G20)** debt restructuring programme:

*"The announcement that the substantive understanding has been reached on a macroeconomic framework between the IMF and the government, the impending one-off allocation of SDRs to help countries fight the COVID-19 pandemic, and improved copper earnings are important developments that can help create much needed fiscal space."*²⁶

Tax uncertainty restraining mining investment...

Continuing uncertainty over Zambia's taxation and royalty framework is discouraging investment in the mining sector. In an interview with **Mining Weekly**, **South Africa**-based mining consultancy **MSA Group** managing director **Ian Haddon** said the government needs to reach consensus with mining companies on how mines should operate and how they should be taxed.²⁷ Uncertainty around royalty taxes, tax payments and value-added tax refunds has been an issue between the mining industry and the government for the past five years.²⁸

¹⁹ Lusaka Times, 20 May 2021

²⁰ Lusaka Times, 20 May 2021

²¹ Reuters, 19 May 2021

²² Lusaka Times, 20 May 2021

²³ Lusaka Times, 20 May 2021

²⁴ Lusaka Times, 20 May 2021

²⁵ Lusaka Times, 20 May 2021

²⁶ Reuters, 19 May 2021

²⁷ Mining Weekly, 14 May 2021

²⁸ Mining Weekly, 14 May 2021

A recent surge in copper prices makes Haddon's comments timely. Demand for copper has been on the rise and is expected to increase further with top copper consumer **China** getting back to business following its pandemic-induced slowdown.²⁹ Covid-19 vaccine roll-outs have further boosted optimism of a stronger global pandemic recovery. Decarbonisation efforts by various governments to reduce dependency on fossil fuels have also increased demand for copper, with copper an important element in the renewable energy system.³⁰

Haddon noted that the Zambian government would be hoping for a "*larger slice of the [mining] pie*",³¹ which currently accounts for 75% of Zambia's total exports and roughly 18% of government revenue. The mining sector accounts for about 14% of gross domestic product. Haddon said Zambia-based miners will be watching carefully over the next 12 months to see if state-owned miner **Zambia Consolidated Copper Mines Investments Holdings (ZCCM-IH)** looks to increase its stake in projects or if the government targets higher royalties.³²

Zambia boasts significant reserves of high-demand minerals, especially copper and cobalt, providing opportunities for explorers, producers and mining service providers in the mining sector.³³ However, the government's failure to provide tax and royalty certainty for stakeholders in Zambia's mining sector may encourage these businesses to turn to countries where they perceive the investment risk to be lower and the returns greater.³⁴ Finance minister **Bwalya Ng'andu** has tried to ease investors' fears, reassuring them in February that the government was not planning to take over mines through nationalisation or assume large stakes in mines.³⁵

The mining industry also needs to be cognisant of the government's political objectives.³⁶ Job losses inevitably follow curtailed or mothballed mining operations, impacting the government's commitment to the electorate.³⁷ When **Switzerland**-based **Glencore** subsidiary **Mopani Copper Mines (MCM)** announced in April 2020 that it would place its mine on care and maintenance, mines minister **Richard Musukwa** threatened to revoke its mining licences.³⁸ After holding talks with the government, MCM continued to process materials in order to keep the mine open. As Zambia's August elections approach, the ruling party will no doubt emphasise the role it has played, and intends to continue playing, in keeping the mining sector viable.

Covid-19 third wave arrives in Zambia

Zambia appears to be in the throes of the third wave of the Covid-19 pandemic. The health ministry recorded over 2,065 new cases of Covid-19 in 24 hours on 11 June.³⁹ Infections have been rising steadily in the past month, with only 54 new cases recorded on 15 May, a month earlier.⁴⁰ As of 14 June, Zambia has recorded a total of 113,134 Covid-19 cases in its population of 17.9 million, with 1,416 Covid-19-related deaths and 97,756 recoveries.⁴¹

The health ministry and **Public Health Institute in Lusaka** announced in a joint statement on 21 May the reintroduction of mandatory Covid-19 testing on arrival and 14-day quarantine for travelers from 15 countries, including South Africa, **Tanzania, Kenya, Ethiopia, Egypt, Tunisia, India, Turkey, France, Germany, Russia, Italy, Brazil and Argentina**.⁴² Tightened restrictions coincide with the

²⁹ Bloomberg, 4 Apr 2021

³⁰ Bloomberg, 4 Apr 2021

³¹ Mining Weekly, 14 May 2021

³² Mining Weekly, 14 May 2021

³³ Mining Weekly, 14 May 2021

³⁴ Source, analyst, Zambia

³⁵ Business Live, 5 Feb 2021

³⁶ Mining Weekly, 14 May 2021

³⁷ Source, analyst, Zambia

³⁸ Reuters, 17 Jul 2020

³⁹ Africa news, 11 Jun 2021

⁴⁰ Reuters, 15 Jun 2021

⁴¹ AfricaCDC, 14 Jun 2021

⁴² AFP, 21 May 2021

recording of the first so-called Indian variant in Zambia on 18 May.⁴³ However, in line with **Southern African Development Community (SADC)** protocols, truck drivers carrying essential goods will be allowed to transit through Zambia without adhering to the 14-day quarantine requirement but must possess a valid SARS CoV2-negative certificate and adhere to Covid-19 prevention guidelines.⁴⁴

As part of its Covid-19 vaccination programme, Zambia is administering the **Oxford-AstraZeneca** vaccine through the **World Health Organization (WHO)**-led **COVAX** facility and **Sinopharm** donated by the Chinese government.⁴⁵ However, senior health ministry official **Kennedy Malama** said increased demand for the AstraZeneca vaccine in India has led to delays in obtaining it through the COVAX facility. Malama said the health ministry would ring-fence the remaining doses of AstraZeneca vaccines for use as second doses for members of the public who had already received the first dose:

*“ We are actively engaging various stakeholders including **African Centers for Disease Control and Prevention**, diplomatic channels, the private sector among others in line with Cabinet approval to mobilize more vaccines for our people.”⁴⁶*

Planner

12 Aug 2021 **(Zambia)** Presidential and legislative elections;
 16-17 Aug 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 18 Aug 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;
 15-16 Nov 2021 **Lusaka (Zambia) Bank of Zambia** MPC meets;
 17 Nov 2021 **Lusaka (Zambia) Bank of Zambia** MPC media briefing;

Chronology

11 Jun 2021 **Lusaka (Zambia) Lusaka Times**. The **Zambia Constitutional Court** rules that President **Edgar Lungu** can stand for re-election in August, throwing out a second opposition challenge to his eligibility on the basis of the constitutional two-term limit;

11 Jun 2021 **Lusaka (Zambia) Lusaka Times**. **Electoral Commission of Zambia (ECB)** chief electoral officer **Kryticous Nshindano** expresses concern over escalating campaign violence ahead of 12 August general elections saying it will “*undermine the credibility of the elections*” if not curbed;

9 Jun 2021 **Lusaka (Zambia) Reuters**. The **United Arab Emirates (UAE)** will suspend entry for travelers coming from Zambia and other **Southern African** countries, starting from 11 June;

7 Jun 2021 **Lusaka (Zambia) BBC**. **Zambian** police deny reports that the country’s security forces fired on a convoy carrying presidential candidate **Hakainde Hichilema** amid tension ahead of the 12 August general election;

7 Jun 2021 **Lusaka (Zambia) BBC**. **Resident Doctors Association of Zambia (RDAZ)** president **Brian Sampa** is dismissed two weeks after the doctors union went on strike demanding recruitment of 500 doctors and payment of salary arrears;

3 Jun 2021 **Lusaka (Zambia) Zambia Daily Mail**. State electoral body suspends campaign rallies before a 12 August election, citing rising **coronavirus** cases;

2 Jun 2021 **(France) CNBC Africa**. **French** public investment bank **Bpifrance** plans to more than double its annual lending in **Africa** over the next three years, and expects to make €1.5 billion (\$1.83 billion) in new investments for Africa;

⁴³ Lusaka Times, 18 May 2021

⁴⁴ AFP, 21 May 2021

⁴⁵ AFP, 21 May 2021

⁴⁶ Lusaka Times, 21 May 2021

29 May 2021 **Lusaka (Zambia)** *Times South Africa*. Court hands former cabinet minister **Emerine Kabanshi** two-year jail sentence in a corruption case that had prompted some **Western** donors to freeze aid to **Zambia**;

26 May 2021 **Lusaka (Zambia)** *News24*. Main opposition party **United Party for National Development (UPND)** criticises a ban on campaign rallies before elections in August, after President **Edgar Lungu** warned that such gatherings could accelerate the spread of the **coronavirus**;

19 May 2021 **Lusaka (Zambia)** *Africanews*. Main opposition **United Party for National Development** officially nominates **Hakainde Hichilema** as its candidate for the presidential election scheduled for August;

19 May 2021 **(Africa)** *Africanews*. **World Bank** announces it will invest \$2 billion to support medium and small businesses in **Africa** and boost trade in the region as it recovers from the **Covid-19** downturn;

17 May 2021 **Paris (France)** *France24*. France's President **Emmanuel Macron** hosts **African** leaders and heads of global financial institutions for a summit meeting that will seek to provide Africa with critical financing swept away by the **Covid-19** pandemic;

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