

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

Zambia Summary 19 September 2019

Police arrest opposition National Democratic Congress (NDC) leader Chishimba Kambwili for defaming President Edgar Lungu (2015-present) in a video in which Kambwili referred to Lungu as a dog. Energy minister Matthew Nkhuwa says that the government may begin to import 300 megawatts (MW) of electricity from South Africa's state-owned energy company, Eskom, which could result in prices doubling once imports begin. The Zambia Chamber of Mines says the government should cap mineral royalties at 7.5% in the 2020 budget in order to improve the economy and promote further investment in the mining sector.

Police arrest opposition NDC leader

Zambian police arrested **Chishimba Kambwili**, leader of the opposition **National Democratic Congress (NDC)**, on 28 August for allegedly defaming President **Edgar Lungu** (2015-present) in a video in which Kambwili referred to Lungu as a dog.¹ Kambwili's arrest is a sign of Lungu's continuing crackdown on potential opponents in the 2021 presidential election and a negative indictment of Zambia's current political environment. In reference to a Lusaka township where Lungu formerly lived and served as a member of parliament, Kambwili stated in a social media video that "*some dogs from Chawama do not get tired of travelling.*"²

Kambwili, a former member of Lungu's **Patriotic Front (PF)** party until 2017, faces three years in prison if convicted.³ Despite his arrest, Kambwili continued to criticise Lungu, stating in parliament on 9 September that Lungu has links to businessman and alleged drug dealer **Valden Findlay** and that government planes are being used to courier drugs into Zambia.⁴ Zambia's **Drug Enforcement Commission (DEC)** summoned Kambwili on 11 September to appear for questioning in regard to the allegations, and Findlay has served Kambwili with court papers for criminal defamation over the comments.⁵ Kambwili appeared before the DEC on 16 September, but did not give any evidence regarding his allegations⁶ and does not appear to be facing charges over the statement. A conviction with regard to the video is unlikely as well. This is one of many arrests for the opposition leader and Kambwili stated to reporters as he arrived for questioning that he has "*been arrested nine times in two years*".⁷

Kambwili's arrest is a sign of an increasing crackdown on dissent in Zambia under the Lungu government. It comes two days after the **Registrar of Societies** cancelled the NDC's registration for a flawed party constitution, despite the NDC holding a seat in parliament since the April elections.⁸

Kambwili was a founding member of the PF and supporters claim he may have wanted to contend for the PF presidency in 2021. Lungu fired Kambwili as information minister in November 2016 over corruption allegations⁹ and then expelled him from the PF in July 2017.¹⁰ Kambwili's arrest and the

¹ News24, 29 Aug 2019

² News24, 29 Aug 2019

³ News24, 29 Aug 2019

⁴ Lusaka Times, 12 Sep 2019

⁵ Zambia Reports, 14 Sep 2019

⁶ Zambia Watchdog, 16 Sep 2019

⁷ News24, 29 Aug 2019

⁸ News24, 29 Aug 2019

⁹ Zambia Reports, 8 Nov 2016

¹⁰ Lusaka Times, 22 Jul 2017

barring of the NDC appear to be further actions to prevent a potential challenge to Lungu in the 2021 presidential elections.

Lungu appears set to continue his crackdown on opposition figures, though is aware of his limit. The prison sentence for opposition leader **Hakainde Hichilema** in 2017 became a regional and international issue (see *ARC Briefing Zambia May 2017*), so it is unlikely that Kambwili will be convicted. Lungu will instead use his position to erode political powers, such as by weakening political parties like the NDC. This will in turn push party leaders to focus on trying to delegitimise Lungu and the PF, with the result that they neglect to form any policies that could challenge Lungu, as has happened with Hichilema. The strategy has worked thus far and there does not appear to be a meaningful contender to counter Lungu at present; the biggest challenge to Lungu and the PF at the moment is Zambia's sinking economy.

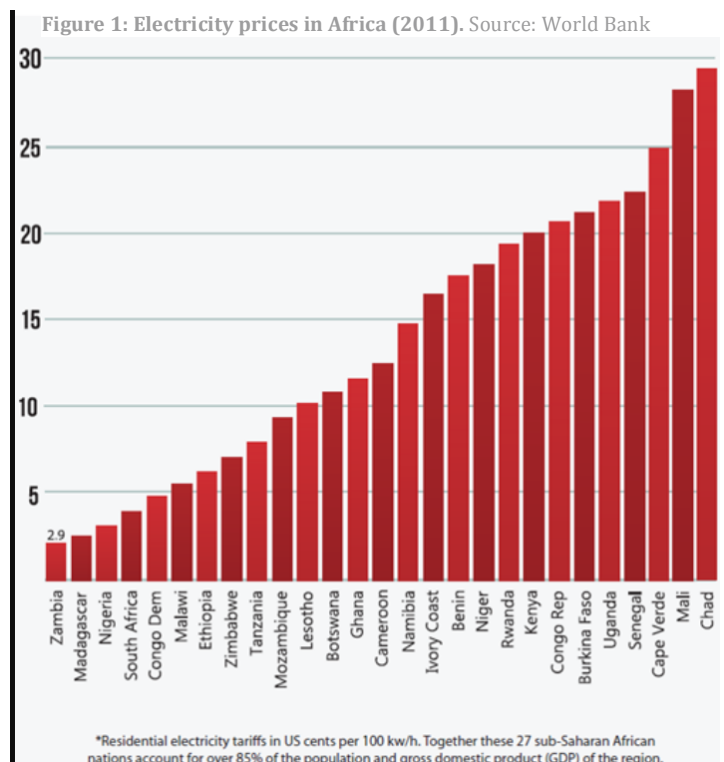
Imported power from South Africa could double cost of electricity

Energy minister **Matthew Nkhwa** said on 17 September that the government may begin to import 300 megawatts (MW) of electricity from **South Africa's** state-owned energy company, **Escom**, which could result in prices doubling once imports begin.¹¹ The electricity price increase will hurt the economy but is a necessary evil to normalise electricity prices, which the government has always subsidised. The biggest harm could thus be to the popularity of the government.

Zambia needs to import energy because it has a 750MW power deficit due to low levels at its hydropower dams.¹² The power deficit has resulted in power rationing around the country, which is affecting businesses and the economy. Drought has affected hydroelectric power and the agriculture sector, causing economic growth to decrease from an estimated 4% to around 2% in 2019.¹³ Nkhwa said on 6 September that the electricity import should start by mid-September,¹⁴ but has now stated that there is no timeframe for when imports could start.¹⁵

Consumers and businesses will criticise the planned energy price increase. Zambia has historically subsidised the cost of electricity, allowing prices that are well below the cost of production and some of the lowest rates in **Africa**.¹⁶ The government has started to raise prices over the past few years, with a 75% price increase for consumers in 2017 and a flat tariff of \$0.093 per kilowatt hour (kWh) for mining companies.¹⁷ Despite criticism, this is still a very low rate relative to other countries in Africa and around the world.

State-owned energy company **ZESCO** asked the energy regulator, the **Energy**



¹¹ Business Day, 17 Sep 2019

¹² Business Day, 17 Sep 2019

¹³ Business Day, 17 Sep 2019

¹⁴ Zambia Reports, 6 Sep 2019

¹⁵ MoneyWeb, 17 Sep 2019

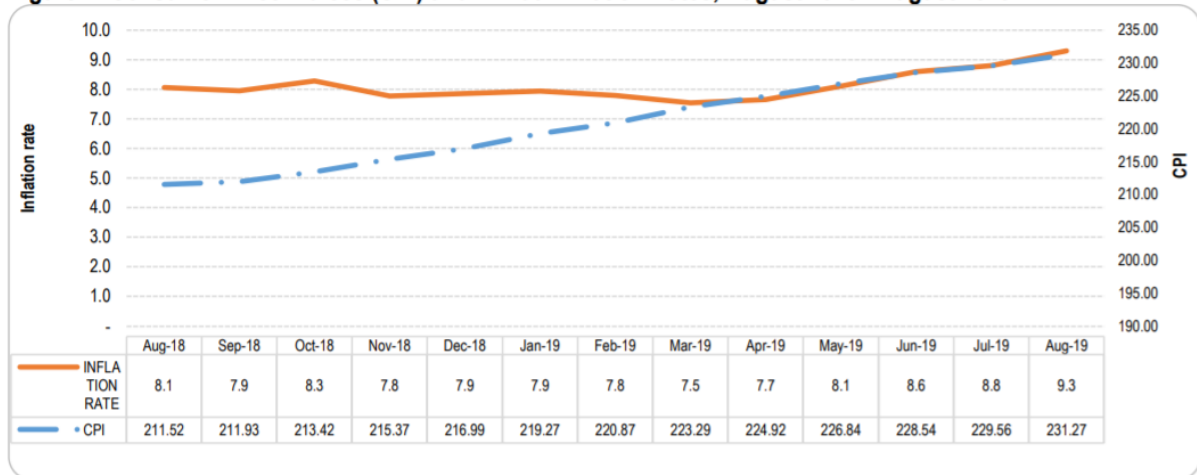
¹⁶ Business Day, 17 Sep 2019

¹⁷ Business Day, 17 Sep 2019

Regulation Board of Zambia (ERB), in March to triple energy tariffs, but the ERB rejected this proposal.¹⁸ The government plans to import \$13.5m worth of electricity monthly, though this cost will rise to \$21m with transmission charges through the **Southern African Power Pool (SAPP)**.¹⁹ ZESCO is still to determine what the price hike will be and the cabinet will need to consider this before ZESCO makes a final announcement.²⁰

While ZESCO requires the extra capital in order to continue operations, the price increase will also affect Zambia’s inflation, which has risen to 9.3% year-on-year in August, its highest level since 2016.²¹

Figure 1: Consumer Price Indices (CPI) and Annual Inflation Rates, August 2018 - August 2019



Source: CSO, Prices Statistics, 2019
 Note: 2009=100

The inflation will be tempered by an increase in business confidence and economic growth, as the extra power capacity should minimise planned blackouts that currently last around eight hours daily (see *ARC Briefing Zambia August 2019*).²² Mining companies are not affected by the power cuts due to the importance of mining to the economy, but the mining sector has still had to cut its power usage and has criticised the government for the increasing power costs.²³ Other sectors acknowledge that the increase electricity cost is a necessary evil; **Zambia National Farmers' Union** president **Jervis Zimba** said on 11 September that his members support the increase, “as long as this is done in a transparent manner”.²⁴

ZESCO is likely to spare mining companies any increased costs associated with the import of electricity considering the fixed tariff agreement in place for mining companies. However, this means that small and mid-size businesses will bear most of the impact for the price increase.

Most Zambians are aware that electricity tariffs need to be increased, but are unlikely to be content with the higher electricity prices amid increasing examples of corruption and poor governance. A **Lusaka**-based analyst noted that the increased energy cost will limit access to electricity for the majority of the population:

“While prices may need to be normalized, the majority of people feel that the government and ZESCO are wasteful and that even with electricity cost increases, there is no benefit to the people. Even with the import and increase, there will still be power cuts. The political backlash for the current government will be ghastly to contemplate.”²⁵

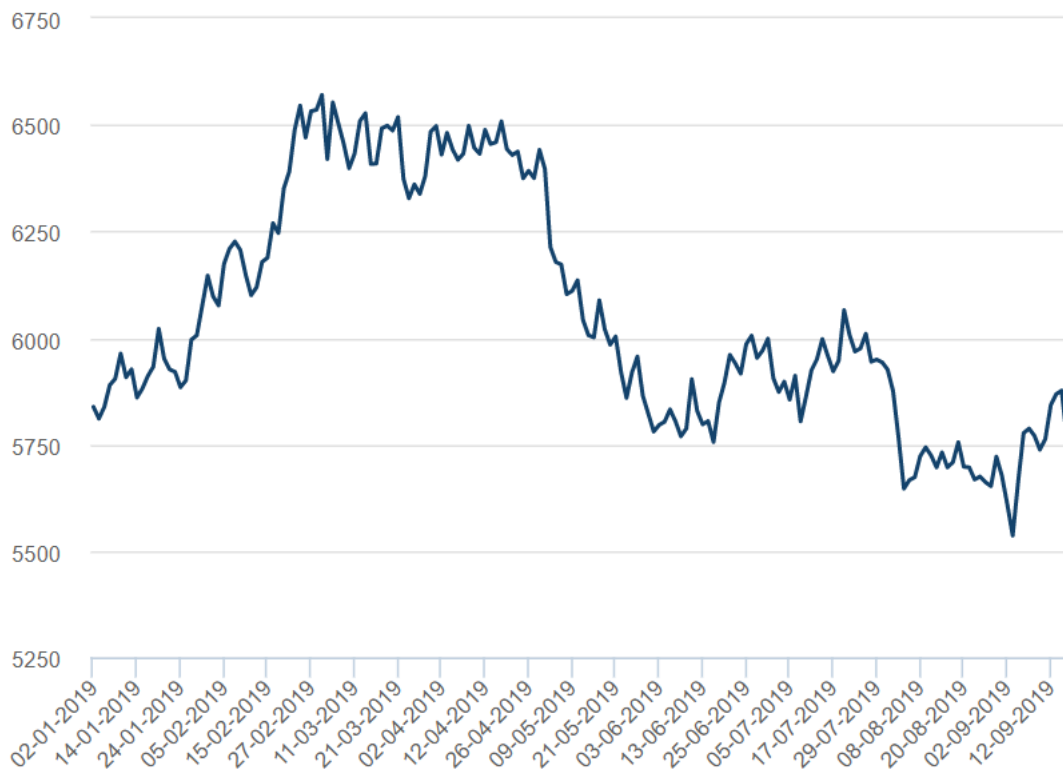
¹⁸ Business Day, 17 Sep 2019
¹⁹ Zambia Reports, 6 Sep 2019
²⁰ MoneyWeb, 18 Sep 2019
²¹ Business Day, 17 Sep 2019
²² MoneyWeb, 18 Sep 2019
²³ WeeTracker, 18 Sep 2019
²⁴ Zambia Reports, 11 Sep 2019
²⁵ Source, analyst, Lusaka

Chamber of mines proposes cap on mining royalties to help the economy

The **Zambia Chamber of Mines (ZCM)** said on 3 September that the government should cap mineral royalties at 7.5% in the 2020 budget in order to improve the economy and promote further investment in the mining sector.²⁶ There is no indication the government plans to reform the mining tax regime, although it may be more willing to reduce taxes if production continues to fall. The ZCM submitted proposals to the finance ministry stating that the new mining tax regime, instituted on 1 January 2019, raised taxes to an unsustainable level.²⁷

Former finance minister **Margaret Mwanakatwe** introduced a new 10% tax on copper when the price exceeds \$7,500 per tonne, and a new sliding scale for royalties, so that higher levels are paid as commodity prices rise (see *ARC Briefing Zambia October 2018*). Thus far, copper prices have not reached this level in 2019 and instead have dropped from a high of around \$6,600 per tonne to \$5,750 per tonne in September.

LME COPPER HISTORICAL PRICE GRAPH



Source: London Metal Exchange

The ZCM suggests that royalties should be capped at 7.5% when the copper price reaches \$7,500 per tonne and any royalty taxes should be tax deductible, as is currently the case.²⁸ According to the ZCM, Zambia is the only mining jurisdiction not allowing a deduction for these costs.²⁹ The Chamber of Mines also suggests a delay in the imposition of a non-refundable sales tax from the current refundable value-added tax for two years, and to waive import duty on copper and cobalt concentrates.³⁰

²⁶ Reuters, 3 Sep 2019

²⁷ Reuters, 3 Sep 2019

²⁸ Reuters, 3 Sep 2019

²⁹ Reuters, 3 Sep 2019

³⁰ Reuters, 3 Sep 2019

The ZCM's suggestions came as it noted on 9 September that copper production is set to decrease by 100,000 tonnes in 2019, from 860,000 tonnes in 2018 to around 750,000 tonnes.³¹ Chamber of Mines CEO **Sokwani Chilembo** blames the current tax regime for this decrease as mines are unable to contain cost escalation and maintain asset quality.³² Chilembo notes that the current production is

*"...a distant continental second behind the **Democratic Republic of the Congo**, which trailed our volumes for 75 years until 2013 and now [is] forecast above 1,200 million tonnes of production in 2019. Meanwhile, it is likely that our own [copper] industry will drop off the global top ten copper producers list."³³*

Investors and businesses should not expect the government to follow the ZCM's suggestions in the 2020 budget, although the new finance minister, **Bwalya Ng'andu**, appears to be more rational and less likely to blindly follow the party line than his predecessor. However, if production continues to decline, Ng'andu will have more leverage to reform the mining tax regime in late 2020 or early 2021 in order to improve the investment environment.

Planner

24 Oct 2019 **(Zambia)** Independence Day;
 20 Nov 2019 **Lusaka (Zambia) Bank of Zambia** (central bank) Monetary Policy Committee media briefing;
 2020 **(Zambia)** Construction scheduled to begin on **Batoka Gorge Power Plant**;
 2021 **(Zambia)** Scheduled presidential elections;

Chronology

17 Sep 2019 **Lusaka (Zambia)** *Reuters*. Energy minister **Matthew Nkhwa** says that **Zambia** may import 300 megawatts of electricity from **South African** state-owned **Eskom**, which could double retail prices;

16 Sep 2019 **Lusaka (Zambia)** *Construction Review Online*. State-owned power company **ZESCO Ltd** signs a \$46m loan agreement with **Germany's** development bank, **KfW**, to upgrade the 15MW **Chishimba Falls** power station;

13 Sep 201 **Lusaka (Zambia)** *AFP*. President **Edgar Lungu** says he will go ahead with proposed constitutional amendments despite criticism from opposition parties and civil society groups;

11 Sep 2019 **Lusaka (Zambia)** *IOL*. The **Bank of Zambia** (central bank) says it opposes the government's constitutional reform plans to remove parliamentary oversight over acquiring more public debt;

10 Sep 2019 **Lusaka (Zambia)** *Engineering News*. **South Africa**-based telecommunications company **MTN Group** says that the **Philip van Dalsen** and **Bart Hofker**, CEOs of the **Zambian** and **Cote d'Ivoire** units respectively, will step down at the end of September;

9 Sep 2019 **Lusaka (Zambia)** *Xinhua*. The **Zambia Chamber of Mines** says that copper production will reach 750,000 tonnes in 2019, down 100,000 tonnes year-on-year;

5 Sep 2019 **Lusaka (Zambia)** *Zambia Watchdog*. Energy minister **Matthew Nkhwa** says that **Zambia** will start importing electricity from **South Africa** next week to increase the country's power supply;

³¹ IOL, 10 Sep 2019

³² IOL, 10 Sep 2019

³³ IOL, 10 Sep 2019

4 Sep 2019 **Lusaka (Zambia)** *Zambia Watchdog*. **University of Zambia** students demonstrate and loot **South African**-owned shops at **Manda Hill** shopping mall in retaliation for ongoing xenophobic attacks in South Africa;

3 Sep 2019 **Lusaka (Zambia)** *Lusaka Times*. The **Zambia Chamber of Mines** says that mineral royalties should be capped at 7.5% in the 2020 budget to promote mining investment;

30 Aug 2019 **Lusaka (Zambia)** *Lusaka Times*. A court charges opposition leader **Chishimba Kambwili** with defaming President **Edgar Lungu** and releases him on bail;

27 Aug 2019 **Lusaka (Zambia)** *AFP*. Outgoing **United Kingdom** ambassador to **Zambia**, **Fergus Cochrane-Dyet**, denounces the rampant corruption in the government during his leaving speech.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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