

AFRICA RISK CONSULTING

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Zambia Summary 18 December 2019

United States ambassador to Zambia, Daniel Foote criticises the Zambian judiciary following the conviction of two gay men to 15 years in prison by a central district court for “crimes against the order of nature”. Relations between the two countries have been severely frayed and President Edgar Lungu (2015-present) has used the incident to stir up support and distract media attention. The Bank of Zambia (central bank) raises the monetary policy rate to 11.50% from 10.25% to counter rising inflationary pressures. The Zambian Crocodile Farmers’ Association (ZCFA) says that the local crocodile industry faces imminent closure following the introduction of a 10% export duty in January.

Diplomatic row with US

The **United States (US)** ambassador to **Zambia, Daniel Foote**, on 29 November criticised the Zambian judiciary following the conviction of two gay men to 15 years in prison by a central district court for “*crimes against the order of nature*”.¹ The incident shines a light on President **Edgar Lungu’s** (2015-present) leadership style and has damaged relations between Zambia and the US.²

Lungu has welcomed the chance to cast himself as a defender of Zambian values and of Christianity itself. This appears to be an attempt to strengthen his popularity rating and build an image as a patriotic leader. It is also a strategy to distract media attention and public dialogue away from rising authoritarianism in the country and its struggling economy. Lungu and the political elite have shrunk political space, harassed political opponents and silenced the independent press, and now they are pressing for a package of constitutional changes that would dramatically strengthen the power of the presidency, known as **Bill 10**.

Tension between Zambia and the US has deepened following the sentencing and Foote’s statement. Foote, who has been the US ambassador to Zambia since December 2017, said he was “*personally horrified*” at the “*harsh and barbaric*” decision by the high court and called on the government to reconsider laws that punish minority groups. Lungu reacted to Foote’s remarks by writing to the US government requesting it to withdraw Foote over what Lungu views as an interference in Zambia’s internal affairs.³ Lungu told **United Kingdom**-based **Sky News** that his government was ready to forfeit aid if it was tied to acceptance of homosexuality in a predominantly **Christian** nation.⁴ The US provides \$500m in aid to Zambia yearly and it spent more than \$4 billion in the last 15 years in HIV/Aids support. More than one million Zambians are on anti-retroviral medicine.

Foote followed up to Lungu’s reply by going well beyond defending human rights in Zambia. He said the government lacked transparency regarding state corruption and that there is limited freedom of expression throughout the country. He also denied accusations that his comments amounted to interference in Zambia’s judiciary and constitutional affairs, saying:

“It is up to Zambian citizens and the courts to decide if your laws correspond to your constitution, but your constitution itself provides every person the right to freedom and expression of

¹ Times of Zambia, 30 Nov 2019

² ARC’s Zambia analyst

³ Zambia National Broadcasting Corporation, 16 December 2019

⁴ Sky News, 2 Dec 2019

*conscience and belief. I expressed my belief about a law and a harsh sentencing I don't agree with. I didn't interfere in internal affairs."*⁵

Economy choked by mounting debt and drought

Bank of Zambia (central bank) governor **Denny Kalyalya** told reporters in **Lusaka** on 20 November that the bank had raised the monetary policy rate to 11.50% from 10.25% to counter rising inflationary pressures and warned of possible further adjustments.⁶ The central bank is currently under pressure: on the one hand, it needs to stabilise its currency, the kwacha, to help control inflation, and on the other hand it needs to boost an economy that is on course for its slowest expansion in more than two decades.⁷ The central bank has to make tough monetary policy decisions at a time when the economy is being choked by mounting government debt and the worst drought in four decades.

Kalyalya said while the monetary policy committee acknowledged the economic slowdown, there is a greater need to restore macro-economic stability and reduce inflationary pressures. The key interest rate change was the second time this year – bucking a global easing trend – and is now at its highest level since May 2017. Kalyalya said he expects the rate to stay above the 8% upper end of its target range until at least 2021.

The kwacha climbed 6.2% to 14.3750 per US dollar on 10 December after the central bank also raised the reserve ratio for commercial lenders to 9% from 5%, which will be effective from 23 December.⁸ Inflation accelerated to 10.7% in October, the highest level in three years.

The economy has been choked by the worst drought in almost four decades in the southwest of the country. Crop failure caused by the drought has been a major contributor to accelerating inflation. The drought has also drastically reduced output at the country's hydropower dams that are relied upon for about 80% of electricity generation. Reduced output has caused rolling electricity blackouts lasting 18 hours a day. The electricity cuts also mean that many businesses run on generators, increasing their input costs because the kwacha's 18% drop against the dollar this year has pushed up fuel prices.

A ballooning debt has prevented the country from importing power to help cushion shortages. The high level of debt distress means very few external energy suppliers are willing to guarantee additional supply without onerous demands, which Zambia is unlikely to satisfy. Additionally, the region's biggest supplier, **South Africa**-based **Eskom**, is suffering a major energy shortfall in its home market.

Export tax bites into crocodile industry

The **Zambian Crocodile Farmers Association (ZCFA)** said on 17 December that the local crocodile industry faces imminent closure since a 10% export duty was introduced in January.⁹ The tax threatens to decimate an industry that generates employment and provides foreign exchange into the economy – both of which the country is in desperate need.¹⁰

Most recent projections show that farmed crocodile skin exports will slide by almost a third this year to 22,000 from 31,685 in 2018. The projected export amount this year is around half of what was exported in 2015. ZCFA chairman **Johann Jordan** warned that damage to the industry will not be fixed easily or quickly, and that 600 jobs, mostly in rural areas, would be lost:

⁵ BBC, 2 Dec 2019

⁶ Lusaka Times, 20 Nov 2019

⁷ ARC's Zambia analyst

⁸ Bloomberg, 10 Dec 2019

⁹ Zambia Daily Mail, 17 Dec 2019

¹⁰ ARC's Zambia analyst

*"Bearing in mind that it takes about four years to establish a crocodile farm, the chance of any resurrection of the industry once collapsed, is unlikely."*¹¹

Jordan said engagement between the ZCFA and the ministry of finance since January had not resulted in the tax being reviewed, despite suggestions that crocodile skins were caught in wider legislation on the export of hides and skins due to an administrative error. Jordan's advice to government was:

*"It is an industry that should be attractive for long-term growth and not short-term fiscal gain. The time is now critical for a decision to be made by government if this industry is to survive in Zambia."*¹²

The ZCFA said \$1.3m worth of crocodile skins are now sitting in cold storage because farmers could not raise the up-front money to pay the tax. Since the export duty was introduced, crocodile farmers have paid \$350,000 on skins exported, which has significantly reduced the liquidity from the industry. Two farming operations are closing and two are planned to close since the introduction of the tax. Jordan described the state of the industry:

*"The situation is dire. Farmers need this revenue from sales to run their farms, and the nation needs the foreign exchange we generate from these exports, but this tax is on the verge of killing the industry."*¹³

Crocodile farming in **Africa** is a major contributor to the global luxury market for designer handbags, shoes, belts and other leather accessories. Over one million crocodile skins are traded on the international market every year, 250,000 of which come from Africa. In Africa, **Zimbabwe**, Zambia and **South Africa** are the largest operators of crocodile farms and producers of crocodile skins.

Planner

2020 **(Zambia)** Construction scheduled to begin on **Batoka Gorge Power Plant**;

2021 **(Zambia)** Scheduled presidential elections;

Chronology

17 Dec 2019 **Lusaka (Zambia)** *Zambia Daily Mail*. **Zambian Crocodile Farmers Association** says the local crocodile industry faces imminent closure as the imposition of a 10% export duty takes its toll;

16 Dec 2019 **Lusaka (Zambia)** *Times of Zambia*. Government spokeswoman **Dora Siliya** says a special cabinet meeting granted the production and export of cannabis for economic and medicinal purposes, as the country struggles to deal with a large fiscal deficit;

13 Dec 2019 **Lusaka (Zambia)** *Lusaka Times*. **Canada**-based **First Quantum Minerals** launches arbitration proceedings against **Zambian** state miner **ZCCM-IH** to try to resolve a dispute about a money transfer to the parent company of **Kansanshi Mining**;

12 Dec 2019 **Lusaka (Zambia)** *Times of Zambia*. State power provider **Zesco** says electricity supply shortage increased to 810 megawatts in November from around 750 megawatts in September;

10 Dec 2019 **Lusaka (Zambia)** *Bloomberg*. **Zambia's** currency, the **kwacha**, climbed 6.2% to 14.3750 per dollar after **Bank of Zambia** (central bank) raised the reserve ratio for commercial lenders to 9% from 5%, effective 23 December;

9 Dec 2019 **Lusaka (Zambia)** *Transparency International*. **Transparency International** calls

¹¹ Zambia Daily Mail, 17 Dec 2019

¹² Zambia Daily Mail, 17 Dec 2019

¹³ Zambia Daily Mail, 17 Dec 2019

for an investigation into reports of high-level corruption in **Zambia's illicit mukula wood** trade;

5 Dec 2019 **Lusaka (Zambia)** *Times of Zambia*. **Bank of Zambia** (central bank) dismisses reports that a proposed new constitution will strip it of the powers to print money and supervise the financial sector;

30 Nov 2019 **Lusaka (Zambia)** *Times of Zambia*. Minister of foreign affairs **Joseph Malanji** criticises **United States** ambassador to Zambia **Daniel Foote's** questioning of the **Zambian** judiciary following the conviction of two gay men to 15 years in prison;

26 Nov 2019 **Lusaka (Zambia)** *Reuters*. Mines minister **Richard Masukwa** says **Konkola Copper Mines** smelter could restart next week after it was shut down in early October for annual maintenance;

20 Nov 2019 **Lusaka (Zambia)** *Lusaka Times*. **Bank of Zambia** (central bank) raises monetary policy rate to 11.50% from 10.25% to counter rising inflationary pressures and warns of possible further adjustments;

17 Nov 2019 **Lusaka (Zambia)** *Mining MX*. **Zambian** government launches an investigation into **India**-owned **Konkola Copper Mine** over an incident that caused 300 employees and pupils to be hospitalised;

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